IFRS® Accounting

Staff paper

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Project	**Climate-related Risks in the Financial Statements**
Topic	**Results of work on the nature and causes of concern**
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Purpose and structure

1. This paper summarises the results of our work and our initial analysis on:
    (a) the nature of concerns related to reporting the effects of climate-related risks in the financial statements;
    (b) the possible causes of these concerns; and
    (c) the possible courses of action for the IASB to help address these concerns.
2. This paper does not ask the IASB to make a decision.
3. The paper is set out as follows:
    (a) Key themes (paragraphs 4–7).
    (b) Nature of concerns (paragraphs 8–13).
    (c) Possible causes of concerns (paragraphs 14–29).
    (d) Possible courses of action (paragraphs 30–39).
    (e) Appendix A—Summary of review of academic research and other publications. The messages from this review are incorporated in the discussion in paragraphs 4–39.

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Key themes

4. Our work confirms the IASB's basis for starting this project. Specifically, stakeholders have told us they have concerns about:

   (a) insufficient information about the effects of climate-related risks in the financial statements; and

   (b) inconsistencies between the information about climate-related risks reported in the financial statements and the information reported elsewhere.

5. Our work also indicates that requirements in IFRS Accounting Standards are generally sufficient to elicit information about the effects of climate-related risks that meets user needs within the objective of financial statements. Specifically:

   (a) in many cases, we observed that information needs of users of financial statements (users) go beyond the objective of financial statements. For example, some users seek information about an entity's plans and strategies to address climate-related risks that will be provided by sustainability-related financial disclosures, such as those required by the International Sustainability Standards Board (ISSB).

   (b) many stakeholders noted that IFRS Accounting Standards already require entities to consider the effects of climate-related and other risks in applying the principles in the Accounting Standards. However, targeted amendments to IFRS Accounting Standards—for example, strengthening disclosure requirements about judgments made and assumptions used—might be necessary to address some of the concerns raised.

6. In addition, our work provides evidence of some improvements over the last few years in the quality of information about the effects of climate-related risks provided in the financial statements. However, reporting on the effects of climate-related risks (and, in general, sustainability-related risks) is an evolving area—the application of IFRS S1 *General Sustainability-related Disclosures* and IFRS S2 *Climate-related*

Disclosures is expected to substantially change the way information about these risks is reported. Therefore, developments in this area need to be monitored.

7. Finally, feedback indicated a demand for timely action to address the concerns raised.

Nature of concerns

8. As discussed in Agenda Paper 14 *Cover paper*, in deciding to start this project the IASB noted that:

    (a) stakeholders, particularly users, have shown an increasing interest in the effects of climate-related risks in the financial statements; and

    (b) many of these stakeholders have expressed concerns about insufficient information about the effects of climate-related risks and about inconsistencies between the information reported about these effects in the financial statements and the information reported elsewhere.

9. The findings in our work, including feedback from many stakeholders we spoke to, indicated that information about the effects of climate-related risks in the financial statements is a topical matter and that:

    (a) users do not always receive sufficient qualitative and quantitative information about the effects of climate-related risks on the carrying amounts of assets and liabilities reported in the financial statements. For example:

        (i) some stakeholders reported concerns about insufficient disclosure on whether and how climate-related risks are factored into significant judgments and assumptions made in preparing financial statements;

        (ii) some users were surprised that climate-related risks and commitments have not resulted in write-downs of assets or in the recognition of liabilities; and

        (iii) some users mentioned the lack of disaggregated information on assumptions and methodologies used.

(b) information in the financial statements on the effects of climate-related risks appears to be disconnected from or inconsistent with information provided elsewhere. For example, our work indicates that although climate-related risks are discussed at length in other general purpose financial reports, there is sometimes little or no discussion of the effects of these risks in the financial statements.

10. Many regulators we spoke to said that they have observed improvements in the quality of information disclosed over the last few years. However, achieving consistency between information in the financial statements and information provided elsewhere (for example, in sustainability-related financial disclosures) is still an enforcement priority.

11. Conversely, some stakeholders expressed different views:

(a) some users said that it is probably unnecessary to require entities to include information about climate-related risks in the financial statements. They noted that such information is already available in other general purpose financial reports. In addition, they expressed the view that the quality of this information will improve with the application of sustainability-related financial disclosure requirements, such as those issued by the ISSB.

(b) a few national standard-setters said stakeholders in their jurisdictions had not raised specific concerns about information on climate-related risks in the financial statements.

Staff commentary

12. We think that the increasing disclosures about sustainability-related risks and opportunities, including climate-related risks and opportunities, outside the financial statements might have contributed to stakeholders concerns by highlighting potential inconsistencies between the financial statements and information reported elsewhere.

13. In response to user information needs and to help address stakeholders' concerns, in November 2020 the IFRS Foundation published educational material on the effects of climate-related matters on financial statements (republished in July 2023). Feedback indicates that such educational material helped entities in applying IFRS Accounting Standards. Stakeholders (including auditors and regulators) noted an improvement in the quality of information disclosed on the effects of climate-related matters. However, our work also indicates that concerns about the quality and consistency of disclosed information still persist. We think this evidence suggests further actions are needed to address stakeholders' concerns.

Possible causes of concerns

14. Stakeholders provided numerous reasons for the concerns discussed in paragraphs 15–29. We have grouped these reasons into two categories and, when relevant, provided some examples to help illustrate the concerns:

    (a) users' expectation gap (paragraphs 15–18); and

    (b) application of IFRS Accounting Standards (paragraphs 19–29).

Users' expectation gap

15. We observed from our work that there might be an 'expectation gap' whereby users expect more information about the effects of climate-related risks to be included in the financial statements than is within the objective of financial statements.

16. For example, we observed some users seek information about an entity's strategy to address climate-related risks, its climate-related commitments, its progress against those commitments and the financial effects of these commitments. Some stakeholders stated that information about the financial effects of these commitments, even when the definition of a liability is not met, is useful to make assessments about future cash flows and to hold entities accountable for their publicly-stated

commitments. Some users also seek information about the financial effects of an entity's 'good citizen' behaviours.

Staff commentary

17. We think some stakeholders' expectations go beyond the objective of financial statements and meeting those expectations would require the IASB to broaden the definitions of assets and liabilities. This would require extensive work and would go beyond the scope of this project. Moreover, we think that some of those information needs may be better satisfied by sustainability-related financial disclosures, such as those required by the ISSB.

18. The disclosure of sustainability-related financial information, including information about climate-related risks and opportunities, and the incorporation of that information into investment decisions, is a new and evolving area. We think some of the concerns raised could be caused by confusion about the boundaries of financial statements. Therefore, we think stakeholders may benefit from additional educational material describing the role of financial statements and how, complemented by sustainability-related financial disclosures, they inform users' investment decisions.

Application of IFRS Accounting Standards

19. We grouped the possible causes of stakeholders' concerns regarding the application of the IFRS Accounting Standards into three groups:

    (a) lack of compliance with IFRS Accounting Standards (paragraph 20);

    (b) limitations of IFRS Accounting Standards (paragraphs 21–22); and

    (c) insufficiently clear requirements in IFRS Accounting Standards (paragraphs 23–27).

Lack of compliance with IFRS Accounting Standards

20. Almost all regulators, most auditors and many national standard-setters indicated as a possible cause of stakeholders' concerns the challenges entities face in complying with existing requirements. In their view, entities might not be adequately considering the effects of climate-related risks when applying IFRS Accounting Standards for various reasons:

    (a) lack of awareness—entities may not be fully aware of some requirements in the Accounting Standards. For example:

        (i) entities may focus on complying with specific disclosure requirements and may not adequately consider the general disclosure requirements of IAS 1 *Presentation of Financial Statements*. In the context of climate-related risks, entities may overlook the requirements to provide additional disclosure when compliance with specific requirements in IFRS Accounting Standards is insufficient to meet users' needs (paragraph 31 of IAS 1) or to provide information that is not presented elsewhere in the financial statements but is relevant to an understanding of the financial statements (paragraph 112(c) of IAS 1).

        (ii) stakeholders may not be aware that, although IFRS Accounting Standards do not refer explicitly to climate-related risks, entities must consider these risks in applying the Accounting Standards when information about the effects of those risks is material. For example, stakeholders may be unaware of the educational material on the effects of climate-related risks published in 2020 and republished in July 2023.

    (b) misunderstanding of requirements—some entities might not fully understand some requirements. For example, entities may not be adequately factoring climate-related risks into impairment calculations. Specifically, cash flow projections used in measuring value in use may not adequately 'represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset' (paragraph 33(a) of IAS 36

Impairment of Assets) or the terminal value estimated by extrapolating cash flow projections may not be representative of a steady state.

(c) complex judgements—compliance with IFRS Accounting Standards may involve complex assessments and judgments, particularly in applying the concept of materiality and, more specifically, making materiality judgements in determining what information to disclose. For example, entities may not disclose information about the effects of climate-related risks in their financial statements when the amount of those effects are insignificant. However, the fact that the amount of those effects are insignificant could be material information for users.

(d) information availability—for example, entities may find it challenging to quantify the long-term effects of climate-related risks. Even when an entity can quantify the effects, they may be subject to significant measurement uncertainty and may be difficult to audit.

(e) concerns about revealing commercially sensitive information.

Limitations of IFRS Accounting Standards

21. Many stakeholders (mainly national standard-setters, auditors and regulators) said some requirements in the Accounting Standards appear:

(a) to prohibit the consideration of or to inadequately capture climate-related risks in the recognition and measurement of particular assets and liabilities; and

(b) not to require the disclosure of useful information about the effects of climate-related risks.

22. To support their view, stakeholders provided the following examples:

(a) according to paragraph 35 of IAS 36, when estimating the recoverable amount of an asset entities can use cash flow projections for a period longer than five years if management is 'confident that these projections are reliable and it can demonstrate its ability, based on past experience, to forecast cash flows

accurately over that longer period'. A few stakeholders said some entities interpret this requirement as prohibiting them from forecasting cash flows for a longer period when calculating value in use. This perceived prohibition can result in entities calculating a terminal value based on cash flows expected in year five, even when those cash flows are not indicative of profitability in the long term. Other stakeholders, however, do not appear to be concerned about being unnecessarily constrained by these requirements.

(b) in measuring value in use using the expected cash flow approach, IAS 36 does not specifically require the use of assumptions consistent with those used to prepare sustainability-related financial disclosures.

(c) IFRS Accounting Standards do not require entities to describe connections between the financial statements and disclosures made in other general purpose financial reports.

Insufficiently clear requirements in IFRS Accounting Standards

23. Many national standard-setters, auditors and regulators indicated as a possible cause of stakeholders' concerns that some requirements in IFRS Accounting Standards might not be sufficiently clear and/or specific about whether and how the effects of climate-related risks should be considered when preparing an entity's financial statements.

24. We grouped the requirements in IFRS Accounting Standards that may be insufficiently clear into two categories:

(a) cross-cutting issues, in particular:

(i) requirements for information about assumptions, judgments and estimates (paragraph 25); and

(ii) requirements on disaggregated information (paragraph 26); and

(b) standard-specific issues (paragraph 27).

25. Based on outreach with stakeholders and a review of IFRS Accounting Standards, we identified the following requirements for information about assumptions, judgments and estimates that may be insufficiently clear:

    (a) assumptions used—the Accounting Standards do not specifically require information about assumptions used when testing an asset for impairment (unless the asset is part of a cash generating unit that contains an indefinite lived intangible asset or goodwill), when determining the useful life of an asset or when assessing the recoverability of deferred tax assets.

    (b) changes in assumptions—it is not always clear whether entities are required to disclose information about changes in assumptions. For example, although paragraph 130(g) of IAS 36 requires entities to disclose information about the discount rate used in previous estimates of the recoverable amount of an asset for which an impairment loss has been recognised, it is unclear whether, in applying paragraph 31 of IAS 1, an entity is required to disclose similar information about other assumptions used in preparing financial statements. In addition, it is unclear whether in applying the requirement in paragraph 39 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to disclose 'the nature and amount of a change in an accounting estimate', entities should also provide information about the reason for a change in estimates (for example, a decision to retire an asset early or revise its residual value due to climate-related matters).

    (c) factors (for example, climate-related risks) that inform judgments, assumptions and estimates made in preparing financial statements:

        (i) IAS 2 *Inventories* does not specifically require an entity to provide information about the reasons—which might include climate-related risks—for a write down of inventory. Similarly, IAS 12 *Income Taxes* does not specifically require an entity to provide information about the reasons for a write down of deferred tax assets.

        (ii) IAS 36 does not specifically require an entity to disclose information about how risk factors—such as those related to climate—have been

reflected in assumptions made (for example, in the discount rate used for impairment testing purposes) or about the effects of those factors on an estimated amount (for example, the recoverable amount).

(iii) in relation to assessing the useful life and the amortisation pattern of assets, some stakeholders observed that entities do not disclose how they have reflected climate-related risks in the assumptions used. For example, net zero commitments made by entities indicate that the estimates of useful lives of these entities' assets may be sensitive to these commitments. However, entities do not clearly explain how these commitments have been taken into account when determining the useful lives and the amortisation patterns of these entities' assets.

(iv) IFRS Accounting Standards, such as IFRS 7 *Financial Instruments: Disclosures* and IFRS 17 *Insurance Contracts*, do not specifically require an entity to provide information about climate-related risks affecting financial instruments and insurance liabilities. While both IFRS 7 and IFRS 17 require disclosure of information about entities' exposure to risks, how they arise and how they are managed, it may not be apparent that this disclosure should include information about climate-related and other risks.

26. We identified the following requirements on disaggregated information that may be insufficiently clear:

(a) an entity may incur research and development expenditure in managing climate-related risks. However, IAS 38 *Intangible Assets* can be read as requiring the entity to disclose the aggregate amount of expenditures, rather than disaggregate the expenditures by their purpose.

(b) in applying IAS 1 it is unclear whether entities are required to provide disaggregated information about the financial statements line items impacted by climate-related risks. For example, entities do not always disaggregate

property, plant and equipment or costs by exposure to climate-related risks (for example, carbon intensive assets or energy costs).

27. We identified the following standard-specific issues:

(a) for some financial instruments, it may not be clear how to consider the effects of climate-related risks when applying the requirements in IFRS 9 *Financial Instruments* for example:

(i) assessing whether the contractual cash flows of financial assets with interest rates linked to environmental, social or governance (ESG) targets are solely payments of principal and interest on the principal amount outstanding (SPPI); and

(ii) the own-use exception to physical power purchase agreements for the delivery of renewable energy. [1]

(b) it may be unclear in some circumstances whether in applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* a commitment would result in the recognition of a provision. For example, it may not be clear whether making a commitment to offset future greenhouse gas emissions in itself gives rise to a present obligation for an entity and therefore requires the recognition of a provision.

(c) impairment testing of non-financial assets—when measuring the value in use of an asset using the traditional approach, entities may not properly consider that cash flows (or discount rates) used should represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset rather than a single most likely, minimum or maximum possible amount.

[1] The objective of the own use exception in IFRS 9 is to determine the circumstances in which a commodity-based contract meets the definition of a financial instruments and is therefore accounted for as a derivative.

Staff commentary

28. We think the causes of stakeholders' concerns regarding the application of IFRS Accounting Standards discussed in paragraphs 19–27 are often intertwined, making it difficult to identify a single clear-cut reason for the concern. For example, entities may find it challenging to comply with requirements in the Accounting Standards because these requirements are not sufficiently clear.

29. Given the interplay between these causes, we think individual actions could help address multiple issues discussed in this section. Possible actions could involve making changes that focus on providing additional detail to strengthen particular general requirements (for example, strengthening requirements in IAS 1 on disclosures about assumptions). Alternatively, the IASB could add specific requirements to particular IFRS Accounting Standards (for example, requiring an entity to disclose the reason for inventory write-downs applying IAS 2, or to disclose assumptions used to test for impairment of cash generating units without goodwill applying IAS 36).

Possible courses of action

30. To help assess whether and, if so, how to address the stakeholders' concerns discussed in paragraphs 14–29, we also asked stakeholders about the various courses of action available to the IASB. These may include educational materials, referring particular matters to the IFRS Interpretations Committee (Committee), new application guidance or illustrative examples or targeted amendments to IFRS Accounting Standards.

31. Almost all stakeholders said the November 2019 article IFRS Standards and climate-related disclosures and educational materials on the effects of climate-related matters on financial statements published in November 2020 (republished in July 2023) have helped improve disclosures about the effects of climate-related risks. A few national standard-setters suggested increasing the accessibility of this educational material, for example, by translating it into other languages.

32. To further assist entities, many stakeholders suggested the IASB produce additional educational material or application guidance. For example, the IASB could consider publishing educational material on how to apply materiality judgements or on how to incorporate the effects of risks that have a long-term impact when testing for impairment.

33. A few Committee members said some of the stakeholders' concerns could be addressed by issuing agenda decisions. In their view, this approach could explain how the requirements in IFRS Accounting Standards are applied to specific transactions or fact patterns in a relatively short timeframe. However, some stakeholders (mainly auditors) cautioned about this solution and said its effect would be limited; because agenda decisions cannot go beyond existing requirements, they would be unlikely to have a significant effect on addressing stakeholder concerns.

34. Many stakeholders said that, in general, standard-setting is unnecessary because IFRS Accounting Standards already require entities to consider the effects of climate-related and other risks in applying the principles in the Accounting Standards. However, some other stakeholders (mainly auditors and regulators) said some targeted amendments to IFRS Accounting Standards could help address stakeholders' concerns. For example, additional disclosure requirements could help address the inconsistencies between information about climate-related risks reported in the financial statements and the information reported elsewhere.

35. Some stakeholders suggested the IASB add illustrative examples to the existing requirements in IFRS Accounting Standards. As one regulator stated, illustrative examples, although not directly enforceable, would make it easier to enforce IFRS Accounting Standards. For example, a few stakeholders suggested the IASB explore introducing a climate-specific illustrative example in IAS 1 to clarify that in making materiality judgements an entity should consider whether, in some circumstances, qualitative information about the fact that an entity has limited exposure to climate-related risks could be material for users.

Staff commentary

36. As noted in paragraph 5, our work indicates that IFRS Accounting Standards are generally sufficient to elicit information about the effects of climate-related risks that meets user needs within the objective of financial statements. Moreover, we think some information needs would be satisfied by sustainability-related financial disclosures, such as those required by the ISSB. For example, although not necessarily in the financial statements, entities applying IFRS Sustainability Disclosure Standards would be required to provide information on the current and anticipated financial effects of sustainability-related risks and opportunities.

37. However, based on feedback received we think that some concerns raised by stakeholders (discussed in paragraphs 14–29) can potentially be addressed using various vehicles or a combination of vehicles. Specifically, the IASB could consider:

    (a) articles and educational material—the IASB could publish articles, webinars, and other educational material to help entities understand how to consider climate-related risks in applying IFRS Accounting Standards;

    (b) agenda decisions—the IASB could refer particular issues to the Committee to help ensure consistent application of IFRS Accounting Standards; and

    (c) standard-setting—the IASB could issue illustrative examples or make specific amendments to IFRS Accounting Standards to improve application of those Accounting Standards.

38. In determining the best way forward, we think the IASB should consider:

    (a) accessibility—some stakeholders have raised concerns that articles, webinars, and other materials, as well as agenda decisions, might not always be easy to access. For example, they might not be directly included in the unannotated IFRS Accounting Standards or might only be available in English. However, we think this can be mitigated through:

        (i) increasing the prominence of these materials, for example through a centralised page on our website; and

(ii) translation of educational materials and agenda decisions. It is worth noting that educational materials and agenda decisions usually are not translated due to potential resource constraints. However, given the importance of this topic, we think this cost may be justified.

(b) enforceability—explicit requirements in IFRS Accounting Standards tend to be easier for auditors and regulators to enforce.

(c) speed—educational materials and agenda decisions can be produced more quickly than changes to the requirements in IFRS Accounting Standards.

(d) effectiveness—standard-setting enables the IASB to change IFRS Accounting Standards, whereas the other vehicles are derived from the existing IFRS Accounting Standards and cannot change them.

39. In undertaking any actions, we will continue to include ISSB staff on the project team to benefit from their expertise on this topic and to help ensure that IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, as well as the resulting reports prepared applying the Standards, work well together (that is, the Standards and the resulting reports are connected).

Appendix A—Summary of review of academic research and other publications

A1. The academic research and other publications reviewed are listed in Appendix A of Agenda Paper 14 *Cover paper*.

Review of academic research

A2. Baboukardos et al.[2] examined a sample of 30 oil and gas and 26 mining companies from Africa (3 companies), Asia (10 companies), Europe (29 companies), North America (7 companies), Oceania (3 companies) and South America (4 companies) that reported using IFRS Standards in 2019 and 2020. They found that:

(a) companies' disclosures about the effects of climate-related matters in the financial statements increased marginally in 2020 compared to disclosures in 2019. Disclosures in the financial statements were measured using a disclosure index —a ratio of the number of disclosed items from a list of disclosure items related to accounting policies, impairment testing, non-current assets, provisions and contingent liabilities and the audit report. The researchers documented an average increase of the disclosure index from 24% in 2019 to 27% in 2020.

(b) companies' disclosures about the effects of climate-related matters elsewhere in the annual reports increased in 2020 compared to disclosures in 2019. The researchers quantified the disclosures by using a disclosure index based on disclosure items related to reserves and resources reporting, scenario analysis, business model, climate change-related performance indicators and Task Force on Climate-related Financial Disclosures recommendations. The researchers documented an average increase of the disclosure index from 39% in 2019 to 50% in 2020.

[2] Baboukardos, D., Dionysiou, D., Slack, R., Tsalavoutas, I., and F. Tsoligkas, *Climate-Change Risk-Related Disclosures in Extractive Industries: A Comparative Study*, Association of Chartered and Certified Accountants and Adam Smith Business School research monograph (doi:10.36399/gla.pubs.258686), 2021.

(c) there was a disconnect between the disclosures in the financial statements and elsewhere in the companies' annual reports.

A3. Potter et al.[3] analysed climate scenario disclosures of a sample of ASX 100-listed Australian companies in 2020-2021 and found that:

(a) few companies disclosed information about scenarios in their financial statements.

(b) when companies disclosed information about scenarios in the financial statements, this information was usually disclosed in the "significant accounting policies" note and indicated that climate change or scenarios were taken into account:

(i) in the impairment of non-current assets (either in the context of impacts to the recoverable amount or the useful life of an asset);

(ii) in understanding the impact of climate transition risk on, for example, environmental remediation provisions; and

(iii) in the case of banking, to credit risk arising as a result of climate-related impacts for lending customers.

(c) little or no detail regarding the scenarios was provided in such disclosures.

(d) where scenarios were discussed in the financial statements, the information was in more general terms, e.g. "climate change scenarios were considered and found to have little impact".

A4. Using a sample of 1,291 financial statements of ASX-listed Australian companies in 2018–2022, Garg[4] found that:

(a) the number of companies providing climate-related disclosures increased between 2018 and 2022.

[3] Potter, B., Soderstrom, N., and J. Jonathan, *Climate Scenario Disclosure*, Research Report prepared for the Australian Accounting Standards Board, 2023.

[4] Garg, M., *Impact of climate change-related financial disclosures on accounting numbers: Analyses of credibility and value implications*, Monash University, Working paper, 2023.

(b) companies' climate-related disclosures in the financial statements increased over the sample period—disclosures were measured through a disclosure index constructed using machine-learning based textual analysis of the financial statements. In the authors' view, litigation risk and capital market pressures explain the increase in such disclosures.

(c) companies that provided information on climate-related matters in the financial statements had lower return on assets and higher accumulated depreciation and amortisation. In the authors' view, these companies made accounting adjustments for the negative impact of climate-related events in the future.

A5. Li and Lee reviewed climate-related disclosures in the financial statements of 75 ASX-listed Australian companies with the highest market capitalization as of 31 December 2022. The researchers compared the 2021-2022 financial reports to the 2017-2018 financial reports of these companies and found that:

(a) entities' consideration and disclosure of climate-related risks increased over the period. For example, in 2018 the researchers identified two items in the financial statements that mentioned climate-related risks (risk management framework and impairment of assets) but in 2022 they identified 14 items that mentioned climate-related risks (impairment of investments, receivables, onerous contracts, water rights, investment properties, credit loss, exploration and evaluation of assets, deferred tax, contingent assets and liabilities, provisions for rehabilitation and restoration, risk management framework, critical accounting judgements, depreciation (including useful lives) and impairment of assets. However:

(b) the disclosures varied among the sample entities and the disclosed information was generic and lacked detail which, in the authors' view, echoed stakeholders' concerns about inconsistent application of IFRS Accounting Standards to climate-related risks and insufficient information disclosed about climate-related risks in the financial statements.

Review of other publications

A6. The key themes emerging from the review of other publications included:

(a) a disconnect between the information disclosed about climate-related matters in the financial statements and disclosed elsewhere in the annual report. One review of 110 companies globally observed that while 78% of companies mentioned climate in the front-end[5] of their annual reports, only 9% of these companies mention climate in their financial statements. In observing a similar trend, another review noted that the disproportionate disclosure between the front-end of an annual report and the financial statements creates an immediate disconnect with an entity's assessment of materiality.

(b) a lack of clarity and depth in disclosures about assumptions, estimates and judgements related to climate-related matters. A review by a user of financial statements observed that, 'in general, companies failed to disclose the relevant quantitative climate-related assumptions and estimates used to prepare the financial statements, even when they indicated that climate-related risks may impact these assumptions'[6]. One review attributed the lack of disclosure about assumptions, estimates and judgements partly to non-compliance with IFRS Accounting Standards.

(c) a marked increase in companies disclosing information about the effects of climate-related matters in their 2021/22 financial statements when compared to earlier financial reporting periods. One review also noted an improvement in the quality of information about climate-related matters in the financial statements, even if that information is brief.

[5] In the context of this publication, we have interpreted 'front-end' as any disclosure within an entity's annual report that is not part of the financial statements.

[6] Carbon Tracker Initiative, *Still flying blind, The absence of climate risk in financial reporting*, October 2022.