
IASB® meeting

Date	April 2024
Project	Climate-related and Other Uncertainties in the Financial Statements
Topic	Cover paper
	Karen Robson (karen.robson@ifrs.org)
Contacts	Gustavo Olinda (golinda@ifrs.org)
	Zicheng Wang (zwang@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS® Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB® *Update*.

Purpose of the meeting

1. The objective of this project is to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements (see Appendix A for background). In [September 2023](#), the IASB decided to explore a portfolio of actions to help achieve this objective. These actions are described in Appendix B.
2. The purpose of this meeting is to ask whether the IASB:
 - (a) agrees with our recommendation to:
 - (i) provide examples illustrating how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements;
 - (ii) include the examples as illustrative examples accompanying IFRS Accounting Standards;
 - (iii) consult on these proposals through an exposure draft; and
 - (iv) allow a comment period of 120 days for such exposure draft.
 - (b) is satisfied that it has complied with the applicable due process steps and ask for permission to begin balloting the exposure draft.

-
3. There are two new papers for this meeting:
 - (a) Agenda Paper 14A *Project direction* summarises the feedback on the staff's work on developing examples and possible standard-setting in relation to disclosure of information about estimates since posting the agenda papers for the March 2024 IASB meeting. This paper also asks whether the IASB agrees with the staff recommendations set out in the paper.
 - (b) Agenda Paper 14B *Due process requirements and permission to begin the balloting process* sets out the due process steps taken and asks the IASB for permission to begin balloting an exposure draft containing a package of illustrative examples. This paper also provides our analysis regarding transition and effective date.
 4. Agenda Papers 14C *Development of examples* and 14D *Staff draft examples* for this meeting reproduce, with no changes, Agenda Papers [14A](#) and [14B](#) from the March 2024 IASB meeting.
 5. For ease of reference, the papers for this meeting refer to requirements in IAS 1 *Presentation of Financial Statements*. However, any potential actions associated with IAS 1 will be modified to conform to changes arising from the issuance of IFRS 18 *Presentation and Disclosure in Financial Statements*.

Appendix A—Background to the project

Origins of the project

- A1. In March 2023, the International Accounting Standards Board (IASB) added to its work plan a project to explore whether and how financial statements can better communicate information about climate-related risks.
- A2. The IASB decided to add the project to its work plan because of strong demand from respondents to its [Third Agenda Consultation](#) for better information about climate-related risks in the financial statements—in particular, stakeholders expressed concerns that such information was insufficient or appears to be inconsistent (not connected) with information reported elsewhere by an entity.
- A3. To support us in this work, the IASB project team includes technical staff from the International Sustainability Standards Board (ISSB) to provide technical input on climate-related matters and to ensure that the work of both boards is connected.

Objective of the project

- A4. The objective of this project is to explore targeted actions to improve the reporting of climate-related and other uncertainties in the financial statements.
- A5. This project will not:
- (a) create a new IFRS Accounting Standard on climate.
 - (b) change the objective of financial statements.
 - (c) change the *Conceptual Framework for Financial Reporting* definitions of assets and liabilities.
 - (d) undertake work on the accounting for pollutant pricing mechanisms. A project on Pollutant Pricing Mechanisms is on the IASB's [reserve list](#) of projects.

The IASB's discussions and decisions

- A6. At its [meeting](#) in September 2023, the IASB discussed the findings from the staff's work to understand the nature and causes of stakeholder concerns about the reporting of information about climate-related and other uncertainties in the financial statements.
- A7. In particular, the staff's work showed that:
- (a) there are concerns from some users of financial statements (users) that information about climate-related risks in the financial statements is sometimes insufficient or appears to be inconsistent with other information provided by an entity. Such concerns include insufficient and inconsistent information about assumptions and judgments underlying estimates that reflect those risks in the financial statements.
 - (b) some user information needs go beyond the objective of financial statements and may be better satisfied through other disclosures, such as sustainability-related financial disclosures prepared applying the ISSB's Standards.
 - (c) IFRS Accounting Standards are generally sufficient in requiring useful information for users about climate-related risks in the financial statements. However, there may be challenges in the application of the Standards.
 - (d) stakeholders seek timely action to help improve the reporting of information about climate-related and other uncertainties in the financial statements.
 - (e) the reporting landscape is evolving, particularly with developments in sustainability reporting, including the work of the ISSB. As entities develop sustainability-related financial disclosures, the process underlying the development of those disclosures may better inform and improve compliance with IFRS Accounting Standards.
- A8. Having discussed the staff's work, the IASB decided to explore a portfolio of actions to help address the concerns raised. Appendix B sets out all the actions, their status and next steps.

- A9. At its [meeting](#) in March 2024, the IASB was not asked to make any decisions, however, it discussed the staff's work on two of these actions:
- (a) exploring developing examples to illustrate how to apply requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in the financial statements; and
 - (b) exploring possible standard-setting to clarify or enhance the requirements in IFRS Accounting Standards in relation to disclosure of information about estimates.

Appendix B—Status and next steps

B1. This table sets out the actions underway to help address concerns about the reporting of climate-related and other uncertainties in the financial statements, their status and next steps.

Action	Description	Status and next steps
IASB decisions		
<p>Explore developing examples to illustrate how to apply requirements in IFRS Accounting Standards to reporting the effects of climate-related and other uncertainties in the financial statements</p>	<p>The staff has developed examples to help address concerns from users that information about climate-related risks and other uncertainties in the financial statements is sometimes insufficient or appears to be inconsistent with other information provided by an entity.</p> <p>These concerns relate mostly to the application of disclosure requirements in IFRS Accounting Standards.</p> <p>Therefore, the staff’s view is that the examples would be most helpful if they focus on illustrating the application of the disclosure requirements in IFRS Accounting Standards. In particular, the examples would address the following areas:</p> <ul style="list-style-type: none"> • materiality judgements; • assumptions and other sources of estimation uncertainty; and • aggregation and disaggregation. <p>The examples do not add to or change the requirements in IFRS Accounting Standards.</p>	<p>At this meeting, we are asking whether the IASB agrees with our recommendation to provide these examples and include them as illustrative examples accompanying IFRS Accounting Standards. We are also asking whether the IASB agrees with our recommendation to consult on these examples through an exposure draft.</p> <p>See Agenda Papers 14A and 14B for further information.</p>

Action	Description	Status and next steps
<p>Explore clarifying or enhancing requirements in IFRS Accounting Standards in relation to disclosure of information about estimates</p>	<p>Some users seek to better understand how the effects of climate-related and other uncertainties have been considered in preparing the financial statements. This includes understanding how those uncertainties were reflected in estimates reported in the financial statements.</p> <p>To address this need for a better understanding, the IASB decided in September 2023 to explore possible targeted amendments to IFRS Accounting Standards to improve disclosures about estimates in the financial statements.</p> <p>Improved disclosures about estimates could also help users make connections between the financial statements and the entity’s other general purpose financial reports.</p>	<p>At its March 2024 meeting, the IASB broadly supported (or did not object to) our view that there is not enough evidence at this stage to indicate that standard-setting on disclosures about estimates is needed.</p> <p>After considering IASB members’ comments, we think that the exposure draft containing the examples should include a question that focuses on the examples but also elicits information to help the IASB decide whether standard-setting is needed.</p> <p>Feedback on this question could help inform the IASB about whether standard-setting is needed to improve disclosures about estimates in the financial statements.</p> <p>See paragraphs 33–40 of Agenda Paper 14A for further information.</p>
<p>Consult with the IFRS Interpretations Committee (Committee) on questions related to the reflection of climate-related risks in the</p>	<p>The effects of climate-related risks may result in high variability in future cash flows over an extended time horizon. Some stakeholders said this may create challenges in the application of the requirements in IAS 36 when an entity tests an asset for impairment. In particular, the staff’s work highlighted concerns that such variability over an extended time horizon (for example, beyond five years) may not be factored into the</p>	<p><i>Action Completed</i></p> <p>The Committee discussed this matter at its November 2023 meeting.</p> <p>The Committee’s discussion suggests entities do consider and reflect variability over an extended time horizon in applying IAS 36 and, therefore, there is no need for</p>

Action	Description	Status and next steps
application of IAS 36 <i>Impairment of Assets</i>	calculation of value in use, potentially due to perceived prohibitions in IAS 36. Input from Committee members was intended to help the IASB understand practice in this area and whether there is diversity in the way entities understand and apply the requirements in IAS 36.	standard-setting or explanatory material through an agenda decision.
Refer to the Committee a question about the application of IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	<p>The staff's work identified that there may be confusion in practice about when to recognise a liability applying IAS 37 for climate-related commitments, such as commitments to reduce greenhouse gas emissions by a specified date and commitments that involve uncertain amount or timing of outflows.</p> <p>The IASB decided to ask the Committee to clarify the application of IAS 37 to this question. A Committee agenda decision, with explanatory material, could explain the requirements of IAS 37 and help alleviate confusion in a timely manner.</p>	<p>Soon after the IASB's decision, the Committee received a submission seeking clarification on a similar matter. The receipt of that submission removed the need for a referral from the IASB.</p> <p>The Committee discussed the submission in November 2023 and published a tentative agenda decision in December 2023 with a comment period ending in February 2024.</p> <p>The Committee decided to finalise the agenda decision at its March 2024 meeting.</p> <p>The IASB will be asked whether it objects to the agenda decision at its April 2024 meeting.</p>
Other IASB projects		
Primary Financial Statements (IFRS 18)	Some stakeholders seek to better understand the extent to which an entity's assets, liabilities, equity, income, expenses and cash flows are exposed to specific risks. For example, some stakeholders want to understand the extent	<i>Action Completed</i> Final IFRS Accounting Standard issued in April 2024.

Action	Description	Status and next steps
	<p>to which an entity’s assets are located in geographies subject to significant physical climate-related risks.</p> <p>IFRS 18 will strengthen requirements around aggregation and disaggregation of information in the financial statements, which might improve the information entities provide about items subject to specific risks.</p>	
<p>Amendments to the Classification and Measurement of Financial Instruments</p>	<p>Stakeholders have said that the global market for ESG-linked financial assets is growing rapidly and have requested clarification of the requirements to assess the contractual cash flow characteristics of these financial assets to determine whether to measure those assets at fair value or amortised cost.</p> <p>This project will provide additional application guidance and require additional disclosures to help users better understand the terms of the ESG-linked features.</p>	<p>Final amendments expected May 2024.</p>
<p>Power Purchase Agreements</p>	<p>Entities are increasingly entering into power purchase agreements for the procurement of renewable energy. The use of renewable energy is part of some entities’ commitment to mitigate the effects of climate change and to decarbonise their production processes and products. Stakeholders have expressed concerns that, due to the unique features of power purchase agreements for renewable energy, the application of IFRS Accounting Standards may not result in useful information for users.</p>	<p>The IASB expects to publish an exposure draft proposing narrow-scope amendments to IFRS 9 in May 2024.</p>

Action	Description	Status and next steps
	<p>This project is exploring whether narrow-scope amendments could be made to IFRS 9 <i>Financial Instruments</i> to improve information for users about power purchase agreements.</p>	
<p>Post-implementation Review of IFRS 9—Impairment</p>	<p>Through this project, some stakeholders have made observations about the incorporation of climate-related risks in the measurement of expected credit losses.</p> <p>A post-implementation review is not a standard-setting project—the objective of a post-implementation review is to assess whether a new IFRS Accounting Standard is working as intended. However, based on findings from the review, the IASB may undertake standard-setting or develop educational materials.</p>	<p>Project Summary expected Q3 2024. Any work arising from the PIR would start thereafter.</p>
<p>Other actions</p>		
<p>Article on the role of financial statements</p>	<p>To help address the expectations gap described in paragraph A7(b) of this paper, we are exploring development of an article about the objective of financial statements, their audience, their boundaries and how they can be complemented by sustainability-related financial disclosures, such as those provided applying ISSB Standards.</p>	<p>Article expected Q2 2024.</p>

Action	Description	Status and next steps
Improved accessibility	To improve awareness of educational materials about how existing IFRS Accounting Standards apply to the reporting of climate-related and other uncertainties in the financial statements, we have created a central source of information on our website . This webpage includes translations of educational materials into different languages (more to be posted as they become available), as well as information about other work in progress related to this project.	<i>Action Completed</i>