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IASB PUBLISHES *EXPOSURE DRAFT- CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS*

PROPOSED ILLUSTRATIVE EXAMPLES

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BACKGROUND

On 31 July 2024, the International Accounting Standards Board (IASB) issued an Exposure Draft titled Climate-related and Other Uncertainties in the Financial Statements. This exposure draft proposes to add eight illustrative examples to IFRS® Accounting Standards with an objective to improve how the financial statements present and disclose financial information of climate-related and other risks.

In March 2023, due to the persistent demands from respondents to the Third Agenda Consultation[1] about the need for better climate-related risk disclosures in the financial statements, the IASB conducted research to understand the nature and causes of these concerns.

The research found that stakeholders are concerned that information about the effects of climate-related risks in the financial statements is sometimes insufficient or appears to be inconsistent with information provided outside the financial statements.

STATUS

Exposure draft.

ACCOUNTING IMPACT

The Exposure Draft proposes to add illustrative examples to IFRS Accounting Standards to enhance the presentation and disclosure of financial information related to climate risks and other uncertainties in the financial statements.

The goal of the exposure draft is to improve the application of existing IFRS requirements, addressing stakeholder concerns that current disclosures on climate-related risks are either insufficient or inconsistent with information externally reported outside the financial statements.

Based on the research findings, the IASB decided to take targeted actions that would enhance the application of the existing requirements in IFRS Accounting Standards for reporting of financial information related to climate-risk in the financial statements and strengthen alignment between the financial statements and sustainability-related financial disclosures outside the financial statements.

Initially focused on climate-related risks, the project's scope was later expanded to address other uncertainties in financial reporting, such as accounting estimates, judgments, and impairment. The Exposure Draft and other related documents may be accessed on the project page on the IFRS Foundation website.

The effects of climate-related and other uncertainties are prevalent throughout financial statements. The IASB has therefore, focused on illustrative examples relating to areas that are most relevant. Although the examples highlight climate-related risks, they are expected to offer useful guidance for dealing with other types of uncertainties as well.

The proposed examples aim to clarify disclosure requirements by incorporating recognition and measurement considerations, focusing on specific areas in relevant IFRS Accounting Standards that apply.

[1] The IASB holds a public consultation on its activities and its work plan every five years.

Summary of Proposed Illustrative Examples

AREAS OF FOCUS	EXAMPLES	SUMMARY	ACCOUNTING STANDARDS
Materiality judgement of climate-related uncertainties to determine disclosure of additional information	**Example 1**: Materiality judgement and disclosure of additional information	The example illustrates how an entity assesses materiality of financial information in the financial statements, in accordance with the requirement of IAS 1 (IFRS 18) leading to additional disclosures beyond those required by specific IFRS Accounting Standards. The entity, a capital-intensive manufacturer with climate-related transition risks, has developed a 10-year plan to reduce greenhouse gas emissions through technology and process changes. This plan is detailed in the general purpose financial report, but no further details are provided in the financial statements. The entity assesses that the plan does not affect asset or liability recognition and measurement due to fully depreciated facilities and substantial recoverable amounts and concludes that no additional disclosure is required after reviewing relevant IFRS Accounting Standards. IAS 1.31 requires entities to disclose additional material information if existing disclosures do not sufficiently explain the impact of a transition plan on financial position and performance, as failing to do so could mislead users; thus, the entity decides to explicitly disclose that its transition plan has no effect on its financial position and financial performance as well as explains why this is the case.	IAS 1 *Presentation of Financial Statements* (IFRS 18 *Presentation and Disclosure in Financial Statements* effective for annual reporting periods beginning on or after 1 January 2027)
Materiality judgement of climate-related uncertainties to determine disclosure of additional information	**Example 2**: Materiality judgement and non-disclosure of additional information	This example illustrates how an entity assesses materiality of the financial information in the financial statements, in accordance with the requirement of IAS 1 (IFRS 18). The judgements made in this context do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards. The entity, a service provider with minimal climate-related risks, discloses its current low greenhouse gas emissions and future energy-efficient investments and finds it has no effect on asset or liability recognition and measurement, thus concludes no further disclosure is needed after reviewing relevant IFRS Accounting Standards. IAS 1.31 requires entities to assess if additional disclosures are needed when specific IFRS Accounting Standards do not require disclosure of the effect of such transactions on financial statements.	IAS 1 *Presentation of Financial Statements* (IFRS 18 *Presentation and Disclosure in Financial Statements* effective for annual reporting periods beginning on or after 1 January 2027)

AREAS OF FOCUS	EXAMPLES	SUMMARY	ACCOUNTING STANDARDS
		In this situation when quantitative information is immaterial, the entity considers qualitative factors to assess whether further disclosures would influence user's decision-making. However, in this case, the entity decides not to provide additional disclosures about climate-related risks as they are deemed to be not material.	
Disclosure of Climate-Related Assumptions and Estimation Uncertainties	**Example 3**: Climate-related assumptions and other estimation uncertainties (specific requirements)	This example illustrates how an entity discloses information about the key assumptions used to determine the recoverable amount of assets as per IAS 36. The entity measures the CGU's value in use for impairment using cash flow projections based on management's estimates of future economic conditions, including emission allowance costs, and disclose key assumptions and their alignment with external information as per IAS 36. IAS 36.134(f) requires disclosure of potential impairment if there is a change in these key assumptions, causing the CGU's carrying amount to exceed its recoverable amount. The IASB notes in the Basis for Conclusions to the Exposure Draft that entities may consider disclosing assumptions about the costs of acquiring greenhouse gas emission allowances when measuring a CGU's recoverable amount, as these details may be material due to widespread industry compliance with emissions regulations and potential future changes in regulatory scope.	IAS 36 *Impairment of Assets*
	Example 4: Climate-related assumptions and other estimation uncertainties (general requirements)	This example illustrates how an entity discloses information about its future assumptions according to IAS 1 (IAS 8), even if other IFRS Accounting Standards do not require such disclosures, by identifying and providing relevant details about the assumptions. The entity with climate-related transition risks tests its CGUs using various climate-related assumptions for impairment and concludes that no impairment loss must be recorded since the recoverable amount exceeds the carrying amount. While IAS 36 does not require disclosure of assumptions used to determine a CGU's recoverable amount if the CGU has no goodwill or indefinite-lived intangible assets and no impairment loss been recognised,	IAS 1 *Presentation of Financial Statements* (amended version of IAS 8 *Basis of Preparation of Financial Statements* effective for annual reporting periods beginning on or after 1 January 2027)

AREAS OF FOCUS	EXAMPLES	SUMMARY	ACCOUNTING STANDARDS
		the entity should consider the requirements of IAS 1 (or IAS 8) in determining whether to make such disclosure. IAS 1.125 requires entities to disclose significant risks and assumptions affecting asset and liability values, while IAS 1.129 requires detailed qualitative and quantitative information to help users understand management's judgements about future. The example clarifies that factors considered do not only apply to uncertainties resolved within the next financial year but also apply to assumptions resolved beyond the next financial year in cases where they could materially impact the carrying amounts of assets or liabilities.	
	Example 5: Additional disclosure of assumptions	This example illustrates the requirement of IAS 1 (IFRS 18) relating to how an entity might be required to disclose information about assumptions it makes about the future even if a specific IFRS Accounting Standard requires no such disclosure. The entity operates in a jurisdiction with potential future regulations that could impact its deferred tax asset, but since the regulation will not be reviewed for at least the next two years and IAS 12 does not require disclosure for such future uncertainties given the entity suffered no loss in either the current and preceding reporting period, the entity concludes that it does not need to disclose assumptions in accordance with IAS 1.125 (IAS 8.31A) because the regulation's impact on the deferred tax asset is not expected to be significant within the next financial year. However, as per IAS 1.31 (IFRS 18.20), the entity discloses additional information about the announced regulation to clarify its impact on the deferred tax asset, highlighting that even when specific IFRS Accounting Standards do not require it, additional disclosures may be needed to fully inform users about the financial effects of transactions and events.	IAS 1 *Presentation of Financial Statements* (IFRS 18 *Presentation and Disclosure in Financial Statements* effective for annual reporting periods beginning on or after 1 January 2027)

AREAS OF FOCUS	EXAMPLES	SUMMARY	ACCOUNTING STANDARDS
	Example 6: Disclosure about credit risk	This example illustrates the requirement of IFRS 7, particularly how an entity might disclose information about the effects of certain risks on its credit risk exposures and credit risk management practices and how these practices relate to the recognition and measurement of expected credit losses. The entity, a financial institution, monitors climate-related risks for two material loan portfolios - (a) loans to agricultural customers potentially affected by droughts, and (b) loans to real estate customers with properties in flood-prone areas. The entity is required to disclose as per IFRS 7.35A-38, how these risks impact credit risk, considering the portfolios' size, the significance of climate risks and external factors. Example 6 demonstrates how to disclose the effect of climate-related risks on an entity's credit-risk exposures and management practices, including their effect on recognising and measuring expected credit losses. It also outlines the factors to consider when assessing the materiality of climate-related risks on credit risk and loss measurement. While credit risk is influenced by various factors, specific details about climate-related risks may be material in some situations.	IFRS 7 *Financial Instruments: Disclosures*
	Example 7: Disclosure about decommissioning and restoration provisions	The example illustrates how to disclose information about plant decommissioning and site restoration obligations in accordance with IAS 37, even if the related provision's carrying amount is immaterial. The entity, a petrochemicals manufacturer, anticipates maintaining its facilities for a long time, making the present value of decommissioning and site restoration costs immaterial. However, high future costs and the risk of earlier facility closures due to a transition to a lower-carbon economy pose significant concerns. IAS 37.85 requires an entity to disclose details about plant decommissioning and site restoration provisions, including descriptions, timing, uncertainties, and major assumptions, even if the carrying amount is immaterial.	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

AREAS OF FOCUS	EXAMPLES	SUMMARY	ACCOUNTING STANDARDS
		Example 7 illustrates that even if the carrying amount of plant decommissioning and site restoration provisions is immaterial, disclosures about uncertainties, including climate-related effects on recognition and measurement of the obligations are important as they can still be material.	
Disaggregation of assets and liabilities by climate-related risk characteristics	**Example 8**: Disclosure of disaggregated information	This example illustrates how an entity disaggregates information about a class of property, plant, and equipment (PP&E) based on dissimilar risk characteristics, as required by IFRS 18. The entity owns PP&E of the same class with both high and low greenhouse gas emissions, with significant differences in their vulnerability to climate-related transition risks, such as future regulations or changing consumer demands, which could impact their usage duration, residual values, and recoverable amounts. Applying aggregation and disaggregation principles in accordance with IFRS 18.41 and IFRS 18.42 results in the entity providing material disaggregated information about PP&E based on differing climate-related risk characteristics. Considering that two types of PP&E have distinct risk profiles, the entity disaggregates the related information to reflect these differences in line with IAS 16.73 provided that such information is material.	IFRS 18 *Presentation and Disclosure in Financial Statements* effective for annual reporting periods beginning on or after 1 January 2027

Overall Consideration in Developing Examples

What types of uncertainties and fact patterns are illustrated?

The IASB noted that since IFRS Accounting Standards are principles-based, the concepts and requirements illustrated would apply equally to climate-related risks and other types of uncertainties.

In developing examples, the IASB chose to create narrow fact patterns focusing on specific requirements in an IFRS Accounting Standard rather than broad patterns covering multiple requirements in various IFRS Accounting Standards. This approach aims to be more effective for the users as well as to address stakeholder concerns and improve reporting on climate-related risks and other uncertainties in the financial statements.

How do the examples enhance integrated general purpose financial reporting?

The IASB aims to address inconsistencies between climate-related risk information in financial statements and other general purpose financial reports with an objective to enhance the alignment between information provided in financial statements and other reports. This approach is consistent with the IFRS Foundation's goal of creating complementary and compatible IFRS Standards for high-quality, transparent reporting.

The IASB has developed examples to illustrate how IFRS Accounting Standards may ensure that financial statements are consistent with other general purpose reports, including those adhering to IFRS® Sustainability Disclosure Standards. The IASB collaborated with the International Sustainability Standards Board (ISSB) to ensure compatibility and reduce inconsistencies.

The examples demonstrate that using both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards together can prevent duplicated reporting and allow cross-referencing between reports.

Effective Date and Transition

Materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those Standards and, as such, do not have an effective date or transition requirements.

The IASB expects these examples to assist entities in making materiality judgments and enhance the application of disclosure requirements in financial statements. Entities must use judgment to decide what information is material and reassess this judgment at each reporting date. As circumstances change, previously immaterial information may become material and vice versa. Entities are expected to implement changes suggested by illustrative examples in a timely manner, with the amount of time deemed sufficient based on individual circumstances.

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