



IFRS[®]

Accounting

July 2024

Exposure Draft

IFRS[®] Accounting Standard

Climate-related and Other Uncertainties in the Financial Statements

Proposed illustrative examples

Comments to be received by 28 November 2024

Exposure Draft

Climate-related and Other Uncertainties in the Financial Statements Proposed illustrative examples

Comments to be received by 28 November 2024

Exposure Draft IASB/ED/2024/6 is published by the International Accounting Standards Board (IASB) for comment only. Comments need to be received by **28 November 2024** and should be submitted by email to commentletters@ifrs.org or online at <https://www.ifrs.org/projects/open-for-comment/>.

All comments will be on the public record and posted on our website at www.ifrs.org unless the respondent requests confidentiality. Such requests will not normally be granted unless supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data.

Disclaimer: To the extent permitted by applicable law, the International Accounting Standards Board (IASB) and the Foundation expressly disclaim all liability howsoever arising from this publication or any translation thereof whether in contract, tort or otherwise to any person in respect of any claims or losses of any nature including direct, indirect, incidental or consequential loss, punitive damages, penalties or costs.

Information contained in this publication does not constitute advice and should not be substituted for the services of an appropriately qualified professional.

© 2024 IFRS Foundation

All rights reserved. Reproduction and use rights are strictly limited. Please contact the Foundation for further details at permissions@ifrs.org.

Copies of IASB publications may be ordered from the Foundation by emailing customerservices@ifrs.org or by visiting our shop at <https://shop.ifrs.org>.



The Foundation has trade marks registered around the world including 'IAS®', 'IASB®', the IASB® logo, 'IFRIC®', 'IFRS®', the IFRS® logo, 'IFRS for SMEs®', the IFRS for SMEs® logo, the 'Hexagon Device', 'International Accounting Standards®', 'International Financial Reporting Standards®', 'NIIF®', 'SIC®', 'ISSB™', and 'SASB®'. Further details of the Foundation's trade marks are available from the Foundation on request.

The Foundation is a not-for-profit corporation under the General Corporation Law of the State of Delaware, USA and operates in England and Wales as an overseas company (Company number: FC023235) with its principal office in the Columbus Building, 7 Westferry Circus, Canary Wharf, London, E14 4HD.

CONTENTS

	<i>from page</i>
INTRODUCTION	4
INVITATION TO COMMENT	5
[DRAFT] ILLUSTRATIVE EXAMPLES	7
APPROVAL BY THE IASB OF EXPOSURE DRAFT <i>CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS</i> PUBLISHED IN JULY 2024	24
BASIS FOR CONCLUSIONS ON EXPOSURE DRAFT <i>CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS</i>	25

Introduction

Why is the IASB publishing this Exposure Draft?

In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements.

The IASB decided to work on this project because of strong demand from respondents to its Third Agenda Consultation. These respondents were concerned that information about the effects of climate-related risks in the financial statements was insufficient or appeared to be inconsistent with information entities provide outside the financial statements, particularly information reported in other general purpose financial reports.

The IASB carried out research to understand the nature and causes of respondents' concerns about reporting the effects of climate-related risks in the financial statements. Based on this research, the IASB decided:

- (a) to generalise the project's objective to cover climate-related and other uncertainties; and
- (b) to take actions to help improve the reporting of the effects of these uncertainties in the financial statements, including developing the proposals set out in this Exposure Draft.

Throughout its work on this project, the IASB has collaborated with members and technical staff of the International Sustainability Standards Board, which develops IFRS Sustainability Disclosure Standards. The purpose of this collaboration was to help strengthen the connections between the information an entity provides in its financial statements and the information it provides in other parts of its general purpose financial reports.

Proposals in this Exposure Draft

This Exposure Draft proposes eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties.

The IASB expects that these illustrative examples will help to improve the reporting of the effects of climate-related and other uncertainties in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Next steps

The IASB will consider the comments it receives on this Exposure Draft and decide whether to proceed with the proposed illustrative examples.

Invitation to comment

The IASB invites comments on the proposals in this Exposure Draft, particularly on the questions set out below. Comments are most helpful if they:

- (a) respond to the questions as stated;
- (b) indicate the specific paragraph(s) to which they relate;
- (c) contain a clear rationale;
- (d) identify any wording in the proposals that is not clear or would be difficult to translate; and
- (e) include any alternative the IASB should consider, if applicable.

The IASB requests comments only on matters addressed in this Exposure Draft. However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1 – Providing illustrative examples
<p>The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.</p> <p>Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.</p> <p>(a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why.</p> <p>The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards.</p> <p>Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.</p> <p>(b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.</p>

<p>Question 2 – Approach to developing illustrative examples</p> <p>Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements:</p> <ul style="list-style-type: none"> (a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and (b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements. <p>Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB’s overall considerations in developing the examples and the objective and rationale for each example.</p> <p>Do you agree with the IASB’s approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples?</p> <p>Please explain why or why not. If you disagree, please explain what you would suggest instead and why.</p>

<p>Question 3 – Other comments</p> <p>Do you have any other comments on the Exposure Draft?</p>
--

Deadline

The IASB will consider all comments received in writing by 28 November 2024.

How to comment

Please submit your comments electronically:

Online <https://www.ifrs.org/projects/open-for-comment/>

By email commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Illustrative Examples

Examples 1–8 are added to materials accompanying the IFRS Accounting Standards to which they relate.

IFRS 18 *Presentation and Disclosure in Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2027. The rubrics after the title of each example describe the changes to the materials accompanying IFRS Accounting Standards for periods before and after an entity applies IFRS 18.

List of illustrative examples

	<i>from page</i>
Example 1—Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)	8
Example 2—Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)	10
Example 3—Disclosure of assumptions: specific requirements (IAS 36)	12
Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)	14
Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)	17
Example 6—Disclosure about credit risk (IFRS 7)	20
Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)	22
Example 8—Disclosure of disaggregated information (IFRS 18)	23

Example 1—Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 1' to a new part of the *Guidance on implementing IAS 1 Presentation of Financial Statements*, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 1.1 is added as paragraph IG12 and paragraphs 1.2–1.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example IV-1' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

- 1.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

- 1.2 The entity is a manufacturer that operates in a capital-intensive industry and is exposed to climate-related transition risks. To manage these risks, the entity has developed a climate-related transition plan. The entity discloses information about the plan in a general purpose financial report outside the financial statements, including detailed information about how it plans to reduce greenhouse gas emissions over the next 10 years. The entity explains that it plans to reduce these emissions by making future investments in more energy-efficient technology and changing its raw materials and manufacturing methods. The entity discloses no other information about climate-related transition risks in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

- 1.3 In preparing its financial statements, the entity assesses the effect of its climate-related transition plan on its financial position and financial performance. The entity concludes that its transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses because:
- (a) the affected manufacturing facilities are nearly fully depreciated;
 - (b) the recoverable amounts of the affected cash-generating units significantly exceed their respective carrying amounts; and

(c) the entity has no asset retirement obligations.

- 1.4 The entity also assesses whether specific requirements in IFRS Accounting Standards – such as in IAS 16 *Property, Plant and Equipment*, IAS 36 *Impairment of Assets* or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* – require it to disclose information about the effect (or lack of effect) of its transition plan on its financial position and financial performance. The entity concludes that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

- 1.5 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity’s financial position and financial performance.
- 1.6 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its transition plan on its financial position and financial performance would provide material information. That is, omitting this information could reasonably be expected to influence decisions primary users of the entity’s financial statements make on the basis of those financial statements.
- 1.7 Without that additional information, the decisions users of the entity’s financial statements make could reasonably be expected to be influenced by a lack of understanding of how the entity’s transition plan has affected the entity’s financial position and financial performance. For example, users of the entity’s financial statements might expect that some of its assets might be impaired because of its plans to change manufacturing methods and invest in more energy-efficient technology.
- 1.8 The entity reaches this conclusion having considered qualitative factors that make the information more likely to influence users’ decision-making, including:
- (a) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and
 - (b) the industry in which it operates, which is known to be exposed to climate-related transition risks (external qualitative factor).
- 1.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity 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 (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as 'Example 2' to a new part of the *Guidance on implementing IAS 1 Presentation of Financial Statements*, titled 'Part IV: Illustrative examples of disclosures about uncertainties'. Paragraph 2.1 is added as paragraph IG13 and paragraphs 2.2–2.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as 'Example IV-2' after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled 'Part IV—Disclosures about uncertainties'. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

- 2.1 This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In this example, these judgements do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Background

- 2.2 The entity is a service provider that operates in an industry that has limited exposure to climate-related transition risks. The entity discloses in a general purpose financial report outside the financial statements that it has low levels of greenhouse gas emissions, explaining that, where possible, it uses renewable energy and avoids high-emission activities. The entity also explains how it plans to keep emissions low by maintaining its current greenhouse gas emissions policy. The entity discloses no other information about climate-related transition risks in its general purpose financial reports.

Application

Considering the specific requirements in IFRS Accounting Standards

- 2.3 In preparing its financial statements, the entity assesses the effect of its greenhouse gas emissions policy on its financial position and financial performance. The entity concludes that its greenhouse gas emissions policy has no effect on the recognition and measurement of its assets and liabilities and related income and expenses.
- 2.4 The entity also assesses whether specific requirements in IFRS Accounting Standards require it to disclose information about the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance. The entity concludes that they do not.

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

- 2.5 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.
- 2.6 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect (or lack of effect) of its greenhouse gas emissions policy on its financial position and financial performance would not provide material information. That is, omitting this information could not reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.
- 2.7 Without that additional information, the decisions users of the entity's financial statements make could not reasonably be expected to be influenced by a lack of understanding of how the entity's greenhouse gas emissions policy has affected the entity's financial position and financial performance.
- 2.8 The entity reaches this conclusion having considered qualitative factors that make the information less likely to influence users' decision-making, including:
- (a) the disclosures in its general purpose financial report outside the financial statements (entity-specific qualitative factor); and
 - (b) the industry in which it operates, which is known to have limited exposure to climate-related transition risks (external qualitative factor).
- 2.9 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity provides no additional disclosures.

Example 3—Disclosure of assumptions: specific requirements (IAS 36)

This example is added as ‘Example 10’ after paragraph IE89 of the *Illustrative Examples* accompanying IAS 36 *Impairment of Assets*. Paragraph numbering will be adapted to conform with the numbering used in that document.

- 3.1 This example illustrates the requirements in paragraphs 134(d)(i)–(ii) and 134(f) of IAS 36 *Impairment of Assets*. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets.

Background

- 3.2 The entity’s operations result in a high amount of greenhouse gas emissions. The entity is subject to greenhouse gas emissions regulation in some of the jurisdictions in which it operates. Those regulations require the entity to acquire emission allowances for some of its emissions, resulting in costs (emission allowance costs).¹ The entity expects such regulations to become more widespread in the future.
- 3.3 The entity has allocated a significant amount of goodwill to one of its cash-generating units (CGUs) and tests that CGU for impairment at least annually. The entity has determined that its assumptions about future emission allowance costs are key assumptions—that is, they are among the assumptions to which the CGU’s recoverable amount is most sensitive.

Application

Reasonable and supportable assumptions

- 3.4 The entity measures the value in use of the CGU when testing it for impairment. Applying paragraphs 33–38 of IAS 36 in measuring the CGU’s value in use, the entity bases cash flow projections on assumptions that represent management’s best estimate of the range of economic conditions that will exist in the future. These assumptions include assumptions about future emission allowance costs.

Disclosures

- 3.5 Applying paragraphs 134(d)(i)–(ii) of IAS 36, the entity discloses:
- (a) that its key assumptions include emission allowance cost assumptions, such as the future price of greenhouse gas emission allowances and the future scope of emission regulations.

¹ This example illustrates only the entity’s consideration of emission allowance costs when testing an asset for impairment and its disclosure of information about related key assumptions. The example does not cover, for example, other costs an entity might incur in managing climate-related risks.

- (b) its approach to determining the values assigned to these key assumptions. For example, the entity discloses whether its assumption about the future price of greenhouse gas emission allowances is consistent with external sources of information and, if not, how and why it differs from such sources of information.

3.6 In applying paragraph 134(f) of IAS 36, the entity also considers whether a reasonably possible change in a key assumption would cause the CGU's carrying amount to exceed its recoverable amount—that is, whether such a change in assumption would result in an impairment loss. For example, the entity considers whether an impairment loss would result from a reasonably possible change in the entity's assumption about the future price of greenhouse gas emission allowances. If so, the entity discloses:

- (a) the amount by which the CGU's recoverable amount exceeds its carrying amount;
- (b) the values assigned to the key assumption; and
- (c) the amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount.

Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)

Reporting periods before an entity applies IFRS 18

This example is added as ‘Example 3’ to a new part of the *Guidance on implementing IAS 1 Presentation of Financial Statements*, titled ‘Part IV: Illustrative examples of disclosures about uncertainties’. Paragraph 4.1 is added as paragraph IG14 and paragraphs 4.2–4.9 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as ‘Example 6’ after paragraph 5.5 of the *Guidance on implementing IAS 8 Basis of Preparation of Financial Statements*. Paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

- 4.1 This example illustrates the requirements in paragraphs 125 and 129 of IAS 1 *Presentation of Financial Statements* [paragraphs 31A and 31E of IAS 8 *Basis of Preparation of Financial Statements*]. In particular, it illustrates how an entity:
- (a) might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;
 - (b) identifies the assumptions about which it is required to disclose information; and
 - (c) determines what information about these assumptions it is required to disclose.

Background

- 4.2 The entity operates in a capital-intensive industry. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.
- 4.3 During the current reporting period, there are indications that some of the entity’s non-current assets might be impaired. Because it is not possible to estimate the recoverable amount of the individual assets, the entity tests the cash-generating unit (CGU) to which they belong for impairment. The entity concludes that the CGU’s recoverable amount is greater than its carrying amount, and therefore recognises no impairment loss. In determining the CGU’s recoverable amount, the entity considers various scenarios and makes several assumptions related to the climate-related transition risks to which it is exposed. Examples of such assumptions include assumptions about future:
- (a) legal and regulatory developments;
 - (b) consumer demands;
 - (c) commodity prices; and
 - (d) costs of acquiring greenhouse gas emission allowances.

Application

Considering the specific requirements in IFRS Accounting Standards

- 4.4 IAS 36 does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognised no impairment loss for that CGU during the period. However, the entity considers whether IAS 1 [IAS 8] requires it to disclose information about these assumptions.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

- 4.5 Paragraph 125 of IAS 1 [Paragraph 31A of IAS 8] requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of the assets and liabilities.
- 4.6 The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year, but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year. The entity reaches this conclusion after considering these factors:
- (a) *the size of the CGU's carrying amount*—the CGU makes up a large portion of the entity's total assets. Therefore, a potential impairment loss from a relatively small adjustment to the total carrying amount might be material.
 - (b) *the subjectivity or complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because they cover the medium and long term. The judgements also reflect the entity's expectations about highly uncertain future events, such as government actions to reduce the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.
 - (c) *the risk that new information or new developments in the next financial year might result in changes in the assumptions*—frequent new climate-related market, economic, regulatory and legal developments might affect the judgements the entity has made. Such circumstances increase the risk that new information or new developments within the next financial year might affect the entity's assumptions (including assumptions

about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.

- (d) *the sensitivity of the CGU's carrying amount to changes in the assumptions*—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction of the CGU's recoverable amount and a material impairment loss.

4.7 Applying paragraph 125 of IAS 1 [paragraph 31A of IAS 8] to the assumptions identified in paragraph 4.6, the entity discloses:

- (a) information about these assumptions; and
- (b) details of the nature and carrying amount of the CGU's non-current assets.

4.8 Paragraph 129 of IAS 1 [Paragraph 31E of IAS 8] requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.

4.9 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of IAS 1 [paragraph 31E of IAS 8] for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.

Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)

Reporting periods before an entity applies IFRS 18

This example is added as ‘Example 4’ to a new part of the *Guidance on implementing IAS 1 Presentation of Financial Statements*, titled ‘Part IV: Illustrative examples of disclosures about uncertainties’. Paragraph 5.1 is added as paragraph IG15 and paragraphs 5.2–5.11 and related headings are included in a box without numbering.

Reporting periods in which an entity applies IFRS 18

This example is added as ‘Example IV-3’ after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled ‘Part IV—Disclosures about uncertainties’. The paragraph numbering will be adapted to conform with the numbering used in that document. Paragraph references to requirements applicable for these reporting periods are included in brackets.

- 5.1 This example illustrates the requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements* [paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*]. In particular, it illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure.

Background

- 5.2 The entity operates in a jurisdiction whose government has announced regulation that would restrict the entity’s ability to operate and generate profits in that jurisdiction in the future. The announced regulation does not relate to taxation. However, the regulation could significantly affect the entity’s profitability and, therefore, its ability to recover the carrying amount of its deferred tax asset for the carryforward of unused tax losses. The regulation has not yet been enacted at the end of the reporting period.
- 5.3 It is uncertain when the announced regulation would be effective. The government has stated that, because of other priorities, it will not discuss the regulation further in the next two years, a period that extends beyond the end of the entity’s next financial year.

Application

Considering the specific requirements in IFRS Accounting Standards

- 5.4 In applying paragraph 34 of IAS 12 *Income Taxes*, the entity considers the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised in determining whether to recognise a deferred tax asset for such losses. The entity does not have a history of recent losses, and therefore the requirement in paragraph 35 of IAS 12 does not apply.

5.5 After considering all the criteria in paragraph 36 of IAS 12, the entity concludes that it is required to recognise the deferred tax asset for the full amount of its carryforward of unused tax losses on the assumption that the regulation will become effective only after the entity has been able to utilise these losses. Assuming that the announced regulation would become effective earlier would have resulted in a material write-down of the deferred tax asset and a related deferred tax expense.

5.6 IAS 12 does not require an entity to disclose information about the assumptions used in determining the extent to which it is probable that taxable profit will be available against which the unused tax losses can be utilised. Furthermore, paragraph 82 of IAS 12 does not apply because the entity suffered no loss in either the current or preceding reporting period.

Considering the general disclosure requirement for assumptions in paragraph 125 of IAS 1 [paragraph 31A of IAS 8]

5.7 The entity considers whether paragraph 125 of IAS 1 [paragraph 31A of IAS 8] requires it to disclose information about these assumptions. The entity determines that it is unlikely to change its assumption about the announced regulation in the next financial year because government discussions about it will not take place until after the end of that financial year. Therefore, the entity does not expect that assumption to have a significant risk of resulting in a material adjustment to the carrying amount of the deferred tax asset within the next financial year. Consequently, the entity is not required to disclose information about the assumption applying the requirements in paragraph 125 of IAS 1 [paragraph 31A of IAS 8].

Considering the overarching requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]

5.8 Paragraph 31 of IAS 1 [Paragraph 20 of IFRS 18] requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

5.9 In applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity determines that additional disclosures to enable users of financial statements to understand the effect of the announced regulation on the entity's financial position and financial performance would provide material information. That is, omitting this information could reasonably be expected to influence decisions primary users of the entity's financial statements make on the basis of those financial statements.

5.10 Without that additional information, the decisions users of the entity's financial statements make could reasonably be expected to be influenced by a lack of understanding that the announced regulation could have resulted in a material write-down of the deferred tax asset (and a related deferred tax expense) had the entity assumed the announced regulation would become effective earlier.

- 5.11 Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses information about:
- (a) the assumption that the announced regulation will become effective only after the entity has been able to utilise the unused tax losses; and
 - (b) the effect of this assumption on the carrying amount of the entity's deferred tax asset (for example, the entity discloses the amount of the deferred tax asset it recognised based on this assumption).

Example 6—Disclosure about credit risk (IFRS 7)

This example is added after paragraph IG22 of the *Guidance on implementing IFRS 7 Financial Instruments: Disclosures* under a new heading titled ‘Disclosures related to the effects of particular risks’. Paragraph 6.1 is added as paragraph IG22A and paragraphs 6.2–6.4 and related headings are included in a box without numbering.

- 6.1 This example illustrates requirements in paragraphs 35A–38 of IFRS 7 *Financial Instruments: Disclosures*. In particular, it illustrates how an entity might disclose:
- (a) information about the effects of particular risks on its credit risk exposures and credit risk management practices; and
 - (b) information about how these practices relate to the recognition and measurement of expected credit losses.

Background

- 6.2 The entity is a financial institution that provides a range of products to various types of customers. As part of its credit risk management practices, the entity considers the effects of climate-related risks on its credit risk exposures. The entity identifies two portfolios of loans that require it to monitor and take action to mitigate credit risk arising from its customers’ exposure to climate-related risks:
- (a) loans to agricultural customers for which climate-related events such as droughts could affect the borrowers’ ability to repay their loans; and
 - (b) loans to corporate real estate customers that are secured by properties located in low-lying areas subject to flood risk.

Application

- 6.3 Paragraphs 35A–38 of IFRS 7 include disclosure requirements about credit risk arising from financial instruments. In considering these requirements, the entity determines that information about the effects of climate-related risks on its exposure to credit risk on those two portfolios is material. The factors the entity considers in reaching this conclusion include:
- (a) the size of the portfolios affected by climate-related risks relative to the entity’s overall lending portfolio.
 - (b) the significance of the effects of climate-related risks on the entity’s exposure to credit risk compared to other factors affecting that exposure. The effects depend on factors such as loan maturities and the nature, likelihood and magnitude of the climate-related risks.
 - (c) external climate-related qualitative factors—such as climate-related market, economic, regulatory and legal developments—that make the information more likely to influence decisions primary users of the entity’s financial statements make on the basis of the financial statements.

- 6.4 In applying the requirements in paragraphs 35A–38 of IFRS 7, the entity considers what information to provide about the effects of climate-related risks on its exposure to credit risk on those two portfolios. This information might include, for example:
- (a) an explanation of the entity’s credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses. The information the entity discloses might include, for example, how climate-related risks affect:
 - (i) the determination of whether the credit risk on these financial instruments has increased significantly since initial recognition; and
 - (ii) the grouping of instruments if expected credit losses are measured on a collective basis.
 - (b) an explanation of how climate-related risks were incorporated in the inputs, assumptions and estimation techniques used to apply the requirements in Section 5.5 of IFRS 9 *Financial Instruments*. The information the entity discloses might include:
 - (i) how climate-related risks were incorporated in the inputs used to measure expected credit losses, such as probabilities of default and loss given default;
 - (ii) how forward-looking information about climate-related risks was incorporated into the determination of expected credit losses; and
 - (iii) any changes the entity made during the reporting period to estimation techniques or significant assumptions to reflect climate-related risks and the reasons for those changes.
 - (c) information about collateral held as security and other credit enhancements, including information about properties held as collateral that are subject to flood risk and whether that risk is insured.
 - (d) information about concentrations of climate-related risk if this information is not apparent from other disclosures the entity makes.

Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)

This example is added as ‘Example 4’ in Section ‘D Examples: disclosures’ in the *Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. Paragraph 7.1 is added as introductory text in italics and paragraphs 7.2–7.4 and related headings are included in a box without numbering.

- 7.1 This example illustrates the requirement in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. In particular, it illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if the carrying amount of the associated provision is immaterial.

Background

- 7.2 The entity is a petrochemicals manufacturer and has plant decommissioning and site restoration obligations for its petrochemical facilities. The entity assumes that it will continue to maintain and operate the facilities for an extremely long time. Consequently, the costs required to settle the obligations will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the provision is immaterial. However, the costs to settle the obligations will be high and there is an increasing risk that the entity might be required to close some of its petrochemical facilities earlier than it expects because of efforts to transition to a lower-carbon economy.

Application

- 7.3 Paragraph 85 of IAS 37 requires an entity to disclose information for each class of provision. Although the carrying amount of the entity’s plant decommissioning and site restoration provision is immaterial, the entity concludes that information about the related obligations is material. The entity reaches this conclusion after considering, among other factors, the environment in which it operates, the risk that it might be required to settle the obligations earlier than expected and the size of the outflows that will be required to settle them.
- 7.4 Applying paragraph 85 of IAS 37, the entity discloses information about its plant decommissioning and site restoration provision, including:
- (a) a brief description of the nature of its plant decommissioning and site restoration obligations and the expected timing of the outflows of economic benefits required to settle them.
 - (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the entity’s main petrochemical facilities—for example, when the facility is expected to be closed.

Example 8—Disclosure of disaggregated information (IFRS 18)

This example is added as ‘Example IV-4’ after paragraph IE17 of the *Illustrative Examples* accompanying IFRS 18 under a new heading titled ‘Part IV—Disclosures about uncertainties’. The paragraph numbering will be adapted to conform with the numbering used in that document.

- 8.1 This example illustrates the requirements in paragraphs 41–42 and B110 of IFRS 18 *Presentation and Disclosure in Financial Statements*. In particular, it illustrates how an entity might disaggregate the information it provides about a class of property, plant and equipment (PP&E) on the basis of dissimilar risk characteristics.

Background

- 8.2 The entity owns PP&E with long useful lives whose use results in high amounts of greenhouse gas emissions. The entity has invested in alternative PP&E of the same class with lower greenhouse gas emissions but still uses the high-emissions PP&E for a large part of its operations. The entity operates in an industry with a high degree of exposure to climate-related transition risks and the two types of PP&E make up a large portion of the entity’s total assets.
- 8.3 The entity concludes that these two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in different ways, including:
- (a) how long the entity will be able to use them;
 - (b) how their residual values will be affected; and
 - (c) whether the entity will be able to recover their carrying amounts.

Application

- 8.4 Paragraphs 41–42 of IFRS 18 include principles for aggregating and disaggregating information in financial statements. In particular, these paragraphs require an entity to disaggregate items based on characteristics that are not shared whenever the resulting information is material. Paragraph B110 of IFRS 18 includes examples of such characteristics, which include the risks associated with an item.
- 8.5 After considering its particular facts and circumstances, the entity determines that the two types of PP&E have sufficiently dissimilar risk characteristics that disaggregating the information the entity provides in the notes about these types of PP&E would result in material information.
- 8.6 Applying paragraphs 41–42 and B110 of IFRS 18, the entity disaggregates the information it provides in the notes about the related class of PP&E between the two types of PP&E. In particular, the entity disaggregates the information it discloses applying paragraph 73 of IAS 16 *Property, Plant and Equipment* for these types of PP&E whenever the resulting disaggregated information is material.

Approval by the IASB of Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* published in July 2024

The Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* was approved for publication by all 14 members of the International Accounting Standards Board.

Andreas Barckow	Chair
Linda Mezon-Hutter	Vice-Chair
Nick Anderson	
Patrina Buchanan	
Tadeu Cendon	
Florian Esterer	
Zach Gast	
Hagit Keren	
Jianqiao Lu	
Bruce Mackenzie	
Bertrand Perrin	
Rika Suzuki	
Ann Tarca	
Robert Uhl	

Basis for Conclusions on the Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*

This Basis for Conclusions accompanies, but is not part of, the Exposure Draft Climate-related and Other Uncertainties in the Financial Statements. It summarises the considerations of the International Accounting Standards Board (IASB) when developing the Exposure Draft. Individual IASB members gave greater weight to some factors than to others.

Background

Objective of the project

- BC1 In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements. The IASB decided to work on this project because of strong demand from respondents to its Third Agenda Consultation.¹ These respondents were concerned that information about the effects of climate-related risks in the financial statements was sometimes insufficient or appeared to be inconsistent with information entities provided outside the financial statements, particularly information reported in other general purpose financial reports.
- BC2 After starting its work on the project, the IASB decided to generalise the project's objective to cover climate-related and other uncertainties. The IASB decided to generalise the project's objective because:
- (a) the principle-based nature of IFRS Accounting Standards means that any actions the IASB takes as part of the project would apply not only to uncertainties arising from climate-related risks but to uncertainties in general;
 - (b) generalising the project's objective ensures that various types of uncertainties, including those yet to emerge, are captured and are treated consistently; and
 - (c) an entity might not always be able to identify the effects of climate-related uncertainties separately from those of other uncertainties.
- BC3 However, the IASB's actions on this project focus primarily on climate-related uncertainties to respond to the specific concerns raised by stakeholders.

Research and actions taken by the IASB

- BC4 The IASB carried out research to understand the nature and causes of the concerns about reporting the effects of climate-related risks in the financial statements. This research included:
- (a) meetings with the IASB's consultative bodies and other stakeholders;
 - (b) reviews of academic research and other publications; and

¹ The IASB undertook its Third Agenda Consultation between September 2019 and July 2022.

- (c) reviews of IFRS Accounting Standards to identify potential gaps, unclear requirements or limitations in the requirements.
- BC5 The IASB’s research confirmed 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.
- BC6 The research also showed that:
- (a) IFRS Accounting Standards are generally sufficient in requiring an entity to disclose information about the effects of climate-related risks in the financial statements. However, entities might face some challenges in applying the Standards.
 - (b) some primary users of general purpose financial reports, which include financial statements and sustainability-related financial disclosures, need information that goes beyond the objective and scope of financial statements.² These information needs could be satisfied through other disclosures, such as sustainability-related financial disclosures prepared in accordance with IFRS Sustainability Disclosure Standards.
 - (c) the reporting landscape is evolving, particularly with developments in sustainability reporting, including the work of the International Sustainability Standards Board (ISSB). The process of entities preparing sustainability-related financial information might help inform the application of IFRS Accounting Standards.
 - (d) stakeholders seek timely action to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements.
- BC7 Based on this research, the IASB decided to take several actions to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. The IASB focused on actions it could complete in a timely manner to respond to stakeholders’ needs. Specifically, the IASB is taking actions to help:
- (a) *improve the application of IFRS Accounting Standards*—this Exposure Draft includes the IASB’s proposal to provide examples illustrating how applying the requirements in IFRS Accounting Standards results in an entity disclosing information about the effects of climate-related and other uncertainties in the financial statements. In addition, the IFRS Interpretations Committee considered a question about how an entity accounts for commitments to reduce or offset its greenhouse gas emissions.³

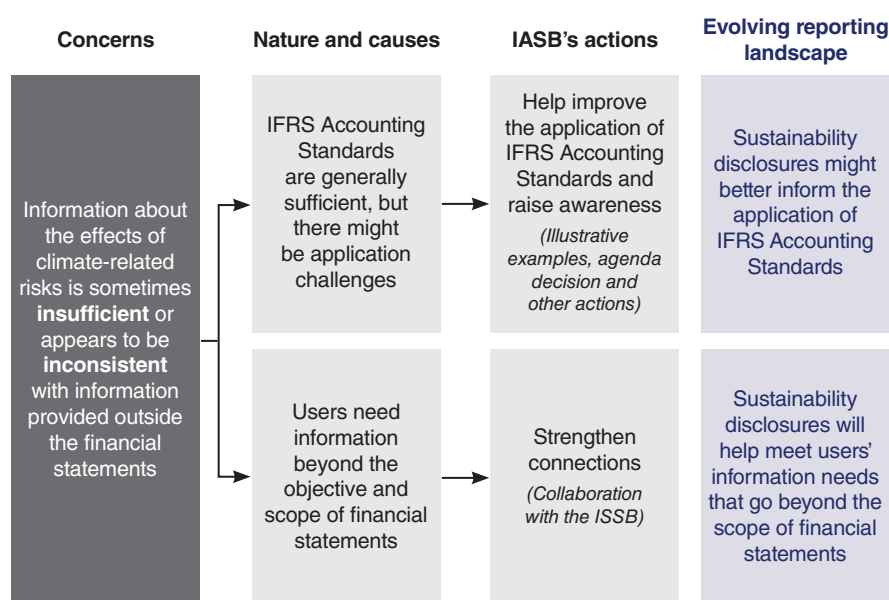
² The term ‘sustainability-related financial disclosures’ is used with the same meaning as defined in IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*.

³ See Agenda Decision *Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)*.

- (b) *raise awareness of the requirements in IFRS Accounting Standards*—the IASB has improved the accessibility of supporting materials about reporting the effects of climate-related and other uncertainties in the financial statements. For example, educational materials translated into various languages are now available on the project page on the IFRS Foundation website. The IASB is also exploring other ways to raise awareness of the requirements in IFRS Accounting Standards.
- (c) *strengthen connections*—the IASB is collaborating with members and technical staff of the ISSB to help strengthen connections between the information an entity provides in its financial statements and the information it provides in its sustainability-related financial disclosures.

BC8 Figure 1 illustrates how the IASB’s actions relate to the findings from its research:

Figure 1—How the IASB’s actions relate to the findings from its research



Other actions taken by the IASB

BC9 In addition to the actions described in paragraph BC7, the IASB:

- (a) explored whether to clarify or enhance the requirements in IFRS Accounting Standards regarding the disclosure of information about accounting estimates. The IASB’s research to date did not reveal enough evidence or consensus among stakeholders that amending the Standards is necessary, nor which amendments are necessary and why. Feedback on this Exposure Draft will help the IASB determine whether any other actions, including amending IFRS Accounting Standards, might be necessary.

- (b) responded to other specific climate-related matters through other projects on its workplan, including how an entity:
 - (i) assesses the contractual cash flow characteristics of financial assets with environmental, social and governance-linked features; and
 - (ii) accounts for contracts for renewable electricity with specified characteristics.⁴
- (c) consulted the IFRS Interpretations Committee about how entities, in applying IAS 36 *Impairment of Assets*, reflect the potential for high variability in future cash flows over an extended time horizon when calculating the value in use of an asset. Feedback from the Committee did not suggest that further action in this area was necessary.

Developing illustrative examples

Overall considerations in developing the examples

Which requirements to illustrate?

- BC10 The IASB noted that the effects of climate-related and other uncertainties are pervasive across financial statements. Therefore, there are many requirements that an entity might apply in reporting these effects that the IASB could illustrate with examples. The IASB decided to focus the examples on requirements:
- (a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and
 - (b) that are likely to address the concerns that information about the effects of climate-related risks is insufficient or appears to be inconsistent with information provided outside the financial statements.
- BC11 The concerns in paragraph BC10 relate mostly to the application of disclosure requirements in IFRS Accounting Standards. Therefore, the IASB concluded that the examples would be most helpful if they focused on illustrating the application of these requirements. In particular, the IASB concluded that the examples would help address the identified concerns if they illustrated how an entity:
- (a) determines whether information about how climate-related and other uncertainties affected its financial position and financial performance is material, including considering connections to information it provides in other general purpose financial reports (Examples 1–2);

⁴ See *Amendments to the Classification and Measurement of Financial Instruments* and the Exposure Draft *Contracts for Renewable Electricity*.

CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS

- (b) discloses information about how climate-related assumptions and other sources of estimation uncertainty affected the carrying amounts of its assets and liabilities (Examples 3–7); and
 - (c) disaggregates information about its assets and liabilities based on dissimilar climate-related risk characteristics (Example 8).
- BC12 The IASB noted that, by their nature, examples cannot illustrate:
- (a) the application of all requirements in IFRS Accounting Standards that might be applicable to a fact pattern;
 - (b) all facts and circumstances an entity would consider in making materiality judgements; or
 - (c) all material information an entity is required to disclose in a specified fact pattern.
- BC13 IFRS 18 *Presentation and Disclosure in Financial Statements* is effective for annual reporting periods beginning on or after 1 January 2027. IFRS 18 carried forward many requirements from IAS 1 *Presentation of Financial Statements* and moved some other requirements from that Standard to IAS 8 *Basis of Preparation of Financial Statements*.⁵ For simplicity, this Basis for Conclusions refers to the requirements in IAS 1.

What types of uncertainties and fact patterns to illustrate?

- BC14 The examples illustrate how an entity applies the requirements in IFRS Accounting Standards in specified fact patterns. The application of those requirements could result in an entity disclosing similar information in other fact patterns.
- BC15 Stakeholders were mainly concerned about the reporting of the effects of climate-related uncertainties. The IASB therefore concluded that examples illustrating the application of IFRS Accounting Standards to climate-related uncertainties would be most helpful in responding to these concerns. However, the IASB noted that the principles and requirements illustrated apply equally to other types of uncertainties.
- BC16 Climate-related uncertainties affect many industries, in various ways and to varying extents. Accordingly, the examples set out fact patterns at a sufficiently high level to be applicable to a variety of entities operating in various industries.

Should the examples be stand-alone or walk-through?

- BC17 The IASB considered whether to develop:
- (a) examples with narrow fact patterns illustrating particular requirements in an IFRS Accounting Standard (stand-alone examples);
or

⁵ IFRS 18 also changed the title of IAS 8.

- (b) examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards (walk-through examples).

BC18 The IASB concluded that stand-alone examples would be more effective in helping to improve the reporting of the effects of climate-related and other uncertainties in the financial statements. These examples can more precisely target particular matters or requirements that give rise to stakeholder concerns.

How can the examples facilitate connected general purpose financial reporting?

BC19 As noted in paragraph BC1, one of the objectives of the project is to respond to concerns that information about the effects of climate-related risks in the financial statements sometimes appears to be inconsistent with information entities provide outside their financial statements, particularly information reported in other general purpose financial reports. In responding to these concerns, the IASB decided to focus the examples on inconsistencies that might appear to exist between financial statements and other general purpose financial reports. The IASB concluded that this approach would help strengthen the connections between information an entity provides in its financial statements and information it provides in other parts of its general purpose financial reports.

BC20 The approach described in paragraph BC19 is aligned with the IFRS Foundation *Constitution*, which sets out:

- (a) the objective of developing complementary IFRS Accounting Standards and IFRS Sustainability Disclosure Standards that are intended to result in the provision of high-quality, transparent and comparable information in general purpose financial reports for making economic decisions; and
- (b) the requirement for the IASB and ISSB to work together with the objective of developing their respective sets of IFRS Standards that are compatible, and avoid inconsistencies and conflicts, with each other.

BC21 In developing the examples, the IASB sought to illustrate the provision of connected information in general purpose financial reports and to reinforce compatibility with IFRS Sustainability Disclosure Standards based on the existing requirements in IFRS Accounting Standards. To achieve those goals, the IASB:

- (a) illustrated in Examples 1–2 how requirements in IFRS Accounting Standards enable an entity to provide information in the financial statements that is connected with information it provides in other general purpose financial reports;
- (b) used concepts and terminology consistent with those used in IFRS Sustainability Disclosure Standards, to the extent possible; and
- (c) collaborated with ISSB members and technical staff in developing the examples.

- BC22 Financial statements prepared in accordance with IFRS Accounting Standards may be accompanied by disclosures about sustainability-related risks and opportunities prepared in accordance with IFRS Sustainability Disclosure Standards or other sustainability-related standards or frameworks. Therefore, in developing the examples, the IASB did not limit the consideration of connected reporting to the circumstances in which both sets of IFRS Standards are applied. However, the IASB specifically considered how the content of the examples relates to requirements in IFRS Sustainability Disclosure Standards.
- BC23 The IASB noted that the application of both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards in the fact patterns illustrated by the examples may, in some cases, result in an entity providing information in its financial statements that is similar to information it is required to provide in its sustainability-related financial disclosures. In particular, this outcome might arise because of the requirements in IFRS Sustainability Disclosure Standards to provide information about how sustainability-related risks and opportunities have affected an entity's financial position and financial performance for the reporting period.
- BC24 The outcome described in paragraph BC23 might also arise with the provision of disaggregated information. For example, an entity applying the principles of aggregation and disaggregation in IFRS 18 might disclose disaggregated information about a class of property, plant and equipment in its financial statements (see Example 8). That information could be similar to the information the entity discloses in its sustainability-related financial disclosures by applying paragraph 29 of IFRS S2 *Climate-related Disclosures*.⁶
- BC25 However, when applied together, IFRS Standards enable connected financial reporting and avoid duplicated disclosures. IFRS Sustainability Disclosure Standards permit an entity, subject to specified criteria, to include information in its sustainability-related financial disclosures by cross-reference to another report published by the entity, for example, the entity's financial statements. Similar to what is noted in paragraph BC9(a), feedback on this Exposure Draft will help the IASB determine whether any further action might be needed to support the provision of connected information and reduce duplication in reporting, including amending IFRS Accounting Standards.
- BC26 The IASB observed that some requirements in IFRS Sustainability Disclosure Standards include language similar to that used in requirements illustrated by the examples proposed in this Exposure Draft.⁷ In some cases, the application of these requirements could result in an entity providing information in its financial statements that is similar to information it is required to provide in its sustainability-related financial disclosures (see permission to include information in sustainability-related financial disclosures by cross-reference discussed in paragraph BC25).

⁶ Paragraph 29 of IFRS S2 *Climate-related Disclosures* requires an entity to disclose, among other information, the amount and percentage of assets or business activities vulnerable to climate-related transition risks.

⁷ For example, paragraph 35(b) of IFRS S1 and paragraph 16(b) of IFRS S2 use language similar to that used in paragraph 125 of IAS 1 *Presentation of Financial Statements*.

- BC27 In other cases, the application of requirements with similar language could result in an entity providing information in its financial statements that differs from information it provides in its sustainability-related financial disclosures. For example, IFRS Sustainability Disclosure Standards have a definition of material information that is conceptually aligned with that used in IFRS Accounting Standards.⁸ Both sets of Standards also include a similar overarching requirement to provide additional information when compliance with specific requirements in the Standards is insufficient to enable users to understand how various matters affect the entity. However, applying the definition of material information and the requirement to provide additional information, in the context of financial statements and in the context of sustainability-related financial disclosures, could nonetheless result in an entity providing different information in each of those reports because those reports serve different objectives.

Objectives and rationale for each example

Materiality judgements and the disclosure of additional information (Examples 1–2)

- BC28 The IASB developed Example 1 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements. Stakeholders said they observed extensive discussion about climate-related strategy, risks and targets outside the financial statements, but the financial statements either:
- (a) made no reference to climate-related matters; or
 - (b) included a statement that the effect of climate-related matters was immaterial without explaining the reason for that assertion.
- BC29 The IASB noted that such situations may arise because of a focus on quantitative rather than qualitative factors in assessing the materiality of information. Therefore, the IASB decided to illustrate how an entity considers qualitative factors in making materiality judgements in a climate-related scenario. The IASB decided to do so by building on examples in IFRS Practice Statement 2 *Making Materiality Judgements*, specifically:
- (a) Example K, which illustrates the influence of external qualitative factors on materiality judgements; and
 - (b) Example C, which illustrates that, in applying paragraph 31 of IAS 1, materiality judgements might lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.⁹
- BC30 In Example 1, the entity considers whether the disclosures it makes in a general purpose financial report outside its financial statements affect its determination of which information is material in the context of its financial statements. In making that determination, the entity applies judgement and

⁸ See also paragraphs BC68–BC69 of the Basis for Conclusions for IFRS S1.

⁹ The requirement in paragraph 31 of IAS 1 was carried forward to paragraph 20 of IFRS 18.

considers its specific circumstances, including matters disclosed in other general purpose financial reports. The entity also considers how the information it provides in its financial statements responds to the information needs of the users of those financial statements.

- BC31 The IASB developed Example 2 to help address concerns that the consideration of qualitative factors could lead to excessive disclosures. Similar to Example 1, Example 2 illustrates that an entity considers qualitative factors in determining whether information is material even if there is no effect on its financial position and financial performance. In such a case, the entity provides no additional disclosure because doing so would not provide material information.
- BC32 Examples 1 and 2 assume that the entity does not apply IFRS Sustainability Disclosure Standards. If those Standards were applied, the entity would be required to disclose in its sustainability-related financial disclosures information about the effects of climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period.

**Assumptions and other sources of estimation uncertainty
(Examples 3–7)**

- BC33 The IASB developed Examples 3–7 to illustrate how applying the requirements in IFRS Accounting Standards would result in an entity disclosing information about assumptions it makes about the future and other sources of estimation uncertainty, including those related to climate-related uncertainties. Research indicates that information about assumptions is often necessary to enable users of financial statements to understand how climate-related and other uncertainties affect the recognition and measurement of assets and liabilities.

Specific disclosure requirements for assumptions in IFRS Accounting Standards

- BC34 The IASB developed Examples 3, 6 and 7 to illustrate specific requirements in IFRS Accounting Standards that require entities to disclose information about assumptions. These examples illustrate areas of accounting that are among the most relevant to reporting the effects of climate-related and other uncertainties, specifically impairment of financial and non-financial assets and provisions. In particular:
- (a) Example 3 illustrates the disclosure of assumptions about the costs of acquiring allowances for greenhouse gas emissions in measuring the recoverable amount of a cash-generating unit. Stakeholders said that entities operating in various industries are subject to greenhouse gas emissions regulations and that information about the assumptions used in estimating the related costs is often material. The example also illustrates the disclosure of an entity's assumptions about potential future increases in the scope of these regulations. Those are among the assumptions an entity might have to make in estimating future cash flows to measure the recoverable amount of an asset (or cash-generating unit).

- (b) Example 6 illustrates the disclosure of information about the effects of climate-related risks on an entity’s credit risk exposures and credit risk management practices, as well as information about how these practices relate to the recognition and measurement of expected credit losses. The example also lists factors an entity might consider in assessing the materiality of information about how climate-related risks affect credit risk and the measurement of expected credit losses. An entity’s exposure to credit risk is affected by many risks, but specific information about the effects of particular risks might be material in some circumstances.
- (c) Example 7 illustrates disclosures about uncertainties related to the amount or timing of outflows required to settle plant decommissioning and site restoration obligations. The IASB has been informed that information about the effects of climate-related uncertainties on the recognition and measurement of plant decommissioning and site restoration provisions could be material, even when the carrying amount of a provision is immaterial because of an entity’s assumptions about the timing of related outflows.

General disclosure requirements for assumptions in IFRS Accounting Standards

- BC35 The IASB developed Example 4 to illustrate the general requirements to disclose information about assumptions in paragraphs 125 and 129 of IAS 1.¹⁰ These requirements apply even when specific disclosure requirements in other IFRS Accounting Standards do not apply.
- BC36 In researching this project, the IASB became aware that some stakeholders might interpret the requirement in paragraph 125 of IAS 1 as applying only to assumptions about uncertainties that will be resolved within the next financial year. In accordance with this view, assumptions about uncertainties that will be resolved after the end of the next financial year are never within the scope of paragraph 125 of IAS 1.
- BC37 Example 4 illustrates that paragraph 125 of IAS 1 also applies to assumptions about uncertainties that will be resolved only *after* the end of the next financial year. Specifically, that paragraph applies if there is a significant risk that a change in those assumptions *within* the next financial year would result in a material adjustment to the carrying amount of assets or liabilities. The IASB concluded that this example could help an entity determine whether to disclose information about climate-related and other assumptions, including assumptions about events or conditions that might occur in the medium or long term.
- BC38 Example 4 also illustrates how an entity determines *what* information to disclose about those assumptions in applying paragraph 129 of IAS 1. The example explains that an entity is required to disclose information that meets the objective of helping users of financial statements understand the

¹⁰ The requirements in paragraphs 125–133 of IAS 1 were carried forward to paragraphs 31A–31I of IAS 8 when IFRS 18 was issued.

judgements that management made about the future and other sources of estimation uncertainty. The entity determines the nature and extent of the information it is required to provide to meet that objective, including whether it is necessary to disclose quantitative information.

- BC39 The IASB concluded that Example 4 could contribute to a better understanding of the requirements in paragraph 125 and 129 of IAS 1, thereby improving the information entities provide about climate-related and other assumptions.

The overarching disclosure requirement in paragraph 31 of IAS 1

- BC40 The IASB developed Example 5 to illustrate that, in some situations, an entity might be required to provide information about assumptions even if the specific or general disclosure requirements for assumptions in IFRS Accounting Standards do not apply. In particular, an entity might be required to provide information if:

- (a) the assumption does not have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year; but
- (b) the entity determines that additional disclosures to enable users of financial statements to understand the effects of transactions and other events and conditions on the entity's financial position and financial performance would provide material information.

Disaggregation (Example 8)

- BC41 The IASB developed Example 8 to illustrate how applying the principles of aggregation and disaggregation in IFRS 18 might result in an entity disaggregating information it provides about a class of property, plant and equipment based on dissimilar climate-related risk characteristics. In researching this project, the IASB was informed that such information could be material, in particular for entities operating in industries with a high degree of exposure to climate-related transition risks.

- BC42 Example 8 illustrates the application of the principles in IFRS 18. An entity would also be required to disclose disaggregated information applying the requirements in IAS 1 if it concludes that such disaggregated information is material (for example, if material information would be obscured by inappropriate aggregation of dissimilar items).

Vehicle for the examples

- BC43 In considering how best to communicate the examples, the IASB considered whether to publish the examples as educational materials, include them as illustrative examples accompanying IFRS Accounting Standards, or include them in the Standards. The IASB decided to propose including the examples as illustrative examples accompanying IFRS Accounting Standards. Although illustrative examples are not an integral part of the Standards and therefore might not be translated or endorsed in some jurisdictions, the IASB concluded that illustrative examples:

- (a) are easily accessible because they are included alongside other guidance accompanying the Standards;
 - (b) are used by preparers in applying the Standards and are helpful to auditors and regulators in supporting their audit and enforcement activities; and
 - (c) allow for greater flexibility in content and format than if the examples were to be included in the Standards.
- BC44 The IASB noted that, as with any material accompanying IFRS Accounting Standards, the examples do not add or change requirements in IFRS Accounting Standards.
- BC45 In addition to including the examples as illustrative examples accompanying IFRS Accounting Standards, the IASB might group the examples and publish them as a single document. This document would allow stakeholders to refer to the examples as a package and make it easier for stakeholders to identify connections between the examples.

Effective date and transition

- BC46 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.
- BC47 The IASB expects that the illustrative examples might:
- (a) help entities make materiality judgements and provide information in financial statements that meets the needs of users of those financial statements; and
 - (b) provide additional insights into how to apply the disclosure requirements in IFRS Accounting Standards.
- BC48 The IASB noted that an entity applies judgement in determining which information is material and, therefore, is required to be disclosed in its financial statements. An entity reassesses these judgements at each reporting date. Information that was previously immaterial might become material, or the other way around, as an entity's circumstances or its external environment change.
- BC49 The IASB expects entities to be entitled to sufficient time to implement any changes to the information disclosed in their financial statements as a result of the issuance of the illustrative examples. Determining how much time is sufficient is a matter of judgement that depends on an entity's particular facts and circumstances. Nonetheless, an entity would be expected to implement any change on a timely basis.



IFRS[®]

Foundation

Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD, UK

Tel **+44 (0) 20 7246 6410**

Email **customerservices@ifrs.org**

ifrs.org