Staff paper

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Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Proposed illustrative examples**
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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 specific comments on each of the illustrative examples proposed in the Exposure Draft (Examples 1–8).

4. We are not asking the IASB or the International Sustainability Standards Board (ISSB) to make any decisions at this meeting.

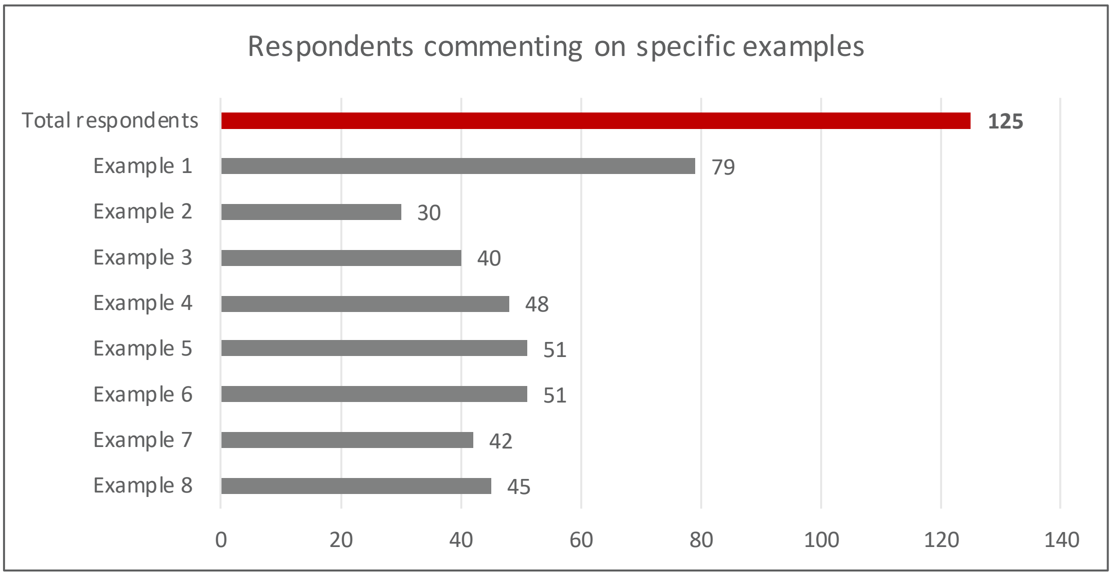
Structure of this paper

5. This paper includes background information about, and a summary of feedback on, each of the eight illustrative examples proposed in the Exposure Draft:

Examples	Standard	Paragraph Reference
Making materiality judgements		
Example 1—Materiality judgements leading to additional disclosures	IAS 1 / IFRS 18	9–40
Example 2—Materiality judgements not leading to additional disclosures		
Assumptions and other sources of estimation uncertainty		
Example 3—Disclosure of assumptions: specific requirements	IAS 36	41–58
Example 4—Disclosure of assumptions: general requirements	IAS 1 / IAS 8	59–73
Example 5—Disclosure of assumptions: additional disclosures	IAS 1 / IFRS 18	74–86
Example 6—Disclosure about credit risk	IFRS 7	87–100
Example 7—Disclosure about decommissioning and restoration provisions	IAS 37	101–120
Disaggregation		
Example 8—Disclosure of disaggregated information	IFRS 18	121–132

6. This paper provides a separate summary of connectivity-related comments in each example, with the exception of Examples 1 and 2. The main objective of Examples 1 and 2 is to illustrate connections between information disclosed in general purpose financial reports, therefore most of the feedback on these examples is relevant to connectivity.

7. As explained in Agenda Paper 14, the IASB received 125 comment letters by the comment letter deadline. The chart below shows how many of those respondents specifically commented on each example:



8. The paragraphs in this paper explaining the objective and rationale of each example summarise the content from paragraphs BC28–BC42 of the Basis for Conclusions on the Exposure Draft.

Examples 1 and 2—Materiality judgements leading to (or not leading to) additional disclosures (IAS 1/IFRS 18)

Objective and rationale

9. The IASB developed Example 1 and 2 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements. Stakeholders said they observed extensive discussion about climate-related strategy, risks and targets outside the financial statements, but the financial statements either:

(a) made no reference to climate-related matters; or

(b) included a statement that the effect of climate-related matters was immaterial without explaining the reason for that assertion.

10. The IASB noted that such situations may arise because of a focus on quantitative rather than qualitative factors in assessing the materiality of information. Therefore, the IASB decided to illustrate how an entity considers qualitative factors in making materiality judgements in a climate-related scenario.

11. In Examples 1 and 2, an entity considers:

(a) whether the disclosures it makes in a general purpose financial report outside its financial statements affect its determination of which information is material in the context of its financial statements; and

(b) how the information it provides in its financial statements responds to the information needs of the users of those financial statements.

12. Example 1 illustrates a situation in which an entity makes additional disclosures after applying judgement and considering its specific circumstances. To help address concerns that the consideration of qualitative factors could lead to excessive disclosures, the IASB also developed Example 2, which illustrates a situation in which the entity makes no additional disclosures.

Summary of feedback

13. Examples 1 and 2 generated the most feedback from respondents. These respondents express mixed views about whether the IASB should proceed with Examples 1 and 2. Some respondents express support for these examples. In particular, these respondents support Example 1 because:

(a) it responds to concerns that information about the effect of climate-related risks in financial statements is sometimes insufficient or appears to be inconsistent with information entities provide outside their financial statements; and

(b) it illustrates how qualitative factors might be considered in assessing whether information is material.

14. However, many respondents express concerns, particularly about the technical analysis of how the entity applies paragraph 31 of IAS 1 *Presentation of Financial Statements* and the materiality assessment illustrated in the examples. Some of these respondents provide detailed drafting suggestions, while some others suggest that the IASB should not proceed with Examples 1 and 2 because of concerns that these examples might go beyond the requirements in paragraph 31 of IAS 1. These respondents are also concerned about the practical implications of applying the principles illustrated in Example 1 to all uncertainties.

15. A few respondents suggest that the IASB consider standard-setting rather than illustrative examples to clarify the application of paragraph 31 of IAS 1. Similar to the respondents that suggest deleting Examples 1 and 2, these respondents are concerned that these examples might go beyond the requirements in paragraph 31 of IAS 1. They say that, in their view, standard-setting would allow for in-depth consultation, clearer requirements about when additional disclosure is required and a transition period for adopting any new requirements.

16. The following paragraphs further explain respondents' comments. We grouped respondents' comments into the following categories:

(a) applying paragraph 31 of IAS 1 (paragraphs 17–21);

(b) assessing whether information is material (paragraphs 22–32);

(c) location and format (paragraphs 34–37);

(d) interaction with sustainability-related financial disclosures (paragraphs 38–39); and

(e) other comments (paragraph 40).

Applying paragraph 31 of IAS 1

17. Example 1 illustrates the application of paragraph 31 of IAS 1. That paragraph requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

18. Many respondents—mainly standard-setters, preparers and accountants—express concerns about how Example 1 illustrates the application of paragraph 31 of IAS 1, saying it might go beyond the requirements in that paragraph or how these requirements are currently applied in practice. For example, the New Zealand's External Reporting Board says:

> Traditionally, preparers and users apply IAS 1 with an overarching perspective, assessing whether the financial statements, as a whole, are misleading or incomplete. … The ED may be pushing the interpretation of IAS 1, particularly paragraph 31, beyond its current application. The concern is that these examples imply a shift toward an item-by-item analysis, where each line item must be scrutinised individually for missing information…

19. These respondents say that the analysis implies that statements of 'no effect' (or 'negative confirmations') are required for a broad range of uncertainties. A few of these respondents also express concerns that Example 1 implies that an entity needs to anticipate the expectations of a wide range of users of financial statements in applying paragraph 31 of IAS 1. Respondents say that Example 1 could lead to voluminous boilerplate disclosures that might obscure, rather than provide, material information.

20. A few respondents express concerns about applying paragraph 31 of IAS 1 in the way illustrated in Example 1 to *all* uncertainties an entity may face. They say doing so

would be burdensome for entities and auditors and require entities to create new processes and controls.

21. A few respondents, mainly preparers, say that, in their view, paragraph 31 of IAS 1 does not require disclosure when there is a 'lack of effect'. However, one regulator says that paragraphs 49–51 of IFRS Practice Statement 2 *Making Materiality Judgements* explain why information about a 'lack of effect' could be material and suggests adding similar explanations to Example 1.[1]

Assessing whether information is material

22. The definition of material in paragraph 7 of IAS 1 explains that:

> Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

23. Respondents generally agree that an entity should disclose information about the effect (or lack of effect) of climate-related uncertainties in its financial statements when that information is material. However, a few respondents of various types say that information about whether and why climate-related uncertainties had no effect could also be material in the fact pattern illustrated in Example 2 and similar fact patterns (for example, for service providers with higher indirect greenhouse gas emissions).

24. Some respondents express concerns about the materiality assessment illustrated in Examples 1 and 2. In particular, respondents express concerns about:

[1] Paragraphs 49–51 of IFRS Practice Statement 2 state that 'the relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates' and that 'in some circumstances, if an entity is not exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the lack of exposure to that particular risk could be material information'.

(a) how the entity concluded whether information was material (making materiality judgements) (paragraphs 25–28); and

(b) the specific factors it considered in making those materiality judgements (paragraphs 29–32).

Making materiality judgements

25. Some respondents suggest enhancing the examples to further explain:

(a) why primary users of financial statements might expect—or might not expect—an effect on the entity's financial position and financial performance; and

(b) why information about the lack of such an effect is material.

26. A few preparers say that, in their view, Example 1 illustrates a situation in which an entity discloses information that is immaterial in the context of the financial statements. These respondents say that, in their view, matters that have no effect on an entity's financial performance or financial position are immaterial and should not be disclosed in financial statements.

27. A few respondents say that Examples 1 and 2 should clarify that an entity assesses materiality considering the *primary users* of its financial statements. These respondents say that focusing on primary users would clarify that preparers are not required to consider whether information that might be of interest only to a broader set of stakeholders is material.

28. A few respondents also suggest clarifying that financial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently.[2] These respondents say that this would help limit the information that preparers need to consider when making materiality judgements.

[2] As stated in the definition of material in paragraph 7 of IAS 1.

Factors considered in assessing materiality

29. Paragraph 1.8 of Example 1 says that the entity reaches its conclusion about the materiality of the information after considering:

> … qualitative factors that make the information more likely to influence users' decision-making, including:
>
> (a) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and
>
> (b) the industry in which it operates, which is known to be exposed to climate-related transition risks (external qualitative factor).

30. A few respondents support illustrating that an entity should consider both quantitative and qualitative factors in assessing materiality. A few standard-setters say that Examples 1 and 2 could be enhanced by emphasising that the materiality assessments should encompass both qualitative and quantitative factors.

31. A few respondents disagree with considering disclosures an entity makes in a general purpose financial report outside its financial statements as a factor when assessing whether information is material. These respondents say that whether or not an entity discloses information outside its financial statements, should not affect whether information is material in the context of its financial statements. For example, HSBC says that:

> …this implies that the usefulness of information in the financial statements is increased for an event merely by having disclosed that event outside the financial statements.

32. A few respondents, mainly preparers, disagree with considering the industry in which the entity operates as a factor when assessing whether information is material. In particular, these respondents say that generalisations about a whole industry's exposure to climate-related transition risks is overly broad and that those risks are not always industry specific. However, a few other respondents supported the inclusion of this factor in assessing whether information is material.

33. Some respondents suggest that the IASB consider adding more qualitative factors to Examples 1 and 2 to help strengthen the conclusion about whether or not to provide additional disclosures. For example, a few respondents suggest including matters 'historically questioned' by users as a qualitative factor to consider when assessing whether information is material or not.

Location and format

34. Some respondents say that it would be helpful to clearly link Examples 1 and 2 together or to make Example 2 a variant of Example 1. These respondents say that this would help emphasise the contrasting outcomes of when additional disclosures might or might not be provided.

35. Some respondents, mainly accountants, say that Examples 1 and 2 should be included as part of IFRS Practice Statement 2 rather than IAS 1, because their main objective is to illustrate the application of materiality judgements.

36. A few respondents suggest either cross referencing to, or incorporating more guidance from, IFRS Practice Statement 2 into Examples 1 and 2 to provide stakeholders with more guidance on making materiality judgements.

37. A few respondents say that it would be helpful to align Examples 1 and 2 with the four-step process illustrated in IFRS Practice Statement 2.[3]

Interaction with sustainability-related financial disclosures

38. Paragraph BC32 of the Exposure Draft says that it is assumed in Examples 1 and 2 that the entity does not apply IFRS Sustainability Disclosure Standards. Some respondents, mainly standard-setters and accountants, say that it would be helpful for the IASB to explain whether or how the conclusions in Examples 1 and 2 would

[3] Paragraph 33 of IFRS Practice Statement 2 identifies the four steps that an entity may follow in making materiality judgements when preparing financial statements as identify, assess, organise and review.

change if the entity applies IFRS Sustainability Disclosure Standards (or other similar frameworks).

39. A few of these respondents ask the IASB to clarify whether the additional information that the entity in Example 1 would disclose could be provided in the financial statements through cross-referencing to information provided outside the financial statements.

Other comments

40. Respondents made the following other comments:

(a) *expanding the conclusion in Example 1*—some respondents suggest expanding the conclusion in Example 1 to provide more guidance on the types of disclosure that the entity might provide. For example:

(i) a few respondents suggest linking the conclusion in paragraph 1.9 of the Exposure Draft to the information in paragraph 1.3 of the Exposure Draft explaining why there is no effect on the recognition and measurement of the entity's assets and liabilities and related income and expenses; and

(ii) a few standard-setters and a regulator suggest that the IASB include examples of the types of disclosures the entity would provide.

(b) *referring to other IFRS accounting requirements*—a few respondents suggest enhancing the technical analysis with references to other requirements in IFRS Accounting Standards. For example, a few respondents suggest that Example 1 explain that any additional disclosures should not obscure material information.

(c) *threshold for 'might expect'*—paragraph 1.7 of the Example 1 says that '…users of the entity's financial statements might expect that some of its assets might be impaired'. A few respondents, mainly preparers, ask the IASB to clarify what threshold it intends by 'might expect'. A preparer suggests replacing 'might expect' with 'could reasonably expect' to align more closely with the language in the definition of material.

(d) *fact patterns*—a few respondents say the fact patterns in Examples 1 and 2:

(i) are not realistic because it is unlikely for an entity's 10-year transition plan or greenhouse gas emissions policy to have no impact on its financial position and financial performance; and

(ii) could be enhanced to also consider climate-related physical risks or climate-related risks as a whole.

Example 3—Disclosure of assumptions: specific requirements (IAS 36)

Objective and rationale

41. Example 3 illustrates the disclosure of assumptions about the costs of acquiring allowances for greenhouse gas emissions in measuring the recoverable amount of a cash-generating unit. The IASB's research indicated that entities operating in various industries are subject to greenhouse gas emissions regulations and information about the assumptions used in estimating the related costs is often material.

42. The example also illustrates the disclosure of an entity's assumptions about potential future increases in the scope of these regulations. Those are among the assumptions an entity might have to make in estimating future cash flows to measure the recoverable amount of an asset (or cash-generating unit).

Summary of feedback

43. Many respondents specifically support the inclusion of an example illustrating considerations and disclosures around the impairment of non-financial assets, recognising this as one of the most important and challenging areas in reporting climate-related uncertainties.

44. Some of these respondents say the example helps demonstrate that entities should both make and disclose climate-related assumptions in impairment testing. For example, one standard-setter says that the example reminds stakeholders that an entity should disclose more than just the discount rate and growth rates used in its impairment testing.

45. However, many respondents say the example could be more comprehensive, provide further clarifications or guidance on some aspects, and help with practical challenges of reflecting climate-related uncertainties in impairment testing. We grouped respondents' comments into the following categories:

(a) scope and comprehensiveness of the example (paragraphs 46–47);

(b) effects of climate-related uncertainties on terminal values (paragraphs 48–50);

(c) risk of double-counting the effects of climate-related uncertainties (paragraphs 51–54)

(d) additional clarifications or guidance on the requirements in IAS 36 *Impairment of Assets* (paragraphs 55–56);

(e) connectivity-related comments (paragraph 57); and

(f) other comments (paragraph 58).

Scope and comprehensiveness of the example

46. Some respondents say the example might be too narrow because it focuses only on greenhouse gas emission allowance costs. These respondents suggest including other key assumptions, such as assumptions about:

(a) future emission levels and whether costs will be passed to customers;

(b) other transition costs beyond emission allowance costs and adverse effects on revenue;

(c) estimated production levels and oil and gas prices;

(d) costs related to other arrangements to offset emissions; and

(e) assumptions used in determining discount rates.

47. Some respondents, mainly accountants, say the example should be more specific and comprehensive rather than simply reproducing the disclosure requirements in IAS 36. For example, a few respondents suggest:

(a) describing the external sources of information the entity used and specifying the period covered by the assumptions (for example, whether they extend beyond five years);

(b) expanding the example to include numbers and calculations, as well as the specific types of information an entity would disclose; and

(c) including more specific illustrations of the sensitivity analysis the entity would perform.

The effects of climate-related uncertainties on terminal values

48. Some respondents say the example should address how climate-related uncertainties affect terminal value calculations. They say climate-related matters often affect an entity after the five-year forecast period referred to in paragraph 33(b) of IAS 36.

49. A few respondents say the examples should illustrate the disclosure of the effects of climate-related uncertainties on the terminal value. For example, one standard-setter suggests expanding the example to include longer-term financial effects, concluding that the effects are either immaterial, cannot be incorporated into cash flow projections, or warrant an adjustment to discount rates.

50. A few respondents suggest the IASB also provide guidance on the measurement of value in use. For example, one accountant provides a list of issues that could be addressed, such as the calculation of terminal value, reflecting the long-term effects of transition plans and illustrating the application of Appendix A of IAS 36 to different scenarios.[4]

[4] Appendix A of IAS 36 provides guidance on the use of present value techniques in measuring value in use.

The risk of double-counting the effects of climate-related uncertainties

51. Some respondents comment on the risk of double-counting climate-related risks in both cash flows and discount rates used in the impairment test. A few of those respondents suggest the example specify whether climate-related risks have been factored into the cash flows or discount rate.

52. More specifically, respondents comment on whether an entity should reflect the risk of future changes in regulation in cash flows or discount rate estimates—for example, one accountant says that systemic regulation risk in some territories might already be reflected in the discount rate an entity uses. These respondents suggest the example states either:

    (a) that potential future legal or regulatory changes related to emission allowance costs have been reflected in the discount rate; or

    (b) that these changes should not be considered in formulating cash flow scenarios to the extent that they are already reflected in the discount rate.

53. A few respondents suggest the IASB clarify how an entity should reflect assumptions about expected future regulations in value in use calculations. For example, one standard-setter says the IASB should expand the example to illustrate how an entity makes judgements and incorporates its expectations about expected future regulations into its value in use calculation.

54. Finally, one standard-setter says the example is unclear about whether sufficient information exists for an entity to deem its assumptions about expected future regulations to be 'reasonable and supportable'. The respondent suggests changes to the wording of the example to further support the entity's expectations that regulations will become more widespread in the foreseeable future—for example, stating that governments in the jurisdictions in which the entity operates have started adopting regulations.

Additional clarifications or guidance on the requirements in IAS 36

55. Some respondents say the example could clarify how to apply some disclosure requirements in IAS 36, namely:

    (a) how to determine what constitutes a ‘key assumption’. In addition, a few respondents say the IASB should clarify:

        (i) that key assumptions include not only financial assumptions (such as discount rates and growth rates) but also business assumptions (such as sales prices and raw material costs); and

        (ii) that key assumptions could relate both to projected cash flows and to the discount rate.

    (b) how to determine what constitutes a ‘reasonably possible change’ in assessing whether to provide the sensitivity disclosures required by paragraph 134(f) of IAS 36.

56. A few respondents say the example should illustrate some practical aspects of applying the disclosure requirements in IAS 36. For example, how to deal with data uncertainty—particularly in emerging markets—and how to leverage climate-related scenario analysis and stress tests.

Connectivity-related comments

57. A few respondents suggest the example better explain the relationship between the assumptions used in impairment testing in financial statements and the assumptions used in climate-related disclosures in general purpose financial reports outside the financial statements (for example, the assumptions used in climate-related scenario analyses).

Other comments

58. A few respondents suggest the example states that an entity should also consider whether to disclose additional information applying paragraph 31 of IAS 1, or suggest illustrating additional disclosures based on the application of that paragraph.

Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)

Objective and rationale

59. The IASB developed Example 4 to illustrate the general requirements to disclose information about assumptions in paragraphs 125 and 129 of IAS 1.

60. In researching this project, the IASB became aware that some stakeholders might interpret the requirement in paragraph 125 of IAS 1 as applying only to assumptions about uncertainties that will be resolved within the next financial year. In accordance with this view, assumptions about uncertainties that will be resolved after the end of the next financial year are never within the scope of paragraph 125 of IAS 1.

61. Example 4 illustrates that paragraph 125 of IAS 1 also applies to assumptions about uncertainties that will be resolved only after the end of the next financial year. The IASB concluded that this example could help an entity determine whether to disclose information about climate-related and other assumptions, including assumptions about events or conditions that might occur in the medium or long term.

62. Example 4 also illustrates how an entity determines what information to disclose about those assumptions in applying paragraph 129 of IAS 1. The example explains that an entity is required to disclose information that meets the objective of helping users of financial statements understand the judgements that management made about the future and other sources of estimation uncertainty. The entity determines the nature and extent of the information it is required to provide to meet that objective, including whether it is necessary to disclose quantitative information.

Summary of feedback

63. Some respondents specifically support Example 4, saying it helpfully illustrates how to apply the requirement in paragraph 125 of IAS 1. Some of these respondents also say the example will improve the consistent application of that requirement, for example, by showing that a significant risk of material adjustment might arise from possible changes to assumptions, even if the uncertainty remains in the long term.

64. However, some respondents suggest considering or undertaking standard-setting. In particular, they suggest:

    (a) amending the scope of the specific disclosure requirements in IAS 36, instead of relying on the general disclose requirements in paragraph 125 of IAS 1; or

    (b) clarifying the requirements in paragraph 125 of IAS 1, instead of providing what they see as an interpretation of those requirements in the example.

65. The following paragraphs further explain respondents' comments. We grouped respondents' comments into the following categories:

    (a) relationship between specific and general requirements (paragraph 66);

    (b) applicability of paragraph 125 to long-term assumptions (paragraphs 67–69);

    (c) the specific information an entity discloses (paragraph 70);

    (d) connectivity-related comments (paragraph 71); and

    (e) other comments (paragraphs 72–73).

Relationship between specific and general requirements

66. Many respondents comment on the relationship between specific and general disclosure requirements in IFRS Accounting Standards. Specifically:

    (a) some respondents note that the example illustrates a situation in which the specific requirements in IAS 36 do not require an entity to disclose information about assumptions, but the general requirements in IAS 1 do require such disclosures. They say the example indicates a deficiency in

IAS 36 that the IASB should correct through standard-setting rather than relying on the general requirements in IAS 1.

(b) some respondents note that the example does not refer to paragraph 132 of IAS 36. That paragraph encourages an entity to disclose assumptions used in determining recoverable amounts of assets in the period beyond what is required by paragraph 134 of IAS 36.[5] These respondents suggest either including a reference to that paragraph in the example or removing from IFRS Accounting Standards paragraphs that encourage—rather than require—disclosure.

(c) a few respondents express concern that the example could have unintended consequences by creating expectations for disclosure even when not required by specific IFRS Accounting Standards. They say this could result in excessive disclosures, which might obscure rather than provide material information for users.

Applicability of paragraph 125 to long-term assumptions

67. In Example 4, the entity concludes that the assumptions that have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year include:

> … assumptions about uncertainties that will not be resolved within the next financial year, but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year.

68. Some respondents specifically agree that paragraph 125 of IAS 1 applies to assumptions about uncertainties that will be resolved only after the end of the next

[5] Paragraph 134 of IAS 36 only requires disclosure for cash-generating units (CGUs) for which the carrying amount of goodwill or intangible assets with indefinite useful lives allocated to that unit is significant in comparison with the total carrying amount of goodwill or intangible assets with indefinite useful lives.

financial year. Some of these respondents say that they are aware of different views in practice and that the example will help resolve confusion about the scope of paragraph 125 of IAS 1.

69. However, a few respondents suggest amending IAS 1 to clarify the scope of paragraph 125. They say that the existence of different interpretations indicates that standard-setting is needed and that clarifications to IFRS Accounting Standards should not be made through illustrative examples.

Specific information an entity discloses

70. Some respondents say the example should illustrate the specific types of information an entity would disclose by applying paragraphs 125 and 129 of IAS 1. For example, some of these respondents suggest illustrating the disclosure of:

(a) information that an entity would realistically disclose, both quantitative and qualitative;

(b) information about the multiple scenarios the entity considered and the weightings it applied to each of them; and

(c) information about the sensitivity of the carrying amount to the assumptions.

Connectivity-related comments

71. A few standard-setters note that paragraph 125 of IAS 1 and paragraph 16(b) of IFRS S2 *Climate-related Disclosures* use similar language.[6] They suggest clarifying the interaction between the requirements in those paragraphs and how to avoid possible duplication in the information an entity would disclose applying them.

[6] Paragraph 16(b) of IFRS S2 requires an entity to disclose quantitative and qualitative information about some climate-related risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements.

Other comments

72. A few respondents say that Example 4 is more comprehensive than Example 3 in explaining judgments and considerations and suggest that this approach could benefit other examples.

73. A few respondents also say the example should illustrate the effects of climate-related transition risks on the useful lives of property, plant and equipment. A few users highlight additional information that could be useful to them in the fact pattern illustrated in the example.

Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)

Objective and rationale

74. The IASB developed Example 5 to illustrate that, in some situations, an entity might be required to provide information about assumptions even if the specific or general disclosure requirements for assumptions in IFRS Accounting Standards do not apply. In particular, an entity might be required to provide information if:

(a) the assumption does not have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year; but

(b) the entity determines that additional disclosures to enable users of financial statements to understand the effects of transactions and other events and conditions on the entity's financial position and financial performance would provide material information.

Summary of feedback

75. Many respondents express concerns about various aspects of the example, particularly the example's fact pattern and how it illustrates the application of paragraph 31 of IAS

1. However, some respondents specifically support including an example that addresses non-climate-related uncertainties and illustrating the interaction between specific and general disclosure requirements.

76. We grouped respondents' comments into the following categories:

(a) the fact pattern and the effects of announced regulation (paragraphs 77–78);

(b) the application of paragraph 31 of IAS 1 (paragraphs 79–81);

(c) the need for additional clarifications (paragraphs 82–83);

(d) connectivity-related comments (paragraph 84); and

(e) other comments (paragraphs 85–86).

Fact pattern and the effects of announced regulations

77. Although a few respondents say that it is helpful to have an example about uncertainties related to emerging regulation, many respondents say the example's fact pattern is unrealistic. Some of these respondents say it is implausible that a government would announce a regulation restricting an entity's ability to operate without indicating when the regulation would take effect or without discussing it for a further two years. A few of these respondents suggest either replacing the fact pattern with one that is more realistic and relevant or deleting the example.

78. Some respondents say that legislative and regulatory frameworks differ significantly across jurisdictions. They say that referring to the 'announcement' of regulation is problematic because announced regulations are not always enacted or may change substantially before they are enacted. Therefore, it may be premature to require disclosure in financial statements at that stage. These respondents say the example might unintentionally result in the expectation that entities should disclose the effects of various future regulations. To address this issue, some of these respondents suggest:

(a) clarifying that the regulation has been substantively enacted—or that its enactment is certain—and only the timing of the effective date is uncertain;

(b) clarifying the likelihood of the regulation being introduced, such that the term 'announced regulation' can be applied consistently across jurisdictions; or

(c) providing further details about the regulation to clarify why its announcement warrants additional disclosure.

Applying paragraph 31 of IAS 1

79. Similar to comments on Example 1–2, some respondents express concerns about how the example illustrates the application of paragraph 31 of IAS 1, saying it might go beyond the requirements in that paragraph or how these requirements are currently applied in practice (see paragraph 18).

80. A few respondents suggest the example needs to explain better why the information would be material to users and how entities should assess materiality in such circumstances. Some of these respondents express concerns that the example could be setting too low a threshold for additional disclosure applying paragraph 31 of IAS 1.

81. Some respondents also note that well-informed users would generally understand the regulatory process in relevant jurisdictions, suggesting the entity would not need to disclose information about the effects of future regulation.

Additional clarity needed

82. Some respondents suggest clarifications to the example for it to be more useful. These suggestions include:

(a) clarifying that there is no going concern issue; and

(b) explaining when the entity expects to utilise the carryforward of unused tax losses—for example, whether the entity expects to utilise these losses before the government discusses regulation or before regulation becomes effective.

83. Some respondents say the example's focus on deferred tax assets is too narrow, given the broader implications of the described scenario. These respondents say a regulation restricting an entity's ability to operate would likely have wide-ranging implications

beyond tax considerations, such as potential effects on asset impairment and going concern assessments. Some of these respondents suggest the example should illustrate how entities should consider and disclose these broader business implications or clarify that the example considers only the effects on the entity's deferred tax assets.

Connectivity-related comments

84. A few respondents suggest clarifying that, similar to Example 1, the entity in Example 5 discloses information in the financial statements because of information about the announced regulation it disclosed in general purpose financial reports outside financial statements. A few other respondents say that, in their view, the disclosures illustrated in the example belong in other general purpose financial reports outside the financial statements rather than in financial statements.

Other comments

85. A few respondents commented on the technical analysis included in the example. In particular:

    (a) a few respondents questioned how the entity could have unused tax losses without a history of recent losses. One accountant suggests explaining that this is because tax losses arose in the first years of the entity's operations.

    (b) a few respondents suggest referring to deductible temporary differences in general—rather than tax losses in particular—because the recoverability of tax losses carried forward should not be assessed separately from the recoverability of other sources of deferred tax assets.

86. A few respondents also suggest the example could be more helpful if it included other scenarios illustrating how the entity's assessment and disclosures might evolve as the regulatory process progresses.

Example 6—Disclosure about credit risk (IFRS 7)

Objective and rationale

87. The IASB developed Example 6 to illustrate the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, as well as information about how these practices relate to the recognition and measurement of expected credit losses.

88. The example lists factors an entity might consider in assessing the materiality of information about how climate-related risks affect credit risk and the measurement of expected credit losses. An entity's exposure to credit risk is affected by many risks, but specific information about the effects of particular risks might be material in some circumstances.

Summary of feedback

89. Many respondents specifically support the inclusion of an example illustrating disclosure of information about the effects of climate-related risks on an entity's credit risk exposures.

90. However, some respondents question the usefulness of the example. In particular:

    (a) a few respondents say the fact pattern of the example is unrealistic. In their view:

        (i) climate-related risks are unlikely to materially affect expected credit losses (ECL) because credit risk exposures are limited by the contractual period of loans; or

        (ii) portfolio exposures or credit losses related to climate-related risks are generally not isolated as described in the fact pattern.

(b) a few respondents say the example may not result in improved disclosures. In their view, banks already disclose information about climate-related risks and analysts have sufficient knowledge without additional disclosure.

91. One preparer says some banking regulations already require banks to disclose information about their exposure to climate-related risks and it is not the role of financial statements to include such information.

92. Many respondents comment on specific aspects of the example. We grouped respondents' comments into the following categories:

(a) quantifying the effects of climate-related risks (paragraphs 93–95);

(b) scope and comprehensiveness of the example (paragraphs 96–98);

(c) explanation of why information is material (paragraph 99); and

(d) connectivity-related comments (paragraph 100).

Quantifying the effects of climate-related risks

93. Many respondents expressed concerns about the granularity of the information illustrated in paragraph 6.4 of Example 6. In their view, that paragraph could be interpreted as requiring entities to disclose quantitative information about climate-related risks, despite the fact that entities are still in the process of integrating climate-related risks into ECL modelling and, therefore, are still unable to separately quantify the effect of those risks. One standard-setter notes that this limitation might result in entities disclosing only boilerplate information, while some of the other respondents suggest illustrating that an entity might disclose only qualitative information about how it incorporates climate-related risks in the measurement of ECL.

94. On the other hand, a few respondents—mainly users—say the example should further illustrate the disclosure of quantitative information, such as the carrying amounts of the two loan portfolios, actual quantitative changes to assumptions in the period, and sensitivities of ECL to changes in climate-related assumptions.

95. A few respondents—mainly regulators—say the example could be interpreted as suggesting that entities can incorporate climate-related risks into ECL measurement only through models, even though entities sometimes incorporate these risks in the measurement through management overlays. These respondents suggest illustrating the disclosure of quantitative information about such overlays.

Scope and comprehensiveness of the example

96. Some respondents note that Example 6 refers to climate-related physical risks only. They suggest adding an example about climate-related transition risks.

97. A few respondents suggest adding an example about an entity operating in a different sector, such as an insurer or a non-financial institution holding long-term receivables with exposure to climate-related risks. Alternatively, they suggest explicitly stating that the example is also relevant to non-financial institutions.

98. On the other hand, a few respondents suggest making the fact pattern more specific—for example, by specifying that the financial institution in the example operates predominantly in the agricultural sector. These respondents make this suggestion because, in their view, the example might otherwise be interpreted as suggesting that all entities need to consider climate-related risks in the measurement of ECL regardless of their circumstances.

Explanation of why information is material

99. A few respondents say the example should explain why information about the effects of climate-related risks is material to the entity described in the fact pattern. That explanation should include factors such as the maturity of the loans, the industry in which the borrower operates and the nature of the risk.

Connectivity-related comments

100. A few respondents suggest the example should illustrate connectivity with sustainability disclosures. One regulator suggests illustrating connections between

information about the measurement of ECL in financial statements and the information in sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards, for example:

(a) how forward-looking information used in sustainability-related financial disclosures is consistent with, or different from, forward-looking information used for measuring ECL; and

(b) how anticipated financial effects of climate-related risks over varying time horizons disclosed in sustainability-related financial disclosures are considered in the measurement of ECL.

Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)

Objective and rationale

101. Example 7 illustrates the requirement in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, it illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if the carrying amount of the associated provision is immaterial.

Summary of feedback

102. Many respondents specifically support the inclusion of an example illustrating disclosure of information about plant decommissioning and site restoration obligations (decommissioning obligations).

103. However, some respondents express concerns about the example, mainly because they think the fact pattern of the example is unrealistic.

104. The following paragraphs further explain respondents' comments. We grouped respondents' comments into the following categories:

(a) fact pattern of the example (paragraphs 105–107);

(b) risk of early settlement and the materiality assessment (paragraphs 108–113);

(c) recognition and measurement considerations (paragraphs 114–115);

(d) the requirement that triggers disclosure (paragraphs 116);

(e) extent of disclosure in the example (paragraphs 117–119); and

(f) connectivity-related comments (paragraph 120).

Fact pattern of the example

105. Some respondents—mainly public interest organisations—specifically support a fact pattern about the decommissioning obligations of entities operating in the petrochemical industry. Some of these respondents comment on the lack of information about decommissioning obligations and that entities sometimes do not recognise provisions for such obligations.

106. However, some respondents say it is unrealistic for the carrying amount of decommissioning provisions in the petrochemical industry to be immaterial as described in the fact pattern. One accountant suggests considering, for example, not specifying the industry in which the entity operates. Other few respondents say that, in their view, the example takes a specific view that petrochemicals would necessarily disappear in a low-carbon economy. These respondents request removing what they see as an industry bias.

107. A few respondents—mainly accountants and standard-setters—say they struggle to think of a scenario in which information about decommissioning obligations is material despite the carrying amount of the related provisions being immaterial. One standard-setter suggest deleting the example.

Risk of early settlement and the materiality assessment

108. Paragraph 7.2 of Example 7 states that there is an 'increasing risk' that the entity might be required to close some of its petrochemical facilities earlier than it expects.

This ‘increasing risk’ is part of the basis for the entity’s conclusion that information about the decommissioning obligations is material. Many respondents request further clarifications about the risk and the entity’s materiality assessment.

109. Some respondents—mainly preparers, accountants and standard-setters—say the risk might not necessarily be significant or material in absolute terms just because it is ‘increasing’. They think an entity would assess the extent of the risk not only based on the size of undiscounted outflows but also based on the degree of uncertainty.

110. A few respondents suggest clarifying the fact pattern to help understand whether and how the ‘increasing risk’ could affect the provision. For example, they suggest clarifying:

(a) whether the risk is general or specific;

(b) whether the risk is related to a known policy or regulatory initiative; and

(c) whether a related transition plan exists.

111. Some respondents suggest clarifying the quantitative and qualitative aspects the entity considered in concluding that information about the decommissioning obligations is material. Some of those respondents suggest the example draw on the four step process for making materiality assessments described in the IFRS Practice Statement 2.

112. A few respondents, mainly standard-setters, suggest expanding the description of the factors the entity considered in assessing materiality. Those respondents suggest including, for example, factors such as questions from users about the entity’s decommissioning obligations.

113. One public interest organisation suggests clarifying that the *present value* of the costs to settle the obligations, rather than the costs themselves, are immaterial. Another public interest organisation suggests stating that quantitative aspects of materiality may not apply when the concern is understatement of liabilities.

Recognition and measurement considerations

114. Some respondents say that the increasing risk that the decommissioning obligations might be settled earlier than expected— because of efforts to transition to a lower-carbon economy—have consequences to the recognition and measurement of the provision. These respondents suggest the example either address these consequences or clarifies it is appropriate for the entity to conclude that the provision's carrying amount is immaterial despite that increasing risk.

115. A few respondents—public interest organisations and a user—suggest including in the fact pattern that, in making the best estimate of the expenditure required to settle the obligations, the entity measured the provision on a probability-weighted basis. This clarification would, in their view, demonstrate the use of a robust provisioning method compared to what they see as the practice of some companies of not recognising such provisions on the basis that it is not possible to determine a range of possible outcomes.

The requirement that triggers disclosure

116. Some respondents question whether an entity would disclose the information illustrated in the example by applying the disclosure requirements in paragraph 85 of IAS 37, rather than the general requirements in paragraph 125 of IAS 1 or the overarching requirement in paragraph 31 of IAS 1.[7] Some of these respondents say that, in their view, paragraph 85 of IAS 37 is applicable only if the carrying amount or the related provision is material. Therefore, they say the example should illustrate the disclosures an entity would make applying paragraph 125 of IAS 1. Alternatively, to clarify that paragraph 125 of IAS 1 is not applicable in the example, one accountant suggests specifying in the fact pattern that there is no significant risk of material adjustment to the carrying amount of the provision within the next twelve months.

[7] Paragraph 85 of IAS 37 requires an entity to disclose specified information for each class of provision.

Extent of disclosure in the example

117. Respondents express mixed views on whether the example should illustrate the disclosure of the size of undiscounted outflows required to settle the obligation:

(a) some respondents—mainly users, public interest organisations and standard-setters—suggest the example illustrate the disclosure of the amount of undiscounted outflows required to settle the obligation. Some of these respondents say such disclosure is supported by paragraph 31 of IAS 1 and other applicable requirements in IAS 1, while others suggest a narrow-scope amendment to IAS 37 to require such disclosure.

(b) a few respondents—mainly preparers—say the example appears to go beyond the disclosure requirements in IAS 37 and caution against extending these requirements through an illustrative example.

118. In addition to the size of the undiscounted outflows, a few respondents—mainly users and public interest organisations—suggest illustrating the disclosure of additional information used in the entity's present value calculations, including the expected timing of cash flows, the inflation and discount rate used, and the present value of cash flows. They say the example could illustrate this disclosure through the application of the overarching disclosure requirements in IAS 1.

119. A few respondents—regulators and a user—suggest illustrating the disclosure of information about the sensitivity of the provision's carrying amount to changes in the major assumptions through the application of paragraph 129 of IAS 1.

Connectivity-related comments

120. One standard-setter suggests the example should specify whether the entity has a climate-related transition plan and whether it discloses information about that plan in general purpose financial reports outside the financial statements. The standard-setter says users would consider that information in determining whether the assumptions

the entity makes in measuring its decommissioning provisions are consistent with the entity's transition plan.

Example 8—Disclosure of disaggregated information (IFRS 18)

Objective and rationale

121. Example 8 illustrates the requirements in paragraphs 41–42 and B110 of IFRS 18 *Presentation and Disclosure in Financial Statements*. In particular, it illustrates how an entity might disaggregate the information it provides about a class of property, plant and equipment (PP&E) on the basis of dissimilar risk characteristics.

Summary of feedback

122. Many respondents—mainly accountants, standard-setters, users and public interest organisations—specifically support the inclusion of an example illustrating disclosure of disaggregated information of PP&E.

123. However, some respondents express concerns about the example because they think the basis for the entity's conclusion that it should disaggregate information is insufficient, or that such conclusion goes beyond the requirements in paragraph 37 of IAS 16 *Property, Plant and Equipment.*

124. The following paragraphs further explain respondents' comments. We grouped respondents' comments into the following categories:

(a) basis for concluding that disaggregation is necessary (paragraphs 125–126)

(b) interaction with classes of PP&E in IAS 16 (paragraphs 127–128);

(c) extent of disclosures in the example (paragraphs 129);

(d) applicability if IAS 1 is applied (paragraphs 130–131); and

(e) connectivity-related comments (paragraph 132).

Basis for concluding that disaggregation is necessary

125. Some respondents say the example does not provide sufficient basis to justify the need to disaggregate information an entity provides about PP&E. For example:

(a) some respondents say an entity's assets are exposed to a variety of risks—climate-related or otherwise—and it is unclear why PP&E should be disaggregated between those with high greenhouse gas emissions and those with lower greenhouse gas emissions. They say it is unclear when and how an entity should provide disaggregated information when multiple risks are involved.

(b) a few respondents—a preparer and a standard-setter—say that, if an entity operates in various industries and has integrated asset structures, providing disaggregated information as illustrated in the example might be misleading.

126. Some respondents suggest including additional explanations about the factors the entity considered in determining that the disaggregated information is material.

Interaction with classes of PP&E in IAS 16

127. Many respondents comment on how the conclusion that an entity disaggregates information about a class of PP&E based on dissimilar risks characteristics interacts with the description of a 'class' of PP&E in paragraph 37 of IAS 16.[8] In particular:

(a) some respondents suggest clarifying the relationship between 'nature' and 'use' in paragraph 37 of IAS 16 and 'characteristics' in paragraph B110 of IFRS 18. Some respondents further say the conclusion in the example goes beyond the requirements in IFRS Accounting Standards because, in their view, paragraph 73 of IAS 16 only requires disclosure on PP&E disaggregated by classes and not by 'characteristics'. One standard-setter says that paragraph B111 of IFRS 18, which states that PP&E disaggregated into classes in

[8] Paragraph 37 of IAS 16 describes a class of PP&E as 'a grouping of assets of a similar nature and use in an entity's operations' and provide examples of separate classes.

accordance with IAS 16 might have sufficiently dissimilar characteristics, appears to support that further disaggregation is unnecessary.

(b) one standard-setter says that the two types of PP&E identified in the example could constitute separate classes of PP&E in accordance with IAS 16.

128. A few respondents suggest changing the fact pattern to illustrate disaggregation of a different item (such as revenue) to avoid the complexity arising from the interaction with the concept of classes of PP&E in IAS 16.

Extent of disclosures in the example

129. Some respondents say that disaggregating information about PP&E in the notes as described in the example would be costly, complex, and difficult for users to understand. They say it is especially the case if an entity is required to disaggregate all the information required by paragraph 73 of IAS 16 (for example, the reconciliation of the carrying amount at the beginning and end of a period) or to disclose the information on a matrix basis (in which information is disaggregated by more than two dimensions). In addition:

(a) one preparer says it is excessive to require such information in the financial statements because, in the respondent’s view, IFRS Sustainability Disclosure Standards would require disclosure of only the carrying amount of the assets at the end of the period; and

(b) one public interest organisation says the carrying amounts of a subset of PP&E might represent material information, but a detailed carrying amount reconciliation might not be needed.

Applicability if IAS 1 is applied

130. Example 8 only illustrates the application of the principles in IFRS 18. However, paragraph BC42 of the Basis for Conclusion on the Exposure Draft states that an entity would also be required to disclose disaggregated information applying the requirements in IAS 1 if it concludes that such disaggregated information is material.

131. Some respondents—mainly accountants and public interest organisations—say that, in their view, an entity would reach the conclusion illustrated in the example applying the requirements in paragraphs 29–31 of IAS 1. They suggest making this clarification, while a few other respondents—mainly standard-setters—suggest also illustrating the application of the requirements in IAS 1.

Connectivity-related comments

132. A few respondents comment on the relationship between disaggregated information about PP&E in financial statements and similar information included in sustainability disclosures. In particular, one standard-setter expresses concerns about the potential for duplication, noting that IFRS Sustainability Disclosure Standards require an entity to disclose the amount and percentage of assets vulnerable to climate-related transition risks. Another standard-setter suggest illustrating connecting the information in the different reports, for example through the use of cross-references.

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?