
Accounting Standards Advisory Forum meeting

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Topic	Staff draft examples
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Accounting Standards Advisory Forum, March 2024, Agenda Paper 7C

This paper was discussed at the International Accounting Standards Board's (IASB's) March 2024 meeting as Agenda Paper 14B. The agenda papers referred to in this paper are the other agenda papers for the IASB's March 2024 meeting.

Introduction and purpose

1. This paper contains the staff's draft examples to illustrate how to apply IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements. Agenda Paper 14A *Development of examples* to this meeting explains the approach we took to develop the examples.

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

Background

- 1.1 A manufacturer operates in a capital-intensive industry and is exposed to climate-related transition risks. The entity has a climate-related transition plan and discloses the plan in its general purpose financial report outside the financial statements, providing detailed information about how it plans to achieve a targeted reduction in greenhouse gas emissions over the next 10 years through substantial future investment in more efficient technology and changes in raw materials and manufacturing methods.¹

Application

Recognition and measurement considerations

- 1.2 In preparing its financial statements, the entity assesses the effects of its transition plan on its financial position and financial performance for the reporting period. The entity concludes that there is no effect on the recognition or measurement of its assets, liabilities, income and expenses in the reporting period because the affected manufacturing facilities are nearly fully depreciated, the recoverable amounts of the affected cash-generating units significantly exceed their respective carrying amounts and the entity has no asset retirement obligations.

Disclosure considerations

- 1.3 Paragraph 31 of IAS 1 *Presentation of Financial Statements* requires an entity 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 impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 1.4 The entity considers the common information needs of the primary users of its financial statements. In doing so, the entity assesses whether information about transactions, events and conditions disclosed in its general purpose financial report outside the financial statements might reasonably create an expectation that there might be a quantitative effect on the entity's financial position and financial performance for the current period.
- 1.5 In making this assessment, the entity considers that the primary users of its financial statements might reasonably expect climate-related transition risks to have a quantitative effect on the entity's financial position and financial performance for the current period because of the entity's disclosures about its transition plan. For example, primary users of the entity's financial statements might reasonably expect that some of the entity's assets might be impaired because of the entity's plans to change manufacturing methods and invest in more efficient technology.
- 1.6 Considering these factors, the entity determines that, although its transition plan has no quantitative effect on its current period financial statements, information about that lack of quantitative effect and the reasons for the lack of quantitative effect is material information.
- 1.7 Therefore, applying paragraph 31 of IAS 1, the entity discloses that its transition plan has no quantitative effect on its current period financial statements and explains why.

¹ This disclosure might be prepared applying IFRS Sustainability Disclosure Standards or other applicable requirements.

Example 2—Materiality judgements that do not lead to additional disclosures (IAS 1)**Background**

- 2.1 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 net zero greenhouse gas emissions, explaining that it uses renewable energy when possible and offsets unavoidable emissions by contributing to carbon offset projects. The entity also explains how it plans to remain net zero by maintaining its current greenhouse gas emissions policies. The entity does not disclose any other information about climate-related transitions risks in its general purpose financial report.

Application*Recognition and measurement considerations*

- 2.2 In preparing its financial statements, the entity assesses the effect of its net zero policy on its current financial position and financial performance. The entity concludes that—other than expenses related to its use of renewable energy and expenses related its contributions to carbon offset projects—there is no effect on the recognition and measurement of its assets and liabilities for the current reporting period. The entity concludes that the expenses related to its use of renewable energy and its contribution to carbon offset projects are not quantitatively material for the current reporting period.

Disclosure considerations

- 2.3 When preparing its financial statements, the entity considers the requirements in paragraph 31 of IAS 1 *Presentation of Financial Statements* 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 impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 2.4 The entity considers that the primary users of its financial statements would not reasonably expect climate-related transition risks to have a quantitative effect—other than that related to its use of renewable energy and its contributions to carbon offset projects—on the entity's financial position and financial performance for the current reporting period because:
- (a) the entity operates in an industry that is known to have limited exposure to climate-related transition risks; and
 - (b) the entity's disclosures—outside the financial statements—about its sustainability practices have also not created an expectation that there might be a material quantitative effect on its financial position and financial performance.
- 2.5 In these circumstances, the entity concludes that information about the lack of a quantitative effect of transition risk on its activities is not material—in other words, omitting that information could not reasonably be expected to influence decisions users of its financial statements make on the basis of those financial statements. Therefore, applying paragraph 31 of IAS 1, no additional disclosures are provided.

Example 3—Value in use calculation and disclosures (IAS 36)

Background

- 3.1 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 incur costs to acquire emission allowances for some of its emissions (emission allowance costs).² The entity expects such regulations to become more widespread and stringent in the future.
- 3.2 The entity has allocated a significant amount of goodwill to one of its cash generating units (CGU X) and tests CGU X 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 CGU X's recoverable amount is most sensitive.

Application

Reasonable and supportable assumptions

- 3.3 The entity measures the value in use of CGU X when testing it for impairment. Applying paragraphs 33–38 of IAS 36 in measuring CGU X'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 those about future emission allowance costs.

Disclosures

- 3.4 Applying paragraphs 134(d)(i)–(ii) of IAS 36 *Impairment of Assets*, the entity discloses the following information in its financial statements:
- (a) its key assumptions, including emission allowance cost assumptions such as the future price of greenhouse gas emission allowances and the potential future increase in scope and stringency of emission regulations.
 - (b) a description of management's approach to determining the values assigned to these key assumptions. For example, the entity discloses whether its assumptions about the future price of greenhouse gas emission allowances are consistent with external sources of information, and, if not, how and why they differ from such sources of information.
- 3.5 Applying paragraph 134(f) of IAS 36, the entity also considers whether a reasonably possible change to a key assumption, such as a emission allowance cost assumption, would cause CGU X's carrying amount to exceed its recoverable amount (that is, whether such a change in assumptions would result in an impairment loss)—for example, whether that would be the case if there was a reasonably possible change to the entity's assumption about the future price of greenhouse gas emission allowances. If so, the entity discloses:
- (a) the amount by which CGU X's recoverable amount exceeds its carrying amount.
 - (b) the values assigned to the key assumption.

² This example illustrates only the entity's consideration of emission allowance costs when testing an asset for impairment and disclosing information about related key assumptions. The example does not cover other costs an entity might incur in managing climate-related risks.

- (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 recoverable amount, in order for CGU X's recoverable amount to be equal to its carrying amount.
- 3.6 Finally, the entity also considers whether to disclose additional information applying paragraphs 125 and 31 of IAS 1 *Presentation of Financial Statements*.

Example 4—Disclosure of assumptions and other sources of estimation uncertainty (IAS 1)

Background

- 4.1 The entity operates in a capital-intensive industry. The entity has exposures to climate-related transition risks that may 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.
- 4.2 During the 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 tested the cash-generating unit (CGU) to which they belong for impairment. The entity concluded that the CGU's recoverable amount is greater than its carrying amount, and therefore recognised no impairment loss. In determining the CGU's recoverable amount, the entity made several assumptions related to the climate-related transition risks to which it is exposed (climate-related assumptions).³ 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

- 4.3 IAS 36 *Impairment of Assets* does not require an entity to disclose information about the assumptions used to determine the recoverable amount of the CGU because the CGU includes no goodwill or intangible assets with indefinite lives. However, the entity considered whether it is required to disclose information about these assumptions by IAS 1 *Presentation of Financial Statements*.
- 4.4 Paragraph 125 of IAS 1 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. It also requires an entity to disclose the nature and the carrying amount at the end of the reporting period of the related assets and liabilities.
- 4.5 The entity concluded that some of its climate-related assumptions have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets that belong to the CGU within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year, but the revision of those assumptions in the next financial year could result in a material adjustment. The entity reached this conclusion after considering the following factors:
- (a) *the magnitude of the CGU's carrying amount*—the CGU comprises a large portion of the entity's total assets. Therefore, adjustments that are small relative to the total carrying amount might still be material.
 - (b) *the subjectivity and complexity of the judgements management made in determining the assumptions*—the judgements involve a high level of subjectivity and complexity because

³ For simplicity, this example refers only to assumptions an entity makes about the future. However, this example applies equally to other major sources of estimation uncertainty at the end of the reporting period.

they cover the medium and long term and 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 developments or new information.

- (c) *the risk that new information or new developments in the next financial year may result in changes in the assumptions*—there are frequent new climate-related market, economic, regulatory and legal developments which might affect the judgements the entity has made. Such circumstances increase the risk that there will be new developments or new information within the next financial year which might affect the entity's assumptions (including those assumptions about medium and long-term uncertainties)—that is, the higher the risk of new information or new developments in the next financial year, the higher the likelihood that an entity will 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 climate-related assumptions. Reasonably possible changes to these assumptions could result in a reduction to the CGU's recoverable value and a material impairment loss.

- 4.6 Paragraph 125 of IAS 1 applies to the climate-related assumptions identified above. Applying that paragraph, the entity discloses:
- (a) information about these climate-related assumptions; and
 - (b) details about the nature and carrying amount of the non-current assets that belong to the CGU.
- 4.7 Paragraph 129 of IAS 1 requires an entity to present these disclosures in a manner that helps users of financial statements to understand the judgements that management made 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.
- 4.8 The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 129 of IAS 1 for each of the assumptions it identified. For example, disclosing qualitative and quantitative information about the assumptions—including the nature of the climate-related assumptions, the carrying amount's sensitivity to these assumptions and the reasons for the sensitivity—might be required to meet that objective.

Example 5—Disclosure of additional information (IAS 1)

Background

- 5.1 The entity operates in a jurisdiction whose government has announced plans to introduce regulations that would restrict the entity's ability to operate and generate profits in that jurisdiction in the future.⁴ Such regulation could significantly affect the entity's profitability and, therefore, its ability to recover the carrying amount of its deferred tax assets related to unused tax losses. The regulation has not yet been enacted in the jurisdiction's national legislation at the end of the reporting period.
- 5.2 It is highly uncertain when the announced regulations would be effective. The government has stated that, because of other priorities, it will not discuss the regulations further in the next 18 months, which is beyond the end of the entity's next financial year.
- 5.3 Applying paragraph 34 of IAS 12 *Income Taxes*, the entity considered 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.
- 5.4 After considering all the criteria in paragraph 36 of IAS 12, the entity concluded that it should recognise a deferred tax asset for the full amount of its unused tax losses on the assumption that the regulation will begin to apply only after the entity has been able to utilise these losses. Different assumptions about the announced regulation's effective date would have resulted in a significant write-down of the deferred tax asset and a related deferred tax expense.
- 5.5 The entity determines that it is unlikely to change its assumption in the next financial year because government discussions about the announced regulation will not take place until after the end of its next 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 *Presentation of Financial Statements*.

Application

- 5.6 Paragraph 31 of IAS 1 requires an entity 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 impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- 5.7 Applying paragraph 31 of IAS 1, the entity determines that additional disclosures—beyond those required by IAS 12 and other IFRS Accounting Standards—are necessary to enable users of financial statements to understand the impact of the announced regulation on the entity's financial position, specifically on the carrying amount of its deferred tax asset at the end of the reporting period.
- 5.8 Therefore, the entity discloses information regarding its assumption that the regulation will begin to apply only after the entity has been able to utilise the unused tax losses and its impact on the carrying amount of its deferred tax asset (for example, the entity discloses the amount of the deferred tax asset it recognised on the basis of this assumption). The entity concluded that omitting this

⁴ The regulations do not relate to taxation.

information could reasonably be expected to influence decisions that users of financial statements make on the basis of those financial statements and, thus, that the information is material.

Example 6—Credit risk disclosures (IFRS 7)

Background

- 6.1 The entity is a financial institution that provides a range of products to different types of customers. The entity considered the effects of climate-related risks on its credit risk exposures as part of its credit risk management practices and identified two portfolios of loans that might require the entity to monitor and take actions to mitigate credit risk arising from its customers' exposure to climate-related risks:
- (a) loans to agricultural customers, where 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

- 6.2 Paragraphs 35A–38 of IFRS 7 *Financial Instruments: Disclosures* 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 these two portfolios is material. The factors the entity considered in reaching this conclusion include:
- (a) the magnitude of 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 exposure to credit risk compared to other factors affecting that risk. The effects depend on factors such as loan maturities and the nature and magnitude of the climate-related risks.
 - (c) external climate-related qualitative factors that make the information more likely to influence primary users of financial statements, such as climate-related market, economic, regulatory and legal developments.
- 6.3 The entity considers what material information to provide in applying the requirements in IFRS 7 related to credit risk. For example:
- (a) applying paragraph 35F, the entity explains its credit risk management practices related to climate-related risks and how they relate to the recognition and measurement of expected credit losses (ECL). The information an entity discloses includes, for example, how climate-related risks:
 - (i) are considered in determining whether the credit risk of financial instruments has increased significantly since initial recognition; and
 - (ii) affect the grouping of instruments if ECL are measured on a collective basis.
 - (b) applying paragraph 35G, the entity explains 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. The information an entity discloses includes:
 - (i) how climate-related risks have been incorporated in the inputs used to measure ECL, such as probabilities of default and loss given default;
 - (ii) how forward-looking information about climate-related risks has been incorporated into the determination of ECL; and

- (iii) any changes the entity has made during the reporting period to estimation techniques or significant assumptions to reflect climate-related risks and the reasons for those changes.
- (c) applying paragraph 35K, the entity discloses information about the effect of collateral and other credit enhancements on the amounts arising from ECL, including information about properties held as collateral that are subject to flooding risks and whether these risks are insured.
- (d) applying paragraph 34(c) and B8, the entity also discloses, if not apparent from other disclosures the entity has made, information about concentrations of climate-related risk.

Example 7—Disclosures about decommissioning and restoration provisions (IAS 37)**Background**

- 7.1 An entity, a petrochemicals manufacturer, has plant decommissioning and site restoration obligations in respect of its petrochemical facilities. The entity has omitted the costs required to settle those obligations in the measure of its plant decommissioning and restoration provision. It has done so on the assumption that it will continue to maintain and operate the facilities for an extremely long time, such that those costs will be settled so far into the future that, when discounted to their present value, their effect on the measure of the provision is immaterial.

Application

- 7.2 Paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* 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, information about the related obligations might be material if, for example, there is a significant risk that the entity will be required to settle the obligations earlier than expected and outflows required to settle them will be high in magnitude. Applying that paragraph, the entity discloses the following information about its plant decommissioning and site restoration provision:
- (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, including, where necessary to provide adequate information, 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, whether and when the facility is expected to be closed.

Example 8—Disclosure of disaggregated information (IFRS 18)

Note: This example includes provisional language and references to requirements expected to be included in the forthcoming standard IFRS 18 Presentation and Disclosure in Financial Statements.

Background

- 8.1 An entity owns property, plant and equipment (PP&E) with very 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-emission PP&E for a significant 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 comprise a large portion of the entity's total assets.
- 8.2 The entity has concluded that these two types of PP&E have significantly different exposures to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these different types of PP&E in different ways, including:
- (a) the entity's ability to recover their carrying amounts;
 - (b) how long the entity will be able to use them; and
 - (c) their residual values.

Application

- 8.3 Paragraphs 41–42 of IFRS 18 *Presentation and Disclosure in Financial Statements* include principles for aggregating and disaggregating information in financial statements. In particular, these paragraphs require an entity to disaggregate items on the basis of characteristics that are not shared whenever the resulting information is material. Paragraph B110 of IFRS 18 includes examples of such characteristics, which includes the risks associated with an item.
- 8.4 After considering its particular facts and circumstances, the entity has determined that the two types of PP&E have sufficiently dissimilar risk characteristics such that disaggregating the information the entity provides in the notes for them would result in material information.
- 8.5 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.