Staff paper

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Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Proposed illustrative examples—Examples 6–8**
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This paper was discussed at the International Accounting Standards Board's (IASB's) May 2025 meeting as Agenda Paper 14F. 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 feedback on Examples 6–8, including our preliminary recommendations on how to address that feedback.

4. Agenda Paper 14G illustrates a possible drafting of Examples 6–8 incorporating the changes discussed in this paper.

5. 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

6. This paper includes:

   (a) a summary of staff's preliminary recommendations (paragraph 8); and

   (b) background information, a summary of feedback and our preliminary analysis of feedback on:

      (i) Example 6 (paragraphs 9–42);

      (ii) Example 7 (paragraphs 43–76); and

      (iii) Example 8 (paragraphs 77–99).

7. The paragraphs in this paper explaining the objective and rationale of each example summarise the content from paragraphs BC34 and BC41–BC42 of the Basis for Conclusions on the Exposure Draft.

Summary of staff's preliminary recommendations

8. The staff's preliminary recommendation is that the IASB proceed with Examples 6–8 with limited changes to address respondents' concerns.

Example 6—Disclosure about credit risk (IFRS 7)

Objective and rationale

9. 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.

10. 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 and staff's preliminary analysis

Feedback overview

11. Many respondents specifically supported the inclusion of an example illustrating disclosure of information about the effects of climate-related risks on an entity's credit risk exposures. However, many respondents commented on specific aspects of the example and some respondents questioned its usefulness.

12. The following paragraphs further explain respondents' comments and provide our preliminary analysis. We grouped comments into the following categories:

    (a) fact pattern and usefulness of the example (paragraphs 13–22);

    (b) quantifying the effects of climate-related risks (paragraphs 23–32);

    (c) scope and comprehensiveness of the example (paragraphs 33–38);

    (d) explanation of why information is material (paragraphs 39–40); and

    (e) connectivity-related comments (paragraphs 41–42).

Fact pattern and usefulness of the example

Summary of feedback

13. A few respondents said the fact pattern of the example is unrealistic. In their view:

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

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

14. A few respondents said the example may not result in improved disclosures. In their view, banks already disclose information about climate-related risks and users have sufficient knowledge without additional disclosure.

15. One preparer said 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.

Staff's preliminary analysis—no changes to the example

16. Paragraph B5.5.16 of IFRS 9 *Financial Instruments* explains that:

> Credit risk analysis is a multifactor and holistic analysis; whether a specific factor is relevant, and its weight compared to other factors, will depend on the type of product, characteristics of the financial instruments and the borrower as well as the geographical region…

17. We agree with respondents that portfolio exposures and credit losses related to climate-related risks are generally not isolated to particular portfolios. Climate-related risks affect credit risk in various ways. However, the significance of those effects depends on several factors, such as the characteristics of financial instruments (for example, the length of contractual periods) and the nature of the specific climate-related risks to which a borrower is exposed (for example, climate-related regulatory risks or flood risks).

18. In developing the example, we think the IASB aimed:

(a) to describe a fact pattern in which information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices (and how these practices relate to ECL) would be more likely to be material than a fact pattern in which an entity had more diversified portfolios and the effects of climate-related risks might not be as significant.

(b) not to imply that such information would always be material for all financial institutions. As explained in paragraph B5.5.16 of IFRS 9, many factors affect credit risk, and information about the effects of particular factors on an entity's credit risk exposures is not always material.

19. We continue to think that information about the effects of climate-related risks could be material in the fact pattern described in the example, based on the factors also explained in the example. We also think the example would be helpful for financial institutions in different circumstances (for example, financial institutions with more diversified portfolios) in assessing whether the information illustrated in the example would be material in their own circumstances.

20. An entity's exposure to credit risk is generally limited by the contractual terms of its financial instruments, including their maximum contractual period.[1] Therefore, the effects of climate-relates risks on ECL are also limited by the contractual period of financial instruments at the end of the reporting period.

21. We agree with respondents that the information illustrated in Example 6 might not be material if climate-related risks do not have a significant effect on an entity's credit risk exposure because, for example, exposures to climate-related risks are limited by the contractual period of the entity's financial instruments.[2] Nonetheless, we think the fact pattern in the example appropriately describes a situation in which:

[1] Paragraph 5.5.19 of IFRS 9 states that 'the maximum period to consider when measuring expected credit losses is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice. However, paragraph 5.5.20 of IFRS 9 includes an exception for particular financial instruments for which an entity measures ECL over a period that extends beyond the maximum contractual period.

[2] We note that the information a financial institution provides in sustainability-related financial disclosures applying IFRS Sustainability Disclosure Standards includes, for example, (a) information about the climate resilience of its strategy and its

(a) climate-related risks could have a significant effect on the credit risk arising from financial instruments considering their contractual period; and

(b) information about those effects could be material.

22. Finally, in our view, the example illustrates only information that might result from the application of the requirements in paragraphs 35A–38 of IFRS 7 *Financial Instruments: Disclosures*. Therefore, we think the information illustrated in the example belongs in financial statements.

Quantifying the effects of climate-related risks

Summary of feedback

23. 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 noted that this limitation might result in entities disclosing only boilerplate information, while some of the other respondents suggested illustrating that an entity might disclose only qualitative information about how it incorporates climate-related risks in the measurement of ECL.

24. On the other hand, a few respondents—mainly users—said 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.

25. A few respondents—mainly regulators—said the example could be interpreted as suggesting that entities can incorporate climate-related risks into ECL measurement

business models (including from the use of climate-related scenario analysis) to identified climate-related risks and (b) information about the effects of climate-related risks on its financial performance, financial position and cash flows over the short, medium and long term (anticipated financial effects). Those effects are not limited by the contractual periods of financial instruments at the end of the reporting period.

only through models, even though entities sometimes incorporate these risks in the measurement through management overlays. These respondents suggested illustrating the disclosure of quantitative information about such overlays.

Staff's preliminary analysis—changes to the example

26. Paragraph 5.5.17(c) of IFRS 9 requires an entity to measure ECL of a financial instrument in a way that reflects:

> *…reasonable and supportable information that is available without undue cost or effort* at the reporting date about past events, current conditions and forecasts of future economic conditions. (Emphasis added)

27. Paragraph 6.4 of the example illustrates information that an entity *might* disclose in applying paragraphs 35A–38 of IFRS 7. The paragraph also provides *examples* of specific explanations an entity might provide. Therefore, in our view, the example does not imply that financial institutions are required to provide granular information or quantitative information if such information is not used in the measurement of ECL (for example, because it is not available without undue cost or effort). Rather, the example emphasises the requirements for an entity to explain its credit risk management practices related to climate-related risks and how these practices relate to the recognition and measurement of ECL. In our view, in applying these requirements, the entity would provide information that is based on its current practices relating ECL (which is required to reflect reasonable and supportable information that is available without undue cost or effort), and depending on those practices, the entity might be unable to provide quantitative information.

28. However, to avoid the perception that the example requires entities to always provide granular and quantitative information, we suggest removing the details provided in paragraphs 6.4(a)(i)–(ii) and 6.4(b)(i)–(iii) while keeping paragraphs 6.4(a) and 6.4(b). We think this change would have the disadvantage of removing illustrations of ways in which an entity could provide the explanations required in paragraph 6.4(a)

and 6.4(b). However, by being less specific, the example could encourage entities to provide explanations that are more aligned with their current practices.

29. We also note that paragraph 6.4(d) of the example explains that the information an entity discloses might include information about concentrations of climate-related risks. We recommend expanding that explanation to say that this information might include the carrying amount of the two identified portfolios.

30. Finally, in our view, the example does not suggest that entities incorporate climate-related risks in ECL measurement only through statistical models. As the IASB noted during its post-implementation review of the impairment requirements of IFRS 9, the Standard does not list acceptable techniques or methods for measuring ECL and management overlays may be needed to meet its measurement objective.[3]

31. Furthermore, as discussed in paragraph 56–57 of the Agenda Paper 27B for the IASB's April 2024 meeting, ECL amounts arising from management overlays are in scope of the disclosure requirements in IFRS 7 just like amounts arising from statistical models or any other approach used in estimating ECL.

32. The example states that the information an entity discloses in applying the requirements in paragraphs 35A–38 of IFRS 7 may include an explanation of how climate-related risks were incorporated in the inputs, assumptions and estimation techniques used to apply the requirements in Impairment section of IFRS 9. In response to respondents' comments, we recommend explaining that such information might include, for example, information about the use of management overlays.

Scope and comprehensiveness of the example

Summary of feedback

33. Some respondents noted that Example 6 refers to climate-related physical risks only. They suggested adding an example about climate-related transition risks.

[3] See page 27 of the project summary and feedback statement for that post-implementation review for further information.

34. A few respondents suggested 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 suggested explicitly stating that the example is also relevant to non-financial institutions.

35. On the other hand, a few respondents suggested 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 made 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.

Staff's preliminary analysis—no changes to the example

36. The fact pattern of Example 6 describes two portfolios in which borrowers are exposed to climate-related physical risks. In our view, these are just examples of portfolios on which climate-related risks could have a significant effect on the measurement of ECL and about which information could be material considering the factors discussed in the example. An entity might reach similar conclusions in other situations, including for loans to borrowers exposed to climate-related transition risks. Therefore, we think it is unnecessary to add an example about climate-related transition risks.

37. In our view, Example 6 is most relevant for financial institutions and the information it illustrates is more likely to be material for those entities. Nonetheless, the principles and illustrations in the example apply equally to entities operating in other sectors. As explained in Agenda Paper 14B, if the IASB decides to finalise the examples, the Basis for Conclusions could explain that the principles and illustrations in the examples apply to fact patterns beyond those described in the examples, including to other uncertainties. Therefore, we do not recommend changing the fact pattern or developing additional examples for entities operating in different sectors.

38. We also think it is unnecessary to make the fact pattern more specific, for example, by specifying that the entity operates predominantly in the agricultural sector. Paragraph 6.3 of the example illustrates factors an entity considers in determining whether the information is material. One of these factors is the size of portfolios relative to the entity's overall lending portfolio. We think this illustration will help an entity determine whether the information is material in its particular facts and circumstances, irrespective of the nature of its operations.

Explanation of why information is material

Summary of feedback

39. A few respondents said 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.

Staff's preliminary analysis—no changes to the example

40. In our view, the example already sufficiently illustrates factors that an entity would consider in assessing the materiality of information about the effects of climate-related risks. These factors include some of the factors respondents mentioned, such as the maturity of the loans and the nature of the borrower's exposure to climate-related risks.

Connectivity-related comments

Summary of feedback

41. A few respondents suggested the example should illustrate connectivity with sustainability disclosures. One regulator suggested 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.

Staff's preliminary analysis—no change to the example

42. In our view, illustrating the connections described in paragraph 41(a)–(b) would go beyond the objective of the example, which is to illustrate requirements in IFRS 7 and the information an entity discloses in financial statements. Although the educational material we recommend developing in Agenda Paper 14C would not include an example related to the measurement of ECL, they would include an example that illustrates connections between data and assumptions used in sustainability-related financial disclosures and those used in financial statements.

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

Objective and rationale

43. Example 7 illustrates the requirements 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 (decommissioning obligations) even if the carrying amount of the associated provision is immaterial.

Summary of feedback and staff's preliminary analysis

Feedback overview

44. Many respondents specifically supported the inclusion of an example illustrating disclosure of information about decommissioning obligations. However, some respondents expressed concerns about the example, mainly because they think the fact pattern of the example is unrealistic.

45. The following paragraphs further explain respondents' comments and provide our preliminary analysis. We grouped comments into the following categories:

(a) fact pattern of the example (paragraphs 46–51);

(b) risk of early settlement and the materiality assessment (paragraphs 52–61);

(c) recognition and measurement considerations (paragraphs 62–64);

(d) the requirement that triggers disclosure (paragraphs 65–68);

(e) extent of disclosure in the example (paragraphs 69–74); and

(f) connectivity-related comments (paragraphs 75–76).

Fact pattern of the example

Summary of feedback

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

47. However, some respondents interpreted the wording of the fact pattern in a different way from that intended. They interpreted it as stating that the carrying amount of the entity's provision for decommissioning obligations *in total* is immaterial. They say it is unrealistic for the carrying amount of decommissioning provisions in the

petrochemical industry to be immaterial. One accountant suggested considering, for example, not specifying the industry in which the entity operates.

48. A few other respondents said that, in their view, the example implies that petrochemicals would necessarily disappear in a low-carbon economy. These respondents saw this as an industry bias and requested either clarifying that this might not be the case or that the specific reference to a petrochemicals company be removed.

49. A few respondents—mainly accountants and standard-setters—said 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 suggested deleting the example.

Staff's preliminary analysis—changes to the example

50. We agree with stakeholders that it would be unrealistic to assume that the carrying amount of a petrochemical entity's decommissioning provision would be immaterial. However, the example intended to describe a fact pattern in which the costs of only *some* of the entity's decommissioning obligations—for example, the obligations for some of its petrochemical facilities—will be incurred so far into the future that their effect on the carrying amount of the provision is immaterial. In other words, the carrying amount of provisions for decommissioning obligations is material, but the part of that carrying amount related to the particular obligations discussed in the example is immaterial. Therefore, we recommend clarifying the fact pattern of the example.

51. In our view, the example does not suggest that petrochemicals would 'disappear' in a low-carbon economy, but only that efforts to transition to a lower carbon economy increase the risk that the entity might be required to close some of its facilities earlier than previously expected. The example then highlights that information about the obligations and the assumptions made might be material because of this risk and the

other factors discussed in the example. We think feedback from stakeholders supports this view.

Risk of early settlement and the materiality assessment

Summary of feedback

52. 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 requested further clarifications about the risk and the entity’s materiality assessment.

53. Some respondents—mainly preparers, accountants and standard-setters—said 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.

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

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

56. A few respondents, mainly standard-setters, suggested expanding the description of the factors the entity considered in assessing materiality. Those respondents suggested

including, for example, factors such as questions from users about the entity's decommissioning obligations.

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

Staff's preliminary analysis—changes to the example

58. We agree with respondents that an increasing risk might not necessarily be a significant risk. Therefore, we recommend clarifying that the risk is significant *and* increasing. However, we do not recommend providing further details about the exact nature of the risk. In our view, including fewer details would make the example more widely applicable. It would also require entities with similar fact patterns to exercise judgement in considering the applicability of the example to their particular facts and circumstances. However, we recommend explaining further how the risk arises from efforts to transition to a lower-carbon economy in a way consistent with the definition of climate-related transition risks in IFRS S2 *Climate-related Disclosures*.

59. The example explains factors an entity considers in determining that information about the obligations is material. These factors include both quantitative and qualitative factors, as described in IFRS Practice Statement 2. We think it is unnecessary for the examples to explain materiality assessments following the four-step approach suggested in that Practice Statement. However, we recommend drafting changes to the example to clarify the factors the entity is considering, similar to the way these factors are presented in Example 6.

60. The example also states that the factors described in the example are *among* the factors the entity considers in reaching its conclusion, therefore indicating that materiality judgements will take into account other factors that are not illustrated in the example. The Basis for Conclusion on the Exposure Draft also explains that examples cannot illustrate all facts and circumstances an entity would consider in

making materiality judgements. If the IASB decides to finalise the examples, it could retain this explanation in the Basis for Conclusions for the examples, together with an explanation that IFRS Practice Statement 2 provides additional guidance an entity could consider when referring to the examples and making their own materiality judgements based on their specific facts and circumstances.

61. Finally, we think it is already clear in the example that only the *effect* of the costs, when discounted to their present value, is immaterial, rather than the costs themselves.

Recognition and measurement considerations

Summary of feedback

62. Some respondents said 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 for the recognition and measurement of the provision. These respondents suggested the example either addresses these consequences or clarifies it is appropriate for the entity to conclude that the provision's carrying amount is immaterial despite that increasing risk.

63. A few respondents—public interest organisations and a user—suggested 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.

Staff's preliminary analysis—no changes to the example

64. We think it is unnecessary to state in the fact pattern that it is appropriate for the entity to have concluded that the provision's carrying amount is immaterial. We think this is already implied in the example. Furthermore, the objective of Example 7 is to illustrate the disclosure requirements in paragraph 85 of IAS 37, rather than to

illustrate the recognition and measurement requirements in that Standard. We think it is unnecessary to describe how the provision was measured for the purposes of illustrating the application of paragraph 85 of IAS 37.

The requirement that triggers disclosure

Summary of feedback

65. Some respondents questioned 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.[4] Some of these respondents said that, in their view, paragraph 85 of IAS 37 is applicable only if the carrying amount or the related provision is material. Therefore, they said 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 suggested 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.

Staff's preliminary analysis—no changes to the example

66. We disagree with the view that the disclosure requirements in paragraph 85 of IAS 37 apply only if the carrying amount of the related provision is material. In our view, an entity discloses information applying the disclosure requirements in IFRS Accounting Standards whenever the resulting information is material, irrespective of whether information about the related carrying amount of assets or liabilities is material. Although information required by disclosure requirements in IFRS Accounting Standards might often be immaterial if the carrying amount of related assets and liabilities is immaterial, an entity assesses the materiality of each item of information separately, considering both quantitative and qualitative factors.

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

67. Despite our views expressed in paragraphs 66, we note that the changes discussed in paragraph 50 would clarify that the carrying amount of the provision for decommissioning obligations in total is material. Therefore, we think respondents' concerns about the applicability of paragraph 85 of IAS 37 when the carrying amount of the related provision is immaterial would no longer apply.

68. As explained in Agenda Paper 14B, we do not recommend referring to paragraph 31 or 125 of IAS 1 other than in the examples illustrating these requirements. An entity must always consider the applicability of requirements beyond those illustrated in each illustrative example.

Extent of disclosure in the example

Summary of feedback

69. Respondents expressed 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—suggested the example illustrate the disclosure of the amount of undiscounted outflows required to settle the obligation. Some of these respondents said such disclosure is supported by paragraph 31 of IAS 1 and other applicable requirements in IAS 1, while others suggested a narrow-scope amendment to IAS 37 to require such disclosure.

   (b) a few respondents—mainly preparers—said the example appears to go beyond the disclosure requirements in IAS 37. For example, they said the example appears to require the disclosure of the amount of undiscounted cash flows. They cautioned against extending these requirements through an illustrative example.

70. In addition to the size of the undiscounted outflows, a few respondents—mainly users and public interest organisations—suggested 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 said the example could illustrate this disclosure through the application of the overarching disclosure requirements in IAS 1.

71. A few respondents—regulators and a user—suggested 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.

Staff's preliminary analysis—no changes to the example

72. In our view, an entity might disclose an indication of the amount of undiscounted cash flows required to settle the obligation or additional information it used in its present value calculations in meeting the disclosure requirements in paragraph 85 of IAS 37. However, we think it would be inappropriate for the example to illustrate the disclosure of such specific information in the absence of specific requirements in IAS 37.

73. We also think the example should not illustrate such disclosure through the application of overarching disclosure requirements in paragraph 31 of IAS 1. The purpose of Example 7 is to illustrate the disclosure requirements in paragraph 85 of IAS 37. Examples 1–2 already illustrate the application of paragraph 31 of IAS 1 and the materiality judgements involved in applying that paragraph.

74. We also do not recommend illustrating the requirements in paragraph 129 of IAS 1. Those requirements apply only in the context of disclosing the information required by paragraph 125 of IAS 1 and Example 4 already illustrates the application of these requirements.

Connectivity-related comments

Summary of feedback

75. One standard-setter suggested 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 said 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.

Staff's preliminary analysis—no changes to the example

76. We do not recommend changing the fact pattern as suggested by the respondent. The objective of Example 6 is to illustrate how an entity might disclose information about decommissioning obligations even if the carrying amount of the associated provision is immaterial, irrespective of whether an entity has a transition plan and discloses information about it.

Example 8—Disclosure of disaggregated information (IFRS 18)

Objective and rationale

77. 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 and staff's preliminary analysis

Feedback overview

78. Many respondents—mainly accountants, standard-setters, users and public interest organisations—specifically supported the inclusion of an example illustrating disclosure of disaggregated information of PP&E. However, some respondents expressed 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*.

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

(a) extent of disclosures in the example (paragraphs 80–83);

(b) basis for concluding that disaggregation is necessary (paragraphs 84–90);

(c) interaction with classes of PP&E in IAS 16 (paragraphs 91–94);

(d) applicability if IAS 1 is applied (paragraphs 95–97); and

(e) connectivity-related comments (paragraphs 98–99).

Extent of disclosures in the example

Summary of feedback

80. Some respondents said 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 said 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 said 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 said that disclosing the carrying amounts of a subset of PP&E might provide material information, but a detailed carrying amount reconciliation might not be needed.

Staff's preliminary analysis—changes to the example

81. Paragraph 8.6 of Example 8 states:

> Applying paragraphs 41–42 and B110 of IFRS 18, the entity disaggregates the information it provides in the notes about the related class of PP&E between the two types of PP&E. In particular, the entity disaggregates the information it discloses applying paragraph 73 of IAS 16 … for these types of PP&E *whenever* the resulting disaggregated information is material. (emphasis added)

82. Paragraph 8.6 of Example 8 does not specify which items of information required by paragraph 73 of IAS 16 the entity would disaggregate. It says only that the entity would disaggregate that information *whenever* the resulting disaggregated information is material. In our view, it was not the IASB's intention to suggest that the entity in Example 8 would disaggregate all of the information required by paragraph 73—for example, all the information included in the reconciliation of the carrying amount at the beginning and end of a period for the PP&E. The entity would disaggregate information *only when* doing so would result in material information.

83. We think that the IASB could enhance the clarity of the example if it illustrated the disaggregation of only the carrying amount of PP&E. We think that information is the information most likely to be material in fact patterns such as the one Example 8 illustrates. We think such a focus would also help to address other stakeholders' concerns on the example as discussed in paragraphs 89 and 94.

Basis for concluding that disaggregation is necessary

Summary of feedback

84. Some respondents said 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 said 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 said 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—said that, if an entity operates in various industries and has integrated asset structures, providing disaggregated information as illustrated in the example might be misleading.

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

Staff's preliminary analysis—changes to the example

86. Example 8 describes factors that support the entity's conclusion that disaggregated information about the two types of PP&E is material. In particular, the fact pattern to the example states that:

(a) the two types of PP&E make up a large portion of the entity's total assets;

(b) the entity operates in an industry with a high degree of exposure to climate-related transition risks; and

(c) the vulnerabilities to transition risks significantly affect how the entity will use the PP&E and its ability to recover them.

87. The example also states that the entity reaches its conclusions after considering its 'particular facts and circumstances'. As explained in paragraph BC12(b) of the Basis for Conclusion on the Exposure Draft, by their nature, examples cannot illustrate all facts and circumstances an entity would consider in making materiality judgements.

88. Nonetheless, we recommend explaining the factors the entity considered in concluding that information is material in a way similar to the descriptions included in Example 6. We think this would clarify the basis for the entity's conclusion in the

example. In addition to the factors described in paragraph 86, we also recommend including in the fact pattern that responding to climate-related transition risks is strategically important to the entity's operations. In our view, this would further support the entity's conclusion that disaggregated information is material.

89. Paragraph 83 explains our recommendation to clarify that, in this example, the entity would disaggregate only the PP&E's carrying amount rather than all the information required by paragraph 73 of IAS 16. We think this will help the analysis of why disaggregated information is material because it would focus only on whether disaggregating this particular item of information would result in material information.

90. Finally, in addition to including examples of characteristics that items can share or not share, paragraph B110 of IFRS 18 also explains that an entity uses its judgement to determine whether to disaggregate items to disclose material information in the notes. We recommend referencing such judgement to clarify that the conclusion in Example 8 requires, and depends upon, an entity's judgement.

Interaction with classes of PP&E in IAS 16

Summary of feedback

91. Many respondents commented 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.[5] In particular:

    (a) some respondents suggested clarifying the relationship between 'nature' and 'use' in paragraph 37 of IAS 16 and 'characteristics' in paragraph B110 of IFRS 18. Some respondents further said 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 of PP&E disaggregated by

[5] 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 provides examples of separate classes.

classes and not by 'characteristics'. One standard-setter said that paragraph B111 of IFRS 18, which states that PP&E disaggregated into classes in accordance with IAS 16 might have sufficiently dissimilar characteristics, appears to support that further disaggregation is unnecessary.

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

92. A few respondents suggested 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.

Staff's preliminary analysis—no changes to the example

93. We disagree that the conclusion in the example goes beyond the requirements in IFRS Accounting Standards. We agree with respondents that, as explained in paragraph B111(a) of IFRS 18, PP&E of different classes (as described in IAS 16) have sufficiently dissimilar characteristics that providing disaggregated information about them would provide material information. However, we also think that, in some circumstances, disaggregating *some* information about PP&E on a different basis might provide material information, in which case the disaggregation principles in IFRS 18 would require the disclosure of such disaggregated information.

94. We think some of the concerns stakeholders raised might have stemmed from their reading that Example 8 was suggesting the entity would disclose *all* the information required by paragraph 73 of IAS 16, as discussed in paragraph 80. Under such a reading, the example would imply that an entity is required to disaggregate the information as if the two types of PP&E in the example represent different classes of PP&E. Therefore, we think the clarification recommended in paragraph 83 that, in this example, the entity would disaggregate only the PP&E's carrying amount—rather than all the information required by paragraph 73 of IAS 16—would also help address these concerns.

Applicability if IAS 1 is applied

Summary of feedback

95. 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.

96. Some respondents—mainly accountants and public interest organisations—said 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 suggested making this clarification, while a few other respondents—mainly standard-setters—suggested also illustrating the application of the requirements in IAS 1.

Staff's preliminary analysis—no changes to the example

97. The primary purpose of Example 8 is to illustrate the application of the disaggregation requirements in IFRS 18. Unlike other examples that illustrate requirements that have been carried forward unchanged from IAS 1, Example 8 illustrates requirements that are different from those in IAS 1. Therefore, illustrating the requirements in IAS 1 would involve a different analysis, and such an illustration would only apply for a few reporting periods before IFRS 18 becomes effective. Therefore, we do not recommend developing an alternative version of Example 8 based on the requirements in IAS 1.

Connectivity-related comments

Summary of feedback

98. A few respondents commented on the relationship between disaggregated information about PP&E in financial statements and similar information included in sustainability disclosures. In particular, one standard-setter expressed 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 suggested illustrating how entities could

connect the information in the different reports, for example through the use of cross-references.

Staff's preliminary analysis—no changes to the example

99. Paragraph BC24 of the Basis for Conclusion of the Exposure Draft noted that the disaggregated information about a class of property, plant and equipment illustrated in Example 8 could be similar to the information the entity discloses in its sustainability-related financial disclosures by applying paragraph 29 of IFRS S2. Paragraph BC25 then explains how, when applied together, IFRS Standards enable connected financial reporting and avoid duplicated disclosures. These explanations could be carried forward to the Basis for Conclusions for the illustrative examples, if the IASB decides to finalise the examples.

Question for the IASB

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