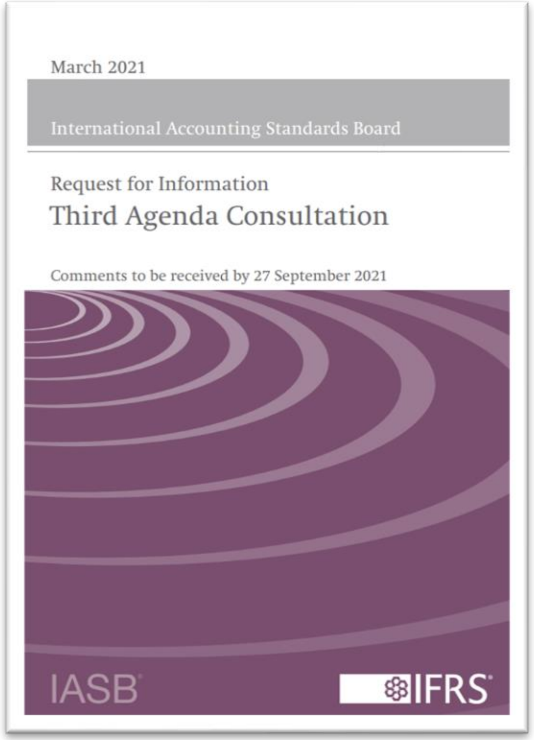
IFRS Accounting

Climate-related and Other Uncertainties in the Financial Statements

OIC Roundtable
8. October 2024

The views expressed In this presentation are those of the presenter, not necessarily those of the IFRS Foundation, International Accounting Standards Board or the International Sustainability Standards Board.

Origins of the project


March 2021

International Accounting Standards Board

Request for Information

Third Agenda Consultation

Comments to be received by 27 September 2021

IASB

IFRS

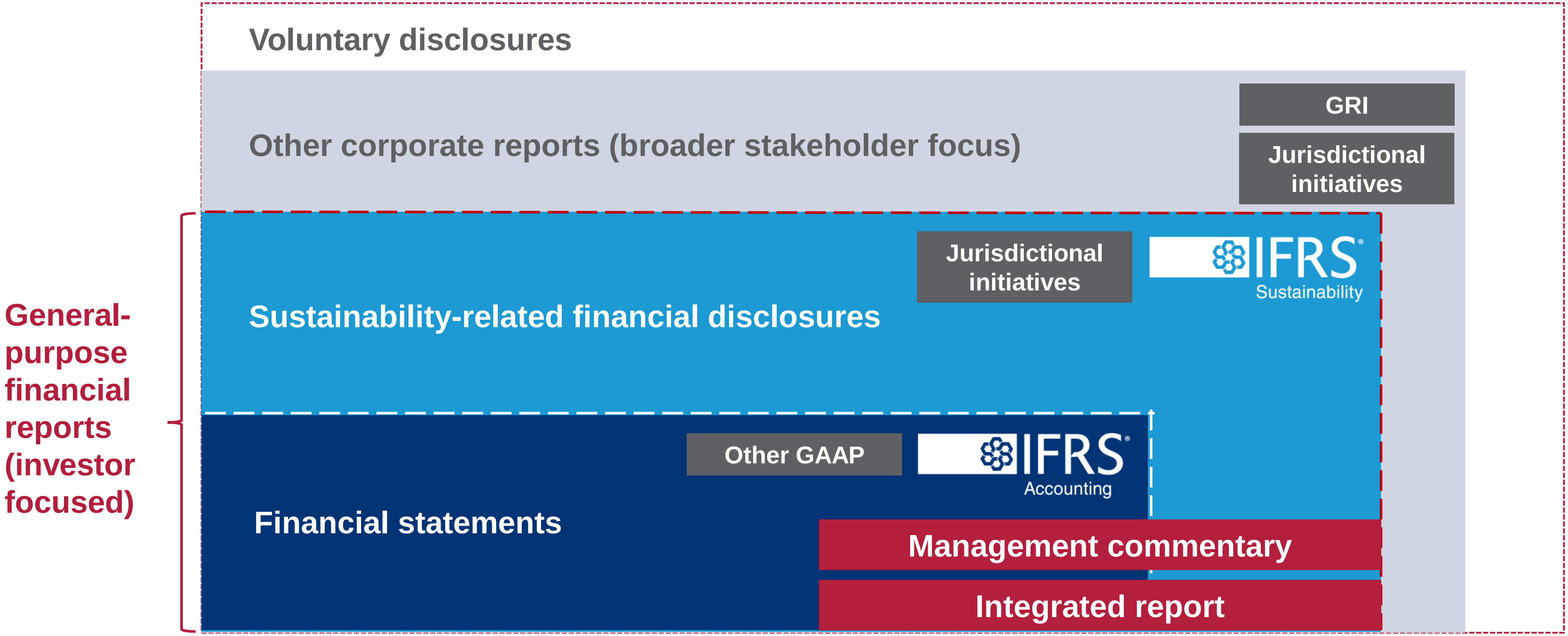
- In the IASB's Third Agenda Consultation, respondents attributed **high-priority** to a project on climate-related risks in the financial statements

- Concerns that information about climate-related risks in financial statements is:
  - **insufficient**
  - **inconsistent** with information reported elsewhere by the company

Findings from research and actions

Concerns	Nature and causes	IASB's actions (see slide 8)	Evolving reporting landscape
Information about the effects of climate-related risks is sometimes **insufficient** or appears to be **inconsistent** with information provided outside the financial statements	IFRS Accounting Standards are generally sufficient, but there might be application challenges	Help improve the application of IFRS Accounting Standards and raise awareness	Sustainability disclosures might better inform the application of IFRS Accounting Standards
	Users need information beyond the objective and scope of financial statements	Strengthen connections between financial statements and sustainability-related financial disclosures	Sustainability disclosures will help meet users' information needs that go beyond the scope of financial statements

Broader reporting landscape

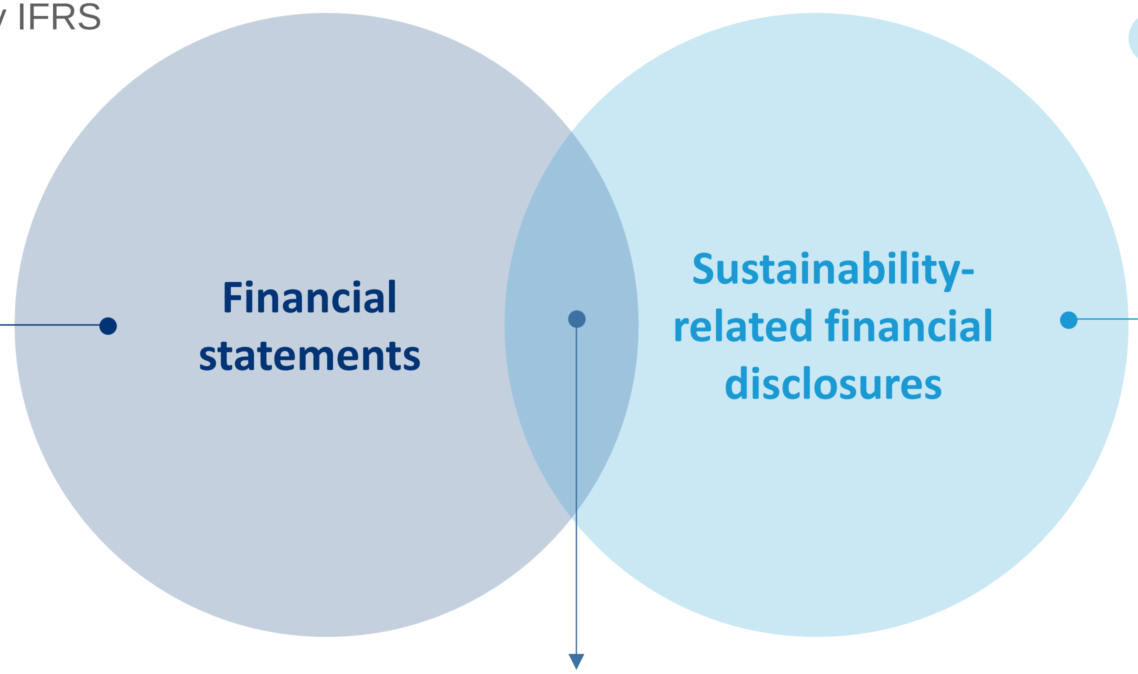


Connectivity and complementary objectives

Information required by IFRS Accounting Standards

Information required by IFRS Sustainability Disclosure Standards

Information about **assets, liabilities, equity, income and expenses**



Information about **sustainability-related risks and opportunities**

Information about the effects of **sustainability-related risks and opportunities** on an entity's **assets, liabilities, equity, income and expenses**

Note: The diagram is not intended to represent relative proportions of reported information.

Main actions to improve reporting

Improve the application of IFRS Accounting Standards

- **Exposure Draft with eight examples** illustrating how an entity applies the Standards to report the effects of climate-related and other uncertainties in its financial statements (see slides 9–23)

Stepping stone for future discussions

Raise awareness of the requirements

- Improved the **accessibility of supporting materials** about reporting the effects of climate-related and other uncertainties in the financial statements and exploring other ways to raise awareness

Strengthen connections

- **Collaborating with the ISSB** to help strengthen connections between financial statements and sustainability-related financial disclosures

Improve application of standards

- **Targeted actions:**
  - apply to any entity applying IFRS Accounting Standards, regardless of whether sustainability reports are prepared.
  - include examples, educational materials, and targeted amendments to IFRS Accounting Standards.
- This project will **not** seek to:
  - develop an Accounting Standard on climate-related risks;
  - broaden the objective of financial statements or change the definitions of assets and liabilities;
  - insert International Sustainability Standards Board (ISSB) requirements into IFRS Accounting Standards; or
  - develop accounting requirements for pollutant pricing mechanisms.[1]

[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.

Illustrative Examples

	Reporting outcome
Example 1 *Materiality judgements leading to additional disclosures*	• The company discloses information about its transition plan outside its financial statements and operates in an industry exposed to climate-related transition risks • In its financial statements, the **company discloses that its transition plan has no effect** on its financial position and financial performance and **explains why**
Example 2 *Materiality judgements not leading to additional disclosures*	• The company discloses information about its greenhouse gas emissions policy outside its financial statements and operates in an industry with limited exposure to climate-related transition risks • The **company does not disclose additional information** in its financial statements

Illustrative Examples

	Reporting outcome
Example 3 *Disclosure of assumptions: specific requirements*	• The company tests an asset for impairment annually. Assumptions about the future price of emission allowances and the scope of emission regulations are key assumptions • The company **discloses information about the key assumptions**
Example 4 *Disclosure of assumptions: general requirements*	• The company tests an asset for impairment but recognises no impairment loss. The company makes assumptions related to climate-related transition risks (eg commodity prices) • The company **discloses information about assumptions** that have a significant risk of material adjustment within the next financial year

Illustrative Examples

	Reporting outcome
Example 5 *Disclosure of assumptions: additional disclosures*	• A company recognises a deferred tax asset based on an assumption about the effective date of announced government regulations that will significantly affect its operations • The company **discloses information about the assumption** even if not specifically required by IFRS Accounting Standards
Example 6 *Disclosure about credit risk*	• The company, a financial institution, identifies two loan portfolios that require it to manage credit risk arising from its customers' exposure to climate-related risks • The company **discloses information about the effects of climate-related risks** on its credit risk exposures and credit risk management practices, if that information material

Illustrative Examples

	Reporting outcome
Example 7 *Disclosure about decommissioning and restoration provisions*	• The company has decommissioning obligations for its petrochemical facilities. The present value of the costs to settle the obligations is immaterial because the company expects to maintain and operate the facilities for an extremely long time • The company **discloses information about the obligations,** even though the provision's carrying amount is immaterial.
Example 8 *Disclosure of disaggregated information*	• The company owns PP&E with long useful lives whose use results in high amounts of greenhouse gas emissions. It has also invested in PP&E with lower emissions • The company **disaggregates the information** it provides between these two types of PP&E based on their dissimilar risk characteristics

IFRIC AD on climate-related commitments: example

In 20X0, an entity publicly states its commitment to transition to ‘net zero’ from 20X9

20X0

20X5

20X9

by 20X9

to **reduce** its annual gross Scope 1 and Scope 2 GHG emissions by 60% by modifying its manufacturing methods, including the purchase of energy-efficient equipment

from 20X9

to **offset** its remaining Scope 1 and Scope 2 GHG emissions by buying and retiring carbon credits

Recognition criteria for a provision not given

Interpretations Committee analysis—provision

Recognition criteria

Present obligation as a result of a past event	Probable outflow of resources	Reliable estimate

Analysis

Obligation to **reduce** emissions is **not** a present obligation—costs to modify manufacturing methods are costs of operating in the future

Obligation to **offset** emissions becomes a present obligation only when entity has emitted gases it has committed to offset—ie in 20X9 onwards

Illustrating reported information—20X0—Accounting

Effects on recognition and measurement

No financial effects in the reporting period

Disaggregated information

No financial effects about which to provide disaggregated information

Related disclosures

The entity discloses:

- that its transition plan has no effect on its financial position and financial performance and explains why, if that information is material in the context of the financial statements
- the amount of contractual commitments to acquire property, plant and equipment (if any)

Illustrating reported information—20X0—Sustainability

Current financial effects

The entity explains that its transition plan to address its climate-related risks has not had financial effects in the reporting period

Anticipated financial effects

The entity discloses information about the planned purchases of energy-efficient equipment and carbon credits and related sources of funding, including quantitative information

Other disclosures

The entity provides information about its transition plan and its net-zero target, including:

- how the entity plans to achieve its net-zero target and its gross GHG emissions target
- that its net-zero target covers gross Scope 1 and Scope 2 GHG emissions and that the entity plans to use carbon credits to offset any remaining such emissions

To note

An entity need not provide quantitative information about anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information

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Conclusion

- Evolving landscape of financial reporting
- Project on climate-related risks and uncertainties in the financial statement
    - Stepping stone for future discussions
    - Illustrative examples as no intention to change existing requirements
- Many overlapping projects: power purchase agreements, provisions, intangibles, pollutant-pricing mechanisms

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