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## **Climate-related and Other Uncertainties in the Financial Statements**

### **Issues Paper**

#### **Objective**

- 1 The objective of this session is to prepare for EFRAG’s participation at the 28 May 2025 ASAF meeting, where the IASB staff will seek members’ views prior to the IASB making further decisions on the project in June 2025.
- 2 This paper also provides an overview of the IASB feedback received (including EFRAG) to the July 2024 IASB Exposure Draft<sup>1</sup> (*‘ED’*) *Climate-related and Other Uncertainties in the Financial Statements* and IASB staff’s preliminary recommendations based on the feedback to the ED. The rest of the paper is structured as follows:
  - (a) EFRAG Secretariat analysis of IASB staff recommendations on project direction and examples (summarised in Appendix and detailed in the related ASAF agenda papers);
  - (b) Questions to EFRAG FR TEG and CFSS members are in paragraphs 9 and 10 below;
  - (c) ASAF Agenda papers;
  - (d) Next steps; and
  - (e) Appendix: Summary of feedback to the ED and the IASB staff’s preliminary recommendations.

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<sup>1</sup> The ED proposed eight illustrative examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The comment period ended in November 2024

### **EFRAG Secretariat analysis**

#### *Comments on the project direction*

- 3 EFRAG, [in its comment letter](#), called for the IASB to take a two-step approach, starting with the finalisation of the ED's examples and thereafter to
- (a) develop further examples including those related to recognition and measurement;
  - (b) consider standard setting activity with prioritisation of the amendments related to IAS 1 (paragraph 125 related to sources of estimation uncertainty in the carrying amounts), IAS 36 and IAS 38 (i.e. within the IASB Research Project *Intangible Assets*) and developing requirements for the accounting for pollutant pricing mechanisms; and
  - (c) taking further measures to clarify the connectivity and boundaries of financial statements and other general purpose financial reports.
- 4 Consistent with the EFRAG comment letter, in EFRAG's secretariat's view, limiting the project scope to the issuance of the examples with the possibility of undertaking some yet to be defined activity on connectivity, falls short of stakeholders' initial expectations of the project. It should be noted that:
- (a) The suggested clarification of the time horizon in IAS 1 (paragraph 125) could have been addressed as a narrow-scope project;
  - (b) Subsequent to the ED's consultation period, based on the IASB's decisions on the pollutant pricing mechanisms research pipeline project, there is heightened uncertainty on whether and when the accounting for pollutant pricing mechanisms will be addressed;
  - (c) As conveyed in EFRAG's past commentary, educational material does not have the same level of effectiveness in influencing reporting practices as does standard setting and developing illustrative examples.

#### *Comments on changes to the specific examples*

- 5 The EFRAG Secretariat agrees with the suggested revised wording of the fact patterns in Examples 1 and 2 to clarify that the application of IAS 1.31 is meant to occur after considering the entirety of the information in the financial statements (see the suggested wording in the Table in Appendix and related ASAF paper). This clarification would be helpful in light of the concerns voiced by various EFRAG stakeholders about the limits of the non-material exposure statement.

- 6 Nonetheless, there is a question of the circumstances under which preparers ought to apply IAS 1.31 to provide additional information. In this regard, as done in the ED, it would be helpful if the illustrative examples went beyond only an example that shows the expected-to-be-material information is immaterial (and showed when additional information could be provided). That is why, in its comment letter, EFRAG supported Examples 5 and called for a more realistic fact pattern. This was not meant to be a call to delete the example entirely. In the EFRAG Secretariat's view, amending the fact pattern could be done without re-exposing the ED.
- 7 *Example 4 – Disclosure of assumptions: general requirements (IAS 1/IAS 8):* Linked to the comments made in paragraph 9 on project direction that entirely excludes standard setting, as expressed in EFRAG's comment letter to the ED, the multiple interpretations of paragraph 125 of IAS 1 are indicative of the need for standard-setting clarifications and recommends this being done in parallel to finalising this set of illustrative examples.

*Transition*

- 8 Consistent with the position in EFRAG's comment letter, the EFRAG Secretariat supports the IASB Staff recommendation that, in the Basis for Conclusions, the IASB should state that an entity would be expected to timeously implement any changes resulting from the issuance of these examples.

**Questions for EFRAG FR TEG and CFSS**

- 9 Do you have any comments on the IASB staff's preliminary recommendations on project direction noted above and detailed in the table below?
- 10 Do you have any comments on the proposed changes to the draft illustrative examples in the IASB Agenda Paper 1G—Draft illustrative examples (Agenda Paper 02-11)? As noted in paragraph 6, the EFRAG Secretariat disagrees with the suggested deletion (instead of amendment) of Example 5.

**ASAF agenda papers**

- 11 In addition to this issues paper, agenda papers for this session, for background information, are:
- (a) Agenda paper 02-02 – not used;
  - (b) Agenda paper 02-03 – IASB slides for ASAF;
  - (c) Agenda paper 02-04 – IASB AP1 cover paper;
  - (d) Agenda paper 02-05 – IASB AP1A Providing illustrative examples;
  - (e) Agenda paper 02-06 – IASB AP1B Approach to developing the examples;

- (f) Agenda paper 02-07 – IASB AP1C Connectivity;
- (g) Agenda paper 02-08 – IASB AP1D Proposed illustrative examples - Examples 1-2;
- (h) Agenda paper 02-09 – IASB AP1E Proposed illustrative examples - Examples 3-5;
- (i) Agenda paper 02-10 – IASB AP1F Proposed illustrative examples - Examples 6-8; and
- (j) Agenda paper 02-11 – IASB AP1G Draft illustrative examples; and
- (k) Agenda paper 02-12 – IASB AP1H Transition.

### **Next steps**

- 12 *June 2025*: IASB decision-making session on project direction and confirming due-process steps.
- 13 *October 2025*: IASB to issue illustrative examples.

**Appendix: Overview of feedback received on the IASB’s proposals and IASB staff’s preliminary recommendations**

*Connectivity-related decisions (IASB Agenda paper 1C)*

- 14 *IASB staff’s preliminary recommendations:* The IASB staff recommend seeking feedback as part of the IASB’s Fourth Agenda Consultation on the priority of additional work to facilitate connected financial reporting.
- 15 *IASB Feedback received on the ED:* Most respondents, including EFRAG, said that more should be done to improve connectivity in general purpose financial reports and address inconsistencies that might appear to exist between those reports. Most of these respondents, including EFRAG, said that additional guidance should be provided by developing additional examples, educational materials or improving the examples proposed in the Exposure Draft.
- 16 *IASB staff’s preliminary analysis:* There is agreement on the importance of connectivity, including connectivity between financial statements and sustainability disclosures, IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, and the IASB and the ISSB and their technical staff.
- 17 The IASB staff are exploring developing written educational material based on the [webcast series](#) Connectivity between financial statements and sustainability-related financial disclosures published in December 2024.

*Project direction and examples-related preliminary recommendations*

- 18 Below is an overview of feedback received on the IASB’s proposals including from EFRAG along with the IASB staff’s preliminary recommendations. IASB Agenda paper 1G illustrated a possible drafting of Examples 1 – 8 of the ED incorporating the changes being suggested by the IASB staff.

Topic	IASB feedback received including from EFRAG	IASB staff’s preliminary recommendations
19 Providing illustrative examples  (Further details in IASB paper AP1A)	<p><b>Would examples help improve financial reporting?</b></p> <p>20 Most respondents, <b>including EFRAG</b>, generally agreed that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements while a few disagreed.</p>	<p>25 <b>Proceed with issuing examples and including them as illustrative examples accompanying IFRS Accounting Standards;</b></p> <p>26 <b>Group the examples and publish them as a single document in addition to including them as illustrative examples accompanying IFRS Accounting Standards; and</b></p>

Topic	IASB feedback received including from EFRAG	IASB staff's preliminary recommendations
	<p>21 Some respondents said the examples are a pragmatic step towards improving the reporting, but more work is needed.</p> <p>22 A few suggested that the IASB explore ways to effectively communicate the examples once published.</p> <p><b>Vehicle for the examples</b></p> <p>23 Most respondents, <b>including EFRAG</b>, agreed with including the examples as illustrative examples accompanying IFRS Accounting Standards while some disagreed and preferred that the examples are either included in IFRS Accounting Standards themselves or published as educational materials.</p> <p>24 Some respondents specifically supported grouping the examples and publishing them as a single document, in addition to including the examples as illustrative examples accompanying IFRS Accounting Standards.</p>	<p>27 <b>Do not take other actions suggested by respondents at this stage, i.e.:</b></p> <p>(a) Suggestions to explore standard-setting to clarify some requirements in IAS 36 <i>Impairment of Assets</i> and IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>.</p> <p>(b) A project on the accounting for pollutant pricing mechanisms would be deferred until the IASB's Fourth Agenda Consultation.</p>
<p>28 Approach to developing illustrative examples</p>	<p>29 Most respondents, <b>including EFRAG</b>, generally agreed with the IASB's approach<sup>2</sup> to developing the examples. However:</p>	<p>33 <b>Retain the approach to developing the examples, but make changes to the examples to address specific concerns raised by respondents</b> (see IASB Agenda Papers 1D–1F). This includes exploring the</p>

<sup>2</sup> As per the ED, the IASB decided to focus the examples on requirements:

- (a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and
- (b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements.

Topic	IASB feedback received including from EFRAG	IASB staff's preliminary recommendations
(Further details in IASB paper AP1B)	<p>30 many respondents commented and made suggestions on particular aspects of the approach to developing the examples; and</p> <p>31 many respondents disagreed with particular aspects of the technical analysis or make specific suggestions on some of the examples.</p> <p>32 Almost all respondents agreed—or did not disagree—with the IASB's decision to develop stand-alone examples. <b>EFRAG recommended that the IASB provide walk-through<sup>3</sup> examples as educational material and includes a caveat that the purpose is to illustrate only some of the relevant disclosure requirements and not all material information that may be required to be disclosed.</b></p>	<p>development of a decision tree and publishing it as educational material.</p> <p>34 <b>Retain the project's objective of covering climate-related and other uncertainties.</b></p> <p>35 <b>Develop no additional examples.</b></p> <p>36 <b>Continue with stand-alone examples without adding caveats.</b></p>
37 Examples 1 – 2 (Further details in IASB paper AP1D)	38 Mixed views were expressed. Some respondents, <b>including EFRAG</b> , supported the examples, while many other respondents expressed concerns and either provided drafting suggestions or recommended that the IASB should not proceed with Examples 1 and 2.	39 <b>Proceed with Examples 1 and 2 with changes to address respondents' concerns</b> as follows: <ul style="list-style-type: none"> <li>(a) Applying paragraph 31 of IAS 1: <ul style="list-style-type: none"> <li>(i) Providing additional explanations on how to apply this paragraph. For example, paragraph 31 of IAS 1 should be applied with an overarching perspective and considering whether information is material in the context of the financial statements as a whole.</li> <li>(ii) Revising references of the entity disclosing that the transition plan had 'no effect' and instead, recommends providing</li> </ul> </li> </ul>

<sup>3</sup> These are examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards compared to stand-alone examples which are examples with narrow fact patterns illustrating particular requirements in an IFRS Accounting Standard.

*Climate-related and Other Uncertainties in the Financial Statements - Issues Paper*

Topic	IASB feedback received including from EFRAG	IASB staff's preliminary recommendations
		<p>examples of the type of additional disclosures the entity might provide to explain the lack of effects of its transition plan on its financial position and financial performance.</p> <p>(b) <i>Assessing whether information is material</i> – Recommend, for example, clarifying that the entity considers both quantitative and qualitative factors in determining whether additional disclosures would provide material information (paragraph 41 of IASB Agenda paper 1D);</p> <p>(c) <i>Location and format</i> - Recommend linking Examples 1 and 2 by making them variants of the same example.</p> <p>(d) <i>Interaction with sustainability-related financial disclosures</i> – To replace paragraph BC32 of the ED<sup>4</sup> with an enhanced explanation.</p>
<p>40 Examples 3 – 5 (Further details in IASB paper AP1E)</p>	<p>41 <u>Example 3</u>: Mixed views were expressed. Many respondents, including EFRAG, supported the example, while many other respondents considered that the example should be more comprehensive.</p> <p>42 <u>Example 4</u>: Mixed views were expressed. Some respondents supported Example 4 as it illustrates how to apply paragraph 125 of IAS 1. However, some other respondents, <b>including EFRAG</b>, suggested undertaking standard setting to clarify the requirements rather than interpreting them via an illustrative example.</p>	<p>44 <b>Proceed with Example 3 with limited changes</b>, i.e., that the example should specify that the assumptions relate to risks that are not reflected in the discount rate and clarifying that an entity bases cash flow projections on 'reasonable and supportable' assumptions as required by paragraph 33(a) of IAS 36, to address respondents' concerns.</p> <p>45 <b>Proceed with Example 4 with no changes</b> - Example 4 neither goes beyond nor clarifies the requirements in paragraph 125 of IAS 1; and</p> <p>46 <b>Not proceed with Example 5.</b></p>

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<sup>4</sup> Paragraph BC32 states 'Examples 1 and 2 assume that the entity does not apply IFRS Sustainability Disclosure Standards. If those Standards were applied, the entity would be required to disclose in its sustainability-related financial disclosures information about the effects of climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period.'

Topic	IASB feedback received including from EFRAG	IASB staff's preliminary recommendations
	<p>43 <u>Example 5</u>: Many respondents, <b>including EFRAG</b>, expressed concerns about various aspects of the example, while some respondents supported including an example illustrating non-climate-related uncertainties.</p>	
<p>47 Examples 6 – 8 (Further details in IASB paper AP1F)</p>	<p>48 <u>Example 6</u>: Many respondents, <b>including EFRAG</b>, supported the example, while some questioned its usefulness. In addition, many respondents, <b>including EFRAG</b>, commented on specific aspects of the example.</p> <p>49 <u>Example 7</u>: Many respondents, <b>including EFRAG</b><sup>5</sup>, supported the example, while others expressed concern that the fact pattern illustrated is unrealistic.</p> <p>50 <u>Example 8</u>: Many respondents, <b>including EFRAG</b>, supported the example. Some respondents, including EFRAG, expressed concerns about the entity's conclusion to disaggregate information.</p>	<p>51 <b>Proceed with Example 6 with limited changes:</b></p> <ul style="list-style-type: none"> <li>(a) Removing details that may give the impression that entities are always required to provide granular and quantitative information.</li> <li>(b) Explaining that disclosures may include information on the concentration of climate-related risks and that information on how climate-related risks were incorporated in impairment may include the use of management overlays.</li> </ul> <p>52 <b>Proceed with Example 7 with limited changes:</b></p> <ul style="list-style-type: none"> <li>(a) Clarifying that the carrying amount of provisions for decommissioning obligations is material, but the part of that carrying amount related to the particular obligations discussed in the example is immaterial.</li> <li>(b) Clarifying that the risk that the entity might be required to close some of its petrochemical facilities earlier than it expects is both significant and increasing.</li> <li>(c) Explaining further how the risk arises from efforts to transition to a lower-carbon economy in a way consistent with the definition of climate-related transition risks in IFRS S2 <i>Climate-related Disclosures</i>.</li> </ul>

<sup>5</sup> EFRAG suggested additional disclosures in the fact pattern, also raising recognition and measurement considerations.

Topic	IASB feedback received including from EFRAG	IASB staff's preliminary recommendations
		<p>(d) Clarifying the factors the entity is considering in determining that information about the obligations is material.</p> <p>53 <b>Proceed with Example 8 with limited changes:</b></p> <p>(a) Illustrating the disaggregation of only the carrying amount of PP&amp;E.</p> <p>(b) Explaining the factors the entity considered in concluding that information is material.</p> <p>(c) Including in the fact pattern that responding to climate-related transition risks is strategically important to the entity's operations.</p> <p>(d) Clarifying that the conclusion depends upon the entity's judgement.</p>
<p>54 Transition (Further details in IASB paper AP1H)</p>	<p>55 Most respondents appreciated the IASB's explanation that it expects entities to be entitled to sufficient time to implement any changes resulting from the issuance of the illustrative examples.</p> <p>56 A few respondents suggested setting an effective date and transition requirements to ensure entities have sufficient time to respond to any changes.</p> <p>57 However, a few respondents, <b>including EFRAG</b>, suggested clarifying that entities should implement any changes to their reporting as soon as possible.</p>	<p>58 Expand the explanations in the Basis for Conclusions accompanying the examples to help address respondents' concerns, by mentioning that the time sufficient to implement the changes is subject to the entity's particular facts and circumstances, and that an entity would nonetheless be expected to implement any such changes on a timely basis.</p>