

CLIMATE-RELATED RISKS IN THE FINANCIAL STATEMENTS

FEEDBACK ON IASB PROJECT AND NEXT STEPS

Joint EFRAG FR and SR TEG, 18 October 2023



DISCLAIMER

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WHAT WE WILL COVER

- OVERVIEW OF THE IASB PROJECT
- OVERVIEW OF FINDINGS IN EFRAG SECRETARIAT BRIEFING (SEE PAPER 02-02)
- IASB FINDINGS AND NEXT STEPS



OVERVIEW OF THE IASB'S PROJECT

OVERVIEW OF THE IASB PROJECT

TIMELINE





OVERVIEW OF FINDINGS IN EFRAG SECRETARIAT BRIEFING

OVERVIEW OF THE EFRAG'S FINDINGS

EFRAG'S OUTREACH AND ENGAGEMENT WITH STAKEHOLDERS

The Briefing Summary (agenda paper 02-02) highlights key findings from EFRAG's outreach and engagement with stakeholders on the CRFS project and which draw upon and integrate the following:

- Findings from EFRAG's outreach that was carried out from June to July 2023. The feedback was obtained from the responses to a survey that was sent to EFRAG stakeholders and from input received during meetings with EFRAG FR TEG and advisory working groups;
- Constituents' views expressed during the 2021 EFRAG agenda consultation;
- Learnings from EFRAG's participation in stakeholder meetings addressing the topic; and
- A review of concerns flagged in publications that have reviewed European companies' reporting of climate-related risks in financial statements.

NATURE OF CONCERNS

Lack of connection between the information inside and outside the financial statements

- Companies disclose climate-related risks in the front part **without any quantitative disclosures** in the financial statements
- **Commitments and investments disclosed** outside the financial statements **are often non reflected in the financial statements**
- **Lack of linkage between the entity's transition plans and disclosed information** in terms of carrying value, remaining useful life, impairment of assets and segment reporting
- **Difficult to reconcile information** in the Sustainability Reporting to the financial statements
- **Lack of consistency in terms of terminology used** (e.g., commitments, target)

The climate-related information is too high-level and inadequate

- **Failure to apply qualitative thresholds of materiality**
- **Disclosure are mostly qualitative than quantitative**
- **Lack of disclosure relating assumptions and estimates** underpinning the future cash-flow projections and valuation of assets and absence of sensitivity analysis

CAUSES OF CONCERNS

Remediable causes of concerns

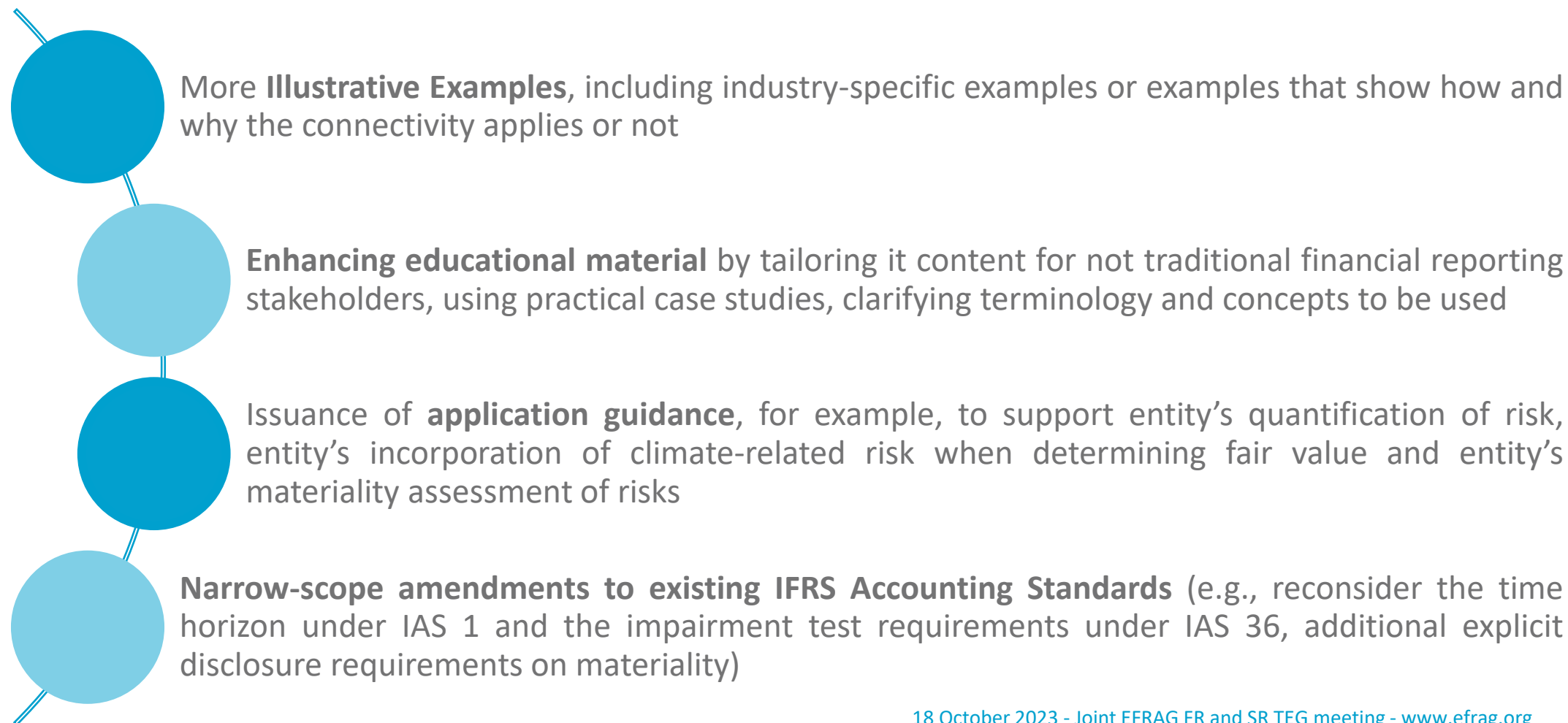
- **Lack of compliance with existing IFRS requirements**
- **Lack of transparency on the entity's assessment of materiality**
- **Limitations of existing requirements of IFRS Accounting Standards** in respect of the applicable time horizon, impairment test requirements under IAS 36 and lack of connection requirement in current IFRS Accounting Standards
- **High-level nature, non-authoritative stature, and limited awareness about the IASB educational material**
- **Difficulties and constraints in assessing and measuring climate-related risks**, due to the limited data availability, complexity of the calculation, inadequate risk management systems and the prevalence of siloed organisations
- **Lack of practical application guidance** on how to assess and measure climate-related risks
- **Expectation gap** on what information can be reflected in the financial statements

WHY INFORMATION MAY NOT BE REFLECTED IN THE FINANCIAL STATEMENTS

Justifiable causes for information not being reflected in financial statements

- **Differing materiality thresholds** (i.e., impact materiality and financial materiality under ESRS requirements versus material item as defined in IAS 1)
- **Constraints in reporting climate-related economic opportunities** (e.g., potential assets) which are not allowed under current IFRS Accounting Standards.
- **Differing reporting boundaries**
- **Differences in the time horizons** typically applied to sustainability disclosures and financial statements information (e.g., different interpretation of the applicable time horizon under IAS 1 or for impairment testing under IAS 36)
- **Climate-related risks may not meet the criteria for recognition of provisions and liabilities**
- **Climate-related risk may be implicit and embedded within reported line items** (e.g., climate risk would be part of the risk adjustment under IFRS 17 or IFRS 9)

SUGGESTED COURSES OF ACTION





IASB FINDINGS AND NEXT STEPS

IASB DISCUSSIONS AND NEXT STEPS



FEEDBACK TO THE IASB

GENERAL COMMENTS

- General support for the issuance of Illustrative Examples relating the application of current IFRS Accounting Standards requirements on climate-related risk and other uncertainties
- Mixed views on the proposed standard-setting activities because of the time constraints and the risk of unintended consequences
- Need to monitor the impacts on corporates' behaviors arising from sustainability reporting over the next months (i.e., external environment is moving target)

IASB DECISIONS (1/3)

PROJECT OBJECTIVE

- The IASB decided that the objective of this project is to explore whether and, if so, how targeted actions could improve the reporting of financial information about **climate-related and other uncertainties in the financial statements**

Because of this decision, the IASB project name is now changed to ‘Climate-related and Other Uncertainties in the Financial Statements’.

POTENTIAL ACTIONS

The IASB decided:

- to explore whether to create examples to illustrate how to apply requirements in IFRS Accounting Standards to reporting the effects of climate-related and other uncertainties (Estimated time: H2 2024)
- to explore clarifying or enhancing requirements in IFRS Accounting Standards in relation to disclosure of information about estimates (Estimated time: 2025)

IASB DECISIONS (1/3)

POTENTIAL ACTIONS (Cont...)

The IASB decided:

- to refer to the IFRS Interpretations Committee a question about the circumstances in which an entity recognises a liability when applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to climate-related commitments (Estimated time: April 2024)
- to consult with the IFRS Interpretations Committee on questions related to the application of IAS 36 *Impairment of Assets* to measure value in use when an asset is subject to highly variable future cash flows over an extended period (Estimated time: April 2024)

IASB DECISIONS (1/3)

POTENTIAL ACTIONS (...Cont)

The IASB decided not to explore clarifying or enhancing requirements in IFRS Accounting Standards in relation to:

- connections between items of information in the financial statements and between the financial statements and other general purpose financial reports;
- assessing whether information is material; and
- the 'catch-all' disclosure requirement in paragraph 31 of IAS 1 *Presentation of Financial Statements*.

QUESTIONS

Q1: Do EFRAG FR and SR TEG members have any comments on the EFRAG Secretariat's findings included in the Briefing summary in 02-02 and summarised from slide 8 to 10?

Q2: Do EFRAG FR and SR TEG members have any comments on the IASB's tentative decisions relating the scope of the project and the potential actions to address the concerns around reporting climate-related and other uncertainties in the financial statements as summarised from slide 15 to 17?

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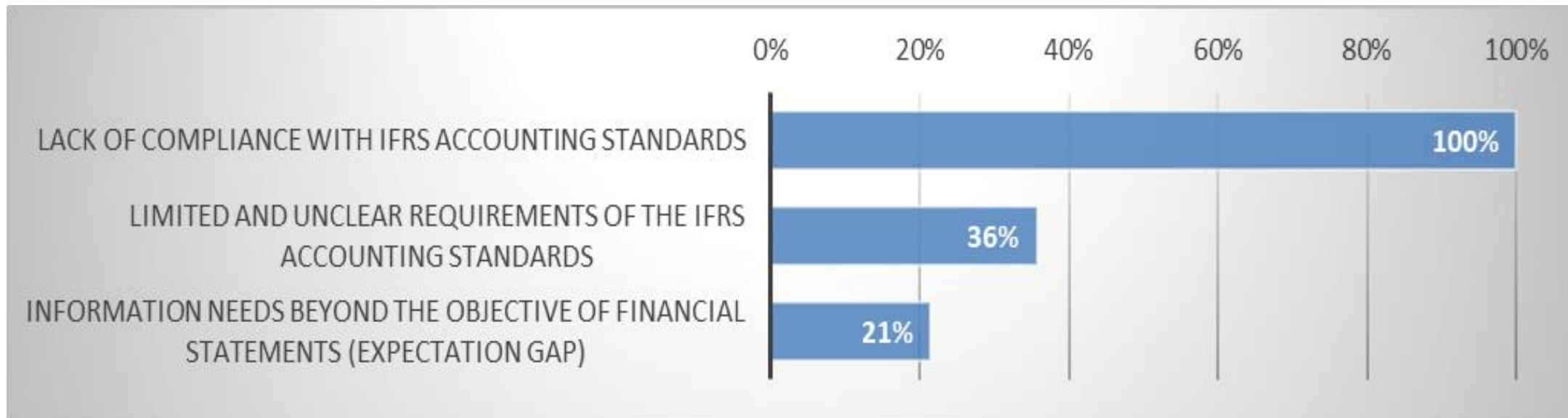
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THANK YOU



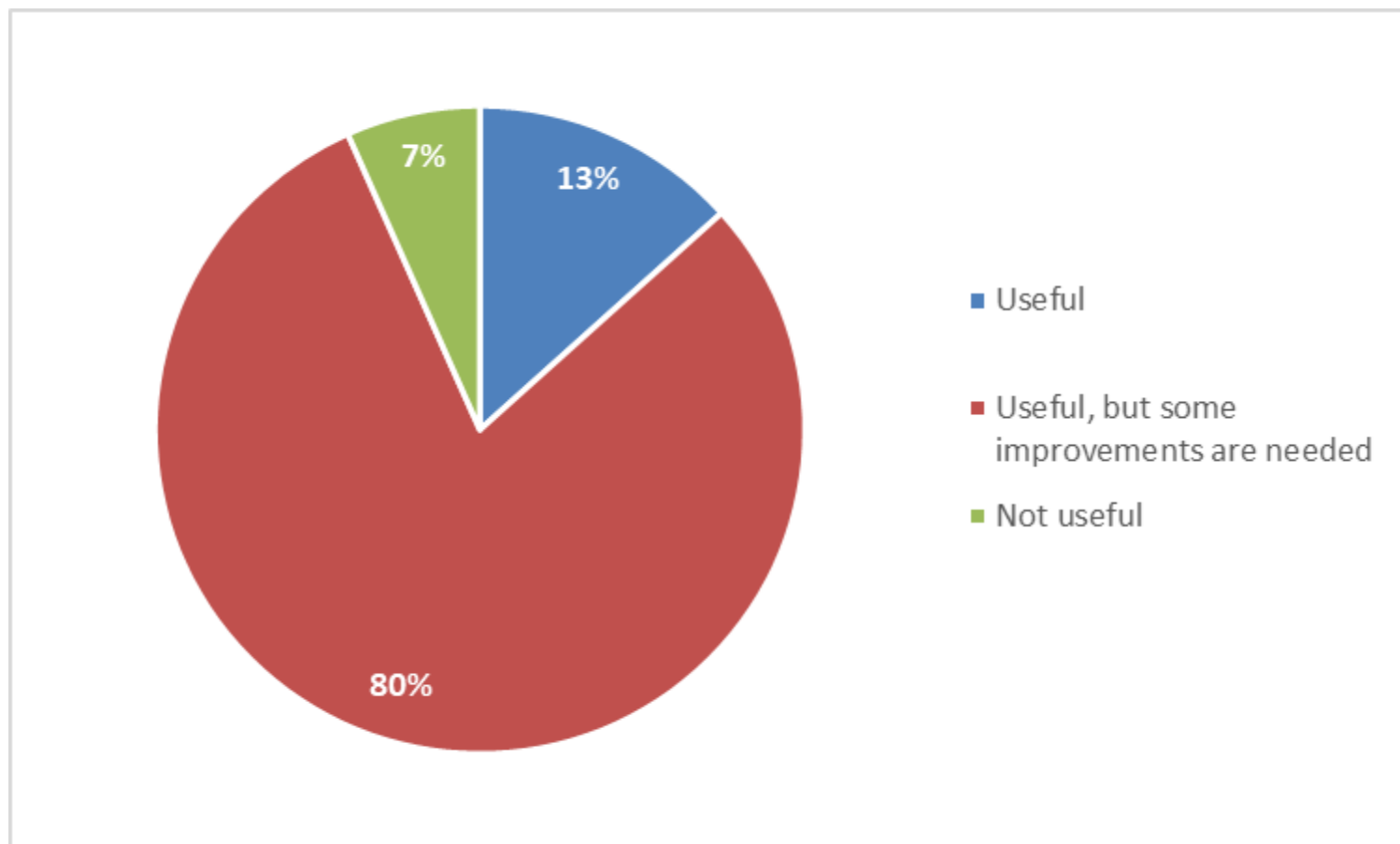
APPENDIX

Figure 3: EFRAG Survey results- Causes of the concerns*



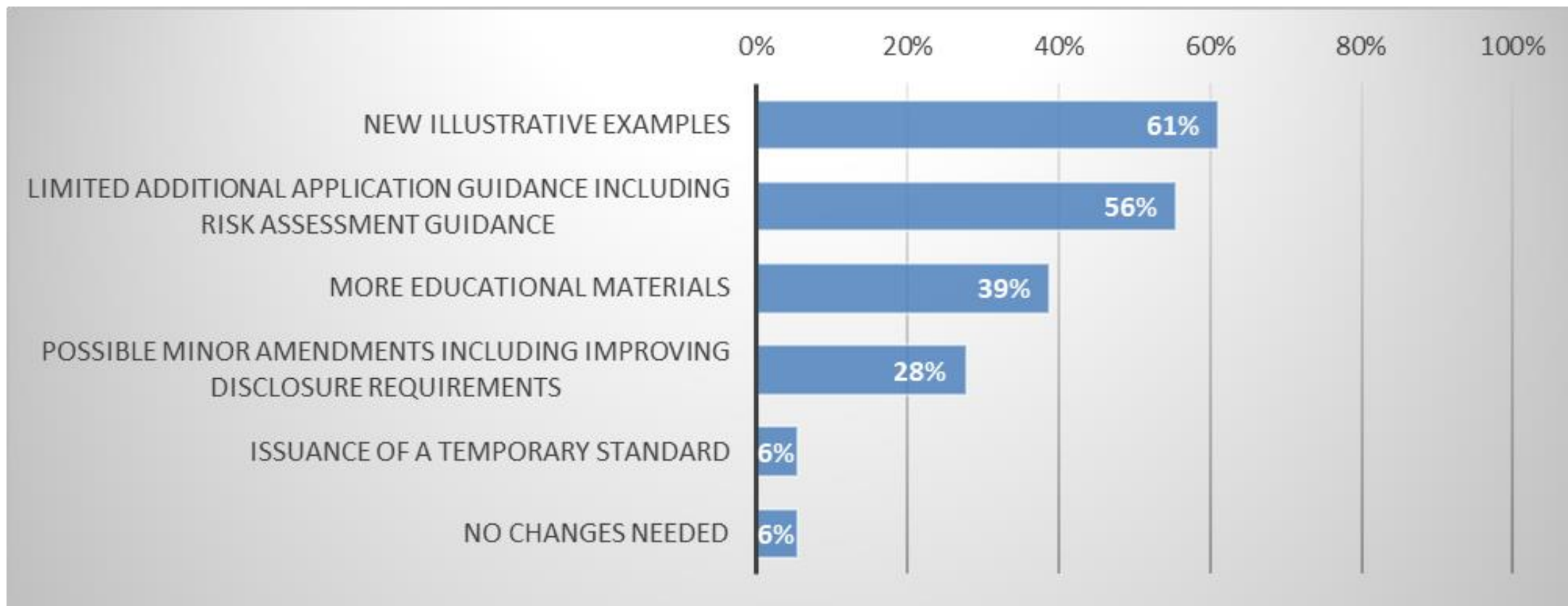
*Percentages reflect those that had concerns and the cumulative percentages are greater than 100% because respondents could pick multiple causes of the concerns.

Figure 4: Usefulness of IASB educational material on climate risk reporting*



*Percentages do not take into account the three respondents who did not answer the related question.

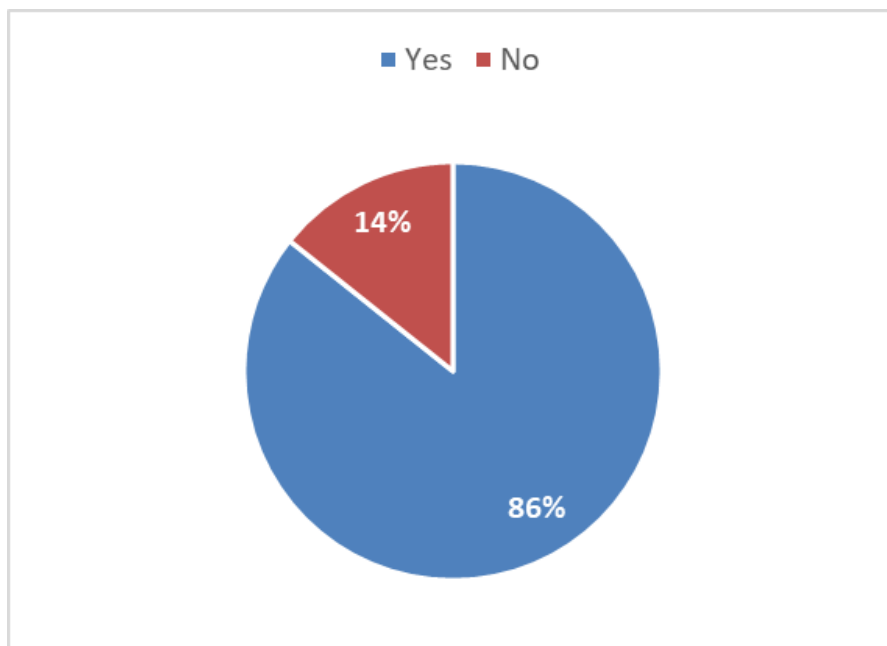
Figure 5: Suggested actions*



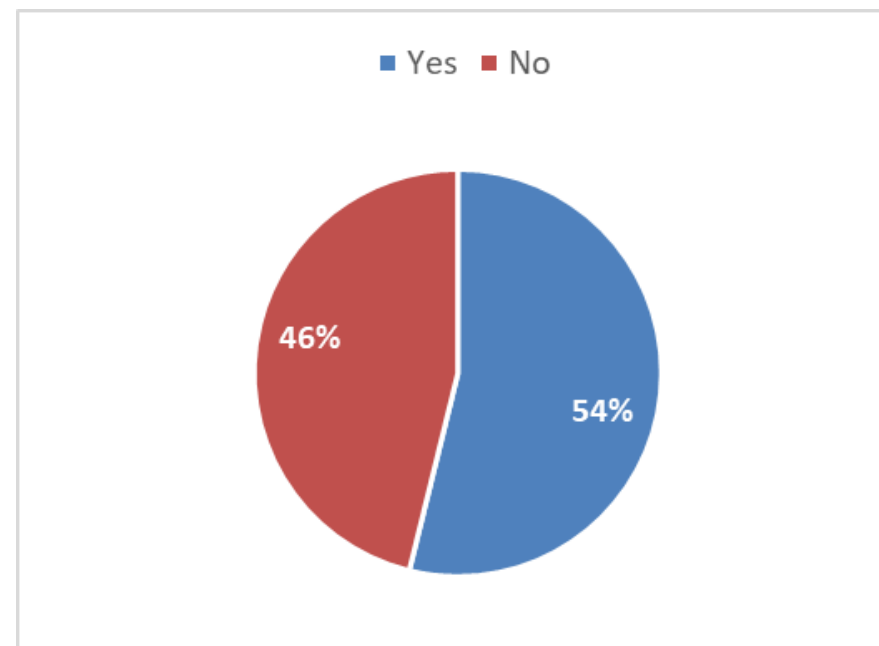
*The cumulative percentages are greater than 100% because respondents could pick multiple courses of action that could be undertaken by the IASB to help entities properly consider climate-related risks.

Figure 6 and 7: Scope of the project

6. Whether to extend the scope to other long-term risks?*



7. Whether to include opportunities in scope*



*Percentages exclude four respondents who did not answer the related question.