Staff paper

ASAF Agenda reference: 1G
IASB Agenda reference: 14G

Accounting Standards Advisory Forum meeting

Date	**May 2025**
Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Draft illustrative examples**
Contacts	Karen Robson (karen.robson@ifrs.org) Gustavo Olinda (golinda@ifrs.org)

Accounting Standards Advisory Forum, May 2025, Agenda Paper 1G

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

Introduction

1. This paper illustrates a possible drafting of Examples 1–8 of the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* incorporating the changes explored in AP14D–AP14F.

2. This paper shows marked-up changes from the drafting of the examples included in the Exposure Draft. The appendix to this paper includes a marked-up version of Example 1 showing changes from the drafting included in the appendix to Agenda Paper 14 for the IASB's April 2025 meeting.

3. This paper is provided for illustrative purposes only. The wording of the examples will change during the drafting process of the final illustrative examples, if the IASB decides to issue them.

Example 1—Materiality judgements leading to additional disclosures (IAS 1 / IFRS 18)

> Paragraph 49 of Agenda Paper 14D includes our preliminary recommendation to link Example 1 and Example 2 together by making them variants of the same example (that is, Examples 1 and 2 would become variants A and B of the same Example). However, we have not reflected this recommendation in this paper to keep the numbering consistent with that used in the Exposure Draft.

1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements ~~in accordance with~~applying the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*].[1] In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

1.2 The entity is a manufacturer that operates in a capital-intensive industry ~~and~~. The entity is exposed to significant climate-related transition risks~~.~~ and operates in jurisdictions that have adopted climate-related policies that affect its operations. ~~To manage these risks, t~~The entity has developed a climate-related transition plan to manage its climate-related transition risks. The plan is strategically important for the entity and is expected to significantly affect its future operations.

~~1.2~~1.3 The entity discloses information about ~~the~~its transition plan in a general purpose financial report accompanying~~outside~~ the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing some of its raw materials and manufacturing methods. The entity discloses no other information about its climate-related transition plan~~risks~~ in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

~~1.3~~1.4 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity ~~concludes~~determines that its transition plan has no effect on the recognition or

[1] IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.

measurement of its assets and liabilities and related income and expenses for the current reporting period because:

(a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will not be replaced until the end of their current useful lives. ~~are nearly fully depreciated;~~

~~(a)~~(b) the entity's current inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable.

~~(b)~~(c) the recoverable amounts of the affected cash-generating units (CGUs) after reflecting the effects of the transition plan ~~significantly~~ exceed their respective carrying amounts.~~; and~~

~~(c)~~(d) the transition plan did not affect the timing and amount of expenditure required to settle the entity's decommissioning and site restoration ~~has no asset retirement~~ obligations.

~~1.4~~1.5 The entity also assesses whether specific requirements in IFRS Accounting Standards—such as in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity determines~~concludes~~ that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

~~1.5~~1.6 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] 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.

1.7 An entity might apply paragraph 31 of IAS 1 [paragraph 20 of IFRS 18] when reviewing its draft financial statements to determine whether all material information has been provided in its financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements. The entity considers primary users' common information needs—rather than the needs of individual users—as part of this assessment.

~~1.6~~1.8 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity ~~determines that~~applies judgement to determine whether additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, whether omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

1.9 In making a judgement about whether additional disclosures would provide material information, the entity considers both quantitative and qualitative factors. Although the transition plan had no effect on the entity's financial position and financial performance for the current reporting period, the entity considers qualitative factors including:

(a) *entity-specific qualitative factors*—for example, the entity considers:

(i) the nature and extent of its exposure to climate-related transition risks—the entity has significant exposures to climate-related transition risks and its transition plan contributes to mitigating that risk; and

(ii) the significance of its transition plan to its operations—its transition plan is strategically important for, and is expected to significantly affect, the entity's future operations.

(b) *external qualitative factors*—for example, the entity considers that the industry and jurisdictions in which it operates—including its market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of those financial statements. This is, for example, because of the significance of climate-related transition risks to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates.

1.10 In making the judgement described in paragraph 1.9, the entity also considers whether, without additional disclosures, its financial statements might appear inconsistent with information about its transition plan in its general purpose financial reports accompanying those financial statements. For example, information about the entity's plans to change manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.

1.11 After considering all facts and circumstances, the entity determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance would provide material information in the context of the financial statements as a whole. For example, the entity might explain:

(a) why its transition plan had no effect on its financial position and financial performance for the current reporting period by disclosing the reasons explained in paragraph 1.4; or

(b) how it considered its transition plan:

(i) in estimating the useful lives of its manufacturing facilities;

(ii) in determining that the carrying amount of its raw materials is recoverable;

(iii) in assessing indications for impairment or in projecting the cash flows used in the impairment test of affected CGUs; and

(iv) in estimating the amount and timing of expenditure required to settle its decommissioning and site restoration obligations.

~~1.7 Without that additional information, the decisions users of the entity's financial statements make could reasonably be expected to be influenced by a lack of understanding of how the entity's transition plan has affected the entity's financial position and financial performance. For example, users of the entity's financial statements might expect that some of its assets might be impaired because of its plans to change manufacturing methods and invest in more energy-efficient technology.~~

~~1.8 The entity reaches this conclusion having considered 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).~~

~~1.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why.~~

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

Paragraph 49 of Agenda Paper 14D includes our preliminary recommendation to link Example 1 and Example 2 together by making them variants of the same example (that is, Examples 1 and 2 would become variants A and B of the same Example). However, we have not reflected this recommendation in this paper to keep the numbering consistent with that used in the Exposure Draft.

2.1 This example illustrates how an entity makes materiality judgements in the context of financial statements ~~in accordance with~~applying the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*].[2] In this example, these judgements do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

2.2 The entity is a service provider that operates in an industry that produces low greenhouse gas emissions and has limited exposure to climate-related transition risks. The entity discloses in a general purpose financial report accompanying~~outside~~ the financial statements that it produces~~has~~ low~~ levels of~~ greenhouse gas emissions, explaining that, where possible, it uses renewable energy and avoids high-emission~~s~~ activities. The entity also explains how it plans to keep emissions low by maintaining its current greenhouse gas emissions policy.

~~2.2~~2.3 The entity's greenhouse gas emissions policy is not strategically important for the entity and is not expected to significantly affect its future operations. The entity discloses no other information about its greenhouse gas emission policy~~climate-related transition risks~~ in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

~~2.3~~2.4 In preparing its financial statements, the entity applies the recognition and measurement requirements in IFRS Accounting Standards. Applying those requirements, the entity's~~assesses the effect of its greenhouse gas emissions policy on its financial position and financial performance. The entity concludes that its~~ greenhouse gas emissions policy has no effect on the recognition and measurement of its assets and liabilities and related income and expenses for the current reporting period.

[2] IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.

~~2.4~~2.5 The entity also assesses whether specific requirements in IFRS Accounting Standards require it to disclose information about the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance. The entity determines~~concludes~~ that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

~~2.5~~2.6 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] 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.

2.7 An entity might apply paragraph 31 of IAS 1 [paragraph 20 of IFRS 18] when reviewing its draft financial statements to determine whether all material information has been provided in its financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements. The entity considers primary users' common information needs—rather than the needs of individual users—as part of this assessment.

2.8 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity applies judgement to determine whether~~determines that~~ additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance would ~~not~~ provide material information. That is, whether omitting this information could ~~not~~ reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

~~2.6~~2.9 In making that judgement, including by considering both quantitative and qualitative factors, the entity determines that there are no indications that an explanation about the lack of effect of its greenhouse gas emissions policy on its financial position or financial performance for the current reporting period might be material information in the context of the financial statements as a whole. The entity reaches that conclusion because:

(a) its greenhouse gas emission policy is not strategically important for, and is not expected to significantly affect, the entity's future operations; and

(b) it operates in an industry that produces low greenhouse gas emissions and has limited exposure to climate-related transition risks.

2.10 The entity also considers that, without additional disclosures, its financial statements would not appear inconsistent with information about its greenhouse gas emission policy in its in its general purpose financial reports accompanying those financial statements.

2.11 Therefore, the entity determines that additional disclosure to explain the lack of effect of its greenhouse gas emission policy on its financial position and financial performance for the current reporting period would not provide material information in the context of the financial statements as a whole and provides no such disclosures.

~~2.7 Without that additional information, the decisions users of the entity's financial statements make could not reasonably be expected to be influenced by a lack of understanding of how the entity's greenhouse gas emissions policy has affected the entity's financial position and financial performance.~~

~~2.8 The entity reaches this conclusion having considered qualitative factors that make the information less 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 have limited exposure to climate-related transition risks (external qualitative factor).~~

~~2.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity provides no additional disclosures.~~

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

3.1 This example illustrates the requirements in paragraphs 134(d)(i)–(ii) and 134(f) of IAS 36 *Impairment of Assets*. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amounts of assets.

Background

3.2 The entity's operations result in a high amount of greenhouse gas emissions. The entity is subject to greenhouse gas emissions regulation in some of the jurisdictions in which it operates. Those regulations require the entity to acquire emission allowances for some of its emissions, resulting in costs (emission allowance costs).[3] The entity expects such regulations to become more widespread in the future.

3.3 The entity has allocated a significant amount of goodwill to one of its cash-generating units (CGUs) and tests that CGU for impairment at least annually. The entity has determined that its assumptions about future emission allowance costs are key assumptions—that is, they are among the assumptions to which the CGU's recoverable amount is most sensitive.

Application

Reasonable and supportable assumptions

3.4 The entity measures the value in use of the CGU when testing it for impairment. Applying paragraphs 33–38 of IAS 36 in measuring the CGU's value in use, the entity bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist in the future. These assumptions include assumptions about future emission allowance costs.

3.5 The assumptions about future emission allowance costs include assumptions about the future price of emission allowances and the future scope of emissions regulations. However, these assumptions do not reflect risk that is already reflected in the discount rate.

Disclosures

Key assumptions and approach used to determine the value(s) assigned to them

~~3.5~~3.6 Applying paragraphs 134(d)(i)–(ii) of IAS 36, the entity discloses:

[3] This example illustrates only the entity's consideration of emission allowance costs when testing an asset for impairment and its disclosure of information about related key assumptions. The example does not cover, for example, other costs an entity might incur in managing climate-related risks.

(a) that its key assumptions include emission allowance cost assumptions, such as the future price of greenhouse gas emission allowances and the future scope of emission regulations.

(b) its approach to determining the values assigned to these key assumptions. For example, the entity discloses whether its assumptions about the future price of greenhouse gas emission allowances and the future scope of emission regulations ~~is~~are consistent with external sources of information and, if not, how and why ~~it~~ they differ~~s~~ from such sources of information.

Sensitivity information

~~3.6~~3.7 In applying paragraph 134(f) of IAS 36, the entity also considers whether a reasonably possible change in a key assumption would cause the CGU's carrying amount to exceed its recoverable amount—that is, whether such a change in assumption would result in an impairment loss. For example, the entity considers whether an impairment loss would result from a reasonably possible change in the entity's assumption about the future price of greenhouse gas emission allowances. If so, the entity discloses:

(a) the amount by which the CGU's recoverable amount exceeds its carrying amount;

(b) the values assigned to the key assumption; and

(c) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount.

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

4.1 This example illustrates the requirements in paragraphs 125 and 129 of IAS 1 *Presentation of Financial Statements* [paragraphs 31A and 31E of IAS 8 *Basis of Preparation of Financial Statements*]. In particular, it illustrates how an entity:

(a) might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;

(b) identifies the assumptions about which it is required to disclose information; and

(c) determines what information about these assumptions it is required to disclose.

Background

4.2 The entity operates in a capital-intensive industry. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.

4.3 During the current reporting period, there are indications that some of the entity's non-current assets might be impaired. Because it is not possible to estimate the recoverable amount of the individual assets, the entity tests the cash-generating unit (CGU) to which they belong for impairment. The entity concludes that the CGU's recoverable amount is greater than its carrying amount, and therefore recognises no impairment loss. In determining the CGU's recoverable amount, the entity ~~considers various scenarios and~~ makes several assumptions related to the climate-related transition risks to which it is exposed. Examples of such assumptions include assumptions about future:

(a) legal and regulatory developments;

(b) consumer demands;

(c) commodity prices; and

(d) costs of acquiring greenhouse gas emission allowances.

Application

Considering the specific requirements in IFRS Accounting Standards

4.4 IAS 36 does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognised no impairment loss for that CGU during the period. However, the entity considers whether IAS 1 [IAS 8] requires it to disclose information about these assumptions.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

4.5 Paragraph 125 of IAS 1 [Paragraph 31A of IAS 8] requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of the assets and liabilities.

4.6 The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year, if those assumptions ~~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~~them in the next financial year. The entity reaches this conclusion after considering these factors:

(a) *the size of the CGU's carrying amount*—the CGU makes up a large portion of the entity's total assets. Therefore, ~~a potential impairment loss from~~ a relatively small adjustment to the ~~total~~ CGU's carrying amount might nonetheless be material.

(b) *the subjectivity or complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because they cover the medium and long term. The judgements also reflect the entity's expectations about highly uncertain future events, such as government actions to reduce the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.

(c) *the risk that new information or new developments in the next financial year might result in changes in the assumptions*—frequent new climate-related market, economic, regulatory and legal developments might affect the judgements the entity has made. Such circumstances increase the risk that new information or new developments within the next financial year might affect the entity's assumptions (including assumptions about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.

(d) *the sensitivity of the CGU's carrying amount to changes in the assumptions*—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction of the CGU's recoverable amount and a material impairment loss.

4.7 Applying paragraph 125 of IAS 1 [paragraph 31A of IAS 8] to the assumptions identified in paragraph 4.6, the entity discloses:

(a) information about these assumptions; and

(b) details of the nature and carrying amount of the CGU's non-current assets at the end of the reporting period.

4.8 Paragraph 129 of IAS 1 [Paragraph 31E of IAS 8] requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

4.9 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of IAS 1 [paragraph 31E of IAS 8] for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.

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

We have reproduced Example 5 below for ease of reference. However, as explained in Agenda Paper 14E, we recommend not proceeding with this example.

5.1 This example illustrates the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In particular, it illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure.

Background

5.2 The entity operates in a jurisdiction whose government has announced regulation that would restrict the entity's ability to operate and generate profits in that jurisdiction in the future. The announced regulation does not relate to taxation. However, the regulation could significantly affect the entity's profitability and, therefore, its ability to recover the carrying amount of its deferred tax asset for the carryforward of unused tax losses. The regulation has not yet been enacted at the end of the reporting period.

5.3 It is uncertain when the announced regulation would be effective. The government has stated that, because of other priorities, it will not discuss the regulation further in the next two years, a period that extends beyond the end of the entity's next financial year.

Application

Considering the specific requirements in IFRS Accounting Standards

5.4 In applying paragraph 34 of IAS 12 *Income Taxes*, the entity considers the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised in determining whether to recognise a deferred tax asset for such losses. The entity does not have a history of recent losses, and therefore the requirement in paragraph 35 of IAS 12 does not apply.

5.5 After considering all the criteria in paragraph 36 of IAS 12, the entity concludes that it is required to recognise the deferred tax asset for the full amount of its carryforward of unused tax losses on the assumption that the regulation will become effective only after the entity has been able to utilise these losses. Assuming that the announced regulation would become effective earlier would have resulted in a material write-down of the deferred tax asset and a related deferred tax expense.

5.6 IAS 12 does not require an entity to disclose information about the assumptions used in determining the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised. Furthermore, paragraph 82 of IAS 12 does not apply because the entity suffered no loss in either the current or preceding reporting period.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

5.7 The entity considers whether paragraph 125 of IAS 1 [paragraph 31A of IAS 8] requires it to disclose information about these assumptions. The entity determines that it is unlikely to change its assumption about the announced regulation in the next financial year because government discussions about it will not take place until after the end of that financial year. Therefore, the entity does not expect that assumption to have a significant risk of resulting in a material adjustment to the carrying amount of the deferred tax asset within the next financial year. Consequently, the entity is not required to disclose information about the assumption applying the requirements in paragraph 125 of IAS 1 [paragraph 31A of IAS 8].

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

5.8 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] 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.

5.9 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect of the announced regulation on the entity's financial position and financial performance would provide material information. That is, omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

5.10 Without that additional information, the decisions users of the entity's financial statements make could reasonably be expected to be influenced by a lack of understanding that the announced regulation could have resulted in a material write-down of the deferred tax asset (and a related deferred tax expense) had the entity assumed the announced regulation would become effective earlier.

5.11 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses information about:

(a) the assumption that the announced regulation will become effective only after the entity has been able to utilise the unused tax losses; and

(b) the effect of this assumption on the carrying amount of the entity’s deferred tax asset (for example, the entity discloses the amount of the deferred tax asset it recognised based on this assumption).

Example 6—Disclosure about credit risk (IFRS 7)

6.1 This example illustrates requirements in paragraphs 35A–38 of IFRS 7 *Financial Instruments: Disclosures*. In particular, it illustrates how an entity might disclose:

(a) information about the effects of particular risks on its credit risk exposures and credit risk management practices; and

(b) information about how these practices relate to the recognition and measurement of expected credit losses.

Background

6.2 The entity is a financial institution that provides a range of products to various types of customers. As part of its credit risk management practices, the entity considers the effects of various risks on its credit risk exposures, including climate-related risks~~ on its credit risk exposures~~. The entity identifies two portfolios of loans for which climate-related risks have a significant effect on its credit risk exposures, ~~that ~~requiringe it to monitor and take action to mitigate credit risk arising from its customers' exposure to climate-related risks:

(a) loans to agricultural customers for which climate-related events such as droughts could affect the borrowers' ability to repay their loans; and

(b) loans to corporate real estate customers that are secured by properties located in low-lying areas subject to flood risk.

Application

6.3 Paragraphs 35A–38 of IFRS 7 include disclosure requirements about credit risk arising from financial instruments. In considering these requirements, the entity determines that information about the effects of climate-related risks on its exposure to credit risk on those two portfolios is material.~~ The factors the entity considers in reaching this conclusion include~~ The entity reaches this conclusion after considering, among other factors:

(a) *the size of the portfolios*—the two identified portfolios ~~affected by climate-related risks relative to~~make up a large portion of the entity's overall lending portfolio.

(b) *the significance of the effects of climate-related risks*—climate-related risks have a significant effect on the entity's exposure to credit risk compared to other factors affecting that exposure. The effects depend on factors such as loan maturities and the nature, likelihood and magnitude of the climate-related risks.

(c) *external climate-related qualita*tive factors~~— such as climate-related~~ the market, economic, regulatory and legal environments in which the entity operates, as well as climate-related developments~~— that~~ (for example, an increase in the occurrence and severity of weather-related events and long-term shifts in climatic patterns), make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of the financial statements.

6.4 In applying the requirements in paragraphs 35A–38 of IFRS 7, the entity considers what information to provide about the effects of climate-related risks on its exposure to credit risk on those two portfolios. This information might include, for example:

(a) an explanation of the entity's credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses.~~ The information the entity discloses might include, for example, how climate-related risks affect:~~

~~(i) the determination of whether the credit risk on these financial instruments has increased significantly since initial recognition; and~~

~~(ii) the grouping of instruments if expected credit losses are measured on a collective basis.~~

(b) an explanation of how climate-related risks were incorporated in the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9 *Financial Instruments*. This explanation might include, for example, information about the use of judgement-based adjustments (also referred to as 'post-model adjustments' or 'management overlays').~~ The information the entity discloses might include:~~

~~(i) how climate-related risks were incorporated in the inputs used to measure expected credit losses, such as probabilities of default and loss given default;~~

~~(ii) how forward-looking information about climate-related risks was incorporated into the determination of expected credit losses; and~~

~~(iii) any changes the entity made during the reporting period to estimation techniques or significant assumptions to reflect climate-related risks and the reasons for those changes.~~

(c) information about collateral held as security and other credit enhancements~~, including~~ . This information might include, for example, information about properties held as collateral that are subject to flood risk and whether that risk is insured.

(d) information about concentrations of climate-related risk if this information is not apparent from other disclosures the entity makes. This information might include, for example, the carrying amount of the two identified portfolios.

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

7.1 This example 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 their effect on the carrying amount of the ~~associated~~ entity's plant decommissioning and site restoration provision is immaterial.

Background

7.2 The entity is a petrochemicals manufacturer and has plant decommissioning and site restoration obligations for its petrochemical facilities. The entity assumes ~~that~~ it will continue to maintain and operate some of ~~the~~ its facilities for an extremely long time. Consequently, the costs required to settle the obligations related to these facilities will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial. However, the costs to settle the obligations relating to these facilities will be high and there is ~~an~~ a significant and increasing risk that the entity might be required to close ~~some of its petrochemical~~~~these~~the facilities earlier than it expects. This risk stems from ~~because of~~ efforts to transition to a lower-carbon economy, which may include shifting consumer demand for fossil fuel-based products and possible regulatory and policy actions to reduce greenhouse gas emissions in the jurisdictions in which the entity operates.

Application

7.3 Paragraph 85 of IAS 37 requires an entity to disclose information for each class of provision. The entity concludes that, ~~A~~although some of its plant decommissioning and site restoration obligations have an immaterial effect on the carrying amount of ~~the entity's~~its plant decommissioning and site restoration provision (see paragraph 7.2)~~ is immaterial~~, ~~the entity concludes that~~ information about ~~the related~~these obligations is material. ~~The entity reaches this conclusion after considering, among other factors, the environment in which it operates, the risk that it might be required to settle the obligations earlier than expected and the size of the outflows that will be required to settle them.~~ The entity reaches this conclusion after considering, among other factors:

(a) *the size of the costs required to settle the obligations*—the size of the costs that will be required to settle the obligations is high.

(b) *the risk of early settlement*—the risk that the entity might be required to settle the obligations earlier than expected is significant and is increasing.

(c) *external climate-related qualitative factors*—the industry and jurisdictions in which the entity operates—including the entity's market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of the financial statements.

7.4 In ~~A~~applying paragraph 85 of IAS 37, the entity discloses information about its plant decommissioning and site restoration provision~~, including:~~. This information includes information about the obligations that have an immaterial effect on the carrying amount of the provision. The information the entity discloses includes:

(a) a brief description of the nature of ~~its plant decommissioning and site restoration~~the obligations and the expected timing of the outflows of economic benefits required to settle them.

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the ~~entity's main petrochemical~~ facilities—for example, when the ~~facility is~~facilities are expected to be closed.

Example 8—Disclosure of disaggregated information (IFRS 18)

8.1 This example 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.

Background

8.2 The entity owns PP&E with long useful lives whose use results in high amounts of greenhouse gas emissions. The entity has invested in alternative PP&E of the same class with lower greenhouse gas emissions but still uses the high-emissions PP&E for a large part of its operations. The entity operates in an industry with a high degree of exposure to climate-related transition risks and responding to those risks is strategically important to the entity's operations. ~~t~~The two types of PP&E make up a large portion of the entity's total assets.

8.3 The entity concludes that these two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in different ways, including:

(a) how long the entity will be able to use them;

(b) how their residual values will be affected; and

(c) whether the entity will be able to recover their carrying amounts.

Application

8.4 Paragraphs 41–42 of IFRS 18 include principles for aggregating and disaggregating information in financial statements. In particular, these paragraphs require an entity to disaggregate items based on characteristics that are not shared whenever the resulting information is material. Paragraph B110 of IFRS 18 explains that an entity uses judgement to do this and includes examples of such characteristics, which include the risks associated with an item.

8.5 After considering its particular facts and circumstances, the entity determines that the two types of PP&E have sufficiently dissimilar risk characteristics that disaggregating ~~the~~ information about the carrying amount ~~the entity provides in the notes about~~of these types of PP&E would result in material information. The factors the entity considers in reaching this conclusion include:

(a) *the size of the PP&E's carrying amount*—the carrying amount of the two types of PP&E make up a large proportion of the entity's total assets.

(b) *the significance of climate-related transition risks to the entity's operations*—climate-related transition risks are significant and responding to them is strategically important to the entity's operations, including the way the entity will use the PP&E and recover their carrying amount.

(c) *external climate-related qualitative factors*—the industry and jurisdictions in which the entity operates—including its market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of the financial statements.

8.6 Applying paragraphs 41–42 and B110 of IFRS 18, the entity disaggregates ~~the~~ information about the carrying amount of these ~~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 *Property, Plant and Equipment* for these types of PP&E whenever the resulting disaggregated information is material.~~

Appendix A—Example 1 changes from April 2025 IASB meeting

Example 1—Materiality judgements leading to additional disclosures (IAS 1 / IFRS 18)

1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements applying the requirement in paragraph 31 of IAS 1 Presentation of Financial Statements [paragraph 20 of IFRS 18 Presentation and Disclosure in Financial Statements].4 In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

1.2 The entity is a manufacturer that operates in a capital-intensive industry. The entity is exposed to significant climate-related transition risks and operates in jurisdictions that have adopted climate-related policies that affect its operations. The entity has developed a climate-related transition plan to manage its climate-related transition risks. The plan is strategically important for the entity and is expected to ~~will~~ significantly affect its future operations.

1.3 The entity discloses information about its transition plan in a general purpose financial report ~~outside~~ accompanying the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing some of its raw materials and manufacturing methods. The entity discloses no other information about its climate-related transition plan in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

1.4 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity determines that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses for the current reporting period because:

[4] IFRS Practice Statement 2 *Making Materiality Judgements* also provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements in accordance with IFRS Accounting Standards.

(a) the transition plan did not affect the useful lives of the affected manufacturing facilities. These facilities will not be replaced until~~only at~~ the end of their current useful lives.

(b) the entity's current inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan. The carrying amount of the raw materials is recoverable.

(c) the recoverable amounts of the affected cash-generating units (CGUs) after reflecting the effects of the transition plan exceed their respective carrying amounts.

(d) the transition plan did not affect the timing and amount of expenditure required to settle the entity's decommissioning and site restoration obligations.

1.5 The entity also assesses whether specific requirements in IFRS Accounting Standards—such as in IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*—require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity determines that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

1.6 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] 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.

1.7 An entity might apply paragraph 31 of IAS 1 [paragraph 20 of IFRS 18] when reviewing its draft financial statements to determine whether all material information has been provided in its financial statements.~~The entity applies paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], for example, when reviewing its draft financial statements.~~ This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements. The entity considers primary users' common information needs—rather than the needs of individual users—as part of this assessment.

~~1.7~~1.8 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity applies judgement to determine whether additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, whether omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

~~1.8~~1.1 ~~The entity applies paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], for example, when reviewing its draft financial statements. This review gives the entity an opportunity to 'step back' and consider the information it provides in its financial statements from a wider perspective and in aggregate. In particular, the entity draws on its knowledge and experience of its transactions and other events and conditions to identify whether all information that is material in the context of the financial statements as a whole has been provided in those financial statements.~~

1.9 In making a judgement about~~In determining~~ whether additional disclosures would provide material information, the entity considers both quantitative and qualitative factors. Although the transition plan had no effect on the entity's financial position and financial performance for the current reporting period ~~(quantitative factors)~~, the entity considers qualitative factors including:

(a) *entity-specific qualitative factors*—for example, the entity considers:

(i) the nature and extent of its exposure to climate-related transition risks—the entity has significant exposures to climate-related transition risks and~~which~~ its transition plan contributes to mitigating that risk; and

(ii) the significance of its transition plan to its operations—its~~the~~ transition plan is strategically important for, and is expected to~~will~~ significantly affect, the entity's future operations.~~; and~~

~~(iii) any inconsistencies that might appear to exist between information about its transition plan in its general purpose financial reports outside its financial statements and information about the effects of that plan in its financial statements. For example, information about the entity's plans to change manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.~~

(b) *external qualitative factors*—for example, the entity considers that the industry and jurisdictions in which it operates—including its market, economic, regulatory and legal environments—make the information more likely to influence decisions primary users of the entity's financial statements make on the basis of those financial statements. This is, for~~For~~ example, because of the significance of climate-related transition risks to the business models of entities operating in the same industry and the climate-related policies adopted by the jurisdictions in which the entity operates.

1.10 In making the judgement described in paragraph 1.9, the entity also considers whether, without additional disclosures, its financial statements might appear inconsistent with information about its transition plan in its general purpose financial reports accompanying those financial statements. For example, information about the entity's plans to change manufacturing methods and invest in more energy-efficient technology might suggest that some of its assets might be impaired.

~~In determining whether additional disclosures would provide material information, the entity might also consider whether primary users ask questions about the effects of its transition plan on its financial position and financial performance. In doing so, the entity considers primary users' common information needs rather than the needs of individual users.~~

1.11 After considering all facts and circumstances, the entity determines that additional disclosure to explain the lack of effect of its transition plan on its financial position and financial performance would provide material information in the context of the financial statements as a whole. For example, the entity might explain~~.~~: ~~that~~

(a) why its transition plan had no effect on its financial position and financial performance for the current reporting period ~~because of~~by disclosing the reasons explained in paragraph 1.4; or

(a) how it considered its transition plan:

(i) in estimating the useful lives of its manufacturing facilities;

(ii) in determining that the carrying amount of its raw materials is recoverable;

(iii) in assessing indications for impairment or in projecting the cash flows used in the impairment test of affected CGUs; and

(iv) in estimating the amount and timing of expenditure required to settle its decommissioning and site restoration obligations.