
Capital Markets Advisory Committee meeting

Date	19 October 2023
Project	Climate-related and Other Uncertainties in the Financial Statements
Topic	Project direction
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Purpose of this session

- To provide an update on the project.
- To seek feedback about:
 - the direction of the project.
 - whether and how disclosures about assumptions, judgements and estimates could be improved.

Information for CMAC members

Project background

Origin of the project	5
Purpose and focus of the project	6

Understanding concerns

Summary of work to understand concerns	8
Summary of findings	9

Next steps

September 2023 IASB meeting	11
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Questions to CMAC members

	13
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Project background



Origin of the project



- Stakeholders, especially users of financial statements, are increasingly interested in the effects of climate-related risks on the financial statements
- Questions about why IFRS Accounting Standards do not explicitly refer to climate-related risks
- Concerns about possible inconsistencies between information reported in the financial statements and elsewhere and insufficient information about the effects of climate-related risks in financial statements



- Educational material published to explain how Accounting Standards already require entities to consider the effects of climate-related risks in the financial statements
 - November 2020 (republished July 2023) educational material on the [Effects of climate-related matters on financial statements](#)
 - November 2019 article [IFRS Standards and climate-related disclosures](#)

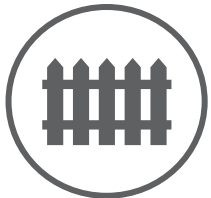


- Nonetheless, in the Third Agenda Consultation, respondents attributed high-priority to a project on climate-related risks in the financial statements
- IASB started a maintenance project in March 2023

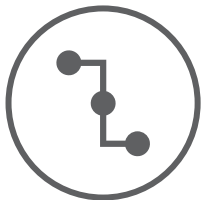
Purpose and focus of the project



- **Explore whether and, if so, how targeted actions could improve the reporting of financial information about the effects of climate-related and other uncertainties.**



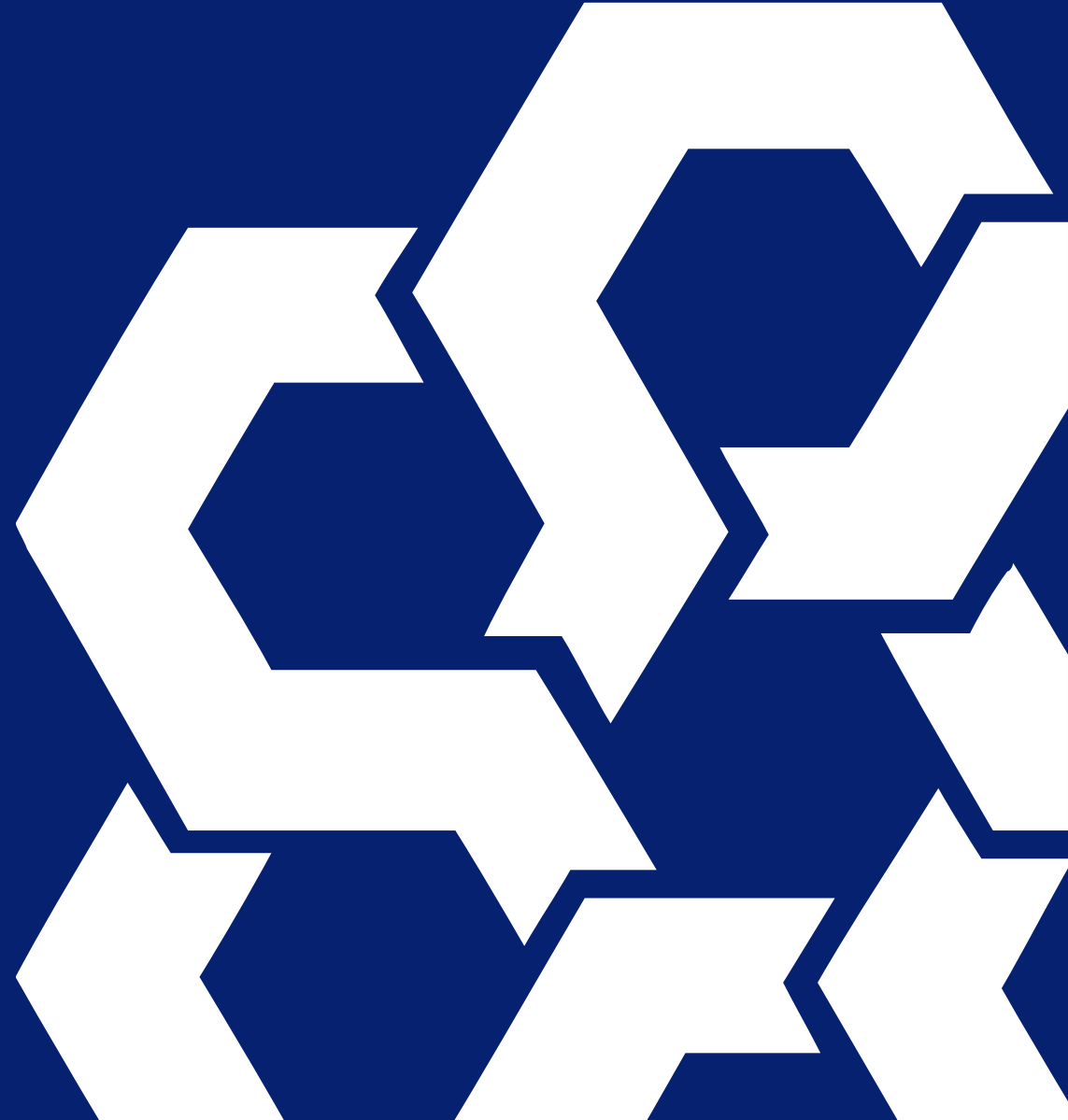
- This project will not seek to:
 - develop an Accounting Standard on climate-related risks, or extensive application guidance on how to consider the effects of such risks when applying Accounting Standards;
 - broaden the objective of financial statements or change the definitions of assets and liabilities; or
 - develop accounting requirements for pollutant pricing mechanisms (eg, carbon credit markets).¹



- The IASB is supported by ISSB technical staff, providing technical input and ensuring the work of both boards is connected.

¹ *Pollutant Pricing Mechanisms* is on a reserve list of projects that may be added to the IASB's work plan if stakeholders and the IASB have sufficient capacity.

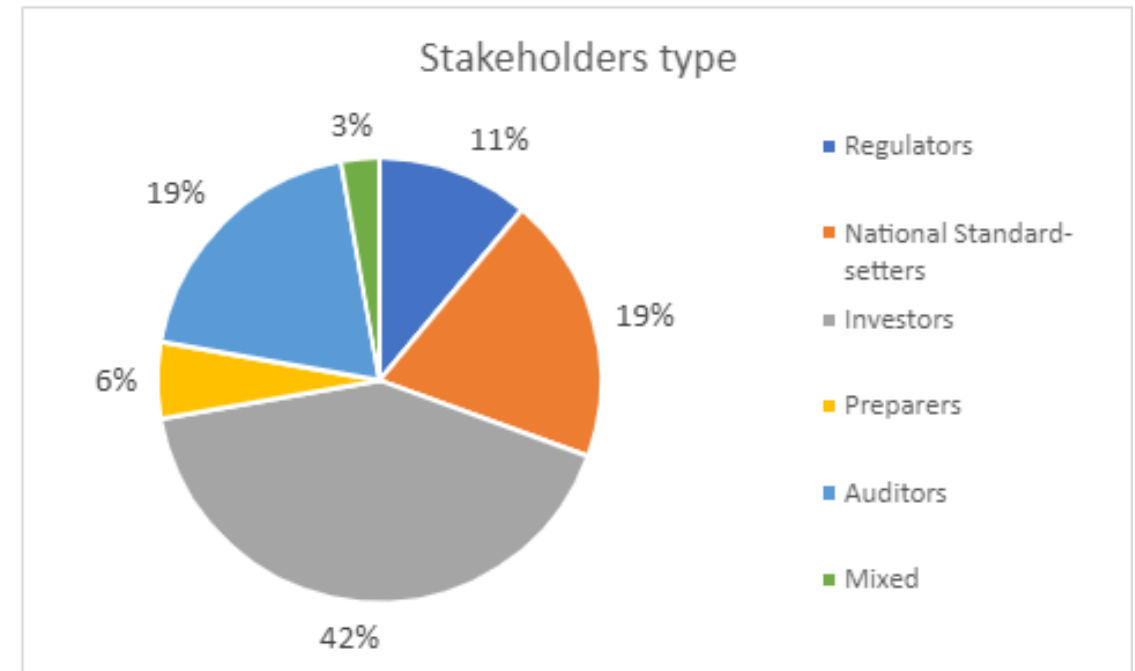
Understanding concerns



Summary of work to understand concerns

- Outreach with the IASB's consultative bodies and other stakeholders.
- Reviewed academic research and other publications on the effects of climate-related risks in the financial statements.
- Reviewed IFRS Accounting Standards to identify potential gaps, unclear requirements or limitations that may impede reporting on the effects of climate-related risks in the financial statements.

Outreach by type of stakeholder



Summary of findings

Concerns about

Insufficient information about the effects of climate-related risks in the financial statements.

For example, insufficient information about estimates, assumptions, judgments (for example, related to impairment of assets).

Inconsistencies in the information about climate-related risks reported in the financial statements and information reported elsewhere.

IFRS Accounting Standards are generally sufficient

In many cases, investor information needs go beyond the objective of financial statements.

Some information needs may be satisfied by sustainability-related financial disclosures, such as:

- Sustainability risks and opportunities
- Anticipated financial effects of sustainability risks and opportunities (for example, future capital expenditure)
- Strategy to respond to sustainability risks and opportunities, progress and trade-offs

Many stakeholders noted that IFRS Accounting Standards already require consideration of the effects of climate-related and other risks.

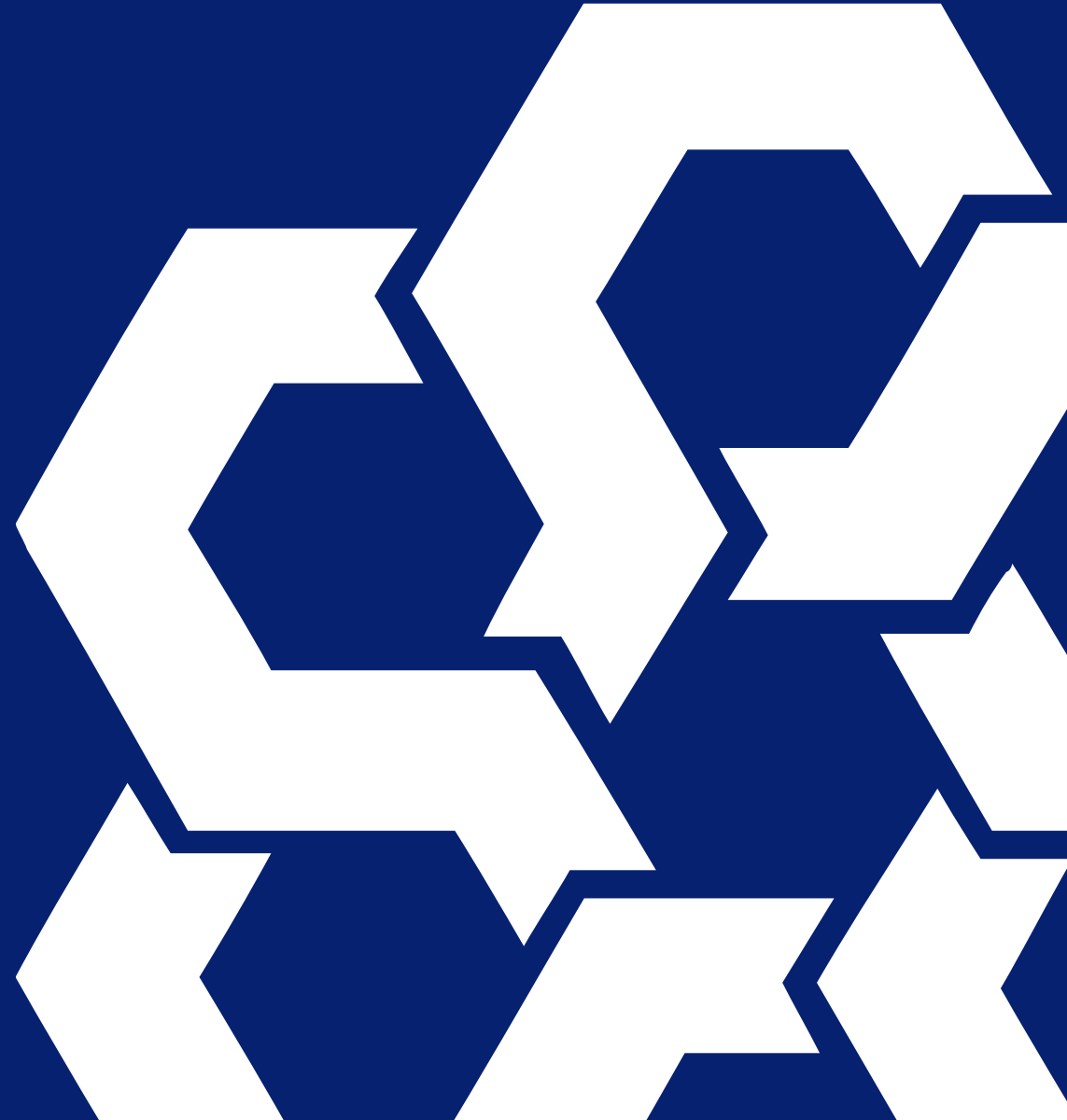
However, targeted actions might be necessary.

Evolving area

Evidence of some improvements in the quality of reporting over recent years.

However, reporting on the effects of climate-related risks and similar risks is evolving—developments need to be monitored.

Next steps



September 2023 IASB meeting

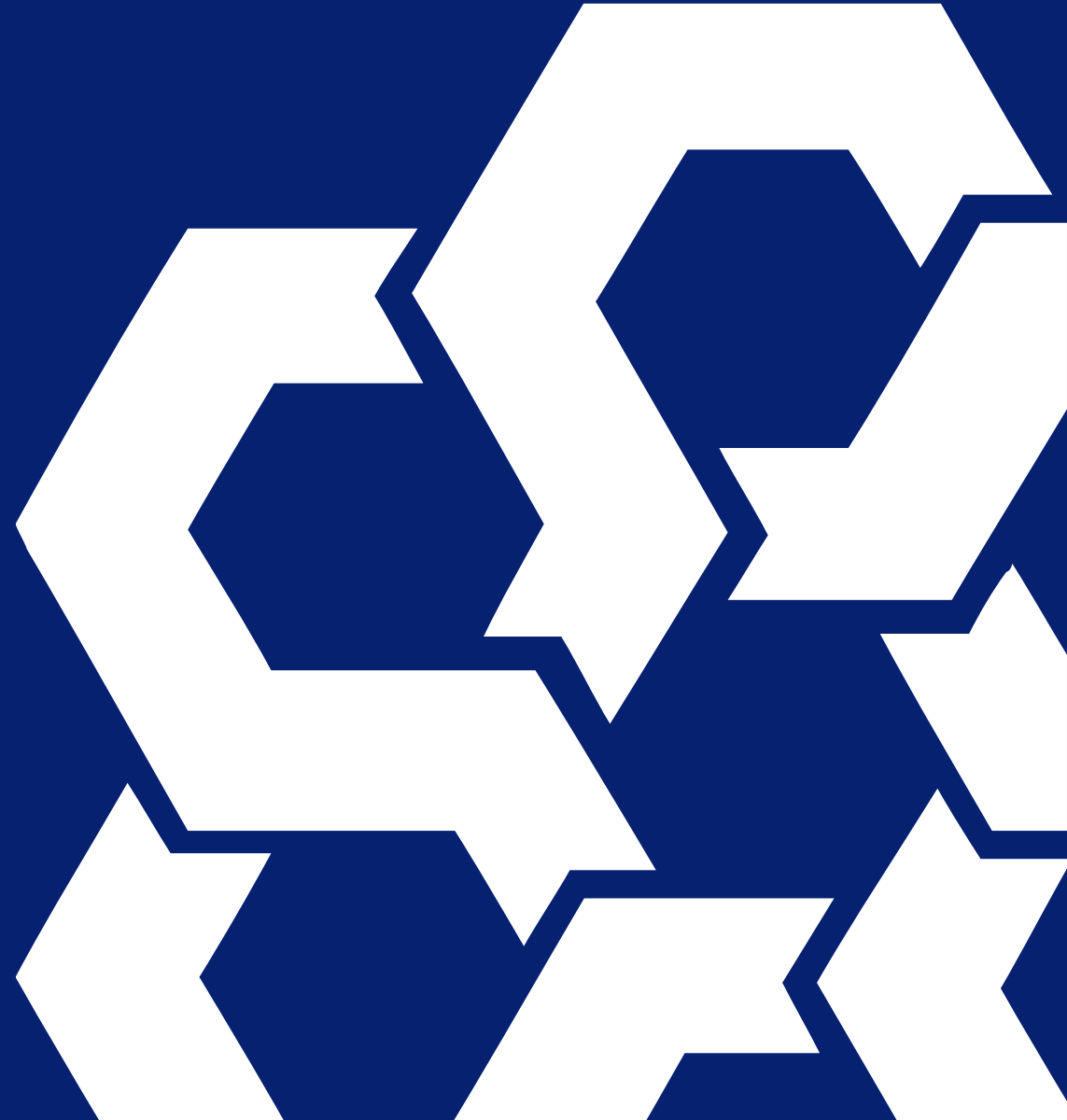
IASB discussion

- Requirements in IFRS Accounting Standards are generally sufficient
- Some challenges in application
- Desire for timely action
- Evolving area particularly with reporting developments from the ISSB and others

Decisions

- Generalise the project's objective to cover climate-related and other uncertainties
- Complement existing requirements by exploring the development of a package of examples to help improve application of IFRS Accounting Standards
- Change existing requirements by exploring possible targeted amendments to improve disclosures about estimates in the financial statements (not just climate, but uncertainties generally)
 - requires significant judgment
 - careful consideration of costs versus benefits
- Interpretations Committee—discuss questions related to:
 - recognition of liabilities for climate-related commitments
 - measurement of certain non-financial assets when testing for impairment
- Ongoing IASB projects will also help address concerns (for example, ESG-linked Financial Assets, Power Purchase Agreements and Primary Financial Statements)
- IASB will continue to monitor developments in this area

Questions to CMAC members



Questions to CMAC members

1

Do you have any questions or comments on the direction of this project?

2A

Do financial statements provide you with sufficient information about key assumptions, judgments and estimates used in preparing the financial statements?

For example, those assumptions, judgements and estimates related to impairment of property, plant and equipment, useful lives of assets or decommissioning liabilities.

2B

If not, what information is missing? How would you use that information in your analysis?

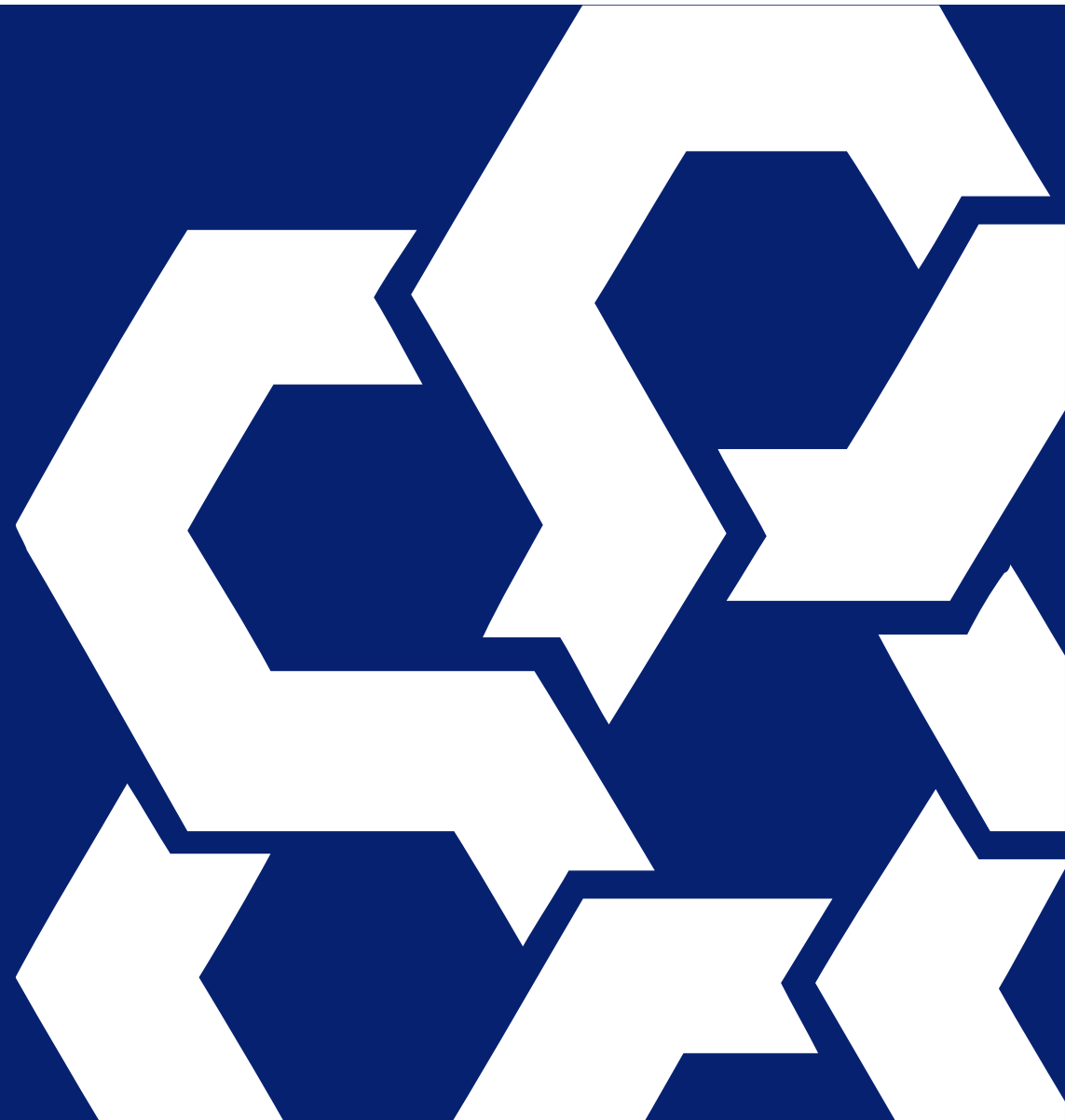
Disclosures that may be required, depending on facts and circumstances:

- Nature of assumptions, judgements and estimates
- Quantitative information about assumptions and estimates
- How assumptions, judgements and estimates determined
- Changes in assumptions, judgements and estimates and reasons for changes

2C

Would the information help address any challenges you have in understanding how climate-related uncertainties have affected the financial statements?

Thank you



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