World Standard-setters Conference 2024

Connectivity between the financial statements and sustainability-related financial disclosures

Plenary Session

#WSS2024

Presenters

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Purpose of this session

The IASB and ISSB recognise the importance of connectivity between their respective requirements in enabling companies to provide high-quality financial information to capital markets. This session:

a) discusses how IFRS Accounting Standards and IFRS Sustainability Disclosure Standards complement each other; and

b) walks through examples to illustrate how applying the Standards together results in complementary and connected reported information.

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Agenda

Setting the scene

Why do we focus on connectivity?

Our **stakeholders**, particularly **investors**, express consistent strong support for connectivity between the IASB and ISSB, connectivity between the boards' respective Standards and connectivity in reporting

The **IFRS Foundation *Constitution***:

- establishes the focus on high-quality reporting to meet the needs of investors and other capital market participants
- requires the boards to work together to ensure their respective Standards are compatible and to avoid inconsistencies and conflicts between them

How do we support connectivity in reporting?

Purpose	**Financial statements**	**Sustainability-related financial disclosures**
Products	**IFRS Accounting Standards**	**IFRS Sustainability Disclosure Standards**
People	**IASB and its technical staff**	**ISSB and its technical staff**

See also article Connectivity—what is it and what does it deliver?

Working together—Examples

IFRS S1 and IFRS S2 Transition Implementation Group

Climate-related and Other Uncertainties in the Financial Statements

Contracts for Renewable Electricity

Consultation on Agenda Priorities

Digital Taxonomies

IFRS S1 and IFRS S2 implementation activities

IFRS Interpretations Committee

Intangible Assets

Management Commentary

Integrated reporting

Current and Anticipated Effects webcast

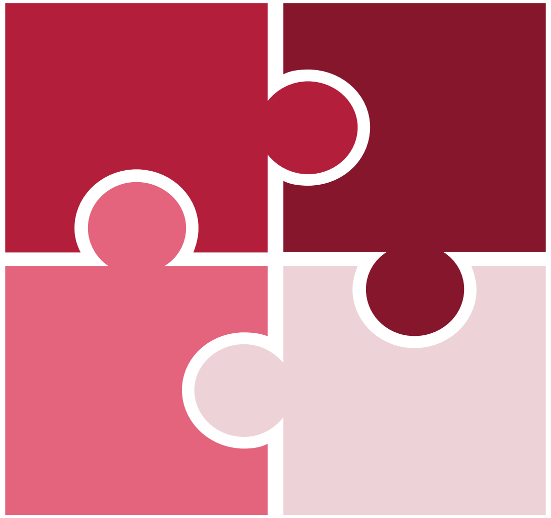
Human Capital

IFRS Standards
Complementary and connected information

IFRS Standards—Stronger together

Complementary objectives
(slide 11)

Shared concepts
(slide 12–13)



Connected information
(slide 14–15)

Complementary perspectives
(slide 16)

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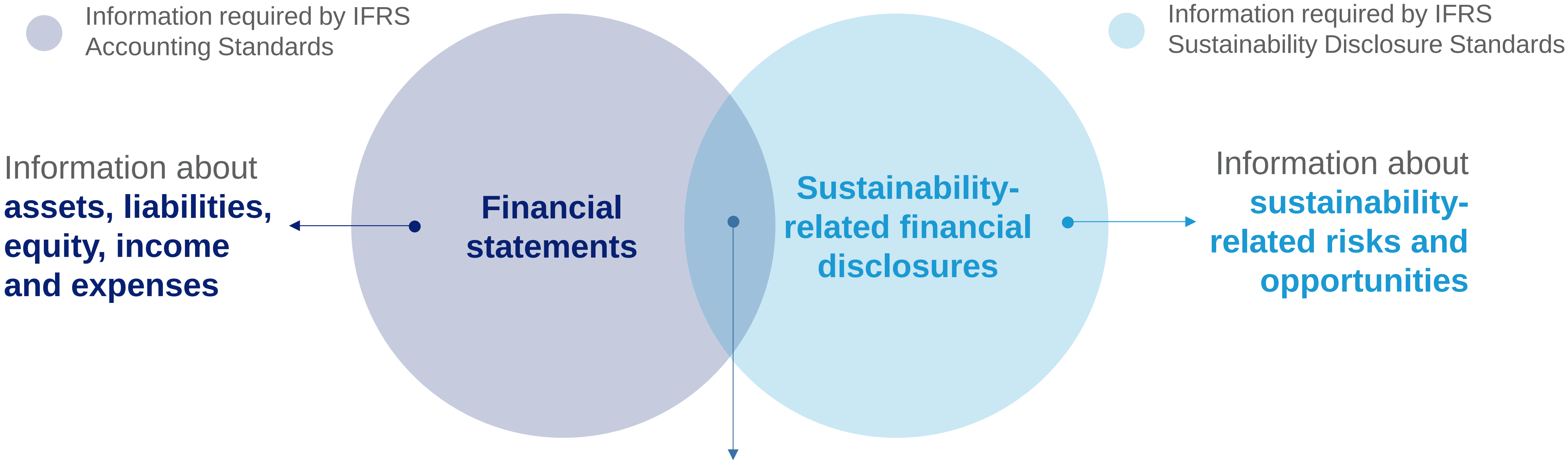
Complementary objectives



Information about the effects of **sustainability-related risks and opportunities** on an entity's **assets, liabilities, equity, income and expenses**

Note: The diagram is not intended to represent relative proportions of reported information.

Shared concepts

Same target audience: investors, lenders and other creditors (primary users)

Aligned use of language and terminology

Same qualitative characteristics of useful financial information

…including an aligned **concept of materiality** (see slide 13)

IFRS concept of materiality

Aligned definitions of material information

…**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)…

The **concept of materiality** is applied:

- to **information**, not items or transactions
- considering an entity's **own circumstances**
- in the context of a particular **report’s objective**
- in relation to applicable **reporting requirements**

Connected information—IFRS Sustainability

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

Examples of requirements

- Connected information
- Same reporting entity
- Same reporting period
- Same timing of reporting within GPFR[1]
- Same currency
- Consistent data
- Consistent assumptions
- Current and anticipated financial effects

[1] General purpose financial reports

Connected information—IFRS Accounting

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

Examples of requirements

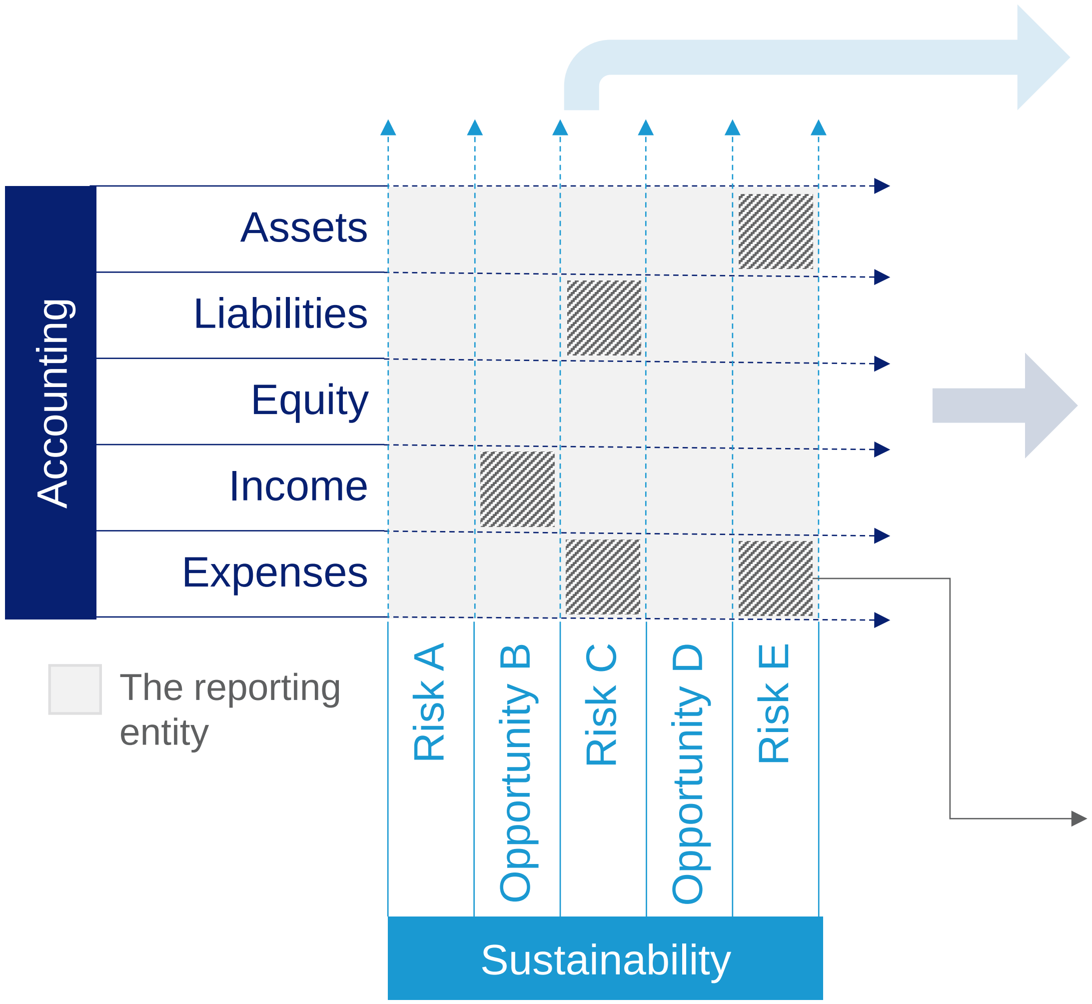
Disclosure about assumptions, judgements and estimation uncertainty

Overarching requirement to disclose material information

Disaggregation of information

Fair presentation

Complementary perspectives on the reporting entity



The objective of **sustainability-related financial disclosures** is to provide information about an entity's sustainability-related risks and opportunities that is material for investors' decision-making

The objective of **financial statements** is to provide information about an entity's assets, liabilities, equity, income and expenses that is material for investors' decision-making

Material information about the effects of an entity's sustainability-related risks and opportunities on its assets, liabilities, equity, income and expenses is provided **in the context of each report's objective** in accordance with the **applicable requirements** in the respective IFRS Standards

Examples

Examples

1. Climate-related risks and impairment of non-financial assets
2. Climate-related opportunities and changes in product mix
3. Net-zero commitments

Housekeeping

The examples:

- provide **basic illustrations** of how **applying IFRS Standards together** results in **complementary and connected information** in an entity’s financial statements and in its sustainability-related financial disclosures
- specifically focus on illustrating how information about **current and anticipated financial effects** in sustainability-related financial disclosures expands on and complements the information in the financial statements
- highlight **other** sustainability-related financial **disclosures and requirements** in IFRS Sustainability Disclosure Standards that are of particular interest in the fact patterns discussed in illustrating complementary and connected information

The examples do **not**:

- illustrate the application of all requirements in IFRS Standards that might be relevant in the fact patterns discussed
- provide complete illustrative disclosures

While IFRS Accounting Standards and IFRS Sustainability Disclosure Standards could be applied with different sustainability-reporting standards or different GAAPs, respectively, the examples focus on IFRS Standards applied together

Structure of the examples

In illustrating complementary and connected information reported in financial statements and in sustainability-related financial disclosures, the examples are presented using a consistent structure

Financial Statements

Sustainability-related Financial Disclosures

Example 1—Climate-related risks and impairment of non-financial assets

Fact patterns

For this topic, we will consider three fact patterns:

- **Example 1A**
  No impairment loss is recognised in the reporting period but there are climate-related key assumptions
- **Example 1B**
  Impairment loss recognised in the reporting period due to a weather-related event
- **Example 1C**
  Impairment loss recognised in the reporting period for which shifting climate-related consumer demands are a contributing factor

Example 1A—Key facts

- The entity’s operations result in a **high amount** of Scope 1 greenhouse gas (GHG) emissions
- The entity is subject to **GHG emissions regulation** in Jurisdiction A, which requires the entity to acquire GHG emissions allowances for some of its GHG emissions
- The entity has allocated goodwill to CGU A, which includes its operations in Jurisdiction A. The entity tests CGU A for impairment and **recognises no loss**
- Assumptions about the future price of GHG emissions allowances are **key assumptions** for determining the recoverable amount of CGU A
- The entity uses **climate-related scenario analysis** to inform disclosure of its resilience to climate-related risks and opportunities for its operations in Jurisdiction A

Illustrating reported information—Accounting

Effects on recognition and measurement

No financial effects in the reporting period

Disaggregated information

No financial effects about which to provide disaggregated information

Related disclosures

The entity discloses information about the impairment test, including:

- that assumptions about the future price of GHG emissions allowances are key assumptions
- its approach to determining the values assigned to the future price of GHG emissions allowances
- additional information when a reasonably possible change to a key assumption would lead to an impairment loss

Illustrating reported information—Sustainability

Current financial effects

The entity explains that the climate-related risk has not had financial effects for the reporting period

Anticipated financial effects

The entity discloses expected costs of buying GHG emissions allowances—which can be informed by the scenario analysis

Other disclosures

In its climate resilience disclosures, the entity discloses information about inputs and key assumptions used in its climate-related scenario analysis and assessment

The analysis includes considering a range of outcomes related to the key assumptions about the future price of GHG emissions allowances

To note

IFRS S1 requires the entity to use data and assumptions that are consistent—to the extent possible—with those used in preparing the financial statements

Example 1B—Key facts

- The entity has manufacturing facilities in an area subject to climate-related risks such as **increased frequency and severity of floods**
- During the reporting period, a flood event **severely damaged** the entity’s facilities in that area
- As a consequence, the entity concludes that the facilities' property, plant and equipment (PP&E), which include buildings and machinery, are **fully impaired** and need replacement

Illustrating reported information—Accounting

Effects on recognition and measurement

Impairment loss recognised in the reporting period

Disaggregated information

Impairment loss is fully attributable to the flood event

Related disclosures

The entity discloses:

- that the flood event severely damaged some of its facilities
- the impairment loss amount
- that the damaged assets included items such as buildings and machinery
- that the assets were fully impaired

Illustrating reported information—Sustainability

Current financial effects

The entity discloses that climate-related risks resulted in an impairment loss and the amount of the loss

Anticipated financial effects

The entity discloses expected costs related to the damaged assets as well as information about insurance costs as a result of the climate-related risks

Other disclosures

The entity's disclosures prepared using climate-related scenario analyses provide information about the resilience of the entity's business model and strategy to future flood events

To note

Sustainability information (such as information about current financial effects) may be provided, subject to specified criteria, by cross-reference to information in the financial statements

Example 1C—Key facts

- The entity is exposed to climate-related transition risks
- Sales of one of the entity’s main products, Product C, have been declining due to **adverse economic and market conditions**, and the entity expects that trend to continue
- The adverse market conditions include the effects of shifting consumer demand for Product C related to **climate considerations**
- The entity tests Product C’s product line (CGU C) for impairment and recognises an **impairment loss**

Illustrating reported information—Accounting

Effects on recognition and measurement

Impairment loss recognised in the reporting period

Disaggregated information

The entity does not provide disaggregated quantitative information about the effects of various factors on the impairment loss it recognised

Related disclosures

The entity discloses information about the impairment, including:

- that adverse market and economic conditions led to the impairment loss
- the impairment loss amount
- information about the measurement of CGU C’s recoverable amount

Illustrating reported information—Sustainability

Current financial effects

The entity discloses that climate-related transition risks contributed to the impairment loss and the amount of the loss attributable to that factor

Anticipated financial effects

The entity discloses expected effects on revenue from sales of Product C due to climate-related transition risks

Other disclosures

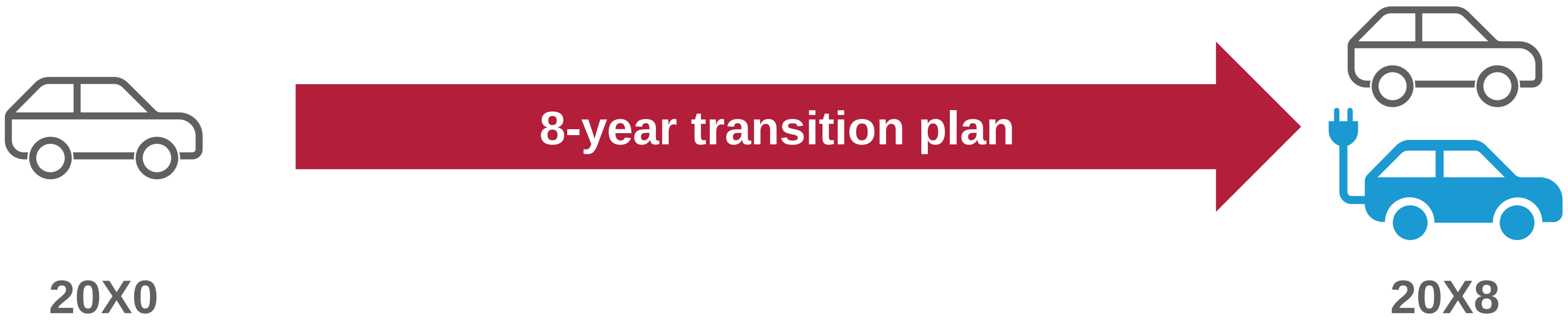
The entity discloses information about its plan to respond to the climate-related transition risks, including key assumptions, such as information about products that it plans to develop in response to changing demands

To note

An entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if those effects are not separately identifiable or if the level of measurement uncertainty is so high that the information would not be useful. In those cases, an entity provides qualitative and aggregated quantitative information about the financial effects

Example 2—Climate-related opportunities and changes in product mix

Key facts



- An entity manufactures and sells a range of **internal combustion engine (ICE) vehicles**. To support ongoing sales of the vehicles, the entity also sells spare parts and provides financing services to customers
- In 20X0, the entity identifies a climate-related opportunity to change the mix of vehicles it sells and decides to move towards selling **electric vehicles (EVs)** in addition to ICE vehicles
- The entity sets a **target** to achieve 60% of vehicles sold being EVs by 20X8. The entity plans to modify its manufacturing processes to increase its EV production. Sales of EVs begin in 20X3 but are small relative to total vehicle sales

Illustrating reported information—20X3—Accounting

Effects on recognition and measurement

The entity recognises revenue for vehicles sold and inventory for vehicles not sold (both EVs and ICE vehicles)

Related disclosures

The entity provides other related revenue and inventory disclosures

Disaggregated information

The entity disaggregates:

- revenue applying the requirements in IFRS 15, for example by its major product lines (vehicles, spare parts and financing). Revenue might need to be disaggregated into more than one type of category to meet those requirements (for example, revenue from sales of EVs and ICE vehicles)
- inventories' carrying amount into appropriate classifications

Illustrating reported information—20X3—Sustainability

Current financial effects

The entity discloses:

- the amount of revenue attributable to sales of EVs and ICE vehicles
- the carrying amount of EVs and ICE vehicles inventory

Anticipated financial effects

The entity discloses:

- that revenue from EV sales is expected to grow and replace ICE vehicle sales and that inventory is expected to change accordingly
- the expected investment to modify its manufacturing processes to increase its production of EVs

Other disclosures

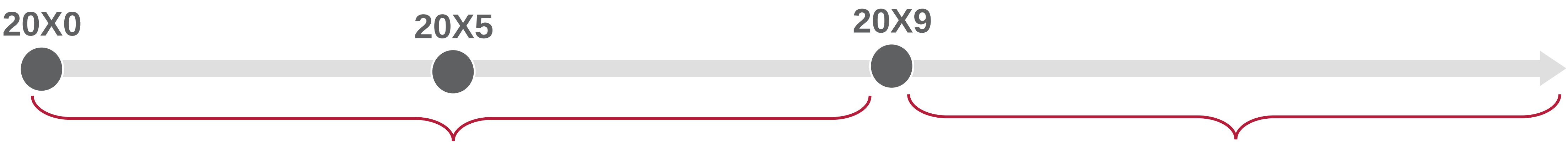
The entity discloses information about:

- the climate-related opportunity—including current and anticipated effects on its business model
- the target to achieve 60% of sales being EVs
- capital investment and funding plans to implement its strategy

Example 3—Net zero commitments

Key facts

In 20X0, an entity publicly states its commitment to transition to ‘net zero’ from 20X9



by 20X9

to **reduce** its annual gross Scope 1 and Scope 2 GHG emissions by 60% by modifying its manufacturing methods, including the purchase of energy-efficient equipment

from 20X9

to **offset** its remaining Scope 1 and Scope 2 GHG emissions by buying and retiring carbon credits

Illustrating reported information—20X0—Accounting

Effects on recognition and measurement

No financial effects in the reporting period

Disaggregated information

No financial effects about which to provide disaggregated information

Related disclosures

The entity discloses:

- that its transition plan has no effect on its financial position and financial performance and explains why, if that information is material in the context of the financial statements
- the amount of contractual commitments to acquire property, plant and equipment (if any)

Illustrating reported information—20X0—Sustainability

Current financial effects

The entity explains that its transition plan to address its climate-related risks has not had financial effects in the reporting period

Anticipated financial effects

The entity discloses information about the planned purchases of energy-efficient equipment and carbon credits and related sources of funding, including quantitative information

Other disclosures

The entity provides information about its transition plan and its net-zero target, including:

- how the entity plans to achieve its net-zero target and its gross GHG emissions target
- that its net-zero target covers gross Scope 1 and Scope 2 GHG emissions and that the entity plans to use carbon credits to offset any remaining such emissions

To note

An entity need not provide quantitative information about anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information

Illustrating reported information—20X5—Accounting

Effects on recognition and measurement

Energy-efficient equipment is recognised as an asset and depreciated over its useful life

Disaggregated information

An entity disaggregates information about energy-efficient equipment if that information is material in the context of the financial statements

Related disclosures

The entity discloses the purchases of equipment as additions to each class of property, plant and equipment as part of their carrying amount reconciliation

Illustrating reported information—20X5—Sustainability

Current financial effects

The entity discloses information about purchases of the energy-efficient equipment, the carrying amount of that equipment and related depreciation expense

Anticipated financial effects

The entity discloses information about the planned purchases of energy-efficient equipment and carbon credits and related sources of funding, including quantitative information

Other disclosures

The entity discloses information about the transition plan and the net-zero target, including information about:

- the progress in executing the transition plan
- its performance against its net-zero target
- the planned use of carbon credits, including information about the credibility and integrity of those credits

To note

An entity need not provide quantitative information about anticipated financial effects if the entity does not have the skills, capabilities or resources to provide that quantitative information

Closing remarks

- Financial statements and sustainability-related financial disclosures provide **complementary perspectives** on a reporting entity
- Applying IFRS Standards together enables the provision of **complementary and connected information** for investors and other capital market participants
- **Collaboration** between the boards and their technical staff is a foundational activity that underpins everything we do

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