
IASB[®] Meeting

Date	April 2024
Project	Climate-related and Other Uncertainties in the Financial Statements
Topic	Project direction
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Purpose

1. As explained in Agenda Paper 14 for this meeting, in September 2023, the International Accounting Standards Board (IASB) decided, among other actions:
 - (a) to explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements; and
 - (b) to explore possible standard-setting to clarify or enhance the requirements in IFRS Accounting Standards in relation to disclosure of information about estimates.
2. In March 2024, the IASB discussed the staff's work on these two actions. The IASB was not asked to make decisions at that meeting. Also in March 2024, we sought the views of Accounting Standards Advisory Forum (ASAF) members on the same matters the IASB discussed at its March meeting.
3. This paper:
 - (a) summarises the main comments from IASB and ASAF members on the staff's work on the two actions, together with our responses to these comments; and

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- (b) asks whether the IASB agrees with our recommendations to:
 - (i) provide examples illustrating how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements;
 - (ii) include the examples as illustrative examples accompanying IFRS Accounting Standards; and
 - (iii) consult on these proposals through an exposure draft.

Structure of the paper

- 4. This paper discusses:
 - (a) illustrative examples (paragraphs 5–32);
 - (b) standard-setting on disclosures about estimates (paragraphs 33–40);
 - (c) staff recommendations (paragraphs 41–43); and
 - (d) question for the IASB.

Illustrative examples

Background

- 5. Agenda Papers 14C and 14D for this meeting reproduce, with no changes, the papers the IASB discussed at its March 2024 meeting. These papers include:
 - (a) the staff's approach to developing examples;
 - (b) the staff's views on the best vehicle for these examples (that is, the best manner in which to communicate the examples to stakeholders); and
 - (c) eight draft examples.

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6. The following sections include our analysis of IASB and ASAF members' comments on the staff's work in developing the examples. Specifically:
- (a) approach to developing the examples and the vehicle (paragraphs 7–8);
 - (b) content of the examples (paragraphs 9–11);
 - (c) scope and objective of the examples (paragraphs 12–14);
 - (d) requests for more examples (paragraphs 15–21);
 - (e) connectivity (paragraphs 22–30); and
 - (f) educational materials for users (paragraphs 31–32).

Approach to developing the examples and the vehicle

7. IASB and ASAF members broadly supported (or did not object to) our approach to developing the examples. They also broadly supported our view that the IASB should include the examples as illustrative examples accompanying IFRS Accounting Standards. However, a few ASAF members said they would prefer the examples to be incorporated into the Standards or for the IASB to publish them as educational materials as a first step.
8. Considering the broad support for our approach to developing examples and their vehicle, our recommendations in this paper are consistent with and based on the analysis presented in March 2024 (see Agenda Papers 14C and 14D for this meeting). We do not recommend publishing the examples as educational materials as a first step because the examples might change as a result of stakeholders' feedback on the exposure draft. In our view, publishing different versions of the examples at different times would be confusing.

Content of the examples

9. Some IASB and ASAF members commented on aspects of the technical analysis included in the examples. In particular, some ASAF members:

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- (a) questioned whether an entity would disclose the information required by paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* with respect to a provision whose carrying amount is immaterial. A few ASAF members said that an entity would disclose the information outlined in Example 7 by applying the overarching requirements in IAS 1, not paragraph 85 of IAS 37.
 - (b) were concerned that the examples might be over-extending the application of paragraphs 31 and 125 of IAS 1 *Presentation of Financial Statements*.
10. In our view:
- (a) the carrying amount of a class of provision is a factor an entity considers in determining whether the information required by paragraph 85 of IAS 37 is material. However, the information required by that paragraph—such as a brief description of the nature of the obligation and an indication of the uncertainties about the amount or timing of outflows—might still be material even if the carrying amount of the related class of provision is immaterial. Example 7 illustrates a situation in which that is the case and explains the factors that might make such information material.
 - (b) the examples do not over-extend the application of paragraphs 31 and 125 of IAS 1. We think this perception might arise because some stakeholders might expect the examples to change how entities currently apply these requirements. Feedback on the exposure draft will inform the IASB about the specific reasons why some stakeholders might think the examples are over-extending the application of these requirements and whether they think standard-setting is necessary.
11. If the IASB agrees with our recommendations in this paper, we will consider other comments from IASB and ASAF members, including drafting suggestions, during the balloting process for an exposure draft.

Scope and objective of the examples

12. Some IASB members were concerned that the examples might be misunderstood as illustrating all the requirements in IFRS Accounting Standards that might apply to the described fact pattern. They said the examples should be clearer about which requirements are being illustrated. In addition, some IASB members stated that the examples should not refer to requirements that are not being illustrated to avoid creating the impression that the examples cover all applicable requirements.
13. One IASB member also said that the examples should include an explanation of their objective (that is, what they aim to illustrate). For example, the examples could include some of the explanations included in Agenda Paper 14C about their objective.
14. We agree with IASB members that the examples should be clear about their objectives and which requirements they illustrate. To help achieve this, we will include in each example an introductory paragraph explaining the objective of the example and which requirements the example illustrates. This approach would be consistent with the approach taken in illustrative examples accompanying the most recent IFRS Accounting Standards.¹

Requests for more examples***Examples about other types of uncertainties***

15. One IASB member and a few ASAF members noted that most examples illustrate the disclosure of information about climate-related uncertainties, even though the project's scope has been generalised to include other types of uncertainties. They asked the staff to consider the balance of climate and non-climate examples, for example, by adding another example illustrating a non-climate-related uncertainty.

¹ For example, see paragraph IE42 of the Illustrative Examples accompanying IFRS 17 *Insurance Contracts* and paragraph IE11 of the Illustrative Examples accompanying IFRS 16 *Leases*.

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16. We have considered whether the existing package of examples would be enhanced by adding an additional non-climate-related example or by changing one of the existing examples to illustrate a non-climate-related uncertainty. However, we think that the existing package of examples is sufficient to help address concerns about the reporting of both climate-related and other uncertainties in the financial statements because:
- (a) the package already includes a fact pattern involving an uncertainty that is not related to climate (Example 5); and
 - (b) the examples can be analogised to other types of uncertainties even though most illustrate a climate-related uncertainty.

Examples illustrating other areas of accounting

17. IASB and ASAF members broadly supported (or did not object to) the selection of requirements that the examples illustrate. However, some ASAF members also asked for additional examples illustrating other areas of accounting affected by climate-related and other uncertainties or for the examples to be expanded to address other related aspects or requirements. For example, one ASAF member suggested additional examples illustrating how an entity reflects climate-related risks in measuring expected credit losses applying IFRS 9 *Financial Instruments* or the application of the disclosure requirements in IFRS 13 *Fair Value Measurement*. However, one ASAF member supported the examples being focused on a few specific requirements, instead of trying to illustrate all possible applicable requirements.
18. The effects of climate-related and other uncertainties are pervasive across financial statements and therefore there are many different areas of accounting that could be illustrated by examples. As explained in Agenda Paper 14C, the examples illustrate requirements in IFRS Accounting Standards which we consider to be amongst the most relevant for the disclosure of the effects of these uncertainties. In our view, the examples focus on the areas of accounting where they could have the most impact on improving the information entities disclose in their financial statements.

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19. Furthermore, each example focuses on specific requirements in IFRS Accounting Standards. We focused on these requirements because we think their application can help address the concerns identified through our work on this project or because they are sometimes misunderstood. The objective of the examples is not to illustrate all requirements that might be applicable in reporting the effects of climate-related and other uncertainties in financial statements.

Stand-alone vs walk-through examples

20. IASB members and ASAF members broadly supported developing stand-alone examples. However, a few ASAF members reported that some stakeholders think walk-through examples could also be helpful.
21. As explained in paragraphs 25–26 of Agenda Paper 14C, although walk-through examples could be helpful to some stakeholders, we think they would be less likely to significantly contribute to addressing the concerns identified in this project. Therefore, we continue to think that stand-alone examples would be more effective because they could be more focused and tailored to address particular matters or requirements related to those concerns.

Connectivity

Connected information

22. A few IASB members acknowledged that stakeholders continue to ask the IASB to explore ways to improve connections between information in the financial statements and other general purpose financial reports. One IASB member suggested that further exploration could be done as a separate workstream to avoid delaying the publication of an exposure draft with the examples. Another suggested that one way of improving these connections could be by adding an explicit requirement about connected information into IFRS Accounting Standards.

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23. A few ASAF members said the illustrative examples provide a good opportunity to demonstrate connectivity between the IASB and ISSB. These ASAF members also said the examples could better illustrate connectivity, for example, by highlighting connections with specific requirements in IFRS Sustainability Disclosure Standards. However, one ASAF member said that, for jurisdictions that do not apply IFRS Sustainability Disclosure Standards, explicit references to these standards might add complexity.
24. We note that Example 1 illustrates connectivity in general purpose financial reports (regardless of the sustainability disclosure standards applied).² The example aims to address concerns from users of financial statements (users) that information in financial statements appears to be inconsistent with other information provided by the entity. The example does that by illustrating how the information provided by the entity outside financial statements may affect the information users need to understand the impact of particular transactions, other events or conditions on the entity's financial position and financial performance.
25. We recognise that the financial reporting landscape is evolving and that investor-focused information about climate-related uncertainties is expected to increasingly be provided outside the financial statements. We recognise, therefore, that entities may need further support, beyond Example 1, to better understand how to make connections across their general purpose financial reports. We will continue to consider opportunities to do so and think that feedback on the exposure draft can further inform us about the types of challenges that users are encountering in practice and that entities are considering as they prepare to report on sustainability-related matters outside the financial statements.

² As explained in paragraph 23 of Agenda Paper 14C, while we have placed particular emphasis on ensuring connections work well between the examples and ISSB requirements, we do not intend the examples to be limited to circumstances in which an entity applies IFRS Sustainability Disclosure Standards.

Duplication and the use of cross-references to include material information

26. One way to make connections in general purpose financial reports is through the use of cross-references.
27. In Agenda Paper 14A for the March 2024 meeting (reproduced as Agenda Paper 14C for this meeting):
- (a) we noted that the application of IFRS Accounting Standards in the fact patterns illustrated by the examples may result in disclosure of information similar to that required to be disclosed by IFRS Sustainability Disclosure Standards. To enable connected financial reporting and to avoid duplicated disclosures, IFRS Sustainability Disclosure Standards allow an entity, subject to specific criteria, to include information in sustainability-related financial disclosures by cross-referencing to another report published by the entity, for example, the financial statements.
 - (b) we said that we would consider at a future IASB meeting whether and, if so, how to illustrate in the draft examples the use of cross-references in the financial statements to other general purpose financial reports to enable connected financial reporting and to avoid duplicated disclosures.³
28. We use the term ‘cross-referencing’ to refer to the use of cross-references to information in another report published by an entity to incorporate that information in the financial statements to comply with IFRS Accounting Standards.⁴
29. Although there was some support from IASB members for exploring the use of cross-referencing to improve connectivity and reduce duplication, some IASB members said this is a complex matter that could cause audit and regulatory complications and could result in fragmented and disjointed information. Resolving these concerns could be

³ See paragraph 22 of Agenda Paper 14C for this meeting.

⁴ The term ‘cross-referencing’ does not refer to sign-posting to additional information outside financial statements that is not required by IFRS Accounting Standards.

time-consuming. Therefore, some IASB members said that this matter could be considered in the longer term to avoid delaying the publication of the examples.

30. While we think that cross-referencing is important to consider, we agree with IASB members that we should do so separately from the examples to avoid a delay in their publication. We also think that a better understanding of stakeholder needs regarding cross-referencing in the evolving reporting landscape is needed to inform the IASB's consideration of this topic. As noted in paragraph 25, we think that feedback on the exposure draft can further inform us about the types of challenges that users are encountering in practice and that entities are considering as they prepare to provide sustainability-related information outside the financial statements.

Educational materials for users

31. One IASB member said that the examples we explored would be helpful to preparers, auditors and regulators in explaining how to apply the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties. However, the IASB member said it was also necessary to develop materials directed at users to explain how financial statements might be affected by these uncertainties. The IASB member suggested developing an educational material explaining, for example, the accounting consequences that might arise if an entity makes a commitment to reduce or offset its greenhouse gas emissions. Such an example could help explain to users the possible effects that such commitments might have—and the effects that such commitments would *not* have—on an entity's financial position and financial performance reported in an entity's financial statements.
32. As explained in Appendix A to Agenda Paper 14 for this meeting, we are exploring developing 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 an entity would provide by applying IFRS Sustainability Disclosure Standards. In developing the article, we will consider discussing how some

transactions and events may or may not affect the entity's financial position and financial performance reported in its financial statements and why.

Standard-setting on disclosures about estimates

Background

33. As explained in paragraphs 6–7 of [Agenda Paper 14](#) for the IASB's March 2024 meeting:
- (a) our work on this project showed that some users seek to better understand how the effects of climate-related and other uncertainties have been considered in preparing the financial statements. This includes understanding how those uncertainties were reflected in estimates reported in the financial statements. To address this need for a better understanding, the IASB decided in September 2023 to explore possible targeted amendments to IFRS Accounting Standards to improve disclosures about estimates in the financial statements. Improved disclosures about estimates could also help users make connections between the financial statements and the entity's other general purpose financial reports.
 - (b) since the September 2023 decision, we have continued to perform research and outreach to identify areas for possible targeted amendments in relation to disclosure of information about estimates. Stakeholder views are mixed about whether standard-setting is needed. Furthermore, stakeholders that support standard-setting are sometimes unclear about what amendments are needed or ask for amendments that we think are unnecessary because the existing requirements are sufficient. Although we have explored initial ideas about possible targeted amendments, we have not obtained sufficient evidence at this stage to indicate that standard-setting is needed.
34. At its March 2024 meeting, the IASB discussed seeking formal feedback about whether and why standard-setting is needed. We suggested that feedback could be

obtained by asking a specific question in any exposure draft the IASB publishes seeking comments on the examples (question about whether to undertake standard-setting).

IASB and ASAF members' comments

35. IASB members broadly supported (or did not object to) our view that there is not enough evidence at this stage to indicate that standard-setting on disclosures about estimates is needed.
36. However, IASB members' views were mixed about whether to include a question about whether to undertake standard-setting in the exposure draft. Some IASB members considered that such a question might be too broad and distract from obtaining feedback about the examples. Some IASB members also said that it would be unusual to use an exposure draft as a tool for obtaining views about whether to undertake standard-setting rather than using it for obtaining feedback on particular proposals the IASB has developed.
37. Some IASB members suggested that, instead of asking an explicit question about whether to undertake standard-setting, the exposure draft could ask a question that focuses on the examples, but would also elicit information to help the IASB decide whether standard-setting is needed.
38. ASAF members did not object to our views regarding whether to undertake standard-setting on disclosures about estimates. One ASAF member said that some stakeholders might still suggest that the IASB undertakes standard-setting in addition to providing illustrative examples.

Staff response

39. After considering IASB and ASAF members' comments, we think that the exposure draft should include a question that, as suggested by IASB members, focuses on the examples but also elicits information to help the IASB decide whether standard-

setting is needed. For example, the exposure draft could ask stakeholders whether they agree with the IASB's views that the illustrative examples:

- (a) do not add or change requirements in IFRS Accounting Standards; and
- (b) could help improve the reporting of information about climate-related and other uncertainties in financial statements by illustrating how an entity applies the requirements in IFRS Accounting Standards to report that information.

40. In our view, the questions above would implicitly elicit information from stakeholders about whether standard-setting is needed if they disagree with these views.

Staff recommendations

41. Feedback from IASB members and ASAF members indicates broad support for (or no general disagreement with) our approach to developing the examples and with including the examples as illustrative examples accompanying IFRS Accounting Standards. Therefore, our recommendations in this paper are consistent with and based on the analysis presented in March 2024 (see Agenda Papers 14C and 14D for this meeting).
42. Based on our analysis in the papers for this meeting, we recommend that the IASB:
- (a) provide examples to illustrate how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements;
 - (b) include the examples as illustrative examples accompanying IFRS Accounting Standards; and
 - (c) consult on these proposals through an exposure draft.
43. The staff draft examples included in Agenda Paper 14D for this meeting will be used as a starting point for the illustrative examples proposed in the exposure draft.

Question for the IASB

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Do you agree with our recommendations to:

- (a) provide examples illustrating how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements;
- (b) include the examples as illustrative examples accompanying IFRS Accounting Standards;
and
- (c) consult on these proposals through an exposure draft?