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## IASB–ISSB Joint Meeting

Date	<b>February 2025</b>
Project	<b>Climate-related and Other Uncertainties in the Financial Statements</b>
Topic	<b>Providing illustrative examples</b>
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB). This paper does not represent the views of the IASB, ISSB or any individual member of either board. 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 or IFRS<sup>®</sup> Sustainability Disclosure Standards. The technical decisions of the IASB and the ISSB are made in public and are reported in the IASB<sup>®</sup> *Update* and ISSB *Update*, respectively.

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## Introduction and purpose

1. In July 2024, the International Accounting Standards Board (IASB) published the [Exposure Draft](#) *Climate-related and Other Uncertainties in the Financial Statements*. The Exposure Draft proposed eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.
2. Agenda Paper 14 sets out the structure of the agenda papers for this meeting, the background of the proposed illustrative examples and an overview of the feedback on the Exposure Draft.
3. This paper summarises feedback on whether:
  - (a) providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements (Question 1(a) of the Exposure Draft); and

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- (b) including the examples as illustrative examples accompanying IFRS Accounting Standards is the best vehicle for the examples (Question 1(b) of the Exposure Draft).
- 4. This paper also summarises other actions suggested by respondents to the Exposure Draft.
  - 5. We are not asking the IASB or the International Sustainability Standards Board (ISSB) to make any decisions at this meeting.

## Structure of this paper

- 6. This paper includes background information and a summary of feedback on:
  - (a) whether examples would help improve financial reporting (paragraphs 7–15);
  - (b) the vehicle for the examples (paragraphs 16–25); and
  - (c) other actions suggested by respondents (paragraphs 26–27).

## Would examples help improve financial reporting?

### ***Background***

- 7. As explained in Agenda Paper 14, the IASB proposed providing eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help improve the reporting of these effects in financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

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**Summary of feedback***General agreement*

8. Most respondents generally agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. These respondents say that providing illustrative examples will:
  - (a) help clarify how an entity applies the requirements in IFRS Accounting Standards to report the effects of these uncertainties in its financial statements;
  - (b) help improve consistency and comparability of information between entities that face similar uncertainties; and
  - (c) help strengthen connections between an entity's financial statements and other general purpose financial reports.
9. Some respondents say that, although the examples are a pragmatic step towards improving the reporting of climate-related and other uncertainties in the financial statements, more work is needed.
10. While most respondents support providing examples to help improve reporting, many of these respondents comment on the approach to developing the specific examples in the Exposure Draft, including the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples. Agenda Paper 14B includes a summary of feedback on the approach to developing the examples.
11. Many respondents comment on connectivity. Although some of these respondents say that the examples in the Exposure Draft will help strengthen connections between an entity's general purpose financial reports, most say that more should be done to improve connectivity in general purpose financial reports and address inconsistencies that might appear to exist between those reports. A summary of feedback on connectivity is included in Agenda Paper 14C.

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12. Most respondents also specifically comment on each of the examples proposed in the Exposure Draft. A few of these respondents suggest targeted amendments to IFRS Accounting Standards to clarify some requirements in these standards. A few respondents also say that standard-setting might be needed if the proposed illustrative examples do not improve reporting. Agenda Paper 14D includes a summary of this feedback.
  13. A few respondents also suggest other specific changes or clarifications to the requirements in IFRS Accounting Standards that might improve the reporting of climate-related and other uncertainties in the financial statements (see paragraphs 26–27).
  14. A few public interest organisations and a user suggest that the IASB explore ways in which the examples can be effectively communicated to a wide range of stakeholders once published. These respondents say that effective communication would support the consistent application of the requirements illustrated in the examples. These respondents also suggest that the IASB work with others, including audit standard-setting bodies, to further support awareness and implementation of the illustrative examples.

### *Disagreement*

15. A few respondents disagree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. They disagree because, in their view:
  - (a) issuing these examples without also making changes to the requirements in IFRS Accounting Standards will not result in meaningful improvements in the reporting of climate-related and other uncertainties.
  - (b) issuing these examples before entities have fully adopted IFRS Sustainability Disclosure Standards—or other sustainability-related reporting requirements and frameworks—would be premature. These respondents, mainly preparers,

say that, in their view, the disclosures required under these frameworks will satisfy users' need for more information about climate-related uncertainties.

## Vehicle for the examples

### *Background*

16. The following paragraphs summarise the content from paragraphs BC43–BC45 of the Basis for Conclusions on the Exposure Draft.
17. The IASB proposed including the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards.
18. Although illustrative examples are not an integral part of the Standards and therefore might not be translated or endorsed in some jurisdictions, the IASB concluded that illustrative examples:
  - (a) are easily accessible because they are included alongside other guidance accompanying the Standards;
  - (b) are used by preparers in applying the Standards and are helpful to auditors and regulators in supporting their audit and enforcement activities; and
  - (c) allow for greater flexibility in content and format than if the examples were to be included in the Standards.
19. In addition to including the examples as illustrative examples accompanying IFRS Accounting Standards, the IASB might group the examples and publish them as a single document. This document would allow stakeholders to refer to the examples as a package and make it easier for stakeholders to identify connections between the examples.

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## ***Summary of feedback***

### *General agreement*

20. Most respondents agree with including the examples as illustrative examples accompanying IFRS Accounting Standards. These respondents say that illustrative examples achieve the right balance between accessibility, enforceability and flexibility in the content and format of the examples.
21. A few respondents specifically acknowledge that IFRS Accounting Standards are generally sufficient in requiring an entity to disclose information about the effects of climate-related and other uncertainties in the financial statements. A few other respondents say that the examples complement the existing educational material [\*Effects of climate-related matters on financial statements\*](#) (republished by the IASB in July 2023).
22. Some respondents specifically support grouping the examples and publishing them as a single document, in addition to including the examples as illustrative examples accompanying IFRS Accounting Standards. These respondents say that publishing the examples in a single document would:
  - (a) help stakeholders identify connections between the examples;
  - (b) facilitate access to guidance on climate-related and other uncertainties; and
  - (c) provide an opportunity to communicate additional information, for example references to related educational materials and agenda decisions.

### *Disagreement*

23. Some respondents disagree with including the examples as illustrative examples accompanying IFRS Accounting Standards, preferring that the examples are either included in IFRS Accounting Standards themselves or published as educational materials.

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24. A few respondents say that including the examples in IFRS Accounting Standards themselves would better facilitate comparability and consistency in reporting and enhance the enforceability of the examples. This is because illustrative examples are not subject to endorsement in some jurisdictions.
25. A few respondents, mainly preparers, support publishing the examples as educational materials rather than illustrative examples accompanying IFRS Accounting Standards. These respondents say that this approach would allow sustainability reporting to mature before incorporating guidance into IFRS Accounting Standards and its accompanying guidance. They also say that, in their view, it would be more helpful to publish the examples in a single document that is focused only on climate-related risks in the financial statements. A few of these respondents suggest including the examples as an extension of the existing educational material *Effects of climate-related matters on financial statements* (republished by the IASB in July 2023).

## Other actions

26. Respondents also suggest a variety of other actions that the IASB could take in addition to issuing the illustrative examples. They say these actions would help to further improve the reporting of climate-related and other uncertainties in the financial statements. For example, a few respondents suggest exploring standard-setting to clarify some requirements in IAS 36 *Impairment of Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In particular:
- (a) a few respondents say that the variability of cash flows over an extended time horizon (for example, beyond five years) may not be factored into the calculation of value in use because some perceive paragraph 35 of IAS 36 as prohibiting the consideration of forecasts of future cash flows for periods beyond five years; and
  - (b) a few standard-setters say there are application challenges related to the concept of an ‘unavoidable obligation’ in Example 6—*Legal requirement to fit smoke filters* of the *Guidance on implementing IAS 37*.

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27. A few respondents urge the IASB to develop requirements for pollutant pricing mechanisms. These respondents say pollutant pricing mechanisms are increasing in prevalence and it is important to establish clear accounting requirements to enhance the consistency and comparability of disclosures. They say this will help users of financial statements better understand the financial effects of these pollutant pricing mechanisms.

### Question for the IASB and ISSB

Question for IASB and ISSB members

Do you have any comments on the summary of feedback included in this paper?