IFRS Accounting

IFRS Disclosures about Uncertainties in Financial Statements

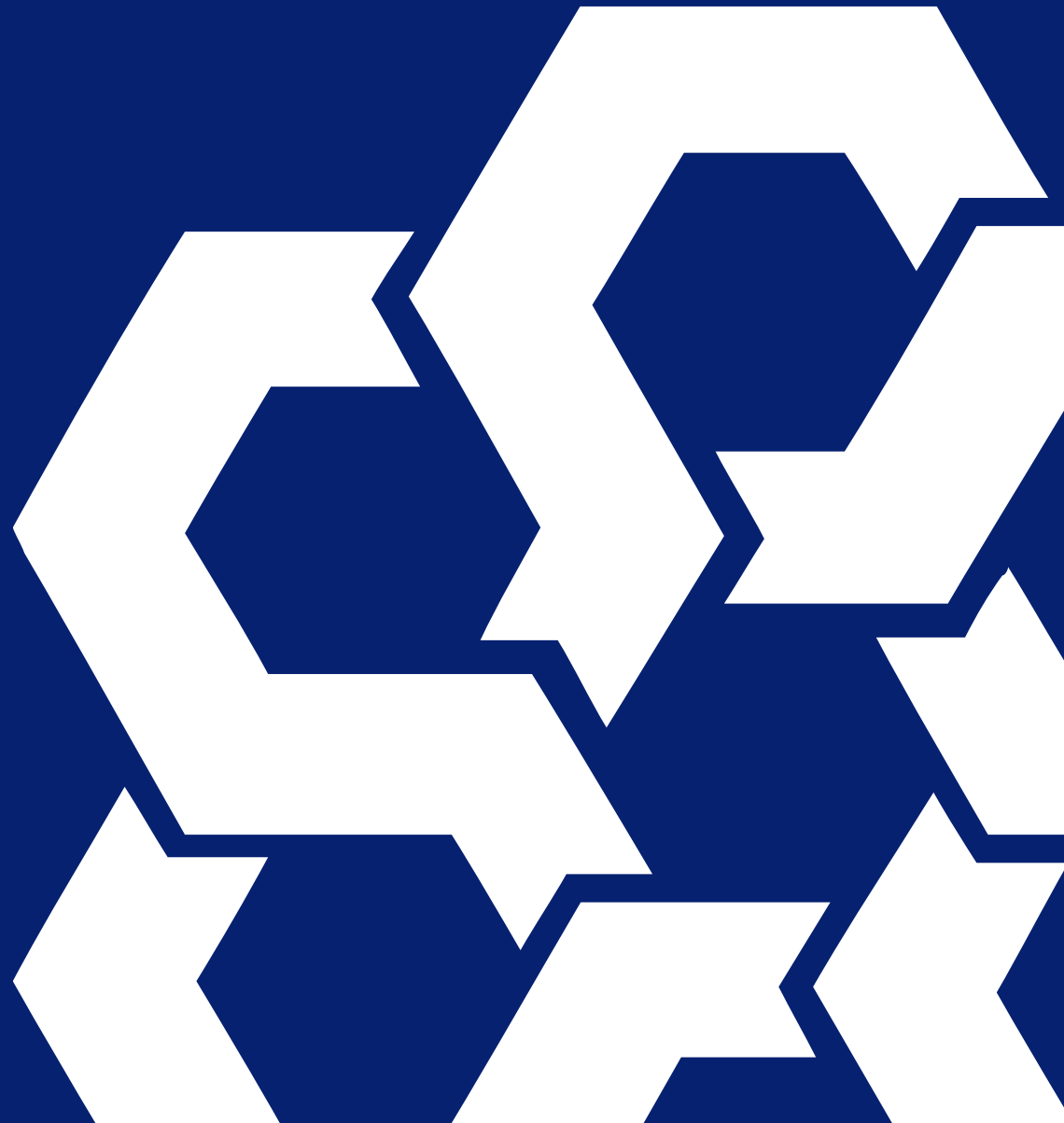
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Agenda

- Disclosures about uncertainties in financial statements
- Connecting financial statements and sustainability-related financial disclosures

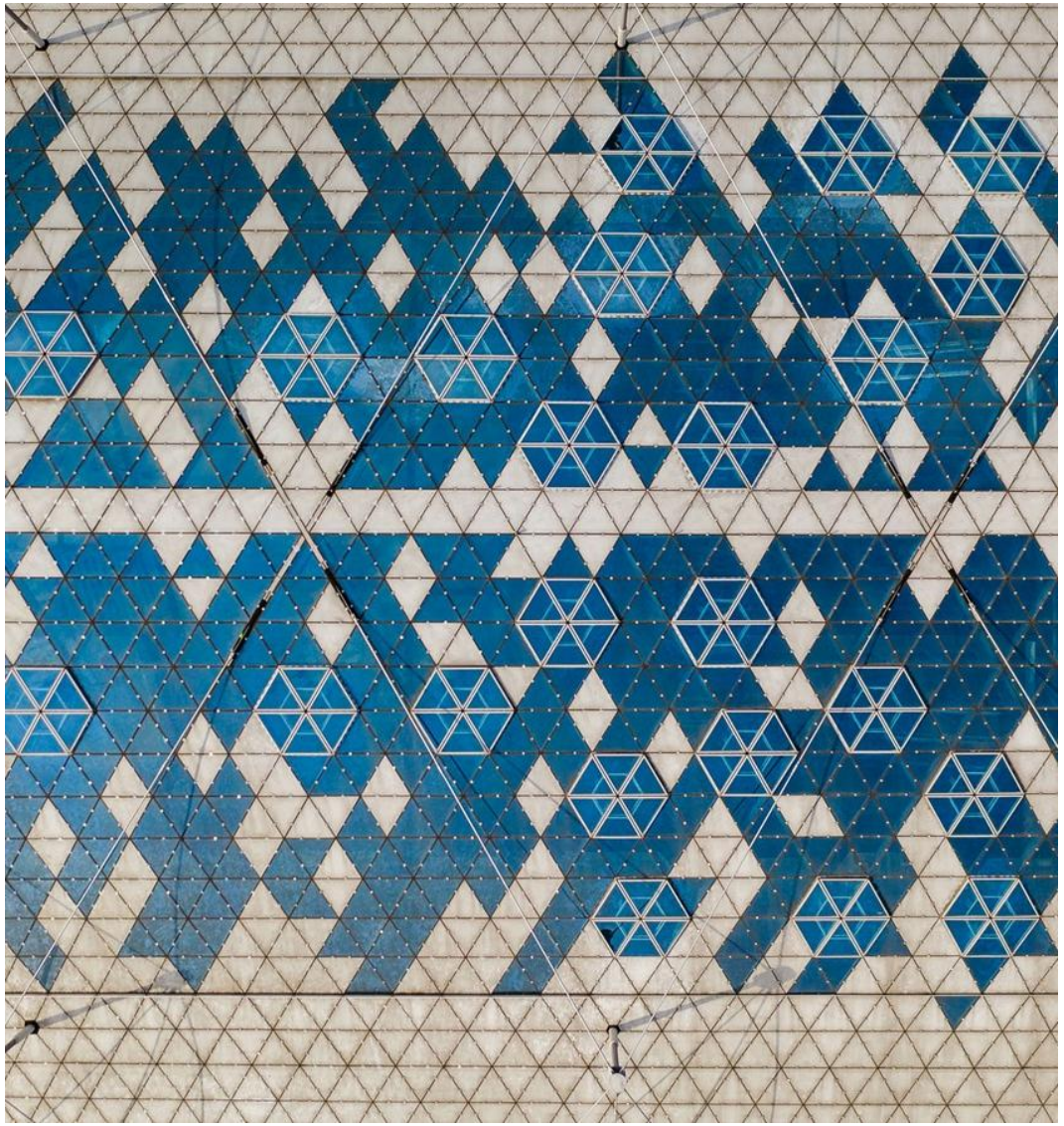
Disclosures about uncertainties in financial statements



Objective of the project

Targeted actions to **improve reporting** of effects of **uncertainties** in financial statements

Stakeholders said reporting of uncertainties was **insufficient** or appeared **inconsistent** with information disclosed elsewhere



Overall considerations in developing examples

Which requirements to illustrate?	The examples illustrate **disclosure requirements** among the **most relevant** for reporting of effects of uncertainties in financial statements
What types of uncertainties to illustrate?	The examples use climate-related fact patterns, but principles and requirements illustrated apply equally to **all types of uncertainties**

Overall considerations in developing examples

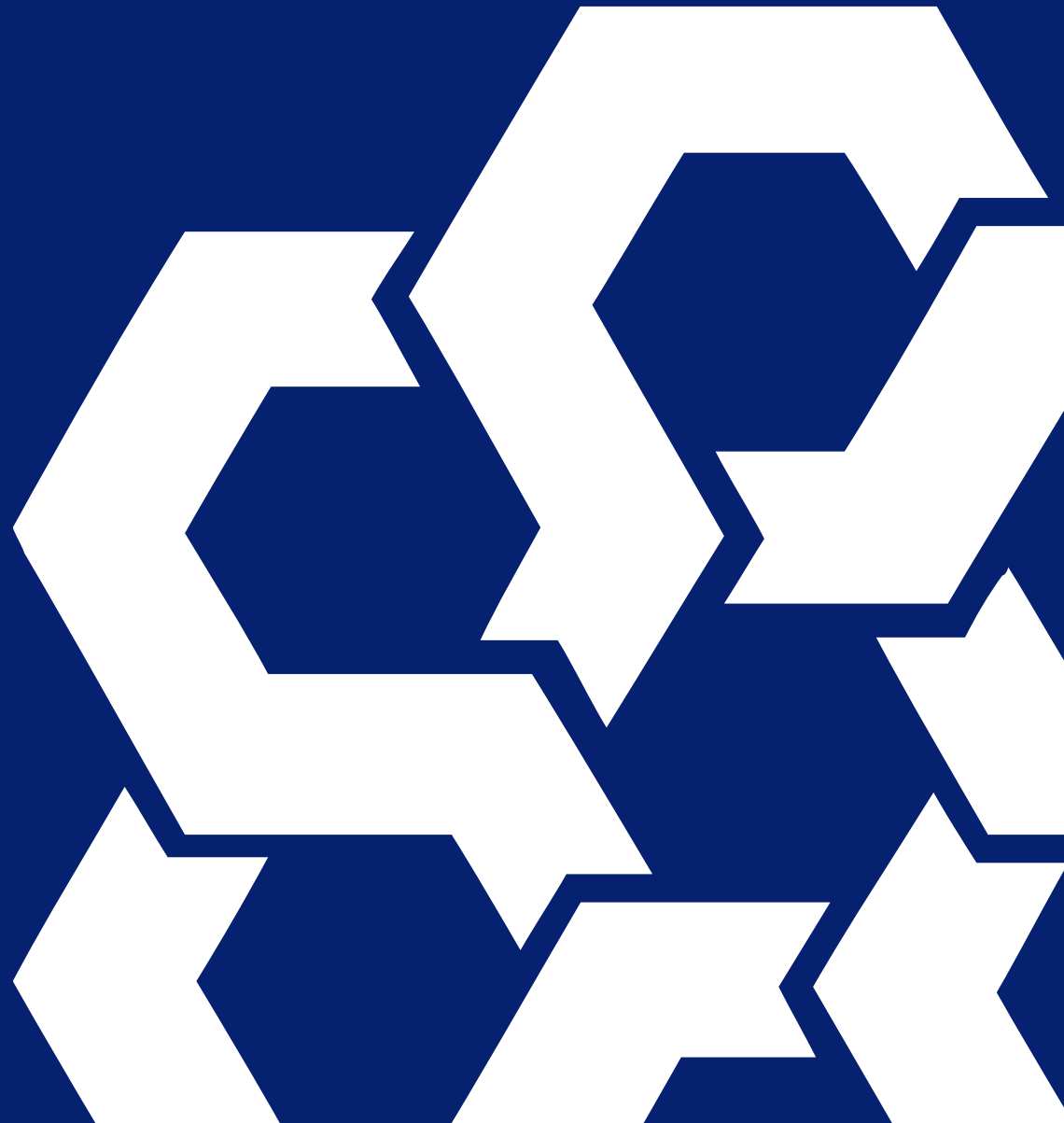
How to facilitate connected reporting?

The examples focus on **strengthening connections** between financial statements and other general purpose financial reports

The illustrative examples **do not** add or change requirements in IFRS Accounting Standards

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Illustrative examples



Main areas illustrated by the examples



Materiality judgements



Assumptions and estimation uncertainty



Disaggregating information

Materiality judgements (IAS 1 / IFRS 18)

Objective	Making **materiality judgements** in the context of financial statements
Background	*Scenario 1*—Entity A is a manufacturer with significant exposures to climate-related transition risks. It develops a transition plan to manage those risks. The plan is strategically important and will significantly affect its future operations *Scenario 2*—Entity B is a service provider with low level of exposure to such risks. It develops a GHG emissions policy that will not significantly affect its operations
Application	Each entity determines whether additional disclosures would provide material information, considering **qualitative materiality factors** Entity A concludes that additional disclosures **would provide material information**, while Entity B concludes they would not

Added as Example IV-1, Illustrative Examples on IFRS 18

Disclosures about assumptions (IAS 36)

Objective	Disclosing key **assumptions** used to determine an asset's recoverable amount
Background	The entity is subject to GHG emissions regulations requiring emission allowances for some emissions; future allowance costs are key assumptions CGU's recoverable amount > carrying amount, so no impairment loss
Application	Applying the requirements in IAS 36, the entity discloses: • that **key assumptions** include emission allowance cost assumptions • its **approach to determining the values** assigned to these key assumptions • **further information**, if a reasonably possible change would result in an impairment loss

Added as Example 10, Illustrative Examples on IAS 36

Disclosures about assumptions (IAS 1 / IAS 8)

Objective	Disclosing **assumptions** applying paragraphs 125 and 129 of IAS 1 [paragraphs 31A and 31E of IAS 8]
Background	The entity is exposed to climate-related transition risks that might affect recovery of the carrying amount of non-current assets CGU's recoverable amount > carrying amount, so no impairment loss
Application	Applying paragraph 125 of IAS 1, the entity: • identifies the **assumptions** about which to disclose information; might include assumptions about uncertainties that will **not** be resolved in the next financial year • discloses information that helps users understand its judgements about the future; might include **qualitative** and **quantitative** information

Added as Example 6, Guidance on implementing IAS 8



Credit risk disclosures (IFRS 7)

Objective	Disclosing the **effects of risks** on credit risk exposures and credit risk management practices
Background	A bank identifies two loan portfolios where climate-related risks significantly affect its credit risk exposures
Application	Applying the requirements in IFRS 7, the entity: • determines that **information about the effects** of these particular risks on its exposure to credit risk is material • considers **what information** to provide about these effects on its exposure to credit risk on those two portfolios

Added after paragraph IG22A, Guidance on implementing IFRS 7

Decommissioning obligations (IAS 37)

Objective	Disclosing **uncertainties** about obligations even when a provision's carrying amount is immaterial
Background	The entity has decommissioning obligations for its facilities, assuming some will be maintained and operated for an extremely long time
Application	Applying the requirements in IAS 37, the entity: • determines that information about the obligations is **material**, even though the effect on the provision's carrying amount is immaterial • discloses information about the **nature of the obligations**, the **expected timing** of outflows and the **uncertainties about the amount or timing** of those outflows

Added as Example 2A, Section D, Guidance on implementing IAS 37

Disaggregation of information in the notes (IFRS 18)

Objective	Disaggregating a class of PP&E based on dissimilar risk characteristics
Background	The entity owns high-emission PP&E with long useful lives, plus lower-emission PP&E; operates in an industry highly exposed to climate-related transition risks
Application	Applying the requirements in IFRS 18, the entity: • determines that disaggregating information about the two types of PP&E would result in **material information** • **disaggregates** information in the notes between the two types of PP&E

Added as Example IV-2, Illustrative Examples on IFRS 18

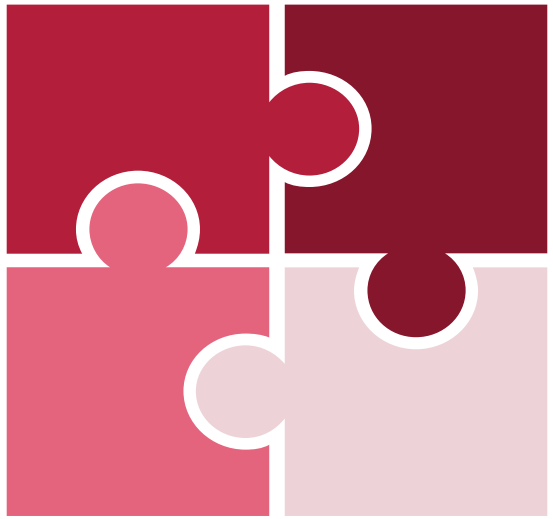
Connecting financial statements and sustainability-related financial disclosures



IFRS Standards

Aimed at investors

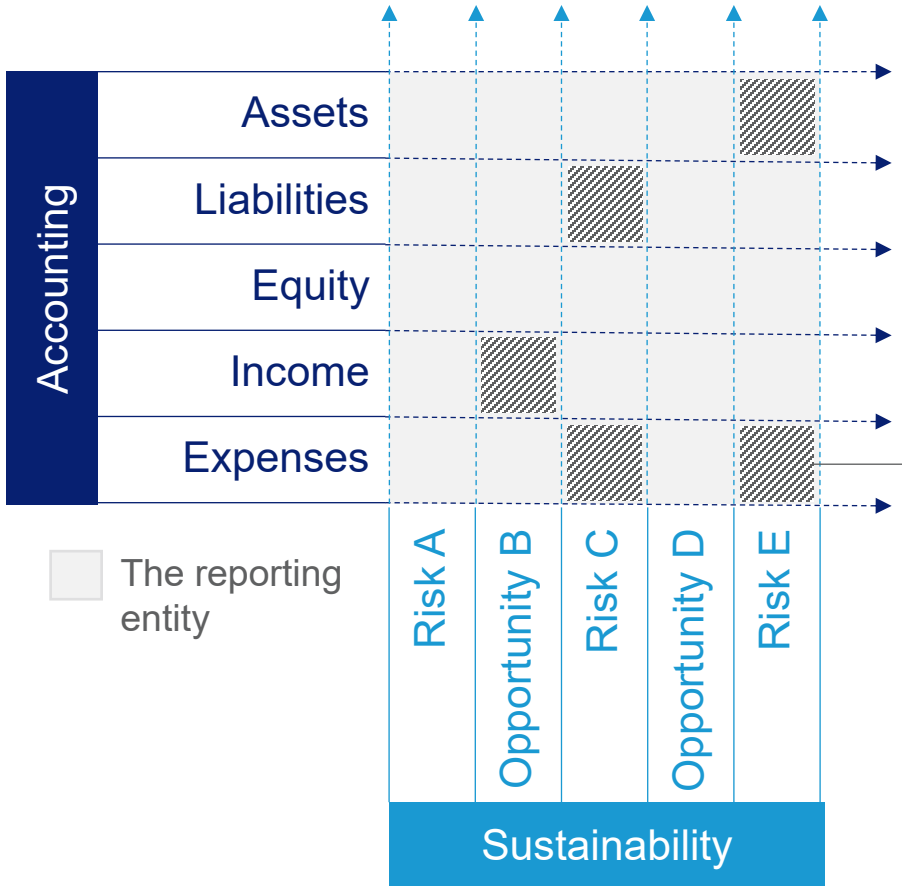
Shared concepts and consistent language



Complementary perspectives

Requirements for connections

Complementary perspectives



Sustainability-related financial disclosures provide material information about sustainability-related risks and opportunities that could reasonably be expected to affect a company's prospects

Financial statements provide material information about a company's assets, liabilities, equity, income and expenses

Shared concept of materiality results in complementary information about the effects of **sustainability-related risks and opportunities** on a company's **assets, liabilities, equity, income and expenses…**

Applying the concept of materiality

A shared concept of materiality…

…**information** is **material** if omitting, misstating or obscuring it could reasonably be expected to influence decisions that **primary users** make on the basis of the report(s)…

…applied in different contexts…

The concept of materiality is applied in the **context of a particular report's objective** and in accordance with **applicable reporting requirements**

…results in complementary information.

Information judged to be material for **financial statements** and **sustainability-related financial disclosures** typically differs and provides complementary perspectives on the reporting entity

Requirements for connections

IFRS Accounting Standards **enable connections** with the related sustainability-related financial disclosures



IFRS Sustainability Disclosure Standards **specifically require connections** with the related financial statements

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