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## IASB<sup>®</sup> meeting

Date	<b>December 2023</b>
Project	<b>Climate-related and Other Uncertainties in the Financial Statements</b>
Topic	<b>Project update</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS<sup>®</sup> Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB<sup>®</sup> *Update*.

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## Purpose of the meeting

1. The purpose of this meeting is to update the International Accounting Standards Board (IASB) on the status of and next steps for the Climate-related and Other Uncertainties in the Financial Statements project.
2. This paper does not ask the IASB to make a decision.
3. This paper sets out:
  - (a) Background to the project (paragraphs 4–11);
  - (b) Status and next steps (paragraphs 12–13); and
  - (c) Question for the IASB.

## Background to the project

### *Origins of the project*

4. This project was added to the IASB's work plan in March 2023 because of strong demand from respondents to the [IASB's Third Agenda Consultation](#) for better information about climate-related risks in the financial statements. Stakeholders expressed concerns that information about climate-related risks in the financial

statements is insufficient and inconsistent (not connected) with information reported elsewhere by an entity.

### ***Focus of the project***

5. The objective of this project is to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements. The objective of the project was originally focused on climate, but the IASB decided to generalise the objective to cover other uncertainties in addition to those related to climate. This is because:
  - (a) IFRS Accounting Standards are principles-based and any targeted standard-setting the IASB undertakes would not single out climate but would cover uncertainties generally. Such an approach would help ensure that various types of uncertainties are captured as they emerge and would result in treating similar items in the same way.
  - (b) it may not always be possible to quantify the financial effects of climate-related risks separately from the financial effects of other risks.
6. This project will not:
  - (a) create a new IFRS Accounting Standard on climate.
  - (b) change the objective of financial statements.
  - (c) change the *Conceptual Framework* definitions of assets and liabilities.
  - (d) undertake work on the accounting for pollutant pricing mechanisms. A project on Pollutant Pricing Mechanisms is on the IASB's reserve list of projects. See [here](#) for more information.
7. The IASB project team includes technical staff from the International Sustainability Standards Board (ISSB) to provide technical input on climate-related matters and to ensure that the work of both boards is connected.

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***IASB's September 2023 discussion and decisions***

8. In September 2023, the IASB discussed the findings from the staff's work to understand the nature and causes of stakeholder concerns about the reporting of information about climate-related and other uncertainties in the financial statements.
9. In particular, the staff's work shows:
  - (a) concerns from some users of financial statements that information about climate-related risks in the financial statements is sometimes insufficient and inconsistent with other information provided by an entity. Such concerns include insufficient and inconsistent information about assumptions and judgments underlying estimates that reflect those risks in the financial statements.
  - (b) some user information needs go beyond the objective of financial statements and may be better satisfied through other disclosures, such as sustainability-related financial disclosures prepared applying the ISSB's Standards.
  - (c) IFRS Accounting Standards are generally sufficient in requiring useful information for users about climate-related risks in the financial statements. However, there may be challenges in the application of the Standards.
  - (d) stakeholders seek timely action to help improve the reporting of information about climate-related and other uncertainties in the financial statements.
  - (e) the reporting landscape is evolving, particularly with developments in sustainability reporting, including the work of the ISSB. As entities develop sustainability-related financial disclosures, the process underlying the development of those disclosures may better inform and improve compliance with IFRS Accounting Standards.
10. Having discussed the staff's work, the IASB decided to explore a portfolio of actions to help address the concerns raised. Paragraph 12 sets out the actions, their status and next steps.

11. The staff continue to monitor developments in this area. Initial feedback on the IASB's approach to this project has been generally supportive. Although some stakeholders urge more standard-setting activity, others view it as unnecessary or urge caution about unintended consequences.

## Status and next steps

12. This table sets out the actions underway to help address concerns about the reporting of climate-related and other uncertainties in the financial statements, their status and next steps.

Action	Description	Status and next steps
<b>IASB decisions</b>		
Explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to reporting the effects of climate-related and other uncertainties in the financial statements.	<p>The staff is exploring whether to develop examples in the following two areas:</p> <p><u>Materiality</u> Stakeholders have observed extensive discussion about climate-related strategy, risks and targets outside the financial statements, but either:</p> <ul style="list-style-type: none"> <li>no reference to climate-related matters in the financial statements; or</li> <li>only a statement in the financial statements that the effect of climate-related matters is immaterial without discussion of the reason for that conclusion.</li> </ul> <p>The staff thinks these situations may arise because of a focus on quantitative rather than qualitative factors in assessing the materiality of information.</p> <p>The staff is, therefore, exploring building on examples C and K in Practice Statement 2 <i>Making Materiality</i></p>	<p>The staff is conducting outreach on the content of any examples.</p> <p>The staff is also seeking feedback on the preferred vehicle for these examples—as educational materials, as illustrative examples accompanying IFRS Accounting Standards or as part of IFRS Accounting Standards. The latter two options would involve consultation by way of an exposure draft, requiring more time to finalise.</p> <p>The staff expects to report the results of its outreach and provide draft examples for discussion by the IASB in Q1 2024.</p>

Action	Description	Status and next steps
	<p><i>Judgements</i> and tailoring the examples to a scenario about climate-related uncertainties. We will also explore whether to develop an example dealing with uncertainties other than climate.</p> <p>The example(s) could also illustrate connectivity in reporting by explaining how information outside the financial statements may need to be considered in determining what to disclose in the financial statements.</p> <p>Any examples would not change the requirements in IFRS Accounting Standards.</p> <hr/> <p><u>Other examples</u>            IFRS Accounting Standards do not refer to ‘climate’ but the accounting for climate-related risks cuts across multiple IFRS Accounting Standards. The staff is exploring developing examples, other than materiality-related examples, that illustrate how to apply IFRS Accounting Standards to scenarios about climate-related uncertainties. We will also explore whether to develop an example dealing with uncertainties other than climate. These examples would not change the requirements in IFRS Accounting Standards.</p>	

Action	Description	Status and next steps
	<p>Agenda Paper 14C for the IASB’s September 2023 meeting on potential actions also suggested the development of educational materials about the overarching requirements in IAS 1 <i>Presentation of Financial Statements</i> (soon to be superseded by IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>). The staff thinks that the examples described above would help illustrate some of the overarching requirements in IAS 1, making the education materials suggested in September unnecessary.</p>	
<p>Explore clarifying or enhancing requirements in IFRS Accounting Standards in relation to disclosure of information about estimates</p>	<p>Many stakeholders seek to better understand how the effects of climate-related risks have been considered in preparing the financial statements, including how those risks were reflected in the estimates reported in the financial statements. To address these concerns, the IASB decided to explore possible targeted amendments to IFRS Accounting Standards to improve disclosures about estimates in the financial statements. Improved disclosures about estimates could also improve connectivity between financial statements and information reported elsewhere by an entity.</p>	<p>The staff is conducting further research and outreach.</p> <p>As part of its work, the staff is exploring whether standard-setting can help in this area and whether the benefits of standard-setting outweigh the costs, including the risk of unintended consequences.</p>

Action	Description	Status and next steps
<p>Consult with the IFRS Interpretations Committee (Committee) on questions related to the reflection of climate-related risks in the application of IAS 36 <i>Impairment of Assets</i></p>	<p>The effects of climate-related risks may result in high variability in future cash flows over an extended time horizon. Some stakeholders said this may create challenges in the application of the requirements in IAS 36 when an entity tests an asset for impairment. In particular, the staff's work highlighted concerns that such variability over an extended time horizon (eg, beyond five years) may not be factored into the calculation of value in use, potentially due to perceived prohibitions in IAS 36. Input from Committee members is intended to help the IASB understand practice in this area and whether there is diversity in the way entities understand and apply the requirements in IAS 36.</p>	<p>The Committee discussed this matter at its November 2023 meeting. Appendix A includes a high-level summary of the Committee's discussion.</p> <p>The Committee's discussion suggests entities do consider and reflect variability over an extended time horizon in applying IAS 36 and, therefore, there is no need for standard-setting or explanatory material through an agenda decision.</p>
<p>Refer to the Committee a question about the application of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i></p>	<p>The staff's work identified that there may be confusion in practice about when to recognise a liability applying IAS 37 for climate-related commitments, such as commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows.</p> <p>The IASB decided to ask the Committee to clarify the application of IAS 37 to this question. A Committee agenda decision, with explanatory material, could explain the requirements of IAS 37 and help alleviate confusion in a timely manner.</p>	<p>Soon after the IASB's decision, the Committee received a submission seeking clarification on a similar matter. The receipt of that submission removed the need for a referral from the IASB.</p> <p>The submission and the staff's initial consideration are <a href="#">here</a>. The Committee agreed with the staff analysis on this matter and decided at its November 2023 meeting to publish a tentative agenda decision, expected in early December, for public consultation. The Committee will discuss feedback at a future meeting.</p>



Action	Description	Status and next steps
<b>Other IASB projects</b>		
Primary Financial Statements	<p>Some stakeholders seek to better understand the extent to which an entity’s assets, liabilities, equity, income, expenses and cash flows are exposed to specific risks. For example, some stakeholders want to understand the extent to which an entity’s assets are located in geographies subject to significant physical climate-related risks.</p> <p>The Primary Financial Statements project will strengthen requirements around aggregation and disaggregation of information in the financial statements, which might improve the information entities provide about items subject to specific risks.</p>	Final Standard expected Q2 2024.
Amendments to the Classification and Measurement of Financial Instruments	<p>Stakeholders have said that the global market for ESG-linked financial assets is growing rapidly and have requested clarification of the requirements to assess the contractual cash flow characteristics of these financial assets to determine whether to measure those assets at fair value or amortised cost.</p> <p>This project will provide additional application guidance and require additional disclosures to help users better understand the terms of the ESG-linked features.</p>	Final amendments expected H1 2024.

Action	Description	Status and next steps
<p>Power Purchase Agreements</p>	<p>Entities are increasingly entering into power purchase agreements for the procurement of renewable energy. The use of renewable energy is part of some entities' commitment to mitigate the effects of climate change and to decarbonise their production processes and products. Stakeholders have expressed concerns that, due to the unique features of power purchase agreements for renewable energy, the application of IFRS Accounting Standards may not result in useful information for users.</p> <p>This project is exploring whether narrow-scope amendments could be made to IFRS 9 to improve information for users about power purchase agreements.</p>	<p>IASB to discuss research in December 2023. The project direction, including possible proposed amendments, will be determined thereafter.</p>
<p>Post-implementation Review of IFRS 9— Impairment</p>	<p>Through this project, some stakeholders have made observations about the incorporation of climate-related risks in the measurement of the expected credit loss allowance.</p> <p>A post implementation review is not a standard-setting project—the objective of a post implementation review is to assess whether a new IFRS Accounting Standard is working as intended. However, based on findings from the review, the IASB may undertake standard-setting or develop educational materials.</p>	<p>Project Summary expected H2 2024. Any work arising from the PIR would start thereafter.</p>

Action	Description	Status and next steps
<b>Other actions</b>		
Article on the role of financial statements	To help address the expectations gap described in paragraph 9(b), we are exploring development of an article about the objective of financial statements, their audience, their boundaries and how they can be complemented by sustainability-related financial disclosures, such as those provided applying ISSB Standards.	In process.
Improved accessibility	To improve awareness of educational materials about how existing IFRS Accounting Standards apply to the reporting of climate-related and other uncertainties in the financial statements, we have created a central source of information on our <a href="#">website</a> . This webpage includes translations of educational materials into different languages (more to be posted as they become available), as well as information about other work in progress on this area.	Completed.

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13. Agenda Paper 14C for the IASB’s September 2023 meeting on potential actions also considered development of an article that provides practical tips for preparers on reporting estimates in financial statements. During the September meeting, some IASB members suggested that others in the financial reporting ecosystem may be better positioned to develop such materials and, in some cases, have already done so. The staff, therefore, is not progressing this action.

## Question for the IASB

### Questions for the IASB

1. Do IASB members have any questions or comments on the status of and next steps for the climate-related and other uncertainties in the financial statements project?

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## Appendix A—Summary of Committee’s discussion on IAS 36 question

- A1. Committee members shared their experience on how entities reflect the potential for high variability in future cash flows over an extended time horizon when calculating the value in use of an asset. Committee members said entities reflect such variability when calculating value in use. The discussion highlighted that different entities might reflect this variability in different ways. For example, some Committee members said:
- (a) entities often reflect climate-related uncertainties in discount rates rather than cash flow projections (for example, when such risks affect an industry as a whole).
  - (b) entities reflect entity-specific variability in cash flow projections through the use of the expected cash flow approach, in which an entity develops different possible scenarios and assigns probability weightings to those scenarios.
  - (c) an entity might use more than one growth rate for medium- and longer-term cash flows.
- A2. Committee members generally said the requirements in IAS 36 allow an entity to appropriately reflect the potential for high variability over an extended time horizon in value in use calculations. For example, some Committee members referred to entities’ recent experience of reflecting uncertainties arising from the covid-19 pandemic and recent geopolitical developments. Although some Committee members said there might be some differences in how entities reflect such variability, such differences might result from differences in their specific facts and circumstances.
- A3. A few Committee members suggested making possible minor clarifications to the requirements in IAS 36. Some Committee members suggested developing further application guidance or illustrative examples. However, Committee members’ comments did not suggest that further actions in this area were necessary, urgent or would have a higher priority than other projects.