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**Accounting Standards Advisory Forum meeting**

Date **May 2025**

Project **Climate-related and Other Uncertainties in the Financial Statements**

Topic **Providing illustrative examples**

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**Accounting Standards Advisory Forum, May 2025, Agenda Paper 1A**

This paper was discussed at the International Accounting Standards Board's (IASB's) May 2025 meeting as Agenda Paper 14A. The agenda papers referred to in this paper are the other agenda papers for the IASB's May 2025 meeting.

## Introduction and purpose

1. The purpose of this meeting is to provide the IASB with the staff's preliminary analysis of the feedback on the [Exposure Draft](#) *Climate-related and Other Uncertainties in the Financial Statements*, published in July 2024.
2. Agenda Paper 14 sets out the structure of the agenda papers for this meeting.
3. This paper provides the staff's preliminary analysis of the feedback on:
  - (a) whether providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements;
  - (b) whether including the examples as illustrative examples accompanying IFRS Accounting Standards is the best vehicle for the examples; and

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- (c) other actions suggested by respondents (except for actions related to connectivity).
4. We are not asking the IASB to make any decisions at this meeting. However, comments from IASB members on the preliminary analysis included in this paper will help us develop our recommendations for the direction of this project.

## Structure of this paper

5. This paper includes:
- (a) a summary of staff's preliminary recommendations (paragraph 6);
  - (b) whether examples would help improve financial reporting (paragraphs 7–16);
  - (c) the vehicle for the examples (paragraphs 17–24); and
  - (d) other actions suggested by respondents (paragraphs 25–31).

## Summary of staff's preliminary recommendations

6. The staff's preliminary recommendations are that the IASB:
- (a) proceed with issuing examples and including them as illustrative examples accompanying IFRS Accounting Standards;
  - (b) group the examples and publish them as a single document in addition to including them as illustrative examples accompanying IFRS Accounting Standards; and
  - (c) do not take other actions suggested by respondents at this stage.

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## Would examples help improve financial reporting?

### ***Background***

7. 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.

### ***Summary of feedback***

8. Most respondents generally agreed that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. These respondents said 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. While most respondents supported providing examples to help improve reporting:
- (a) many of these respondents commented on aspects covered in the other papers for this meeting, such as the IASB's approach to developing the examples; and
  - (b) some respondents said the examples are a pragmatic step towards improving the reporting, but more work is needed.
10. A few public interest organisations and a user suggested that the IASB explore ways in which the examples can be effectively communicated to a wide range of

stakeholders once published. These respondents said that effective communication would support the consistent application of the requirements illustrated in the examples. These respondents also suggested that the IASB work with others, including audit standard-setting bodies, to further support awareness and implementation of the illustrative examples.

11. A few respondents disagreed that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. They disagreed 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.

### ***Staff's preliminary analysis***

12. We continue to think that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. We also think that the IASB can amend the examples to help address the main concerns raised by respondents while ensuring the examples still achieve their objective. Therefore, our preliminary recommendation is that the IASB should proceed with issuing the examples.
13. Furthermore, we think standard-setting is unnecessary to improve the effects of climate-related and other uncertainties in the financial statements, because:
  - (a) the research in this project showed that IFRS Accounting Standards are generally sufficient in requiring an entity to disclose information about the

effects of climate-related uncertainties in the financial statements. Although a few respondents suggested targeted amendments to some IFRS Accounting Standards, the feedback on the Exposure Draft generally supports the research's findings.<sup>1</sup>

- (b) the research also showed that entities might face some challenges in applying IFRS Accounting Standards. We expect that the examples will provide helpful guidance to stakeholders and result in improvements in the reporting of the effects of climate-related and other uncertainties in the financial statements.
14. The examples illustrate how to apply *existing* requirements in IFRS Accounting Standards in disclosing information about the effects of climate-related uncertainties in the *financial statements*. Therefore, we think it is unnecessary to delay the issuance of the examples until entities have fully adopted IFRS Sustainability Disclosure Standards (or other sustainability-related reporting requirements and frameworks).
15. We agree with respondents that it is important for the examples to be effectively communicated to a wide range of stakeholders. If the IASB decides to issue the examples, in addition to communicating their issuance to its stakeholders through its usual channels—which include news alerts and social media channels—we think the IASB could:
- (a) group the examples and publish them as a single document, in addition to including the examples as illustrative examples accompanying IFRS Accounting Standards (see our recommendation on paragraph 24). We think this document could be more easily accessible than the amendments to the accompanying guidance to IFRS Accounting Standards and help facilitate communicating the examples to different types of stakeholders.
  - (b) use the educational material that we suggest developing in Agenda Paper 14C to also help to raise awareness about the illustrative examples. Although this material would focus on connectivity, it could refer to the illustrative examples

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<sup>1</sup> Agenda Paper 14C includes our recommendation for the IASB to seek feedback as part of its Fourth Agenda Consultation on the priority of additional work to facilitate connected financial reporting, which could include standard-setting.

when discussing the reporting of the effects of climate-related uncertainties in financial statements.

- (c) continue its engagement activities with different types of stakeholders to raise their awareness and support the implementation of the illustrative examples.

16. We also note that the project's webpage will continue to provide a central source of information about how an entity applies IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements, including relevant educational materials (including translation into different languages).

## Vehicle for the examples

### ***Background***

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.

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**Summary of feedback**

19. Most respondents agreed with including the examples as illustrative examples accompanying IFRS Accounting Standards. These respondents said that illustrative examples achieve the right balance between accessibility, enforceability and flexibility in the content and format of the examples.
20. A few respondents specifically acknowledged 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 said that the examples complement the existing educational material [\*Effects of climate-related matters on financial statements\*](#), republished in July 2023 (2023 educational materials).
21. Some respondents specifically supported 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 said 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.
22. However, some respondents disagreed 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.<sup>2</sup> In particular:
- (a) a few respondents said that including the examples in IFRS Accounting Standards themselves would better facilitate comparability and consistency in

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<sup>2</sup> Some respondents also suggested including Examples 1 and 2 in IFRS Practice Statement 2 *Making Materiality Judgements*. Agenda Paper 14D includes our analysis of this suggestion.

reporting and enhance the enforceability of the examples. This is because illustrative examples are not subject to endorsement in some jurisdictions.

- (b) a few respondents, mainly preparers, supported publishing the examples as educational materials rather than illustrative examples accompanying IFRS Accounting Standards. These respondents said:
  - (i) this approach would allow sustainability reporting to mature before incorporating guidance into IFRS Accounting Standards and its accompanying guidance.
  - (ii) 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 suggested including the examples as an extension of the 2023 educational materials.

### ***Staff's preliminary analysis***

- 23. In our view, the IASB should proceed with its proposal to include the examples as illustrative examples accompanying IFRS Accounting Standards. We continue to agree with this proposal for the reasons explained in paragraph 18. Most respondents also agreed that illustrative examples achieve the right balance between accessibility, enforceability and flexibility in the content and format of the examples. We also think it is unnecessary to delay the issuance of the examples until sustainability reporting matures for the reasons explained in paragraph 14.
- 24. As noted in paragraph 15(a), we think the IASB should also group the examples and publish them as a single document. In addition to improving the accessibility of the examples, we agree with respondents that this document would help stakeholders identify connections between the examples and provide an opportunity to communicate additional information—for example, it could include references to the 2023 educational materials and the written educational material that we suggest developing in Agenda Paper 14C.



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## Other actions

### ***Feedback summary***

25. Respondents also suggested a variety of other actions that the IASB could take in addition to issuing the illustrative examples. They said these actions would help to further improve the reporting of climate-related and other uncertainties in the financial statements. For example, a few respondents suggested 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 said 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 said 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*.
26. A few respondents urged the IASB to develop requirements for pollutant pricing mechanisms (PPMs). These respondents said PPMs are increasing in prevalence and it is important to establish clear accounting requirements to enhance the consistency and comparability of disclosures. They said this will help users of financial statements better understand the financial effects of these pollutant pricing mechanisms.

### ***Staff’s preliminary analysis***

27. The following paragraphs consider the actions suggested by respondents in the following areas:
- (a) the requirements in paragraph 35 of IAS 36 (paragraphs 28–29);
  - (b) Example 6 of the *Guidance on implementing IAS 37* (paragraph 30); and

- (c) the accounting for pollutant pricing mechanisms (paragraph 31).

*The requirements in paragraph 35 of IAS 36*

28. As part of its research on this project, the IASB considered concerns such as those raised by respondents about the application of the requirements in paragraph 35 of IAS 36. The IASB consulted members of the IFRS Interpretations Committee (Committee) to understand practice in this area—in particular:
- (a) how entities reflect the potential for high variability in future cash flows over an extended time horizon when calculating the value in use of an asset; and
  - (b) whether there is diversity in how entities understand and apply the requirements in IAS 36 in reflecting such variability in value in use calculations.
29. The Committee discussed this matter at its November 2023 meeting. The Committee’s discussion suggested entities do consider and reflect variability in future cash flows over an extended time horizon when calculating value in use applying IAS 36. The discussion also suggested that standard-setting or other actions in this area were not necessary, urgent or would have a higher priority than other projects.<sup>3</sup> In our view, feedback from respondents did not provide further new information or evidence suggesting standard-setting or other actions are necessary.

*Example 6 of the Guidance on implementing IAS 37*

30. Respondents did not provide detailed explanations about the challenges related to applying Example 6 of the *Guidance on implementing IAS 37*. However, in November 2024, the IASB issued the Exposure Draft *Provisions—Targeted Improvements* (Provisions Exposure Draft). The Provisions Exposure Draft sets out proposals for targeted improvements to IAS 37, including amendments to the ‘present obligation’ recognition criterion and proposed amendments to Example 6. We think the proposals

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<sup>3</sup> See Appendix A to [Agenda Paper 14](#) for the IASB’s December 2023 meeting for further information.

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in the Provisions Exposure Draft will help address respondents' concerns. We have also shared respondents' comments with the provisions project team.

*The accounting for pollutant pricing mechanisms*

31. In response to stakeholder suggestions that the IASB should prioritise a project on PPMs, the staff have undertaken horizon-scanning activities. At its January 2025 meeting, the IASB reviewed the results of these activities and decided to defer a decision on whether to add a project on PPMs to its work plan until its Fourth Agenda Consultation.<sup>4</sup> The IASB recently started that consultation and plans to publish a request for information during the fourth quarter of 2025. We expect that request for information to seek feedback on a potential project on PPMs.

## Question for the IASB

### Question for IASB

Do you have any comments on the staff's preliminary analysis included in this paper?

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<sup>4</sup> See [Agenda Paper 10](#) for that meeting for further information.