
IASB[®] meeting

Date **September 2023**

Project **Climate-related Risks in the Financial Statements**

Topic **Cover paper**

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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Introduction and purpose of the meeting

1. In March 2023, the IASB, in response to feedback from the Third Agenda Consultation, added a project on Climate-related Risks in the Financial Statements to its maintenance workplan. The current objective of this project is to explore whether and how financial statements can better communicate information about climate-related risks.¹
2. In deciding to start this project the IASB noted that:
 - (a) stakeholders, particularly users of financial statements (users), have shown an increasing interest in the effects of climate-related risks in the financial statements. Many of these stakeholders have expressed concerns about insufficient information about the effects of climate-related risks in the financial statements and about inconsistencies in the information reported about these effects in the financial statements and elsewhere.

¹ In Agenda Paper 14A, the staff recommends generalising the objective of this project to explore whether and how financial statements can better communicate information about climate-related and other uncertainties.

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- (b) respondents to the IASB's Third Agenda Consultation indicated that a project on the effects of climate-related risks in the financial statements is of high priority despite the publication of educational material by the IFRS Foundation in November 2020 to explain how IFRS Accounting Standards already require entities to consider the effects of climate-related risks in the financial statements.²
3. As this is a maintenance project:
- (a) any actions that the IASB undertakes will be narrow in scope. For example, the IASB might decide to produce further educational materials or issue targeted amendments to the IFRS Accounting Standards.
 - (b) this project will not result in an IFRS Accounting Standard on climate-related risks or in extensive application guidance.
 - (c) this project will not broaden the objective of financial statements or change the definition of assets and liabilities.
 - (d) this project will not address the accounting for pollutant pricing mechanisms. A project to address the accounting for pollutant pricing mechanisms is likely to be a large project and is on a reserve list of projects that the IASB will only add to its agenda if the IASB and its stakeholders have sufficient capacity.
4. To assess whether to recommend the IASB undertake any actions, we investigated:
- (a) the nature of concerns related to reporting on the effects of climate-related risks in the financial statements;
 - (b) the possible causes of these concerns; and
 - (c) the possible courses of action for the IASB to help address these concerns.

² In July 2023, the IFRS Foundation published an updated version of its [educational material on the effects of climate-related matters on financial statements](#). These documents complemented a [November 2019 article IFRS Standards and climate-related disclosures](#).

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5. We also investigated whether to recommend generalising the objective of this project to explore whether and how financial statements can better communicate information about climate-related and other uncertainties.
 6. In addition, we considered the work of the International Sustainability Standards Board (ISSB) and included ISSB staff on the project team. This is because this project and the work of the ISSB complement each other, as:
 - (a) both involve the topic of climate; and
 - (b) both seek to improve connections across general purpose financial reports to, in part, help address concerns about inconsistencies in financial information.
 7. This paper summarises:
 - (a) papers for this meeting (paragraphs 8–9);
 - (b) work performed (paragraphs 10–18); and
 - (c) next steps (paragraph 19).

Papers for this meeting

8. There are three papers for this meeting:
 - (a) Agenda Paper 14A *Project objective*. This paper discusses whether to change the objective of this project to cover the effects of other uncertainties in addition to those related to climate. This paper asks the IASB for a decision.
 - (b) Agenda Paper 14B *Results of work on the nature and causes of concern*. This paper summarises the results of the work performed and provides an initial analysis of possible actions the IASB could take to help address concerns raised by stakeholders. This paper does not ask the IASB to make a decision.
 - (c) Agenda Paper 14C *Potential actions*. This paper discusses a package of potential actions the IASB could take to help address concerns about reporting

the effects of climate-related risks in the financial statements.³ This paper asks the IASB for decisions.

9. Throughout these papers the term:
- (a) ‘general purpose financial reports’ refers to reports that provide financial information about an entity that is useful to primary users of those reports in making decisions relating to providing resources to the entity.⁴ General purpose financial reports include—but are not restricted to—an entity's general purpose financial statements and sustainability-related financial disclosures.
 - (b) ‘sustainability-related financial disclosures’ refers to a particular form of general purpose financial report that provides information about an entity's sustainability-related risks and opportunities that is useful to the primary users of general purpose financial reports.
 - (c) ‘report’ refers to a specified set of information that is clearly identified and distinguished from other information rather than to a ‘location’ of that information.

Work performed

10. As part of our work:
- (a) we performed outreach with the IASB’s consultative bodies and other stakeholders (paragraphs 11–13);
 - (b) we reviewed academic research and other publications on the effects of climate-related risks in the financial statements (paragraphs 14–18); and

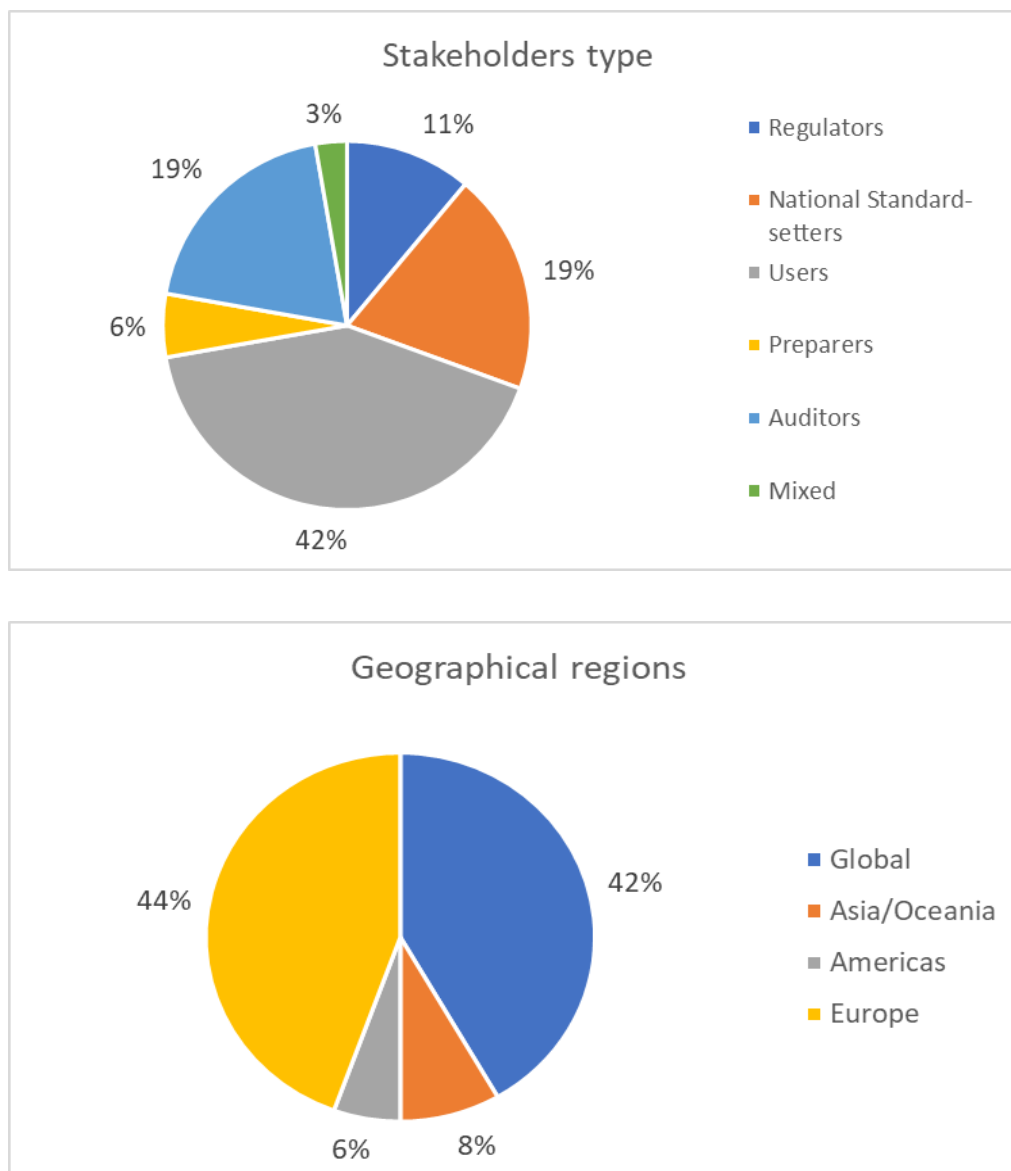
³ For ease of reference, Agenda Paper 14C refers to ‘climate-related risks’. However, the analysis in this paper would equally apply to other uncertainties that would be in the scope of the project if the IASB agrees with the staff recommendation in Agenda Paper 14A to generalise the objective of this project.

⁴ Paragraphs 1.2 and 1.12 of the *Conceptual Framework for Financial Reporting*.

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- (c) we reviewed IFRS Accounting Standards to identify potential gaps, unclear requirements or limitations that may impede the reporting of the effects of climate-related risks in the financial statements.

Outreach with IASB's consultative bodies and other stakeholders

11. We discussed the nature and causes of stakeholder concerns about reporting the effects of climate-related risks in the financial statements, the possible courses of action and whether the IASB should generalise the objective of the project at:
- (a) the [May 2023 Emerging Economies Group meeting](#);
 - (b) the [June 2023 IFRS Interpretation Committee meeting](#);
 - (c) the [June 2023 joint Capital Markets Advisory Committee and Global Preparers Forum meeting](#); and
 - (d) the [July 2023 Accounting Standards Advisory Forum meeting](#).
12. We also held meetings with one preparer group, four regulators, four national standard-setters, 14 users or user groups and seven accounting firms.
13. These diagrams illustrate the breakdown of stakeholders we engaged with based on geographical regions and stakeholder types:



Review of academic research and other publications

14. Academic research on reporting the effects of climate-related risks in the financial statements is limited. We identified one working paper, two academic reports prepared for a professional accounting body and for a national standard-setter, a commentary published by a national standard setter in an academic journal and an academic literature review.

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15. One factor that has contributed to the lack of academic evidence on disclosure of climate-related risks in the financial statements is that researchers usually do not make a distinction between information in the financial statements and information disclosed elsewhere (for example, in management commentary).⁵ Most often researchers use full-text search for specific words as a technique to extract climate-related information from a selection of documents, including annual reports, sustainability reports and responses to the Climate Disclosure Project survey questionnaires.⁶ Their procedures do not take account of the location of climate-related information within a report. Therefore, it is difficult to relate the existing evidence on reporting of climate-related matters to entities' reporting of climate-related matters in the financial statements.
16. More academic studies could become available in later stages of this project, in particular:
- (a) at the KPMG/IAAER research programme deliverable in November 2023 when one of the teams will present evidence on climate-related matters in the financial statements;
 - (b) at the 2024 IASB Research Forum held in conjunction with *Abacus*, which designated the effects of climate-related risks in the financial statements as one of the research topics in the call for papers;
 - (c) as part of the ongoing research carried out by academics on credit risk disclosures provided when applying IFRS 7 *Financial Instruments: Disclosures*, including disclosures about climate risk considered in the measurement of expected credit losses;
 - (d) as part of the ongoing research by academics on updating the evidence cited in paragraph A2 in Appendix A of Agenda Paper 14B; and

⁵ This is staff observation based on evidence in the academic literature review Baboukardos, D., Seretis, E., and I. Tsalavoutas. 2023. Climate change reporting: What do we know about its determinants and capital market consequences?, Institute of Chartered Accountants of Scotland Report, 2023.

⁶ Carbon Disclosure Project (CDP) is a not-for-profit charity that runs the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Each year, CDP takes the information supplied in its annual reporting process through a survey and scores companies and cities based on their disclosures.

- (e) as part of the IASB's joint initiative with a number of national standard setters to encourage academic research relating to the application of the IASB's requirements and guidance on materiality.⁷
17. We also reviewed 12 publications that considered how climate-related matters were reported in the financial statements. These publications covered reporting periods between 2018 and 2022. The objectives and levels of detail in these publications varied widely. Four publications reviewed a sample of IFRS financial statements across the globe while the others focused on specific industries or jurisdictions, mainly in Oceania and in Europe⁸. The sample sizes varied from a focused review of 13 entities to a review of over 7,000 entities analysing trends in the reporting on the effects of climate-related matters in the financial statements and elsewhere.
18. The academic research and other publications reviewed are listed in Appendix A. Key themes emerging from the academic research and other publications are summarised in Appendix A of Agenda Paper 14B.

Next steps

19. The next steps on this project depend on the IASB's decisions on Agenda Paper 14A and Agenda Paper 14C.

⁷ In May 2022 the IASB issued a call to partner with national standard setters to gather academic evidence on the effects on investors, companies, auditors and regulators of the [Definition of Material \(Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors\)](#), IFRS Practice Statement 2 [Making Materiality Judgements](#) and [Better Communication in Financial Reporting—Making disclosures more meaningful](#).

⁸ We did not identify any reviews that focussed solely on IFRS financial statements in Africa, Asia or the Americas.

Appendix A—List of academic research and other publications reviewed

A1. These are the academic papers we reviewed:

- (a) Baboukardos, D., Dionysiou, D., Slack, R., Tsalavoutas, I., and F. Tsoligkas, *Climate-change risk-related disclosures in extractive industries: A comparative study*, Association of Chartered and Certified Accountants and Adam Smith Business School research monograph (doi:[10.36399/gla.pubs.258686](https://doi.org/10.36399/gla.pubs.258686)), 2021.
- (b) Baboukardos, D., Seretis, E., and I. Tsalavoutas. 2023. *Climate change reporting: what do we know about its determinants and capital market consequences?*, Institute of Chartered Accountants of Scotland Report, 2023.
- (c) Garg, M., *Impact of climate change-related financial disclosures on accounting numbers: Analyses of credibility and value implications*, Monash University, Working paper, 2023.
- (d) Li, A. and E. Lee. *Commentary: Climate-related risks disclosures in the notes to the financial statements: Descriptive evidence from Australia*, Australian Accounting Review, 2023, Forthcoming.
- (e) Potter, B., Soderstrom, N., and J. Jonathan, *Climate scenario disclosure*, Research Report prepared for the Australian Accounting Standards Board, 2023.

A2. These are the other publications we reviewed:

- (a) Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB), Research report, *Climate-related disclosures and assurance in the Annual Reports of ASX-listed companies*, December 2022.
- (b) Carbon Tracker Initiative, *Flying blind, The glaring absence of climate risks in financial reporting*, September 2021.
- (c) Carbon Tracker Initiative, *Still flying blind, The absence of climate risk in financial reporting*, October 2022.

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- (d) Chartered Accountants Australia and New Zealand, the University of Melbourne and the University of Queensland, *The impact of climate-related risks on statutory financial statements and auditors' reports, Insights 2021*, June 2022.
 - (e) Chartered Accountants Australia and New Zealand, the University of Melbourne and the University of Queensland, *Climate risk in financial statements, 31 December 2021 to 31 July 2022 reporting*, 2022.
 - (f) European Securities and Markets Authority (ESMA), *Report, 2022 Corporate reporting enforcement and regulatory activities*, ESMA32-63-1385, 29 March 2023.
 - (g) Financial Conduct Authority (FCA), *Review of TCFD-aligned disclosures by premium listed commercial companies*, July 2022.
 - (h) Financial Reporting Council (FRC), *CRR Thematic review of TCFD disclosures and climate in the financial statements*, July 2022, 88–115.
 - (i) PricewaterhouseCoopers New Zealand, *How is the impact of climate change reflected in the financial statements of the NZX50? An analysis of NZX50 31 March 2022 reporters*, July 2022.
 - (j) PricewaterhouseCoopers New Zealand, *How is the impact of climate change reflected in the financial statements of the NZX50? An analysis of NZX50 30 June 2022 reporters*, September 2022.
 - (k) PricewaterhouseCoopers New Zealand, *How is the impact of climate change reflected in the financial statements of the NZX50? An analysis of NZX50 July to December 2022 reporters*, March 2023.
 - (l) The Dutch Authority for the Financial Markets (AFM), *CSRD: No time to lose! Exploratory research into the application of new regulation on sustainability reporting in annual reports (CSRD) at listed companies and audit firms*, 2023.