Staff paper

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IASB® meeting

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Project	**Climate-related Risks in the Financial Statements**
Topic	**Potential actions**
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Purpose and structure

1. This paper discusses a package of potential actions the IASB could take to help address concerns about reporting the effects of climate-related risks in the financial statements. In undertaking any of the potential actions in this package, we will continue to include International Sustainability Standards Board (ISSB) staff on the project team to benefit from their expertise on this topic and to help ensure that IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, as well as the resulting reports prepared applying the Standards, work well together (that is, the Standards and the resulting reports are connected).

2. This paper sets out:

   (a) Summary of staff recommendations (paragraph 4);

   (b) Considerations in developing the package of potential actions (paragraphs 5–11);

   (c) Package of potential actions (paragraphs 12–28); and

   (d) Questions for the IASB.

3. For ease of reference, this paper refers to:

   (a) 'climate-related risks'. However, the analysis in this paper would equally apply to other uncertainties that would be included in the objective of the project if the IASB agrees with the staff recommendation in Agenda Paper 14A *Project Objective* to generalise the objective of this project.

   (b) IAS 1 *Presentation of Financial Statements*. However, any potential actions associated with IAS 1 will be modified to conform to changes arising from the Primary Financial Statements project.

Summary of staff recommendations

4. We recommend that the IASB:

   (a) explore clarifying or enhancing requirements in IFRS Accounting Standards or adding illustrative examples in relation to:

      (i) disclosures about estimates;

      (ii) connections within the financial statements as well as across the financial statements and other general purpose financial reports;

      (iii) the concept of materiality; and

      (iv) the 'catch-all' disclosure requirement in paragraph 31 of IAS 1.

   (b) refer to the IFRS Interpretations Committee (Committee) questions about:

      (i) the recognition of a liability applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for climate-related commitments*;* and

      (ii) the measurement of value in use when an asset is subject to highly variable future cash flows over an extended time horizon for purposes of impairment testing applying IAS 36 *Impairment of Assets*.

Considerations in developing the package of potential actions

5. The package of potential actions discussed in paragraphs 12–28 is based on our work described in Agenda Papers 14A *Project objective* and 14B *Results of work on the nature and causes of concern*. The potential actions are those that can be achieved within the narrow scope of this project, as described in Agenda Paper 14 *Cover paper*. In addition, in developing our recommendations, we have considered feedback that indicates that requirements in IFRS Accounting Standards are generally sufficient to elicit information about the effects of climate-related risks in the financial statements that meets user needs. However, targeted amendments to improve application of IFRS Accounting Standards would be helpful.[1]

6. We have identified three categories of potential actions:

   (a) **improving the application** of IFRS Accounting Standards;

   (b) **addressing an expectations gap** in relation to the role of financial statements and the nature of information that is included in financial statements; and

   (c) **raising awareness** of the requirements in IFRS Accounting Standards and of standard-setting projects underway.

7. With respect to **improving the application** of IFRS Accounting Standards, we observed that many of the concerns about:

   (a) **disclosures** relate to:

      (i) assumptions and judgments underlying estimates;

      (ii) connections between financial statements and other general purpose financial reports;

      (iii) application of the concept of materiality; and

      (iv) disaggregation.

[1] See paragraph 5 of Agenda Paper 14B.

(b) **recognition and measurement** relate to the application of IFRS 9 *Financial Instruments*, IAS 36 and IAS 37.

8. These **disclosure** concerns could be addressed through improvements to specifically applicable IFRS Accounting Standards or improvements to IAS 1. In the package of potential actions, we focused on improvements to IAS 1 because this IFRS Accounting Standard sets out overarching requirements to be applied *in addition* to the specific requirements in other IFRS Accounting Standards. We think this approach is more efficient than improvements to specific IFRS Accounting Standards because the disclosure concerns we seek to address are pervasive and affect multiple IFRS Accounting Standards. This approach is also consistent with the principle of treating similar items in a similar way embedded in the Conceptual Framework. We acknowledge that the overarching requirements in IAS 1 may sometimes be overlooked, but we think educational materials, as discussed in paragraph 18, could help improve application.

9. The package of potential actions involves enhanced communications, articles, educational materials, agenda decisions and standard-setting. Some of the actions are interdependent and should, therefore, be considered together.

10. We acknowledge that the package of potential actions may not address all concerns about reporting on the effects of climate-related risks in the financial statements. The identification, monitoring, reporting and valuation of the effects of climate-related risks is an evolving area. Climate-related financial disclosures will continue to improve, driven by, for example, IFRS Sustainability Disclosure Standards issued by the ISSB; improving processes, systems and controls within entities; and improving collaboration between sustainability and accounting experts. We expect that these developments will help improve the reporting of the effects of climate-related risks in the financial statements. As a result, we think that some of the current concerns may be alleviated over time, but we acknowledge that new concerns may also arise. Therefore, even after completion of this package of potential actions, developments in this space will need to be monitored.

11. In the meantime, as always, the Committee stands ready to address application questions. However, although some stakeholders noted that reporting the effects of climate-related risks in the financial statements can involve complex judgments, neither the IASB nor the Committee can eliminate the need for judgment.[2]

[2] See paragraph 20(c) of Agenda Paper 14B.

Package of potential actions

12. This table summarises a package of potential actions to help address concerns about the reporting of climate-related risks in the financial statements, grouped by the categories in paragraph 6. Further discussion follows the table.

Action	Vehicle	Estimated timing	Paragraph reference
Improving application of IFRS Accounting Standards			
Disclosure			
Estimates	Standard-setting	2025	13
Connected information	Standard-setting	2025	14
Disaggregation	Standard-setting and educational materials	H1 2024	15
Materiality	Standard-setting	2025	16
‘Catch-all’ disclosure requirement	Standard-setting	2025	17
Overarching requirements in IAS 1	Educational material	H2 2024	18
Recognition and measurement			
Recognition of liabilities for climate-related commitments	Agenda decision, followed by standard-setting	Agenda decision – Apr 2024 Standard-setting – 2025	19
Impairment—measurement of value in use	Agenda decision	Agenda decision – Apr 2024	20
Environmental, social and governance (ESG)-linked financial instruments	Standard-setting	H2 2024	21
Expected credit losses	TBD	TBD	22
Power purchase agreements	Standard-setting	TBD	23
Cross-cutting examples	Educational material	H2 2024	24

Action	Vehicle	Estimated timing	Paragraph reference
Addressing an expectations gap			
The role of financial statements	Article	Nov 2023	25
Practical tips for reporting estimates in financial statements	Article	Nov 2023	26
Raising awareness			
Central source of information	Enhanced communication	Sep 2023	27
Translations	Enhanced communication	Varies, beginning Sep 2023	28

Improving application of IFRS Accounting Standards—Disclosures

Estimates

13. We recommend exploring ways to improve disclosures about judgments and assumptions underlying estimates.

    (a) **Concern to address**: Many stakeholders seek to better understand how the effects of climate-related risks have been considered in preparing the financial statements, including how those risks were incorporated into the estimates reported in the financial statements. For example, some stakeholders seek information about fossil fuel and carbon pricing assumptions used in impairment tests.[3]

    (b) **Potential action**: Although IAS 1 already includes principle-based disclosure requirements about significant judgments and assumptions used in preparing financial statements, the IASB could explore strengthening those requirements to improve application. Any amendments would still retain the principle-based approach to the requirements to help ensure they remain relevant for risks that emerge in the future. For example, any amendments would not specifically require disclosure of carbon pricing assumptions or the effects of climate-related risks on estimates reported in the financial statements. In particular, the IASB could explore:

        (i) revising paragraph 125 of IAS 1 such that the scope of assumptions for which disclosure is required focuses on estimates that are subject to high measurement uncertainty at the reporting date. The IASB could also explore removal of the phrase 'within the next financial year' which appears to have caused some confusion in practice.

[3] See paragraphs 9 and 25 of Agenda Paper 14B.

(ii) requiring disclosures about the amount of those estimates and line item in which they are presented.

(iii) requiring identification of the key assumptions underlying those estimates.

(iv) requiring disclosures of qualitative and quantitative information about the key assumptions underlying those estimates.

(v) requiring disclosures about the basis for the key assumptions made.

(vi) requiring disclosures about drivers for reasonably likely (or some other likelihood threshold) alternatives to those estimates and amounts of what else the estimate could be (through ranges or sensitivity analyses).

(vii) for changes in estimates from the prior period, requiring disclosure about the previous judgments and assumptions underlying those estimates, the updated judgments and assumptions and the reasons for the change.

(viii) building on the requirements for connected information in IFRS S1 *General Sustainability-related Disclosures*, as described further in paragraph 14.

(c) **Vehicle**: Standard-setting.

(d) **Timing**: Final amendments estimated for 2025.

(e) **Interdependencies with other actions:** The actions to improve disclosures about estimates may be related to actions to improve connections in reporting, as described in paragraph 14, and on the application of the concept of materiality, as described in paragraph 16.

(f) **Other considerations:** The determination and disclosure of assumptions require complex judgments. It may, therefore, not be possible to improve application of the principles in IAS 1 through standard-setting. In determining the feasibility of standard-setting, the IASB should explore considerations such as:

(i) the boundaries for any additional disclosure requirements so that the disclosures do not become excessive or boilerplate.

(ii) learnings from the application of existing disclosure requirements for assumptions, including those in IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement*, IAS 1, IAS 19 *Employee Benefits* and IAS 36.

(iii) learnings from the application of other requirements such as the US SEC's requirements for disclosure of critical accounting estimates and the IAASB's standard *Auditing Accounting Estimates and Related Disclosures*.

(iv) the effect of any changes to paragraphs 122 to 133 of IAS 1 on other requirements or materials that refer to or build on these paragraphs, such as IFRS Sustainability Disclosure Standards and the 2014 Committee agenda decision on disclosure requirements relating to the assessment of going concern.

Connected information

14. We recommend exploring ways to improve connections both within the financial statements as well as across financial statements and other general purpose financial reports.

(a) **Concern to address**: Many stakeholders, particularly users of financial statements (users), observe what appear to be inconsistencies between the financial statements and other reports. For example, an entity may provide extensive discussion about its climate-related strategy, risks and targets outside the financial statements but its financial statements may make no reference to climate-related matters. This apparent disconnect gives rise to questions about whether there is an inconsistency in the information reported by the entity or a need for clarifying disclosure.[4]

(b) **Potential action**: The IASB could explore:

(i) adding requirements for connected information building on paragraph 21 of IFRS S1 and related application guidance and on proposed requirements for 'coherence' in paragraphs 13.27 to 13.30 of the IASB's Exposure Draft *Management Commentary*.

(ii) adding requirements for the use of consistent data and assumptions in preparing an entity's general purpose financial reports, building on paragraph 23 of IFRS S1, and requirements for disclosure of information about significant differences between data and assumptions used in preparing those reports, building on paragraph B42(c) of IFRS S1.

(iii) adding requirements focussed on enabling users to understand connections between disclosures provided across an entity's general purpose financial reports. For example, the IASB could explore requiring:

- disclosures to help address situations in which it may otherwise be unclear to users how the information reported in the financial statements ties in with information reported in other general purpose financial reports. A common example is a scenario when an entity discusses its intention to reduce greenhouse gas emissions in its sustainability disclosures but there is no related liability or an impairment loss in the financial statements.

- adding requirements to disclose quantitative and qualitative information about how judgments, assumptions and estimates disclosed in other general purpose financial reports have been

[4] See paragraphs 9, 22(b) and 22(c) of Agenda Paper 14B.

incorporated into estimates reported in the financial statements, building on the potential actions discussed in paragraph 13.

(c) **Vehicle**: Standard-setting.

(d) **Timing**: Final amendments estimated for 2025.

(e) **Interdependencies with other actions:** The actions to improve connections in reporting may be related to actions to improve information about estimates, as described in paragraph 13, on requirements for disaggregation, as described in paragraph 15, and on the application of the concept of materiality, as described in paragraph 16.

(f) **Other considerations:** The IASB will need to ensure that any requirements or examples it develops align with the ISSB's work so that general purpose financial reports work together. In addition, the IASB will need to consider the implications of its work on connected information on the IASB's Management Commentary project.

Disaggregation

15. We will explore ways to improve the disaggregation of information.

(a) **Concern to address**: Some stakeholders seek to better understand the extent to which an entity's assets, liabilities, equity, income, expenses and cash flows are exposed to specific risks. For example, some stakeholders want to understand the extent to which an entity's assets are located in geographies subject to significant physical climate-related risks.[5]

(b) **Potential action**: Improved requirements for disaggregation could help address this concern. The IASB has recently begun the balloting process for the new IFRS Accounting Standard resulting from its Primary Financial Statements project. One of the objectives of that project is to improve disaggregation of information in the financial statements. In addition, we will

[5] See paragraphs 9 and 26 of Agenda Paper 14B.

explore including consideration of disaggregation based on the risks associated with an item in the cross-cutting examples discussed in paragraph 24.

(c) **Vehicle**: Standard-setting and educational materials.

(d) **Timing**: H1 2024 for the new IFRS Accounting Standard. H2 2024 for a cross-cutting example, as described in paragraph 24.

(e) **Interdependencies with other actions:** This action may be related to actions to improve connections in reporting (paragraph 14). Specifically, if an entity disaggregates a line item based on the risks associated with the item, the entity may need to ensure that the way in which the line item is disaggregated is consistent with the risks disclosed in other general purpose financial reports.

(f) **Other considerations:** None.

Materiality

16. We recommend exploring ways to emphasise the importance of qualitative factors in assessing the materiality of information.

(a) **Concern to address**: Many stakeholders, particularly users, have said that they receive insufficient information about climate-related risks in the financial statements. For example, some stakeholders argue that even if climate-related risks have not affected an entity's financial statements, that fact may be material and may need to be disclosed. We acknowledge that materiality of information can be difficult to assess, particularly when assessing qualitative factors in relation to narrative information.[6]

(b) **Potential action**: To improve the application of the concept of materiality, the IASB could explore:

(i) including in IAS 1 application guidance about how to consider uncertain outcomes over the long term in applying the concept of materiality. This application guidance could build on paragraphs B22-

[6] See paragraph 20(c) of Agenda Paper 14B.

B24 in IFRS S1 and paragraph 12.8 in the IASB's Exposure Draft *Management Commentary*, given that IFRS Accounting Standards, IFRS Sustainability Disclosure Standards and IFRS Practice Statement 1 *Management Commentary* all require application of the same concept of materiality.

(ii) refreshing Example K in Practice Statement 2 *Materiality Practice Statement* (Materiality Practice Statement) to cover climate-related risks and adding it to the Illustrative Examples that accompany IFRS Accounting Standards.[7] Inclusion of the refreshed example in the Illustrative Examples that accompany IFRS Accounting Standards could improve visibility of the example and improve application of the requirements.

(iii) to address concerns about potential boilerplate and excessive negative confirmation disclosures, the IASB could emphasise the requirements to avoid obscuring material information with immaterial information and to reassess materiality judgments each period, possibly through an example illustrating when negative confirmation disclosures may not be material.

(c) **Vehicle**: Standard-setting (amendments to IAS 1 and its Illustrative Examples).

(d) **Timing**: Final amendments estimated for 2025.

(e) **Interdependencies with other actions:** The work to improve the application of the concept of materiality in preparing financial statements is related to all actions to improve disclosures.

(f) **Other considerations:** It may be challenging for the IASB to improve the application of the concept of materiality in preparing financial statements in a

[7] Example K describes the influence of external qualitative factors on materiality judgments, in the context of an entity's exposure to debt originating from a country whose national economy was experiencing severe financial difficulties (sovereign debt crisis), and concludes that, in the example, negative confirmation about the entity's exposure is a material fact that should be disclosed.

timely manner. In addition, the IASB will need to ensure that any requirements or examples it develops align with the ISSB's work so that general purpose financial reports work together. The IASB will also need to consider the implications of any actions on its Management Commentary project and the Materiality Practice Statement.

'Catch-all' disclosure requirement

17. We recommend exploring clarifications to the catch-all disclosure requirement in paragraph 31 of IAS 1.

(a) **Concern to address**: The catch-all disclosure requirement in paragraph 31 of IAS 1 requires an entity to consider providing additional disclosure when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Some stakeholders have expressed concerns about the level of compliance with paragraph 31 of IAS 1.[8] Non-compliance may be due to a misunderstanding that the word 'consider' indicates that the disclosure is voluntary.

(b) **Potential action**: To help provide clarity, the IASB could explore deleting the word 'consider' from paragraph 31 of IAS 1. This change would be consistent with the language used in other similar requirements in IAS 1, such as paragraph 112(c), and in paragraph BC30H in the accompanying the Basis for Conclusions.

(c) **Vehicle**: Standard-setting.

(d) **Timing**: Final amendments estimated for 2025.

(e) **Interdependencies with other actions:** This action is related to all other actions involving disclosures. This is because specific disclosure requirements

[8] See paragraph 20(a) of Agenda Paper 14B.

cannot contemplate every disclosure that may be material to users, so compliance with paragraph 31 of IAS 1 provides an important safety-net to help ensure that users receive additional information when needed to understand the impact of particular transactions, other events and conditions on an entity's financial position and financial performance.

(f) **Other considerations:** None.

Overarching requirements in IAS 1

18. We will explore publication of reminders about the overarching requirements in IAS 1.

(a) **Concern to address**: IAS 1 contains overarching requirements, such as those related to materiality, catch-all disclosures and disclosures of accounting policies, judgements and uncertainties, to be considered in addition to the requirements in other IFRS Accounting Standards. For this reason, the IASB does not repeat overarching requirements in all other IFRS Accounting Standards. However, the fact that these requirements must be applied in addition to the requirements in other IFRS Accounting Standards may not always be well-understood. Furthermore, these requirements may sometimes be overlooked in applying IFRS Accounting Standards that specifically apply to the transaction, condition or other event under consideration.[9]

(b) **Potential action**: Reminders about the overarching requirements may help improve compliance with these overarching requirements and would be consistent with the IASB's commitment in its Third Agenda Consultation to help improve the understandability of IFRS Accounting Standards.

(c) **Vehicle**: Educational material.

(d) **Timing**: Educational material could be published in H2 2024, after the issuance of the new Accounting Standard resulting from the Primary Financial

[9] See paragraph 20(a) of Agenda Paper 14B.

Statements project. That timing would enable the educational material to include the latest references to IFRS Accounting Standards.

(e) **Interdependencies with other actions:** This action may help with the application of the potential improvements to the requirements in IAS 1, as discussed in paragraphs 13-17.

(f) **Other considerations:** None.

Improving application of IFRS Accounting Standards—Recognition and measurement

Recognition of liabilities for climate-related commitments

19. We recommend that the IASB refer to the Committee a question about when to recognise a liability applying IAS 37 for climate-related commitments, such as commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows.

(a) **Concern to address**: Research in this project, as well as in the Provisions—Targeted Improvements project, identified confusion about when a liability should be recognised for climate-related commitments.[10]

(b) **Potential action**: We recommend that the IASB ask the Committee to clarify the application of IAS 37 in determining when to recognise a liability for climate-related commitments, such as commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows. This referral would build on research already conducted, and an example already developed, in the IASB's Provisions—Targeted Improvements project.

(c) **Vehicle**: Based on the research conducted in the Provisions—Targeted Improvements project, we think that the requirements in IAS 37 could provide

[10] See paragraph 27(b) of Agenda Paper 14B.

an adequate basis to address this question. We, therefore, think that the Committee could (subject to its analysis and consideration) publish an agenda decision, with explanatory material, to help alleviate confusion in a timely manner. The explanatory material could then be incorporated into IAS 37 through any amendments arising from the Provisions—Targeted Improvements project.

(d) **Timing**: The Committee could discuss this question at its November meeting and, if it concludes the requirements in IAS 37 provide an adequate basis to address the question, publish a tentative agenda decision shortly thereafter. A final agenda decision could then be published in April 2024, following consultation and redeliberations. The IASB could incorporate explanatory material from the agenda decision into IAS 37 – via the Provisions—Targeted Improvements project – potentially in 2025, following publication of an exposure draft proposing amendments to IAS 37, consultation and redeliberations.

(e) **Interdependencies with other actions:** Based on the work conducted thus far in the Provisions—Targeted Improvements project, explanatory material about when to recognise a liability for the costs of fulfilling a commitment to reduce emissions would focus on the occurrence of a past event—such as the emission of greenhouse gases that an entity has committed to offset. A conclusion that no liability would be recognised in the absence of a past event may disappoint some stakeholders who expect to see a liability in the financial statements when the entity makes the commitment. However, information about the anticipated financial effects of a commitment to reduce emissions in the future may be available through other means such as sustainability-related financial disclosures. We, therefore, think it will be important to publish the article described in paragraph 25 around the same time when the agenda paper for the November Committee meeting is posted to provide stakeholders with a fuller picture about the sources of information to address user information needs, including for example sustainability-related financial disclosures prepared applying IFRS Sustainability Disclosure Standards.

(f) **Other considerations:** None.

Impairment—measurement of value in use

20. We recommend that the IASB refer to the Committee a question to clarify the application of IAS 36 in measuring value in use when an asset is subject to highly variable future cash flows over an extended time horizon.

(a) **Concern to address**: Paragraph 33(a) of IAS 36 requires that, in measuring an asset's value in use, an entity base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Furthermore, paragraphs 33(b), 35 and 36 of IAS 36 require that:

(i) the cash flow projections to be based on management's budgets or forecasts and cover a maximum of five years, unless a longer period can be justified. Paragraph 35 explains that management may use cash flow projections based on financial budgets or forecasts over a longer period if an entity is confident that the projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows accurately over a longer period; and

(ii) the cash flow projections beyond that period until the end of the asset's useful life are estimated by extrapolation using an appropriate growth rate.

The effects of climate-related risks can result in highly variable cash flows. Some of that variability may extend well beyond the five-year period specified in paragraph 33(b) of IAS 36 and also affect the extrapolation of cash flow projections based on financial budgets or forecasts, as required by paragraph 36 of IAS 36. Therefore, highly variable future cash flows over an extended time horizon may give rise to questions about how to apply the requirements in IAS 36.[11]

(b) **Potential action**: We recommend that the IASB ask the Committee to clarify the application of IAS 36 in measuring value in use when an asset is subject to highly variable future cash flows over an extended time horizon.

(c) **Vehicle**: Based on our initial assessment, we think that the requirements in IAS 36 could provide an adequate basis to address this question. We, therefore, think the Committee could (subject to its analysis and consideration) publish an agenda decision, with explanatory material, to help address this question in a timely manner.

(d) **Timing**: The Committee could discuss this question at its November meeting and, if it concludes the requirements in IAS 36 provide an adequate basis to address the question, publish a tentative agenda decision shortly thereafter. A final agenda decision could then be published in April 2024, following consultation and redeliberations.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

ESG-linked financial assets

21. We are exploring possible standard-setting to clarify the requirements for assessing the contractual cash flow characteristics of ESG-linked financial assets.

(a) **Concern to address**: In the post-implementation review of the classification and measurement requirements in IFRS 9, stakeholders said that the global market for ESG-linked financial assets is growing rapidly and requested clarification of the requirements to assess the contractual cash flow characteristics of these financial assets.[12]

[11] See paragraphs 20(b), 22(a) and 27(c) of Agenda Paper 14B.

[12] See paragraph 27(a) of Agenda Paper 14B.

(b) **Potential action**: The IASB has recently concluded consultation on an exposure draft proposing amendments to the classification and measurement requirements in IFRS 9. The exposure draft included proposals to clarify the requirements for assessing the contractual cash flow characteristics of ESG-linked financial assets, to determine whether they should be measured at fair value or amortised cost. We do not propose to take any further action related to the classification and measurement requirements through the Climate-related Risks in the Financial Statements project. Rather, the project on classification and measurement requirements is included in this package so that it reflects a complete inventory of IASB actions associated with climate-related matters.

(c) **Vehicle**: Standard-setting.

(d) **Timing**: The IASB will discuss feedback on the exposure draft at this meeting in September 2023. The timing of any final amendments depends on IASB deliberations but is expected in H2 2024.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Expected credit losses

22. We will consider the need for actions related to the expected credit loss model.

(a) **Concern to address**: Stakeholders told the IASB that based on the current application guidance in IFRS 9, it is unclear how entities should reflect forward-looking information about particular risks, such as climate-related risks, into the measurement of expected credit losses.

(b) **Potential action**: The IASB is in the process of conducting a post-implementation review of the expected credit losses model for financial instruments subject to impairment accounting. We do not propose to take any further action related to the expected credit loss model through the Climate-related Risks in the Financial Statements project. Rather, any project on expected credit losses is included in this package so that it reflects a complete inventory of IASB actions associated with climate-related matters.

(c) **Vehicle**: To be determined.

(d) **Timing**: To be determined. The comment period on the Request for Information closes on 27 September 2023. The staff will report feedback from the consultation to the IASB in November 2023. The timing of any potential action depends on the IASB deliberation of the feedback received, as well as prioritisation of any matters on which the IASB decides to act.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Power purchase agreements

23. We are exploring possible standard-setting to address the accounting for power purchase agreements.

(a) **Concern to address**: Entities are increasingly entering into power purchase agreements for the procurement of renewable energy. The use of renewable energy is part of some entities' commitment to mitigate the effects of climate change and to decarbonise their production processes and products. Stakeholders have expressed concerns that, due to the unique features of power purchase agreements for renewable energy, IFRS Accounting Standards may not result in useful information for investors.[13]

(b) **Potential action**: In July 2023, the IASB added a project to its work plan to research whether narrow-scope amendments could be made to IFRS 9 for power purchase agreements. We do not propose to take any further action related to power purchase agreements through the Climate-related Risks in the Financial Statements project. Rather, the project on power purchase

[13] See paragraph 27(a) of Agenda Paper 14B.

agreements is included in this package so that the package reflects a complete inventory of IASB actions associated with climate-related matters.

(c) **Vehicle**: Standard-setting.

(d) **Timing**: To be determined. The staff is researching whether standard-setting is feasible and will report back to the IASB in Q1 2024. The timing of any potential action depends on the outcome of that research.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Cross-cutting examples

24. We will explore development of cross-cutting examples.

(a) **Concern to address**: Some stakeholders expressed a need for more examples to illustrate the reporting of climate-related risks in the financial statements. These stakeholders observed that IFRS Accounting Standards do not explicitly refer to 'climate' so stakeholders need to draw analogies to apply the existing requirements and examples. Furthermore, the requirements that apply to the reporting of climate-related risks cut across multiple IFRS Accounting Standards.[14]

(b) **Potential action**: Cross-cutting examples could help address these concerns. We will explore developing examples illustrating the interaction between IFRS Accounting Standards in reporting the effects of climate-related risks in the financial statements. For example, the cross-cutting examples could describe the accounting requirements as an entity's decarbonisation plan becomes more specific over time, covering topics such as:

(i) recognition of liabilities;

(ii) consideration of impairment indicators;

[14] See paragraph 35 of Agenda Paper 14B.

(iii) calculation of recoverable amounts and of any impairment losses (for example, incorporating uncertainties into future cash flow projections and the use of an expected cash flow approach in determining present value);

(iv) changes to useful lives, including application of factors to determine useful lives;

(v) presentation (disaggregation); and

(vi) disclosure.

(c) **Vehicle**: We think that cross-cutting examples can bring the 2023 educational materials further to life and could, therefore, be published as an appendix to an updated version of the 2023 educational materials.

(d) **Timing**: The educational materials could be published in H2 2024, after publication of the agenda decisions on liability recognition for climate-related commitments and on measurement of value in use, as well as the completion of the Primary Financial Statements project.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Addressing an expectations gap

The role of financial statements

25. We will explore publication of an article on the benefits of financial statements, particularly when complemented by sustainability-related financial disclosures.

(a) **Concern to address**: Many stakeholders identified information needs that may be better satisfied through sustainability-related financial disclosures, such as those provided applying the IFRS Sustainability Disclosure Standards, rather than through financial statements. For example, some users seek information about an entity's strategy to address climate-related risks, its climate-related commitments, its progress against those commitments and the financial effects of those commitments. Some users also seek information about the financial effects of an entity's 'good citizen' behaviours.[15]

(b) **Potential action**: We think an article discussing the benefits of financial statements, particularly when complemented by sustainability-related financial disclosures, could be helpful to stakeholders. Such an article could be particularly helpful given that the financial reporting landscape has changed significantly in a short period of time with the creation of the ISSB and the issuance of IFRS S1 and IFRS S2 *Climate-related Disclosures*, as well as other global and jurisdictional developments. Such an article could discuss:

(i) the objective of financial statements and their benefits (for example, a solid foundation on which to calibrate valuation models, using past financial statements as a starting point to predict future cash flows).

(ii) boundaries of financial statements. Specifically, financial statements:

- are not intended to satisfy all information needs of all users. The IASB focuses on the common information needs of the users of financial statements.
- are not designed to show the value of an entity.
- do not include information about possible future transactions and other possible events unless those transactions and events are related to the assets or liabilities that exist at the reporting date.

(iii) the implications of the objective and the boundaries of financial statements which prevent including particular information in financial statements and may result in a perceived disconnect between an entity's financial statements and other general purpose financial reports.

[15] See paragraphs 15–16 of Agenda Paper 14B.

(iv) the role of other sources of information, particularly sustainability-related financial disclosures, such as those provided applying the IFRS Sustainability Disclosure Standards. Such disclosures can provide insights into how future financial statements are anticipated to be different from the past, for example, due to climate-related risks. The insights will improve when the requirements in IFRS S1 for connected information across general purpose financial reports, as well as any actions by the IASB in this regard, are implemented.

(c) **Vehicle**: Article.

(d) **Timing**: We think publication in November 2023 would be ideal to mitigate the concerns described in paragraph 19(e).

(e) **Interdependencies with other actions:** See paragraph 19(e).

(f) **Other considerations:** None.

Practical tips for reporting estimates in financial statements

26. We will explore publication of an article that provides practical tips on reporting estimates in financial statements.

(a) **Concern to address**: Some stakeholders observed that it can be challenging to incorporate the effects of uncertainties, particularly those that crystallise over the long term, into the estimates reported in financial statements. These challenges include developing the estimates, establishing and maintaining internal controls related to those estimates and providing auditors with sufficient evidence about those estimates. Some stakeholders also expressed concern that changes to estimates reported in financial statements may be inappropriately perceived as corrections of errors, potentially resulting in a reluctance to provide disclosures about estimates.[16]

[16] See paragraph 20(d) of Agenda Paper 14B.

(b) **Potential action**: We think that an article that provides practical tips on reporting estimates in the financial statements could help address concerns. Such an article could remind stakeholders that:

(i) the use of reasonable estimates is an essential part of the preparation of financial statements.

(ii) an entity may need to change an estimate if changes occur in the circumstances on which the estimate was based or as a result of new information, new developments or more experience. By its nature, a change in an estimate does not relate to prior periods and is not a correction of an error.

(iii) a faithful representation requires complete and neutral disclosure about the effect of uncertainties on the financial position and financial performance. In the absence of appropriate disclosure, users may assume the worst-case scenario in their analysis.

(iv) the importance of collaboration between multiple parts of an entity, for example through implementation of Integrated Thinking Principles, which became part of the IFRS Foundation's materials following its merger with the Value Reporting Foundation in August 2022.

(c) **Vehicle**: Article.

(d) **Timing**: We think publication no later than, ideally, November 2023 would enable consideration of this article in time for 2023 calendar year-end reporting.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Raising awareness

Central source of information

27. We will create a central source of information about the reporting of climate-related risks in the financial statements.

(a) **Concern to address**: We received some feedback that stakeholders may not be fully aware of the existing requirements in IFRS Accounting Standards that apply to the reporting of climate-related risks in the financial statements, such as those described in IFRS Foundation's 2023 educational material on the effects of climate-related matters on financial statements (updated from 2020) (2023 educational material), as well as of ongoing work on this topic.[17]

(b) **Potential action**: We will increase the visibility of the work the IASB has completed and has underway on the reporting of climate-related risks in the financial statements. Specifically, we will enhance this project's webpage to be the central source of information, communicating the package of potential actions and linking to related articles, educational materials and standard-setting projects. We will also notify stakeholders of significant updates to the content of this page through News Alerts and social media.

(c) **Vehicle**: Enhanced communications.

(d) **Timing**: To be completed by end of September 2023.

(e) **Interdependencies with other actions**: None.

(f) **Other considerations:** None.

Translations

28. We will make translations of the educational materials on the reporting of climate-related risks in the financial statements available on the IFRS Foundation website.

[17] See paragraph 20(a) and 31 of Agenda Paper 14B.

(a) **Concern to address**: We received some feedback that stakeholders may not be fully aware of the existing requirements in IFRS Accounting Standards that apply to the reporting of climate-related risks in the financial statements because educational materials published to date have only been in English.[18]

(b) **Potential action:** We will obtain translations of the 2023 educational material into Chinese, French, Japanese, Portuguese and Spanish. We will also obtain translations of the IFRS Foundation's 2023 educational material on the effects of climate-related matters on financial statements prepared in accordance with the *IFRS for SMEs* Accounting Standard into Spanish. These translations will reside on the project's webpage, as described in paragraph 27.

(c) **Vehicle**: Enhanced communications.

(d) **Timing**: In many cases, national standard-setters are kindly assisting with the translations. The translations will be published as they become available, beginning as early as September 2023.

(e) **Interdependencies with other actions:** None.

(f) **Other considerations:** None.

Questions for the IASB

Questions for the IASB
1. Does the IASB agree to *explore* clarifying or enhancing requirements in IFRS Accounting Standards or adding illustrative examples in relation to: (a) disclosures about estimates, as described in paragraph 13; (b) connections within the financial statements as well as across the financial statements and other general purpose financial reports, as described in paragraph 14; (c) the concept of materiality, as described in paragraph 16; and

[18] See paragraph 20(a) and 31 of Agenda Paper 14B.

Questions for the IASB
(d) the 'catch-all' disclosure requirement in IAS 1, as described in paragraph 17. 2. Does the IASB agree to refer to the Committee questions about: (a) the recognition of a liability for applying IAS 37 for climate-related commitments, as described in paragraph 19 and (b) the measurement of value in use when an asset is subject to highly variable future cash flows over an extended time horizon for purposes of impairment testing applying IAS 36, as described in paragraph 20? 3. Do IASB members have any questions or comments about the other actions included in the package of potential actions, as described in paragraphs 15, 18, and 21-28? 4. Do IASB members think we should take any other actions?