

IFRS Developments

IASB proposes examples of climate-related and other uncertainties

What you need to know

- ▶ On 31 July 2024, the IASB published the Exposure Draft, *Climate-related and Other Uncertainties in the Financial Statements*, proposing to add examples to enhance the application of IFRS accounting standards.
- ▶ The proposed examples would be part of Illustrative Examples accompanying IFRS accounting standards and there is no proposed effective date.
- ▶ The proposed examples illustrate the disclosure of information about climate-related and other uncertainties in the financial statements.
- ▶ The comment period for the exposure draft closes on 28 November 2024.

Introduction

In response to the growing need for climate-related financial information, the International Accounting Standards Board (the IASB) has published an Exposure Draft, *Climate-related and Other Uncertainties in the Financial Statements*, to improve reporting of financial information on climate-related and other uncertainties in the financial statements.

The exposure draft includes eight proposed examples, which would amend the Illustrative Examples to six IFRS accounting standards. The IASB does not intend to change existing requirements; rather it aims to improve application of the existing requirements in IFRS accounting standards related to reporting the effects of climate-related risks and other uncertainties in the financial statements. While they illustrate climate-related risks, the examples are expected to provide entities with relevant guidance for other types of uncertainties. The proposed examples include some recognition and measurement considerations to aid understanding of the application of disclosure requirements, but are chiefly intended to address the following areas:

- ▶ Materiality judgements in determining whether to disclose information
- ▶ Assumptions and other sources of estimation uncertainty
- ▶ Aggregation and disaggregation

The proposed examples set out high-level fact patterns. Thus, an entity needs to be mindful of its own specific uncertainties when applying judgement to determine, for example, whether information is material or additional disaggregation is needed. To facilitate connected general purpose financial reporting, the proposed examples illustrate fact patterns that would be relevant to consider when applying IFRS Sustainability Disclosure Standards. However, they do not illustrate the related sustainability reporting disclosures.

The comment period is open until 28 November 2024.

Materiality Judgements

The IASB has proposed adding two examples aimed at illustrating materiality judgements; one that leads to the disclosure of additional information and one that does not. The proposed examples illustrate a situation in which an entity makes a judgement that there is no quantitative material effect on its financial statements and then assesses whether it is qualitatively material. One example illustrates a situation in which the lack of quantitative effect itself would be material information, and the other example concludes no material information need be disclosed, after assessing the industry in which it operates and the expectations of primary users resulting from disclosures made outside the financial statements.

Assessing whether information is qualitatively material can be difficult, especially when it is not quantitatively material. Providing contrasting examples should, therefore, be helpful.

Assumptions and other sources of estimation uncertainty

Several IFRS accounting standards require an entity to disclose assumptions and other sources of estimation uncertainty so that the primary users of financial statements can understand the basis of the estimation and analyse their uncertainties. The exposure draft proposes to illustrate the way in which an entity applying IFRS accounting standards might determine whether to disclose additional information.

Specific disclosure requirements in IFRS accounting standards

Several proposed examples illustrate the judgement used in relation to specific disclosure requirements in IFRS accounting standards. For example, one proposed example illustrates how an entity with a high amount of greenhouse gas emissions applies IAS 36 *Impairment of Assets* to disclose key assumptions in the calculation of value in use and the related sensitivity analysis. Another proposed example illustrates how a financial institution might consider the effects of climate-related risks on its credit risk exposures and comply with the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*. The IASB has also proposed an example to illustrate how application of the disclosure requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* could result in an entity disclosing additional information about decommissioning and restoration provisions, even if the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial.

These examples might be helpful when an entity considers the key assumptions or inputs for its estimates that it needs to disclose in the financial statements, depending on its own specific circumstances.

General disclosure requirements in IAS 1

The exposure draft proposes an example that would illustrate how applying the general disclosure requirements in IAS 1 *Presentation of Financial Statements* about assumptions and other sources of estimation uncertainty could result in an entity disclosing information about climate-related assumptions, even if specific disclosure requirements in other IFRS accounting standards are not applicable. The example notes that the disclosure requirements in relation to assumptions and uncertainties set out in IAS 1 are applicable in situations where the revision of assumptions in the next financial year could result in a material adjustment, even if the assumptions and uncertainties will not be resolved within the next year. This example has been proposed in response to feedback from users of financial statements. Physical and transition risks related to climate change continue to affect the uncertainty, complexity or subjectivity inherent in judgements and estimates. Appropriately reflecting the impact of such risk in the financial statements and communicating that to users can be challenging and this proposed example is intended to provide guidance to assist with that assessment.

Overarching disclosure requirement in IAS 1

IAS 1.31 requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS accounting standards is insufficient so that primary users of financial statements can understand the impact of a particular transaction or event on the financial statements. Determining whether additional disclosure is required beyond that required by specific IFRS accounting standards can be challenging. One of the proposed examples illustrates how an entity might assess whether additional disclosures are needed to comply with this requirements by highlighting some, but not all, of the factors to consider.

Aggregation and disaggregation

An example in the exposure draft illustrates how an entity disaggregates the information it provides about a class of property, plant and equipment on the basis of their dissimilar climate-related risk characteristics. Although the example illustrates the application of principles in IFRS 18 *Presentation and Disclosure in Financial Statements*, entities also need to consider if the appropriate level of aggregation or disaggregation would result in material information when applying the requirements of IAS 1.

Transition

The proposed examples would be included in the Illustrative Examples, which accompany, but are not part of, IFRS accounting standards. Since the IASB intends that existing requirements will not change, the exposure draft proposes no transition relief and does not include a proposed effective date.

How we see it

Communicating information about the effects of climate change and other uncertainties is important and affects all entities.

The IASB has previously issued guidance to assist entities.¹ The proposed examples build on this, adding further guidance within the Illustrative Examples to IFRS accounting standards, and highlighting factors to consider when determining how requirements in IFRS accounting standards could be applied to their own facts and circumstances to achieve better communication with stakeholders. However, the proposed examples will not illustrate every situation, nor will they remove the need for entities to exercise judgement.

We encourage entities to provide feedback on the proposals which are open for comment until 28 November 2024.

¹ IASB, Educational material, *Effects of climate-related matters on financial statements*, Republished July 2023 available on the [IFRS Foundation's website](https://www.iasb.org/).

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