IFRS Accounting

Staff paper

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IASB® Meeting

Date	**May 2025**
Project	**Climate-related and Other Uncertainties in the Financial Statements**
Topic	**Proposed illustrative examples—Examples 3–5**
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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 includes the staff's preliminary analysis of the feedback on Examples 3–5, including our preliminary recommendations on how to address that feedback.

4. Agenda Paper 14G illustrates a possible drafting of Examples 3–4 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 9); and

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

      (i) Example 3 (paragraphs 10–41);

      (ii) Example 4 (paragraphs 42–62); and

      (iii) Example 5 (paragraphs 63–73).

7. There are two appendices to this paper:

   (a) Appendix A—Other comments on Examples 3 and 4; and

   (b) Appendix B—Comments on other aspects of Example 5.

8. The paragraphs in this paper explaining the objective and rationale of each example summarise the content from paragraphs BC33–BC40 of the Basis for Conclusions on the Exposure Draft.

Summary of staff's preliminary recommendations

9. The staff's preliminary recommendations are that the IASB:

   (a) proceed with Examples 3 and 4 with limited changes to address respondents' concerns; and

   (b) not proceed with Example 5.

Example 3—Disclosure of assumptions: specific requirements

Objective and rationale

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

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

Summary of feedback and staff's preliminary analysis

Feedback overview

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

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

14. However, many respondents said the example could be more comprehensive, provide further clarifications or guidance on some aspects, and help with practical challenges of reflecting climate-related uncertainties in impairment testing.

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

    (a) scope and comprehensiveness of the example (paragraphs 17–22);

    (b) effects of uncertainties on terminal values (paragraphs 23–27);

    (c) risk of double-counting the effects of uncertainties (paragraphs 28–34);

    (d) additional clarifications on IAS 36 requirements (paragraphs 35–39); and

    (e) connectivity-related comments (paragraphs 40–41).

16. Appendix A includes other comments raised by respondents and our preliminary analysis of these comments.

Scope and comprehensiveness of the example

Summary of feedback

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

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

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

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

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

    (e) assumptions used in determining discount rates.

18. Some respondents, mainly accountants, said the example should be more specific and comprehensive rather than simply reproducing the disclosure requirements in IAS 36 *Impairment of Assets*. For example, a few respondents suggested:

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

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

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

Staff's preliminary analysis—no changes to the example

19. We recommend retaining the scope of Example 3 instead of expanding it to illustrate other climate-related assumptions that an entity might make as part of impairment tests. The example illustrates climate-related assumptions that are common, relevant to various industries and sometimes disclosed by entities subject to greenhouse gas emission regulations.

20. As explained in Agenda Paper 14B, if the IASB decides to finalise the examples, it could explain in the Basis for Conclusions that the principles and requirements illustrated in the examples apply equally to other types of uncertainties. In our view, this explanation would help clarify that:

(a) assumptions about emission allowance costs are just one example of key assumptions an entity might disclose applying the requirements in IAS 36; and

(b) the illustration in the example would apply equally to any other key assumptions used in impairment testing.

21. Furthermore, in our view, the main objective of the example is:

(a) to illustrate that entities should consider whether to disclose assumptions about climate-related and other uncertainties they used in impairment tests; and

(b) to provide an example of a climate-related assumption.

22. The purpose of the example is not to illustrate specific facts and circumstances—such as whether the entity's projections cover a period of five years or more or the specific

external source of information that the entity might have used to determine the values assigned to the key assumption. Therefore, we think adding the additional illustrations suggested by respondents is unnecessary to achieve the example's objective.

The effects of uncertainties on terminal values

Summary of feedback

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

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

25. A few respondents suggested the IASB also provide guidance on the measurement of value in use. For example, one accountant provided a list of issues that could be addressed, such as the calculation of terminal value, reflecting the long-term effects of transition plans and illustrating the application of Appendix A of IAS 36 to different scenarios.[1]

Staff's preliminary analysis—no changes to the example

26. We agree that climate-related uncertainties might often affect an entity after the five-year forecast referred to in paragraph 33(b) of IAS 36. However, IAS 36 does not require an entity to specifically disclose the effect of assumptions on the terminal value of an asset's value in use. The disclosure requirements in IAS 36 refer to the effects of assumptions on the recoverable amount as a whole. Therefore, including an example where the entity specifically discloses information about the effects of

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

assumptions on the terminal value would go beyond the disclosure requirements in IAS 36.

27. Furthermore, we do not recommend providing additional guidance on the measurement of value in use as part of this project. As explained in Agenda Paper 14A, the research we undertook on this project suggests that entities reflect high variability in future cash flows arising from climate-related uncertainties over an extended time horizon when calculating an asset's value in use. The research suggested that standard-setting or other actions in this area are either unnecessary or are unlikely to have a higher priority than other projects.[2] In our view, feedback from respondents did not provide sufficient evidence to change this conclusion.

The risk of double-counting the effects of uncertainties

Summary of feedback

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

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

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

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

[2] See Appendix A to Agenda Paper 14 for the IASB's December 2023 meeting for further information.

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

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

Staff's preliminary analysis—changes to the example

32. We agree that there is a risk of double-counting the effects of climate-related risks by reflecting those risks in both the cash flow projections and the discount rate used in impairment tests. Several requirements in IAS 36 emphasise the need to avoid this outcome. In particular:

    (a) paragraph 51 of IAS 36 states:

    > Estimated future cash flows reflect assumptions that are consistent with the way the discount rate is determined. Otherwise, the effect of some assumptions will be counted twice or ignored…

    (b) paragraph 56 of IAS 36 states:

    > … the discount rate(s) used to measure an asset's value in use shall not reflect risks for which the future cash flow estimates have been adjusted. Otherwise, the effect of some assumptions will be double-counted.

33. We agree that some of the risk related to an increased future scope of emissions regulations might already be reflected in discount rates an entity used in impairment tests. Therefore, we agree that the example should specify that the assumptions relate to risks that are not reflected in the discount rate.

34. We recommend including no further details about the stage of implementation of future regulations or how the entity incorporates its expectations about expected future regulations into its value in use calculation. We think doing so risks going beyond the requirements in IAS 36 and could have unintended consequences. However, we suggest clarifying that an entity bases cash flow projections on 'reasonable and supportable' assumptions as required by paragraph 33(a) of IAS 36.

Additional clarifications of IAS 36 requirements

Summary of feedback

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

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

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

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

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

36. A few respondents said the example should illustrate some practical aspects of applying the disclosure requirements in IAS 36. For example, the example should

illustrate how to deal with data uncertainty—particularly in emerging markets—and how to leverage climate-related scenario analysis and stress tests.

Staff's preliminary analysis—no changes to the example

37. IAS 36 does not provide additional guidance about how an entity would determine what constitutes a 'key assumption' beyond specifying that those are the assumptions to which an asset's recoverable amount is most sensitive. It also does not provide additional guidance about how an entity determines what constitutes a 'reasonably possible change'. Therefore, we think providing that guidance through illustrative examples would go beyond the requirements in IAS 36.

38. Furthermore:

    (a) the example already illustrates the disclosure of assumptions beyond discount rates and growth rate. Therefore, it would already help clarify that key assumptions an entity discloses are not limited to those assumptions.

    (b) the example illustrates paragraph 134(d)(i) of IAS 36. That paragraph requires an entity to disclose key assumptions 'on which management has based its *cash flow projections* for the period covered by the most recent budgets/forecasts' (emphasis added). Paragraph 134(d)(v) requires an entity to disclose the discount rate(s) applied to the cash flow projections, but does not require further disclosure about the assumptions used in determining that discount rate. Therefore, the example cannot illustrate such disclosure through the application of the disclosure requirements in IAS 36. However, we note that an entity might have to disclose further information applying the general disclosure requirements in IAS 1, which are illustrated by Example 4.

39. Finally, in our view the main objective of the examples is to illustrate what information an entity discloses in applying IFRS Accounting Standards and under which circumstances, rather than illustrating more detailed practical aspects of applying these requirements (such as dealing with data uncertainty).

Connectivity-related comments

Summary of feedback

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

Staff's preliminary analysis—no changes to the example

41. The written educational material based on the connectivity webcast series that we recommend developing in Agenda Paper 14C would include an example which comments on the relationship between assumptions used in impairment tests and those used in climate-related scenario analyses provided in the context of the climate resilience disclosures required by IFRS S2 *Climate-related Disclosures*. We think such illustrations would be better placed in that educational material than in the illustrative examples, because the illustrative examples illustrate only requirements in IFRS Accounting Standards.

Example 4—Disclosure of assumptions: general requirements

Objective and rationale

42. The IASB developed Example 4 to illustrate the general requirements to disclose information about assumptions in paragraphs 125 and 129 of IAS 1.[3]

43. In researching this project, the IASB became aware that some stakeholders might interpret the requirement in paragraph 125 of IAS 1 as applying only to assumptions about uncertainties that will be resolved within the next financial year. In accordance

[3] For simplicity, we use the term 'assumption' to refer to both assumptions an entity makes about the future and other major sources of estimation uncertainty at the end of the reporting period.

with this view, assumptions about uncertainties that will be resolved after the end of the next financial year are never within the scope of paragraph 125 of IAS 1.

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

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

Summary of feedback and staff's preliminary analysis

Feedback overview

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

47. However, some respondents suggested considering or undertaking standard-setting. In particular, they suggested:

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

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

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

(a) relationship between specific and general requirements (paragraph 50–53);

(b) applicability of paragraph 125 to long-term assumptions (paragraphs 54–57);

(c) the specific information an entity discloses (paragraphs 58–60); and

(d) connectivity-related comments (paragraphs 61–62).

49. Appendix A includes other comments raised by respondents and our preliminary analysis of these comments.

Relationship between specific and general requirements

Summary of feedback

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

(a) some respondents noted that the example illustrates a situation in which the specific requirements in IAS 36 do not require an entity to disclose information about assumptions, but the general requirements in IAS 1 do require such disclosures. They said the example indicates a deficiency in IAS 36 that the IASB should correct through standard-setting rather than relying on the general requirements in IAS 1.

(b) some respondents noted that the example does not refer to paragraph 132 of IAS 36. That paragraph encourages an entity to disclose assumptions used in determining recoverable amounts of assets in the period beyond what is required by paragraph 134 of IAS 36.[4] These respondents suggested either including a reference to that paragraph in the example or removing from IFRS Accounting Standards paragraphs that encourage—rather than require—disclosure.

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

Staff's preliminary analysis—no changes to the example

51. In our view, the fact that the requirements in paragraph 125 of IAS 1 might apply when the specific disclosure requirements in IAS 36 do not apply does not suggest the disclosure requirements in IAS 36 are deficient. The requirements in these paragraphs were designed to apply in different circumstances:

(a) paragraph 125 of IAS 1 requires disclosure when assumptions have a significant risk of resulting in a material adjustment to carrying amounts within 12 months after the reporting date; and

(b) paragraph 134 of IAS 36 requires disclosure for targeted cash-generating units (those with significant amounts of goodwill or intangible assets with indefinite useful lives), irrespective of whether there is a significant risk of adjustment to carrying amounts within 12 months after the reporting date.

52. When it developed those requirements, the IASB considered the situations in which each set of requirements would apply and what information would be required when they apply. In our view, the feedback on the Exposure Draft did not provide sufficient evidence that the IASB should reconsider the scope of these requirements.

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

53. Furthermore, in our view:

(a) it is unnecessary to include a reference to paragraph 132 of IAS 36 in the example because that paragraph encourages, but does not require, disclosures beyond those required by paragraph 134 of IAS 36. We also think that removing paragraph 132 from IAS 36 would not significantly improve reporting.

(b) the requirements in paragraph 125 of IAS 1 apply regardless of specific requirements in other IFRS Accounting Standards. Therefore, we think Example 4 does not create disclosure expectations beyond what is already required by the Standards.

Applicability of paragraph 125 to long-term assumptions

Summary of feedback

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

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

55. Some respondents specifically agreed that paragraph 125 of IAS 1 applies to assumptions about uncertainties that will be resolved only after the end of the next financial year. Some of these respondents said that they are aware of different views in practice and that the example will help resolve confusion about the scope of paragraph 125 of IAS 1.

56. However, a few respondents suggested amending IAS 1 to clarify the scope of paragraph 125. They said that the existence of different interpretations indicates that

standard-setting is needed and that clarifications to IFRS Accounting Standards should not be made through illustrative examples.

Staff's preliminary analysis—no changes to the example

57. In our view, the analysis in Example 4 neither goes beyond nor 'clarifies' the requirements in paragraph 125 of IAS 1. The analysis only illustrates the application of those requirements to assumptions about long-term uncertainties. As explained in paragraph BC47(b) of the Exposure Draft, we think the illustrative examples might provide additional insights into how to apply the disclosure requirements in IFRS Accounting Standards, including the application of paragraph 125 of IAS 1. Therefore, we think the fact that the example could provide such additional insights does not mean that standard-setting is necessary.

Specific information an entity discloses

Summary of feedback

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

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

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

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

Staff's preliminary analysis—no changes to the example

59. We think that, to illustrate the specific information an entity would disclose, we would have to significantly change the fact pattern in the example to make it more specific. Although providing more specific illustrations would have benefits, we think doing so also risks:

(a) potentially reducing the perceived applicability of the examples to a narrower range of situations or uncertainties; and

(b) lead to a perception that the example is setting minimum or specific information an entity discloses in applying paragraphs 125 or 129 of IAS 1.

60. Therefore, we do not recommend illustrating the specific types of information an entity would disclose in Example 4.

Connectivity-related comments

Summary of feedback

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

Staff's preliminary analysis—no changes to the example

62. Paragraph BC26 of the Basis for Conclusion of the Exposure Draft noted the similarity in the language used in these requirements and paragraph BC25 explained how entities could avoid duplicated disclosures. These explanations could be carried forward to the Basis for Conclusions for the illustrative examples, if the IASB decides to finalise them.

Example 5—Disclosure of assumptions: additional disclosures

Objective and rationale

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

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

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

Summary of feedback and staff's preliminary analysis

64. Many respondents expressed concerns about various aspects of the example. However, some respondents specifically supported including an example that addresses non-climate-related uncertainties and illustrating the interaction between specific and general disclosure requirements.

65. Paragraphs 66–73 summarise the main concerns raised by respondents on Example 5—that is, concerns about the fact pattern of the example—as well as our analysis of these concerns. Appendix B includes a summary of comments on other aspects of the example and our analysis of these comments.

Fact pattern of the example

Summary of feedback

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

Staff's preliminary analysis—recommend not proceeding with the example

67. As explained in paragraph 63, the objective of Example 5 is to illustrate 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 disclosures.

68. Paragraph 125 of IAS 1 requires an entity to disclose information about assumptions that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year. Example 4 explains that paragraph 125 of IAS 1 could capture assumptions about uncertainties that will not be resolved within the next financial year, but that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities if the entity were to revise those assumptions in the next financial year. Examples 4 includes, as a factor an entity considers in determining whether paragraph 125 of IAS 1 applies, the risk that 'new information or new developments in the next financial year might result in changes to assumptions' (see paragraph 4.6(c) of Example 4).

69. In developing Example 5, we sought to identify a fact pattern in which it would be evident that there was no risk of new information or new developments in the next financial year that could result in a change to the assumption. We took this approach to ensure it was clear that paragraph 125 of IAS 1 was not applicable and therefore to avoid undermining its application. To achieve that aim, the fact pattern in Example 5 specifies that the government has 'stated that, because of other priorities, it would not discuss the regulation further in the next two years, a period that extends beyond the end of the entity's next financial year' (paragraph 5.3 of Example 5).

70. Although we think it is common for entities to face regulatory uncertainty, we acknowledge that a situation in which no new information and new developments relating to an uncertain regulation is expected in the next two years would be significantly less common. We think that, in most cases, an entity would expect there to be new information and new developments about an uncertain regulation in the next financial year and, therefore, paragraph 125 of IAS 1 could require disclosure about assumptions related to that uncertain regulation.

71. We continue to agree with the technical analysis and with the conclusion set out in Example 5. However, we think it would be difficult to identify a fact pattern in which it would be sufficiently clear that paragraph 125 of IAS 1 is not applicable—so as to not undermine its application—while at the same time ensuring that such fact pattern is sufficiently realistic. Identifying such a fact pattern would be difficult because, in our view, paragraph 125 of IAS 1 would be applicable in many situations in which an entity should disclose information about assumptions, and an entity would disclose additional information applying paragraph 31 of IAS 1 relatively infrequently.

72. Examples 1–2 already illustrate the application of paragraph 31 of IAS 1. Therefore, we think that including Example 5 would be unnecessary to achieve the objective of illustrating how an entity might need to disclose information about the assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosures (see paragraph 67). Furthermore, the decision tree discussed in paragraph 44 of Agenda Paper 14B could further illustrate the order in which an entity applies the disclosure requirements in IFRS Accounting Standards, emphasising that an entity considers whether to provide additional disclosures applying paragraph 31 of IAS 1 even if it concludes that it is not required to disclose information about assumptions applying paragraph 125 of IAS 1.

73. Based our analysis in paragraphs 67–72, we recommend that the IASB does not proceed with Example 5. If the IASB agrees with this recommendation, that would mean that all examples the IASB would proceed with would be about climate-related uncertainties. However, as explained in Agenda Paper 14B, we think the IASB could explain that the examples illustrate the reporting of the effects of uncertainties in financial statements through climate-related fact patterns, and that the principles and requirements illustrated apply equally to any type of uncertainty.

Question for the IASB

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

Appendix A—Other comments on Examples 3 and 4

A1. The tables below include other comments raised by respondents on Examples 3 and 4 and our preliminary analysis of these comments.

Example 3—Disclosure of assumptions: specific requirements

Comment	Staff preliminary analysis
1. Disclosing additional information A few respondents suggested the example states that an entity should also consider whether to disclose additional information applying paragraph 31 of IAS 1 or suggested illustrating additional disclosures based on the application of that paragraph.	*We suggest no changes to the example* We do not recommend illustrating additional disclosures through the application of paragraph 31 of IAS 1. Example 1 already illustrates the need for an entity to consider whether additional disclosures would provide material information applying paragraph 31 of IAS 1.
2. Assumptions about the future scope of regulations A few respondents suggested that paragraph 3.5(b) and 3.6 of the example should also refer to assumptions about the future scope of regulations because these assumptions are also described as key assumptions in paragraph 3.5(a) of the example. Furthermore, a few respondents suggested giving examples of external sources of information that can be used for such assumptions.	*We suggest changes to the example* We agree with respondents' suggestion to refer to the future scope of regulations in paragraph 3.5(b) of the example. However, we do not recommend referring to specific external sources of information that can be used for the assumptions because any such reference could become outdated in the future.

Example 4—Disclosure of assumptions: general requirements

Comment	Staff preliminary analysis
1. Comprehensiveness A few respondents said that Example 4 is more comprehensive than Example 3 in explaining judgements and considerations and suggested that this more comprehensive approach could benefit other examples.	*We suggest no changes to the example* We considered comments on whether to expand the applicable judgements and considerations in other examples as part of our analysis of the feedback on those examples.
2. Effects of risks on useful lives A few respondents said the example should illustrate the effects of climate-related transition risks on the useful lives of property, plant and equipment (PP&E). A few users highlighted additional information that could be useful to them in the fact pattern illustrated in the example.	*We suggest no changes to the example* Although we agree that climate-related transition risks could affect the useful lives of PP&E, we think illustrating those effects would require a new example illustrating the requirements in IAS 16. As explained in Agenda Paper 14B, when developing the examples, we considered developing an example illustrating these requirements. However, we concluded that the application of these requirements was straight-forward and that an example would not significantly contribute to improving their application.
3. Reference to carrying amount in paragraph 4.6(d) Paragraph 4.6(d) of the example lists, as a factor the entity considers in applying paragraph 125 of IAS 1, the sensitivity of the CGU's carrying amount to changes in assumptions. A few respondents said	*We suggest no changes to the example* Paragraphs 4.6(a)–(d) of Example 3 list factors that an entity considers in determining whether paragraph 125 of IAS 1 applies. Paragraph 125 of IAS 1 applies when there is a significant risk of material

paragraph 4.6(d) should refer to the sensitivity of the CGU's *recoverable amount* to changes in assumptions, instead of referring to the CGU's *carrying amount*.	adjustment to the *carrying amount* of assets and liabilities within the next financial year. Therefore, in our view, paragraph 4.6(d) of the example correctly refers to the sensitivity of the CGU's carrying amount to changes in assumptions, even though changes in assumptions only affect that carrying amount if they lower the CGU's recoverable amount below its carrying amount.
4. Use of scenarios and related disclosures A few respondents noted that paragraph 4.3 of the example states that the entity 'considers various scenarios' in determining the CGU's recoverable amount. These respondents said the example could illustrate the disclosures an entity makes about the different scenarios it considers, such as the weightings attributed to each scenario and related sensitivities.	*We suggest changes to the example* We recommend not illustrating the information an entity might disclose about its use of various scenarios in determining the CGU's recoverable amount. The example emphasises that an entity should consider the objective in paragraph 129 of IAS 1 in determining which information to disclose, rather than illustrating possible disclosures an entity might make. To avoid confusion, we suggest removing the reference to the use of 'various scenarios' in the example. As discussed in Agenda Paper 14B, we do not recommend including illustrative disclosures in the examples.

Appendix B—Comments on other aspects of Example 5

B1. This appendix includes a summary of comments on Example 5 beyond those addressed in the main body of the paper and our analysis of these comments. We grouped these comments into the following categories:

(a) the effects of announced regulations (paragraphs B3–B4);

(b) applying paragraph 31 of IAS 1 (paragraphs B5–B9);

(c) the need for additional clarifications (paragraphs B10–B12);

(d) connectivity-related comments (paragraphs B13–B16); and

(e) other comments (paragraphs B17–B20).

B2. Paragraphs 67–73 explain our recommendation not to proceed with Example 5. However, this appendix includes suggested changes to the example if the IASB disagrees with that recommendation.

The effects of announced regulations

Summary of feedback

B3. Some respondents said that legislative and regulatory frameworks differ significantly across jurisdictions. They said that referring to the 'announcement' of regulation is problematic because announced regulations are not always enacted or may change substantially before they are enacted. Therefore, it may be premature to require disclosure in financial statements at that stage. These respondents said the example might unintentionally result in the expectation that entities should disclose the effects of various future regulations. To address this issue, some of these respondents suggested:

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

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

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

Staff's preliminary analysis

B4. We continue to think that an entity might have to make assumptions about announced regulations such as those illustrated in the example in recognition and measurement decisions, and that information about such assumptions might be material. However, should the IASB decide to proceed with the example, we would recommend clarifying that the entity expects the regulation to be enacted, and that the uncertainty relates only to when the regulation would become effective.

Applying paragraph 31 of IAS 1

Summary of feedback

B5. Similar to comments on Example 1–2, some respondents expressed concerns about how the example illustrates the application of paragraph 31 of IAS 1, saying it might go beyond the requirements in that paragraph or how these requirements are currently applied in practice (see Agenda Paper 14D).

B6. A few respondents suggested the example needs to explain better why the information would be material to users and how entities should assess materiality in such circumstances. Some of these respondents expressed concerns that the example could be setting too low a threshold for additional disclosure applying paragraph 31 of IAS 1.

B7. Some respondents also noted that well-informed users would generally understand the regulatory process in relevant jurisdictions, suggesting the entity would not need to disclose information about the effects of future regulation.

Staff's preliminary analysis

B8. Agenda Paper 14D includes our analysis and recommended changes to Examples 1–2 to address concerns about how these examples illustrate the application of paragraph 31 of IAS 1. Should the IASB decide to proceed with the example, it could make changes to adapt the analysis in the example to reflect the changes it decides to make to Examples 1–2.

B9. We note that Example 5 illustrates a situation in which an entity would disclose information about the assumptions it makes about the effective date of announced regulations and information about the effects of those assumptions on the carrying amount of the entity's deferred tax assets. The example does not illustrate the disclosure of information about the announced regulations themselves. Therefore, in our view, the fact that well-informed users would understand the regulatory process in relevant jurisdictions is not relevant to the analysis and conclusions illustrated in the example.

Additional clarity needed

Summary of feedback

B10. Some respondents suggested clarifications to the example for it to be more useful. These suggestions include:

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

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

B11. Some respondents said the example's focus on deferred tax assets is too narrow, given the broader implications of the described scenario. These respondents said a regulation restricting an entity's ability to operate would likely have wide-ranging implications beyond tax considerations, such as potential effects on asset impairment and going concern assessments. Some of these respondents suggested the example should illustrate how entities should consider and disclose these broader business implications or clarify that the example considers only the effects on the entity's deferred tax assets.

Staff's preliminary analysis

B12. We agree with respondents that the situation described in the fact pattern of Example 5 could have broader implications beyond the recoverability of deferred tax assets. However, the objective of the example is not to illustrate all the implications of that situation or the application of other requirements in IFRS Accounting Standards, such as the requirements related to preparing financial statements on a going concern basis. As mentioned in paragraphs 67, the objective of the example is to illustrate 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 disclosures. The example achieves that objective by illustrating the disclosure of information about assumptions an entity makes in assessing whether to recognise deferred tax assets. Like any other illustrative example, the entity would also consider the application of other requirements beyond those illustrated in the example. In our view, it is unnecessary for examples to include a statement that they do not illustrate the application of other requirements in IFRS Accounting Standards, because this statement applies to any illustrative example.

Connectivity-related comments

Summary of feedback

B13. A few respondents suggested clarifying that, similar to Example 1, the entity in Example 5 discloses information in the financial statements because of information about the announced regulation it disclosed in general purpose financial reports outside financial statements.

B14. A few other respondents said that, in their view, the disclosures illustrated in the example belong in other general purpose financial reports outside the financial statements rather than in financial statements.

Staff's preliminary analysis

B15. In our view, the entity in Example 5 would disclose the information illustrated in the example irrespective of whether it discloses information about the announced regulations in general purpose financial reports outside the financial statements. Therefore, we think it is unnecessary for Example 5 to refer to the information an entity discloses outside the financial statements.

B16. Paragraph 9 of IAS 1 states that the objective of financial statements is 'to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions'. Example 5 illustrates the disclosure of information about assumptions related to announced regulations and the effects of these assumptions on deferred tax assets because this information is necessary to allow users to understand the effects of the announced regulation on the entity's financial position and financial performance. Therefore, we think this information belongs in the financial statements.

Other comments

Summary of feedback

B17. A few respondents commented on the technical analysis included in the example. In particular:

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

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

B18. A few respondents also suggested the example could be more helpful if it included other scenarios illustrating how the entity's assessment and disclosures might evolve as the regulatory process progresses.

Staff's preliminary analysis

B19. In our view, an entity could have unused tax losses without a history of recent losses because the unused tax losses might not have originated in recent periods.

Furthermore, the tax law in some jurisdictions specifies a limited period during which an entity is allowed to offset unused taxable losses against tax profits, as well as limits to how much unused tax losses can be offset in a given period. Such limitations might not exist for other deductible temporary differences, and therefore an entity might have to consider these limitations in determining whether to recognise a deferred tax loss specifically for unused tax losses.

B20. However, should the IASB decide to proceed with the example, we would recommend:

(a) considering changing the fact pattern to refer to deductible temporary differences in general or enhance its explanations about why the entity might be unable to recognise unused tax losses in particular.

(b) not including other scenarios illustrating how the entity's assessment and disclosures might evolve as the regulatory process progresses. We think this would make the example unnecessarily complex.