Staff paper

Agenda reference: 3B

ISSB meeting

Date	**November 2022**
Project	**General Sustainability-related Disclosures**
Topic	**Comparative information and updated estimates**
Contacts	**Tim Kasim** (tkasim@ifrs.org) **Lois Guthrie** (lguthrie@ifrs.org) **Sundip Jadeja** (sjadeja@ifrs.org)

Objective

1. This paper presents the staff analysis and recommendations on the proposed requirement to disclose comparative information that reflects updated estimates in the Exposure Draft IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ([draft] S1).

2. The scope of this paper is on the proposed requirements set out in paragraphs 63–65 of [draft] S1, particularly on the requirement set out in paragraph 64 of [draft] S1 which requires an entity to 'disclose comparative information that reflects updated estimates.'

3. This paper also discusses other aspects of [draft] S1 which requires the disclosure of and revision to comparative information other than for reflecting updated estimates (discussed in paragraphs 12–19). Although not directly linked to the scope of this paper as described in paragraph 2, these requirements are discussed to clarify and distinguish the different requirements which relate to the disclosure of and revision to comparative information.

4. The purpose of this paper is to:

    (a) discuss staff analysis of the public consultation feedback to the proposed requirement;

    (b) discuss staff recommendations for clarifying the proposed requirement;

    (c) discuss other approaches considered; and

    (d) seek decisions from the ISSB on the staff recommendations.

Summary of staff recommendations

5. In summary, the staff recommend that the ISSB:

    (a) amend the proposed requirement set out in paragraph 64 of [draft] S1 to clarify that the requirement to revise comparative information to reflect updated estimates applies to current period estimates that were disclosed in prior periods, and does not apply to estimations of forward-looking information (see paragraph B1 of Appendix B for an illustration of the recommended approach); and

    (b) provide illustrative guidance to help an entity apply the requirement on revising comparative information to reflect updated estimates (see Appendix B for an illustration of possible guidance that could be developed).

6. The staff recommendations are set out in full in paragraphs 40–43.

Structure of the paper

7. This paper is structured as follows:

   (a) Background (paragraphs 8–22);

   (b) Summary of public consultation feedback (paragraphs 23–27);

   (c) Staff analysis (paragraphs 28–39);

   (d) Staff recommendations (paragraphs 40–49);

   (e) Questions for the ISSB (paragraph 50);

   (f) Appendix A–Excerpts from IAS 1 and IAS 8; and

   (g) Appendix B–Illustrative examples.

Background

8. In March 2022, the Chair and Vice-Chair published [draft] S1, which sets out proposed requirements for disclosing sustainability-related financial information to provide users of general purpose financial reporting (users) with a complete set of sustainability-related financial disclosures. [Draft] S1 sets out overarching requirements that apply in conjunction with specific requirements set out in other IFRS Sustainability Disclosure Standards, including those proposed in the Exposure Draft IFRS S2 *Climate-related Disclosures*.

9. [Draft] S1 establishes a basis for consistent and connected disclosure of sustainability-related financial information by proposing that some established practices from financial reporting be applied. In particular, [draft] S1 sets out the 'General features' of sustainability-related financial information which were adapted from the IASB's *Conceptual Framework for Financial* Reporting, IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

10. The proposed requirements in [draft] S1 are, therefore, based on IFRS Accounting Standards while also intended to be applicable across other GAAPs. The reason for doing so was that many of the general reporting principles are equally relevant to the preparation of financial statements and for sustainability-related financial disclosures. A benefit of this is that these principles will be familiar to entities preparing general purpose financial statements, particularly to entities preparing them in accordance with IFRS Accounting Standards. Entities are expected to disclose sustainability-related financial information within general purpose financial reporting alongside financial statements. This approach also enables the information within the general purpose financial reporting to prepared on a consistent basis when appropriate.

11. Overall, most respondents to the public consultation on [draft] S1 agreed with the proposed adaptation of the requirements in IAS 1 and IAS 8, as set out in the 'General features' section of [draft] S1. However, the proposed requirement to disclose comparative information that reflects updated estimates received mixed feedback (see paragraphs 112–114 of Agenda Paper 3A *General Sustainability-related Disclosures—Summary of comments* for the September 2022 ISSB meeting). Given the public consultation feedback, the ISSB confirmed an addition of a topic on comparative information and updated estimates to its plan for redeliberations (see Agenda Paper 3A *Update to the plan for redeliberations* for the October 2022 ISSB meeting).

Summary of the proposed requirements

12. [Draft] S1 sets out the proposed requirements for an entity to disclose comparative information for all metrics disclosed in the current period. Paragraph 63 of [draft] S1 states:

> An entity shall disclose comparative information in respect of the previous period for all metrics disclosed in the current period. When such information would be relevant to an understanding of the current period's sustainability-related financial disclosures, the entity shall also disclose comparative information for narrative and descriptive sustainability-related financial disclosures.

13. The wording used in paragraph 63 of [draft] S1 was adapted from and is consistent with paragraph 38 of IAS 1 (see paragraph A1 of Appendix A).

14. [Draft] S1 requires an entity to revise comparative information for metrics disclosed in the current period in the following instances:

    (a) to reflect a redefined or replace metric or target (paragraph 34 of [draft] S1);

    (b) to correct material prior period errors (paragraphs 84–90 of [draft] S1); and

    (c) to reflect updated estimates (paragraphs 63–65 of [draft] S1).

Redefinition or replacement of a sustainability-related metric or target

15. [Draft] S1 proposes that an entity be required to revise the comparative information for a redefined or replaced metric or target. Paragraph 34 of [draft] S1 states:

> The definition and calculation of metrics, including metrics used to set and monitor targets, shall be consistent over time. If a metric or target is redefined or replaced, an entity shall:
>
> (a) explain the changes;
>
> (b) explain the reasons for those changes, including why any replacement metric provides more useful information; and
>
> (c) provide restated comparative figures, unless it is impracticable to do so.

16. Paragraph BC82 of the Basis for Conclusion on [draft] S1 states that 'the proposal is designed to help provide the best information possible about trends to users of general purpose financial reporting'.

Correction of errors

17. Paragraph 84 of [draft] S1 proposes that an entity be required to 'correct material prior period errors by restating the comparative amounts for the prior period(s) disclosed unless it is impracticable to do so'.

18. The wording used in paragraph 84 of [draft] S1 to describe the requirement to restate prior period errors and the impracticability exemption ('unless it is impracticable to do so') was adapted from and is consistent with paragraphs 42–43 of IAS 1 (see paragraph A3 of Appendix A).

19. Additionally, paragraph 89 of [draft] S1 distinguishes errors from changes in estimates. It states: 'Corrections of errors are distinguished from changes in estimates. Estimates are approximations that an entity may need to revise as additional information becomes known.'

Updated estimates

20. [Draft] S1 proposes that an entity be required to disclose comparative information that reflects updated estimates. Paragraph 64 of [draft] S1 states:

> When providing sustainability-related financial disclosures an entity shall disclose comparative information that reflects updated estimates. When the entity reports comparative information that differs from the information reported in the previous period it shall disclose:
>
> (a) the difference between the amount reported in the previous period and the revised comparative amount; and
>
> (b) the reasons the amounts have been revised.

21. Additionally, paragraph 65 of [draft] S1 explains the exception when disclosing comparative information that reflects updated estimates may be 'impracticable'. This is consistent with the impracticability exemption proposed in the requirement for the correction of errors (see paragraphs 17–18).

22. The Basis for Conclusions on [draft] S1 notes that the proposed requirement to address changes in estimates (paragraph 64 of [draft] S1) is different to how changes in estimates are addressed in financial statements (which is addressed by IAS 8—see paragraph A2 of Appendix A). Paragraph BC83 of the Basis for Conclusions on [draft] S1 explains the reason for the difference:

> This requirement contrasts with how changes in estimates in financial statements are addressed. Normally, changes in estimates are recognised prospectively—that is, in the period of the change. Prospective recognition means the comparatives are not changed and the change in estimate is reflected in current period profit or loss. One of the main differences that led to requiring comparatives to be changed for sustainability-related financial information is that the metrics are not part of a double-entry model that affects reported equity. The nature of some sustainability-related metrics will require significant estimation. It was considered more useful to reflect changes in estimates that relate to prior periods through comparatives, rather than knowingly misstating the current period information.

Summary of public consultation feedback

23. Most respondents to the public consultation on [draft] S1 were supportive of the principle of providing comparative information (see paragraphs 112–114 of Agenda Paper 3A *General Sustainability-related Disclosures—Summary of comments* for the September 2022 ISSB meeting).

24. However, mixed feedback was received on the proposals that an entity be required to disclose comparative information that reflects updated estimates (paragraphs 64 of [draft] S1).

25. Most users of general purpose financial reporting who provided comments supported the proposal to require entities to disclose comparative information that reflects updated estimates. The comments include the importance of:

    (a) updated comparative information to users' understanding of the trend of an entity's performance, including progress towards the targets it has set;

    (b) revising comparative information to reflect updated estimates given that entities' measurement systems are expected to improve in accuracy over time; and

    (c) disclosing the reasons for updating estimates to enable users to understand management's view of how sustainability-related risks and opportunities are measured, monitored and managed.

26. However, many other respondents, including preparers, audit firms, and accounting standard-setters, have raised concerns about the proposed requirement. Their comments include:

    (a) inconsistency with the way in which IAS 8 addresses changes in estimates and the consequential implications for connecting sustainability-related financial information with the financial statements;

(b) the costs and complexity associated with updating estimates may outweigh the benefits in some situations and the challenges posed to the assurance process;

(c) questions about the meaning of the term 'impracticable' in the context of a requirement on comparative information specifically and sustainability-related financial disclosures more generally; and

(d) questions about whether and how to distinguish the requirements on revising comparative information to reflect updated estimates and correction of errors respectively.

27. The concerns raised in the public consultation did not relate to the revision of comparative information required when an entity redefines or replaces a sustainability-related metric or target (see paragraphs 15–16) or corrects prior period errors (see paragraphs 17–19). Therefore, this paper focuses only on the requirement on revising comparative information to reflect updated estimates (see paragraphs 20–22).

Staff analysis

28. The intent of the requirement in paragraph 64 of [draft] S1, which requires an entity to disclose comparative information that reflects updated estimates, is to enable users of general purpose of financial reporting to understand the trend of an entity's performance including progress towards the targets it has set. This includes users' understanding of: prior period amount, year-on-year change, and overall progress against disclosed targets. The public consultation feedback confirms the importance of revising comparative information to reflect updated estimates to users (see paragraph 25).

29. The staff acknowledge that the calculation of sustainability-related metrics often involve significant estimation uncertainty. In the staff's view, faithful representation of current period events and trends over time is facilitated and enhanced by providing revised comparative information that reflects updated estimates.

30. The staff acknowledge the respondents' concerns about the costs and complexity associated with revising comparative information to reflect updated estimates. However, the comments did not reveal whether respondents had appreciated that costs and complexity are limited because:

(a) the requirement set out in paragraph 64 of [draft] S1 applies to estimates used in calculating sustainability-related metrics, and does not apply to narrative or descriptive disclosures;

(b) as with all aspects of [draft] S1, the requirement set out in paragraph 64 of [draft S1] would apply only when material, that is when revising comparative information to reflect updated estimates could reasonably be expected to influence primary users' decision-making;

(c) an entity is not required to revise comparative information to reflect updated estimates if it is impracticable to do so (paragraphs 64–65 of [draft] S1);

(d) an entity should be aware of which metrics are subject to high degrees of estimation uncertainty as it is a requirement in paragraph 79 of [draft] S1 to disclose the sources and nature of that estimation uncertainty; and

(e) an entity is only required to revise the comparative information for a sustainability-related metric where there has been a change made to an estimate, for example if there is a change in the approach to measurement. Entities should be aware of where they have made these changes.

31. Paragraph 64 of [draft] S1 is seemingly the cause of the concerns about the proposed requirement being burdensome, specifically the requirement that 'When providing sustainability-related financial

disclosures **an entity shall disclose comparative information that reflects updated estimates**.' The staff expect updated estimates to be derived from information used by an entity in measuring, monitoring and managing sustainability-related risks and opportunities. Although the requirement was not intended to require entities to review and revise all of their previously reported estimates, it seems to have been interpreted as such by some respondents, and so the staff suggest greater clarity needs to be provided.

Distinguishing different types of estimates

32. To clarify paragraph 64 of [draft] S1, the staff think that it would be helpful to distinguish the different types of estimates and consider whether updating them would result in useful information for users' trend analysis.

33. The staff suggest that revising comparative information to reflect updated information about estimations of current period amounts that were reported in a prior period ('historic estimates') would result in useful information for users' trend analysis. In contrast, the staff suggest that it would be undesirable to revise comparative information to reflect updated information about estimations of forward-looking information ('forward-looking estimates'), for example anticipated amounts. Paragraph B1 of Appendix B provides some examples of historic and forward-looking estimates.

34. Revising comparative information to reflect updated information about historic estimates would allow users to compare current period amounts and those reported in prior period, based on a consistent basis of estimation, thereby meeting users' needs for trend analysis. An entity may update the approach to estimating historic estimates due to:

    (a) changes in calculation methodology;

    (b) changes in inputs used; or

    (c) availability of new data sources.

35. The staff believe that it would be useful for an entity to provide updated information about forward-looking estimates in the current period, rather than reflecting it in the comparative information. Explaining the difference of forward-looking estimates used in the current period with those reported in prior period would result in useful information about how the entity's expectation had changed. It would be undesirable to reflect updated information about forward-looking estimates by revising the comparative information because it would result in:

    (a) preventing users from comparing forward-looking estimates reported in prior period with the resulting outcome of those estimates which may have become available in the current period;

    (b) introducing hindsight bias in the comparative information for a sustainability-related metric;

    (c) reflecting new circumstances which did not exist in the prior reporting period; and

    (d) creating unduly complex disclosures given that forward-looking estimates are often subject to significant estimation uncertainty.

36. While the focus of paragraph 64 of [draft] S1 is on revising comparative information to reflect updates to estimates, the staff note that paragraph 79 of [draft] S1 also requires an entity to 'identify metrics it has disclosed that have significant estimation uncertainty, disclosing the sources and nature of the estimation uncertainties and the factors affecting the uncertainties'. Apart from revising the comparative information to reflect updated estimates and disclosing the reasons for the revision, the staff acknowledge that some users said that disclosures about the basis for preparation (for example assumptions and methodologies) used in estimating sustainability-related metrics would also be useful.

Connectivity with the financial statements

37. Some respondents expressed concerns about the implication of applying the proposed requirement on the connectivity with the financial statements. For example, one respondent said that there may be a mismatch if a change in estimate is adjusted prospectively for the financial statements but retrospectively for sustainability-related financial disclosures. The staff note that paragraph 64(a) of [draft] S1 would require the disclosures of the differences caused by the revision (see paragraph 20) which would enable users to reconcile the amount.

38. The staff also note that paragraph 64(b) of [draft] S1 would require an entity to explain the reasons for revising the comparative information. For example, an entity might have reported Scope 3 greenhouse gas (GHG) emissions for the period. If the entity changes the way in which it estimates its Scope 3 (GHG) emissions and using that new approach to estimation the emissions reported in the prior period would have been different, paragraph 64(b) of [draft] S1 would require the entity to explain this.

39. Additionally, the staff note that there could be legitimate grounds for the assumptions and basis of preparation to differ across sustainability-related financial disclosures and financial statements respectively. [Draft] S1 requires that when assumptions are aligned *to the extent possible* rather than mandating consistency. This topic is discussed in more detail in Agenda Paper 3A and Agenda Paper 4B *Current and anticipated financial effects and connected information* for the November 2022 ISSB meeting.

Staff recommendations

40. Based on our analysis (see paragraphs 28–39), the staff recommend that the ISSB amend the proposed requirement set out in paragraph 64 of [draft] S1 to clarify that the requirement to revise comparative information to reflect updated estimates applies to current period estimates that were disclosed in prior periods, and does not apply to forward-looking estimates. Paragraph B1 of Appendix B provides examples for distinguishing these situations and discusses the application of the recommended approach.

41. The staff further recommend that the ISSB provide illustrative guidance to help an entity apply the proposed requirement such as:

    (a) examples of the situations when revising comparative information to reflect updated estimates would be required (see paragraph B1 of Appendix B);

    (b) examples and explanations of the approach to presenting revised comparative information to reflect updated estimates (see paragraph B2–B9 Appendix B); and

    (c) explanations to distinguish the requirement on revising comparative information to reflect updated estimates from other requirements to revise comparative information described in paragraphs 12–22.

42. Appendix B provides illustrations of the recommended guidance. However, these are indicative examples and we expect that these examples would be further developed subject to the ISSB's decision. We do not ask the ISSB to vote on the examples provided, which are intended to provide an illustration of possible guidance that could be developed.

43. The staff recommendations are intended to narrow the scope of the proposed requirement to focus it on the type of information that is most useful to users of general purpose financial reporting without creating undue burden to preparers.

Other approaches considered

44. The staff also considered the following approaches but do not recommend them to the ISSB:

    (a) confirming paragraph 64 of [draft] S1 without any modification;

    (b) amending paragraph 64 of [draft] S1 to require prospective revision to reflect updated estimates; and

    (c) removing paragraph 64 of [draft] S1 and requiring only qualitative disclosures.

Confirming paragraph 64 of [draft] S1 without any modification

45. The staff considered but rejected the alternative of confirming paragraph 64 of [draft] S1 without any modification. The consultation feedback shows that most users of general purpose financial reporting agreed with the proposed requirement and confirmed the importance of having updated information for trend analysis. However, proceeding with the proposed requirement would require significant additional costs of preparing information and put significant pressure on the determination of when updating is required. Additionally, it may also result in unduly complex disclosures which decrease the understandability of sustainability-related financial information.

Prospective revision to reflect updated estimates

46. The staff considered but rejected the alternative of prospective revisions to reflect updated estimates. This approach was suggested by some respondents because it is more aligned with IAS 8. The application of a prospective approach in accordance with IAS 8 would result in an entity knowingly misstating the amount of the current period metric, while also providing an outdated view prior period comparative. Paragraphs B2–B5 of Appendix B provides examples to illustrate why this approach is not recommended.

47. The staff acknowledge that the approach proposed in [draft] S1 is different from what is required by IAS 8 (see paragraph A2 of Appendix A). However, the staff suggest the approach proposed in [draft] S1 is appropriate for presenting updated information about historic estimates. The staff believe that the proposed approach appropriately balances preparers' concerns with users' information needs without creating conflicts with financial reporting requirements. The proposed requirement would respond to users' needs for trend analysis. Additionally, focusing on specific types of estimates would respond to preparers' concerns.

Removing the proposed requirement and requiring only qualitative disclosures

48. The staff further considered but rejected the alternative of removing the proposed requirements on revising the comparative information to reflect updated estimates while retaining the requirement on disclosing the reasons for changes in estimates (paragraph 64(b) of [draft] S1).

49. This approach was suggested by a few respondents in response to the concerns around the costs and complexity associated with providing updated estimates. The application of this alternative approach would have avoided including adjustments of prior period data in the current period information, but it would have resulted in the omission of material information. Paragraphs B2–B5 of Appendix B provides examples to illustrate why this approach is not recommended.

Questions for the ISSB

50. The staff present the following questions for the ISSB.

Questions for the ISSB
1. Does the ISSB have any questions or comments about the matters discussed in this paper?
2. Does the ISSB agree with the staff recommendations to amend the proposed requirement and provide guidance to help an entity apply the proposed requirement, as described in paragraphs 40–43?

Appendix A—Excerpts from in IAS 1 and IAS 8

Excerpt from IAS 1 *Presentation of Financial Statements*

A1. IAS 1 sets out the requirement for an entity to provide comparative information for the current period's financial statements. Paragraph 38 of IAS 1 states:

> 38. Except when IFRSs permit or require otherwise, an entity shall present comparative information in respect of the preceding period for all amounts reported in the current period's financial statements. An entity shall include comparative information for narrative and descriptive information if it is relevant to understanding the current period's financial statements.
>
> 38A. An entity shall present, as a minimum, two statements of financial position, two statements of profit or loss and other comprehensive income, two separate statements of profit or loss (if presented), two statements of cash flows and two statements of changes in equity, and related notes.
>
> 38B. In some cases, narrative information provided in the financial statements for the preceding period(s) continues to be relevant in the current period. For example, an entity discloses in the current period details of a legal dispute, the outcome of which was uncertain at the end of the preceding period and is yet to be resolved. Users may benefit from the disclosure of information that the uncertainty existed at the end of the preceding period and from the disclosure of information about the steps that have been taken during the period to resolve the uncertainty.

Excerpt from IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*

A2. IAS 8 sets out the requirement for an entity to recognise the effect of a change in an accounting estimate in the financial statements. Paragraphs 37–38 of IAS 8 states:

> 36. The effect of a change in an accounting estimate, other than a change to which paragraph 37 applies, shall be recognised prospectively by including it in profit or loss in:
>
> (a) the period of the change, if the change affects that period only; or
> (b) the period of the change and future periods, if the change affects both.
>
> 37. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, or relates to an item of equity, it shall be recognised by adjusting the carrying amount of the related asset, liability or equity item in the period of the change.
>
> 38. Prospective recognition of the effect of a change in an accounting estimate means that the change is applied to transactions, other events and conditions from the date of that change. A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. For example, a change in a loss allowance for expected credit losses affects only the current period's profit or loss and therefore is recognised in the current period. However, a change in the estimated useful life of, or the expected pattern of consumption of the future economic benefits embodied in, a depreciable asset affects depreciation expense for the current period and for each future period during the asset's remaining useful life. In both cases, the effect of the change relating to the current period is recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

A3. IAS 8 sets out the requirement for an entity to correct prior period errors in the financial statements. Paragraphs 42–43 of IAS 8 states:

> 42. Subject to paragraph 43, an entity shall correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery by:
>
> (a) restating the comparative amounts for the prior period(s) presented in which the error occurred; or
> (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.
>
> 43. A prior period error shall be corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

Appendix B—Illustrative examples

Distinguishing historic estimates from forward-looking estimates

B1. Table 1 provides illustrative examples of current period estimates that were disclosed in prior periods ('historic estimates') and estimations of forward-looking information ('forward-looking estimates') and explains how the recommended approach would apply for each example. For the purpose of illustration, *it is assumed that the effect of changes in estimates is assessed to be material*.

Examples	**Recommended approach**	**Rationale**
Example 1—Historic estimates (data availability) An entity uses value chain data in calculating a sustainability-related metric. The entity obtains the data from 60 out of 100 of its supply chain partners at the end of 20X1. In calculating the metric, the entity extrapolates the available data. In 2022, some of the unavailable data becomes available.	Revise comparative information, unless doing so is impracticable.	Revising the comparative information to reflect the best available data in historic estimates results in the most useful information for users' trend analysis.
Example 2—Historic estimates (calculation methodology) An entity uses industry averages as inputs in calculating a sustainability-related metric in 20X1. The entity decides to update its calculation methodology in 20X2 to improve its estimation accuracy in calculating the metric.	Revise comparative information, unless doing so is impracticable.	Revising the comparative information to reflect the revised calculation methodology in historic estimates results in the most useful information for users' trend analysis.
Example 3—Forward-looking estimates (changes in existing circumstances) In 20X1, an entity expects to spend CU100,000 to purchase new equipment in 20X2 to adapt to a sustainability-related risk. In 20X2, the price of the equipment increases and the entity spends CU125,000.	No revision to comparative information.	Not revising the prior year estimate to reflect the transactions and events of the reporting year avoids introducing a hindsight bias.

Table 1–Illustration of the application of the recommended approach for changes in historic and forward-looking estimates

Examples	Recommended approach	Rationale
Example 4—Forward-looking estimates (new circumstances) In 20X1, an entity expects to spend CU150,000 over the period of 20X2–20X5 to adapt to water-related risks. In 20X2, the entity becomes aware that a new water-related regulation will be implemented in 20X3. As a result, the entity revises its expected expenditure to adapt to the water-related risks to CU180,000 over the period of 20X3–20X6.	No revision to comparative information. In current period, information provided for 20X3-20X6 reflects revisions.	Not revising the comparative information to reflect changes in forward-looking estimates avoids reflecting in the prior year a new circumstance which did not exist then.
Example 5—Forward-looking estimates (complexity) In 20X1, an entity estimates the amount of potential revenues arising from a sustainability-related opportunity to be CU500,000 per annum for the next five years (20X2–20X6). In 20X2, the entity changes the assumptions used for estimating the amount of the potential revenues. Using the new assumptions, the entity revises its estimates of the amount of the potential revenues to CU575,000 per annum for 20X3–20X6.	No revision to comparative information. In current period, information for 20X3-20X6 reflects new approach to estimation.	Not revising the comparative information to reflect changes in forward-looking estimates avoids the complexity associated with the uncertainty of estimating forward-looking information.

Table 1–Illustration of the application of the recommended approach for changes in historic and forward-looking estimates (continued)

Comparison of the different approaches for reflecting changes in estimates for sustainability-related metrics and for the financial statements

Example 6—Revising comparative information for sustainability-related metrics to reflect updated estimates

B2. An entity uses industry-average data to estimate Scope 3 greenhouse gas (GHG) emissions for business travel due to unavailability of activity-specific data from its transportation supplier (see Table 2). The entity estimates the amount for Year 1 to be 24,000 metric tonnes CO2e. Subsequently, the entity obtains the activity-specific data from its supplier and it shows that the Scope 3 GHG emissions for Year 1 was 26,500 metric tonnes CO2e measured with activity-specific data—greater than the previous estimates by 2,500 metric tonnes CO2e.

B3. At the end of Year 2, the entity calculates its Scope 3 GHG emissions for business travel using activity-specific data and it identifies the amount to be 22,000 metric tonnes CO2e for Year 2 (see Table 2). The entity considers the Year 1 figure measured on a different basis and the figure disclosed in the prior period and the entity determines that it is necessary to revise the comparative information. It is assumed for the purposes of illustration that this is assessed to be material.

	Year 1 (previously disclosed)	Adjustment	Year 1 (updated comparative)	Year 2
Scope 3 GHG emissions	24,000	2,500	26,500	22,000

Table 2–Comparative information that reflects updated estimates

B4. The application of alternative approaches considered in paragraphs 46–49 are illustrated in Table 3.

	Disclosures provided in Year 2	Year 1 (comparative)	Year 2 (current period)
1	[Draft] S1–Updated comparative information	26,500	22,000
2	Prospective adjustment to current period (see paragraphs 46–47)	24,000	24,500
3	No adjustment to comparative information or current period (see paragraphs 48–49)	24,000	22,000

Table 3–Comparison of different approaches considered (sustainability-related metrics)

B5. Table 3 demonstrates that:

(a) The first approach—proposed in [draft] S1—results in an updated view of the cumulative amount, prior period amount and trend of the metric. By using a consistent approach to measure the GHG emissions in the current and comparative period, the actual pattern of change in GHG emissions is reflected (ie the item being measured decreased using a consistent measurement basis).

(b) The second approach applies the approach required in IAS 8 by which the difference between the previously disclosed and updated amounts (2,500) is reflected prospectively in Year 2 figure (22,000+2,500 = 24,500). The second approach results in the same cumulative amount as the first approach, but results in an increase in GHG emissions in the trend analysis whereas using a consistent approach to estimation GHG emissions in fact reduced. This approach also results in a knowingly misstated amount being disclosed in Year 2.

(c) The third approach requires no adjustment to the comparative information nor the current period. The amounts disclosed simply reflect amounts based on the estimation approach used in the respective reporting periods. The third approach results in the cumulative amount, prior period amount, and trend analysis being affected by an inconsistent basis of estimation. While the amounts disclosed in the comparative and current periods reflect GHG emissions based on the estimation approach at the time they were originally disclosed (and are thus not knowingly misstated), the application of this approach would have resulted in the omission of material information.

Example 7—Prospective approach to reporting changes in estimates in financial statements

B6. An entity recognises a provision for the settlement of a lawsuit in Year 1. The entity estimates the amount that will be incurred for settling the lawsuit to be CU35,000. The entity discovers new information which changes its expectations about the outcome of the lawsuit in Year 2. As a result, the entity revises its estimate of the amount for settling the lawsuit to CU45,000.

B7. Table 4 illustrates the application of the prospective approach to reporting changes in estimates applying IFRS Accounting Standards and a <u>hypothetical</u> approach in which the change in estimates is reflected by revising the comparative information.

	Disclosures provided in Year 2	**Year 1 (comparative)**	**Year 2 (current period)**
1	Prospective adjustment to current period		
	Provision at the end of the year	35,000	45,000
	Expense recognised in profit or loss for the year	(35,000)	(10,000)
2	Revised comparative information – <u>hypothetical, only for illustrative purpose (not allowed by IFRS Accounting Standards for changes in estimates)</u>		
	Provision at the end of the year	45,000	45,000
	Expense recognised in profit or loss for the year	(45,000)	-

Table 4–Illustration of approaches for reporting changes in estimates

B8. Table 4 demonstrates that applying the prospective approach required by IFRS Accounting Standards, the effects of the change in the estimate are correctly recognised in the period in which the change in the estimate occurs (Year 2) for both the carrying amount of the provision in the statement of financial position and the effect on the statement of profit or loss.

B9. In contrast, Table 4 also shows that applying the hypothetical approach to reflect changes in estimates by revising the comparative information would result in increasing the comparative carrying amount of the provision in the statement of financial position by CU10,000 to CU45,000 instead of recognising an expense in Year 2. This is inappropriate because the information that results in changes in estimates only becomes available in Year 2. The application of this approach would also require an adjustment to the opening balance of the entity's equity at the beginning of Year 2 reported in the statement of changes in equity.