PKF INSIGHTS

IASB PUBLISHED EXPOSURE DRAFT - CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS

MAY 2025

WHAT IS THIS ABOUT?

- The IASB is proposing eight examples to illustrate how entities apply IFRS Accounting Standards to report climate-related and other uncertainties.
- These examples aim to improve the reporting of such effects in financial statements.
- The IASB expects these examples to help strengthen connections between an entity's general purpose financial reports.
- The IASB focused on requirements most relevant for reporting climate-related and other uncertainties.
- These examples aim to address concerns about insufficient or inconsistent information on climate-related risks in financial statements.

IMPORTANT NOTICE

The illustrative examples and guidance mentioned are not exhaustive and should be tailored to the specific circumstances of the reporting entity. Entities must align disclosures with their operations, transactions, and financial reporting objectives, and consult with auditors or advisors to ensure compliance. These notes are for informational purposes only and do not guarantee full compliance with accounting standards. Users should refer to the original IFRS standards and seek professional guidance when necessary.

WHAT ARE THE EXAMPLES PROVIDED?

1) Materiality judgements leading to additional disclosures	(IAS 1/IFRS 18)
2) Materiality judgements not leading to additional disclosures	(IAS 1/IFRS 18)
3) Disclosure of assumptions: specific requirements	(IAS 36)
4) Disclosure of assumptions: general requirements	(IAS 1/IAS 8)
5) Disclosure of assumptions: additional disclosures	(IAS 1/IFRS 18)
6) Disclosure about credit risk	(IFRS 7)
7) Disclosure about decommissioning and restoration provisions	(IAS 37)
8) Disclosure of disaggregated information	(IFRS 18)

Example 1 - Materiality Judgements Leading to Additional Disclosures

Areas of Focus

Materiality judgement of climate-related uncertainties to determine disclosure of additional information

Background

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

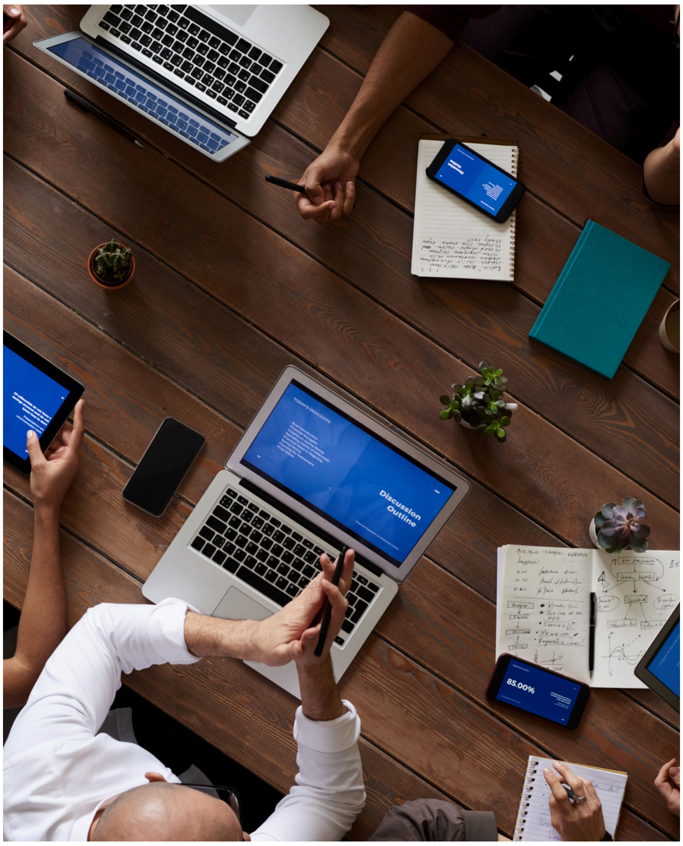
Application

The entity concludes that additional information is necessary after considering qualitative factors. These factors include disclosures in its general-purpose financial report outside the financial statements (entity-specific factor). Another factor is the industry it operates in, which is known to be exposed to climate-related transition risks (external factor).

Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why.

Accounting Standards

According to Paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.



Example 2 - Materiality Judgements Not Leading to Additional Disclosures

Areas of Focus

Materiality judgement of climate-related uncertainties to determine disclosure of additional information

Background

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

Application

The entity concludes that additional information is less likely to influence users' decision-making after considering qualitative factors.

These factors include disclosures in its general-purpose financial report outside the financial statements (entity-specific factor). Another factor is the industry it operates in, which is known to have limited exposure to climate-related transition risks (external factor).

Therefore, applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], the entity provides no additional disclosures.

Accounting Standards

According to Paragraph 31 of IAS 1 [paragraph 20 of IFRS 18], An entity shall consider whether to provide additional disclosures when compliance with the specific requirements in FRSs is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.

Example 3 - Climate-related assumptions and other estimation uncertainties (specific requirements)

Areas of Focus

Disclosure of Climate-Related Assumptions and Estimation Uncertainties

Background

The entity measures the CGU's value in use for impairment using cash flow projections based on management's estimates of future economic conditions, including emission allowance costs, and disclose key assumptions and their alignment with external information as per IAS 36.

Application

IAS 36.134(f) requires disclosure of potential impairment if there is a change in these key assumptions, causing the CGU's carrying amount to exceed its recoverable amount.

The IASB notes in the Basis for Conclusions to the Exposure Draft that entities may consider disclosing assumptions about the costs of acquiring greenhouse gas emission allowances when measuring a CGU's recoverable amount, as these details may be material due to widespread industry compliance with emissions regulations and potential future changes in regulatory scope.

Accounting Standards

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

Example 4 - Climate-related assumptions and other estimation uncertainties (general requirements)

Areas of Focus

Disclosure of Climate-Related Assumptions and Estimation Uncertainties

Background

The entity with climate-related transition risks tests its CGUs using various climate-related assumptions for impairment and concludes that no impairment loss must be recorded since the recoverable amount exceeds the carrying amount. While IAS 36 does not require disclosure of assumptions used to determine a CGU's recoverable amount if the CGU has no goodwill or indefinite-lived intangible assets and no impairment loss been recognised, the entity should consider the requirements of IAS 1 (or IAS 8) in determining whether to make such disclosure.

Application

Although no impairment loss was recorded, the entity applied significant climate-related assumptions—such as carbon pricing and regulatory changes—in estimating CGU recoverable amounts. Under IAS 1, disclosure is still required due to the estimation uncertainty involved, even if IAS 36 does not mandate it. The entity should therefore disclose the key assumptions, explain their potential future impact, and include sensitivity analysis where relevant to ensure transparency for users of the financial statements.

Accounting Standards

Paragraph 125 of IAS 1 [Paragraph 31A of IAS 8] requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of the assets and liabilities.

For example, under impairment review, several assumptions related to the climate-related transition risks to which it is exposed. The entity consider these factors and apply paragraph 125 of IAS 1 [paragraph 31A of IAS 8].

Example 5 - Additional disclosure assumptions

Areas of Focus

Disclosure of Climate-Related Assumptions and Estimation Uncertainties

Background

The entity operates in a jurisdiction where potential future regulatory changes—such as climate-related tax reforms—may affect the recognition or measurement of its deferred tax asset. These regulatory changes have not yet been formally proposed or enacted, and are not expected to be reviewed or implemented for at least the next two years. The entity has not incurred losses in either the current or preceding reporting period, and its deferred tax asset remains supported by projected future taxable profits under current legislation.

Application

Under Under IAS 1.31 (IFRS 18.20), entities must disclose information about estimation uncertainties only if there is a reasonable possibility that material adjustments may arise within the next annual reporting period. In this case, although the entity operates in a jurisdiction where future tax-related regulations could impact deferred tax assets, these changes are not expected to be reviewed or enacted within the next year.

Accordingly, because the regulation is neither imminent nor expected to materially affect the measurement of the deferred tax asset in the short term, the magnitude and likelihood of adjustment are low. As such, the situation does not meet the threshold for disclosure under IFRS 18.20, consistent with the conclusion under IAS 1.125 and IAS 8.31A.

Accounting Standards

IAS 1 Presentation of Financial Statements (IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027)

Example 6 - Disclosure about credit risk

Areas of Focus

Disclosure of Climate-Related Assumptions and Estimation Uncertainties

Background

The entity, a financial institution, monitors climate-related risks for two material loan portfolios - (a) loans to agricultural customers potentially affected by droughts, and (b) loans to real estate customers with properties in flood-prone areas. The entity is required to disclose as per IFRS 7.35A-38, how these risks impact credit risk, considering the portfolios' size, the significance of climate risks and external factors.

Application

Example 6 demonstrates how to disclose the effect of climate-related risks on an entity's credit-risk exposures and management practices, including their effect on recognising and measuring expected credit losses. It also outlines the factors to consider when assessing the materiality of climate-related risks on credit risk and loss measurement. While credit risk is influenced by various factors, specific details about climate-related risks may be material in some situations.

Sample Disclosure: Credit Risk Arising from Climate-Related Exposures

The Group monitors and manages credit risk arising from climate-related exposures within its lending portfolios, in particular:
(a) loans to agricultural customers operating in regions susceptible to prolonged drought conditions; and
(b) loans to real estate customers with properties located in flood-prone areas.

These portfolios are considered material, and climate-related physical risks may adversely affect borrowers' cash flows, asset values, and long-term viability. The Group incorporates these risks into its expected credit loss (ECL) assessment by applying forward-looking information, including geographic climate data, drought and flood forecasts, and regulatory developments affecting climate resilience.

As at [reporting date], the Group has updated its credit risk grading models to reflect sector-specific climate vulnerabilities and has performed portfolio segmentation based on geographic exposure to physical risk. No significant increase in credit risk (SICR) has been identified across either portfolio; however, additional overlays have been applied to account for climate uncertainty, resulting in a [XX]% increase in loss allowance for the agricultural loan portfolio and a [YY]% increase for the flood-prone real estate portfolio.

The Group continues to review its collateral valuation methodology for climate-affected regions, and enhanced internal stress testing is underway to assess long-term exposure to climate risk scenarios. The Group has not observed material defaults attributable to climate events during the reporting period.

Accounting Standards

IFRS 7 Financial Instruments: Disclosures
Paragraphs 35A–38 of IFRS 7 include disclosure requirements about credit risk arising from financial instruments. The entity determines that information about the effects of climate-related risks on its exposure to credit risk on portfolios is material.

Example 7 - Disclosure about decommissioning and restoration provisions

Areas of Focus

Disclosure of Climate-Related Assumptions and Estimation Uncertainties

Background

The entity, a petrochemicals manufacturer, anticipates maintaining its facilities for a long time, making the present value of decommissioning and site restoration costs immaterial. However, high future costs and the risk of earlier facility closures due to a transition to a lower-carbon economy pose significant concerns. IAS 37.85 requires an entity to disclose details about plant decommissioning and site restoration provisions, including descriptions, timing, uncertainties, and major assumptions, even if the carrying amount is immaterial.

Application

Example 7 illustrates that even if the carrying amount of plant decommissioning and site restoration provisions is immaterial, disclosures about uncertainties, including climate-related effects on recognition and measurement of the obligations are important as they can still be material.

Accounting Standards

IAS 37 Provisions, Contingent Liabilities and Contingent Assets

Example 8 - Disclosure of disaggregated information

Areas of Focus

Disaggregation of assets and liabilities by climate-related risk characteristics

Background

The entity owns Property, Plant & Equipment ("PP&E") of the same class with both high and low greenhouse gas emissions, with significant differences in their vulnerability to climate-related transition risks, such as future regulations or changing consumer demands, which could impact their usage duration, residual values, and recoverable amounts.

Application

Applying aggregation and disaggregation principles in accordance with IFRS 18.41 and IFRS 18.42 results in the entity providing material disaggregated information about PP&E based on differing climate-related risk characteristics. Considering that two types of PP&E have distinct risk profiles, the entity disaggregates the related information to reflect these differences in line with IAS 16.73 provided that such information is material.

Accounting Standards

IFRS 18 Presentation and Disclosure in Financial Statements effective for annual reporting periods beginning on or after 1 January 2027

Effective date and transition

Materials accompanying IFRS Accounting Standards, including illustrative examples, are not considered an integral part of the Standards.

Consequently, they do not have an effective date or transition requirements. The IASB provides these examples to help entities make materiality judgments and improve the application of disclosure requirements in financial statements. Entities must use their judgment to determine which information is material and reassess that judgment at each reporting date. As circumstances change, previously immaterial information may become material and vice versa. Changes suggested by the illustrative examples should be implemented in a timely manner, with the appropriate timeframe determined by each entity's specific circumstances.

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