iGAAP in Focus

Financial reporting

IASB proposes illustrative examples for climate-related and other uncertainties in the financial statements

Contents

This *iGAAP in Focus* outlines exposure draft (ED) *Climate-related and Other Uncertainties in the Financial Statements—Proposed illustrative examples*, published by the International Accounting Standards Board (IASB) on 31 July 2024.

- The IASB proposes to add eight examples to IFRS Accounting Standards that illustrate how an entity applies the requirements in those standards to report the effects of climate-related and other uncertainties in its financial statements
- The proposed examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties
- No effective date or transition requirements are proposed as materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those standards and therefore not mandatory
- The comment period for the ED ends on 28 November 2024.

Background

In March 2023, the IASB added a project to its work plan 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 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.

For more information please see the following websites:

www.iasplus.com

www.deloitte.com

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:

- to generalise the project's objective to cover climate-related and other uncertainties; and
- to take action to help improve the reporting of the effects of these uncertainties in the financial statements, including developing the proposals set out in the ED.

Observation

Throughout its work on this project, the IASB has collaborated with members and technical staff of the International Sustainability Standards Board (ISSB), 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.

The proposed examples

The ED 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 themselves mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties.

The IASB decided to focus the examples on requirements:

- that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and
- 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.

Observation

The IASB decided to include the proposed material as illustrative examples accompanying IFRS Accounting Standards rather than, for example, publishing them separately as educational material or adding them to the standards themselves. In reaching this decision, the IASB determined that the benefits of this approach (ease of accessibility and use by preparers, auditors and regulators, and greater flexibility of content and form than is possible if guidance is presented as examples directly included in IFRS Accounting Standards) outweighed the potential drawback that the proposed examples are not an integral part of a standard and thus might not be translated or endorsed in some jurisdictions.

The exposure draft does, however, include a question requesting feedback on the merits of this approach and any alternative suggestions.

Materiality judgements leading to additional disclosures (IAS 1 *Presentation of Financial Statements*/IFRS 18 *Presentation and Disclosure in Financial Statements*)

In this proposed example, a manufacturer operates in a capital-intensive industry and is exposed to climate-related transition risks. However, its transition plan will not have a material effect on recognised items in its financial statements due to a low remaining book value of affected assets, significant headroom in impairment assessments and an absence of decommissioning obligations.

The example illustrates how the entity makes materiality judgements in the context of financial statements in accordance with the requirement in IAS 1:31 (IFRS 18:20). In the example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards, a statement explaining why its transition plan (discussed in other parts of its general purpose financial report) has no effect on its financial position.

Observation

Key to this example is an understanding that an *absence* of material effects on financial statements arising from climate or other risks can itself require disclosure and explanation, particularly when statements made elsewhere or pervasive industry factors might reasonably lead a user to anticipate such an effect.

Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)

In this proposed example, an entity is a service provider operating in an industry that has limited exposure to climate-related transition risks. The example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in IAS 1:31 (IFRS 18:20). In the absence of any other information that might reasonably lead a user of the financial statements to expect a material effect on financial position or performance, these judgements do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.

Disclosure of assumptions: specific requirements (IAS 36 *Impairment of Assets*)
In this proposed example, an entity's operations result in a high amount of greenhouse gas emissions making it subject to regulation in some of the jurisdictions in which it operates. The example illustrates the requirements in IAS 36:134(d)(i)-(ii) and 134(f). In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets - in this case, on the future scope of greenhouse gas emissions regulations and cost of emissions allowances - together with the entity's approach to assigning values to those assumptions.

Observation
This example illustrates a need to consider assumptions underpinning impairment assessments holistically, acknowledging that these disclosures might need to go beyond the familiar metrics of, for example, discount and long-term growth rates.

Disclosure of assumptions: general requirements (IAS 1/IAS 8 *Basis of Preparation of Financial Statements*)
In this proposed example, an 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, but having performed an impairment review concludes that no impairment should be recognised in the current period. As the cash-generating units in question include no goodwill or indefinite-life intangible assets, there is no specific requirement in IAS 36 to disclose the assumptions used in the entity's impairment assessment.

However, the example illustrates that, as there is deemed to be significant risk of material impairment in the next financial year, the general requirements of IAS 1:125 and 129 (IAS 8:31A and 31E) lead to disclosure of information about the assumptions made together with details of the nature and carrying amount of affected assets.

Observation
In this example, the immediate risk of material impairment falls into the scope of disclosures under IAS 1:125 and 129 (IAS 8:31A and 31E). Were such a risk to be expected to materialise over a longer time horizon, an assessment similar to the one outlined in the following example on whether disclosure is nonetheless appropriate might be necessary.

Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)
In this proposed example, an entity operates in a jurisdiction whose government has announced regulation (not related to taxation) that would restrict the entity's ability to operate and generate taxable profits in that jurisdiction in the future, potentially affecting recovery of a deferred tax asset. However, current expectations are that the legislation will not come into effect until the entity's tax losses have been utilised and that those expectations are unlikely to be affected by events in the next financial year.

In this circumstance, the example concludes that neither the specific requirements of IAS 12 on deferred tax assets or the general requirements of IAS 1:125 and 129 (IAS 8:31A and 31E) apply, but that the entity's assumptions about the announced regulations and their possible effect on its deferred tax asset should still be disclosed due to the requirement in IAS 1:31 (IFRS 18:20) to "consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance."

Observation
This example, together with those discussed above, illustrates how heavily the exposure draft leans on generic, overarching requirements in IAS 1 (IFRS 18 and IAS 8) as a basis for providing disclosures not specifically required by IFRS Accounting Standards addressing the asset or liability in question. Careful judgement on, amongst other things, the materiality of potential risks will be necessary to apply the principles expressed in the proposed examples.

Disclosure about credit risk (IFRS 7 *Financial Instruments: Disclosures*)
In this proposed example, an 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 (specifically in this example, drought risk for agricultural customers and risk of flooding for loans secured on real estate). The example illustrates requirements in IFRS 7:35A-38. In particular, the example illustrates how an entity might disclose:

- information about the effects of particular risks on its credit risk exposures and credit risk management practices

- information about how these practices relate to the recognition and measurement of expected credit losses.

Disclosure about decommissioning and restoration provisions (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*)
In this proposed example, an entity has plant decommissioning and site restoration obligations in relation to its petrochemical facilities but expects to continue to maintain and operate the facilities for an extremely long time such that the present value of its obligations is not material.

The example illustrates the requirement in IAS 37:85. In particular, how the entity might disclose information about plant decommissioning and site restoration obligations and the uncertainties surrounding them even if the carrying amount of the associated provision is immaterial.

Disclosure of disaggregated information (IFRS 18)
In this proposed example, an entity owns items of property, plant and equipment with long useful lives whose use results in high levels of greenhouse gas emissions. It has started to invest in alternative, lower-emissions assets performing the same function but continues to use the 'old' assets for a large part of its operations.

The example illustrates the requirements in IFRS 18:41-42 and B110, in this case concluding that the risks (arising from potential regulation and/or consumer demand) of the two asset types are sufficiently different that note disclosures for this class of property, plant and equipment should be disaggregated.

Effective date, transition and comment period

Materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those standards and are therefore not mandatory. Consequently, no effective date or transition requirements are proposed.

The comment period for the ED ends on 28 November 2024.

Further information

If you have any questions about the proposed examples, please speak to your usual Deloitte contact or get in touch with a contact identified in this *iGAAP in Focus*.

The Deloitte Accounting Research Tool (DART) is a comprehensive online library of accounting and financial disclosures literature. **iGAAP on DART** allows access to the full IFRS Standards, linking to and from:

- Deloitte's authoritative, up-to-date, iGAAP manuals which provide guidance for reporting under IFRS Standards
- illustrative financial statements for entities reporting under IFRS Accounting Standards.

In addition, our **sustainability reporting** volumes of iGAAP provide guidance on disclosure requirements and recommendations which businesses must consider in light of the broader environmental, social and governance matters which can significantly drive the value of an entity.

To apply for a subscription to iGAAP on DART, click **here** to start the application process and select the iGAAP package.

For more information about iGAAP on DART, including pricing of the subscription packages, click **here**.

Key contacts

Global IFRS and Corporate Reporting Leader
Veronica Poole
ifrsglobalofficeuk@deloitte.co.uk

IFRS Centres of Excellence

Americas		
Argentina	Fernando Lattuca	**arifrscoe@deloitte.com**
Canada	Karen Higgins	**ifrsca@deloitte.ca**
Mexico	Kevin Nishimura	**mx_ifrs_coe@deloittemx.com**
United States	Magnus Orrell	**iasplus-us@deloitte.com**
	Ignacio Perez	**iasplus-us@deloitte.com**
Asia-Pacific	Shinya Iwasaki	**ifrs-ap@deloitte.com**
Australia	Anna Crawford	**ifrs@deloitte.com.au**
China	Mateusz Lasik	**ifrs@deloitte.com.cn**
Japan	Kazuaki Furuuchi	**ifrs@tohmatsu.co.jp**
Singapore	Lin Leng Soh	**ifrs-sg@deloitte.com**
Europe-Africa		
Belgium	Thomas Carlier	**ifrs-belgium@deloitte.com**
Denmark	Søren Nielsen	**ifrs@deloitte.dk**
France	Irène Piquin Gable	**ifrs@deloitte.fr**
Germany	Jens Berger	**ifrs@deloitte.de**
Italy	Massimiliano Semprini	**ifrs-it@deloitte.it**
Luxembourg	Jeremy Pages	**ifrs@deloitte.lu**
Netherlands	Ralph Ter Hoeven	**ifrs@deloitte.nl**
South Africa	Nita Ranchod	**ifrs@deloitte.co.za**
Spain	José Luis Daroca	**ifrs@deloitte.es**
Sweden	Fredrik Walmeus	**seifrs@deloitte.se**
Switzerland	Nadine Kusche	**ifrsdesk@deloitte.ch**
United Kingdom	Elizabeth Chrispin	**deloitteifrs@deloitte.co.uk**

Designed by Deloitte CoRe Creative Services. RITM1822258