

Considering Connectivity

Reflecting uncertainties in general purpose financial reports
and considering climate-related matters

March 2026

Executive summary

Connectivity between general purpose financial reports (such as financial statements and sustainability reports) is a matter highlighted by many stakeholders, particularly as it relates to climate-related risks and opportunities.

Entities need to ensure their annual report presents a cohesive and consistent story throughout.

Background

Climate change is an important topic to stakeholders in many jurisdictions, with significant resources being devoted by entities to improve how they report the effects of uncertainties, which includes the effects of climate change, in financial statements and sustainability reporting. Various stakeholders and regulators around the world have consistently placed climate considerations in financial statements at the top of their priority lists¹. Stakeholders have begun to expect that general purpose financial reports (being financial statements and sustainability-related financial disclosures) should present a cohesive and consistent story.

As the effects of climate change on businesses accelerate, this topic may carry more weight in investors' decision making. An annual report that provides a clear and coherent view on climate-related risks and opportunities, including their effects on the financial statements, will facilitate better informed investor decisions. Therefore, connectivity between the different sections in the annual report is a topic that is receiving increased attention.

While the International Sustainability Standards Board ('ISSB') published IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* ('IFRS S1') and IFRS S2 *Climate-related Disclosures* ('IFRS S2') to establish a global baseline for disclosing climate-related risks and opportunities in sustainability-related financial disclosures, findings from various regulators indicate that entities often struggle to appropriately reflect and disclose these considerations in their financial statements in a manner that is consistent with sustainability-related financial disclosures. Due to the increased importance and ongoing challenge to reflect connectivity in relation to uncertainties, which may include climate-related matters, the International Accounting Standards Board ('IASB') published illustrative examples *Disclosures about Uncertainties in the Financial Statements* in November 2025, which accompany various IFRS® Accounting Standards. See BDO's [IFR Bulletin](#) on these illustrative examples.

Drawing on the scenarios from these examples, this publication aims to provide insight into common areas of connectivity between financial statements prepared in accordance with the requirements of IFRS Accounting Standards and sustainability-related financial disclosures. It also provides examples of the factors to consider in determining disclosures required within the financial statements.

The presentation and disclosure requirements of IFRS Accounting Standards are extensive, and this publication does not aim to cover a complete range of scenarios that entities may encounter in practice.

This guidance explores six common climate-related risks and opportunities to illustrate what entities may need to consider in financial statements disclosures in relation to these risks and how information may be disclosed relating to these matters in sustainability-related financial disclosures.

¹ For example, [ESMA European Common Enforcement Priorities for 2025 Corporate Reporting](#)

These climate-related risks and opportunities are not an exhaustive list, but are common for a diverse range of businesses and industries:

RISKS/OPPORTUNITIES	DESCRIPTION
Physical risks	<ul style="list-style-type: none"> ▶ Businesses may experience more extreme weather conditions as a result of climate change, such as flooding, draught, fires, heatwaves and storms, which may adversely affect the operations of the businesses. ▶ Unexpected extreme climate-related events may cause damage to property, plant and equipment owned by entities. They may also result in supply chain disruption and business interruptions as a result of infrastructure damage. In addition to dealing with direct financial consequences of these disruptions, entities may need to invest in adaptation measures - improving the resilience of assets and infrastructure in order to minimise the risk for the future.
Decarbonisation targets, commitments, and transition plans	<ul style="list-style-type: none"> ▶ Many entities have already set up their emission reduction targets or made general commitments to achieve net zero. As the decarbonisation journey continues, there is a general expectation (and in some jurisdictions, regulatory requirements) for entities to develop and disclose robust transition plans to demonstrate how they are going to achieve their targets. ▶ Transition plans include specific actions that the entities are planning to undertake. These may include additional capital expenditure ('CAPEX') and operating costs required to transition to a low carbon economy. Understanding how, and to what extent, the cost of transition is reflected in the financial statements – e.g. in the cashflow forecasts underpinning Impairment assessments, going concern and viability, is important to investors.
Carbon prices	<ul style="list-style-type: none"> ▶ Many jurisdictions have been introducing measures to incentivise decarbonisation through carbon pricing or taxation. National level emissions trading schemes and carbon border adjustment mechanisms usually affect carbon-intensive industries, such as energy, shipping, manufacturing of iron, cement and fertilizers, and other industries operating carbon intensive processes. For entities that do not operate in these sectors and do not fall in scope of the emission trading schemes, there may be an indirect effect through their supply chain due to increasing costs of power and raw materials. ▶ Entities may also introduce 'internal' carbon prices as a measure to incentivise their own decarbonisation choices.
Sustainability-linked financing	<ul style="list-style-type: none"> ▶ Sustainability-linked loans are financial instruments that allow entities to take advantage of their decarbonisation commitments and obtain cheaper finance through reduced interest if specific targets are met. ▶ Non-compliance with sustainability covenants and targets can affect the ability to withdraw funds and/or result in a change to loan repayment terms and/or interest rates, which may increase cost of financing.
Customer preferences	<ul style="list-style-type: none"> ▶ Customers are more concerned about climate change and may also have their own decarbonisation targets that need to be met. Entities that have made decarbonisation commitments for their scope 3 emissions tend to shift to greener products or choose suppliers whose decarbonisation journey is more aligned with their own.

RISKS/OPPORTUNITIES	DESCRIPTION
Regulatory & Legal pressures	<ul style="list-style-type: none"> ▶ National net zero commitments and public pressure drive the introduction of different measures through legislation and incentives schemes that facilitate investment into green technologies. ▶ Businesses may be able to obtain government support to switch to greener operations. At the same time, requirements for stricter compliance with environmental laws or energy efficiency regulations may increase the cost of doing business or restrict some of the business activities. ▶ Legal implications for entities may include claims and litigations in relation to greenwashing, or in cases where environmental damage has been caused by the entity's operations.

This publication is divided into two sections:

Section A: Scenarios assessment

- ▶ This section presents common climate-related scenarios and highlights key factors to be assessed when determining whether additional disclosures are necessary. It explains the required, drawing on scenarios from the examples added to IFRS Accounting Standards by *Disclosures about Uncertainties in the Financial Statements*, which were published in November 2025. For each example, consideration is then given to how these scenarios may be reflected in sustainability-related financial disclosures.

Section B: Climate-related disclosure checklist

- ▶ This section provides brief examples of areas in financial statements that may be affected by the six common climate-related risks and opportunities. This checklist may be used to assess whether additional disclosures may be needed when preparing financials statements in accordance with IFRS Accounting Standards.

The combination of the two sections in this publication is designed to provide a practical overview of disclosures that achieve connectivity in general purpose financial reports.

Note that throughout this publication, references are provided for both IAS 1 and the corresponding paragraphs for entities that have applied IFRS 18, as many requirements in IAS 1 have been relocated to IFRS 18, IAS 8 and IFRS 7 substantially unchanged.





Section A – Scenarios assessment (adapted from illustrative examples and implementation guidance in various IFRS Accounting Standards)

To demonstrate how climate-related events may be addressed in both financial statements and sustainability-related financial disclosures, we have drawn on the examples added to IFRS Accounting Standards by *Disclosures about Uncertainties in the Financial Statements*, which were published in November 2025. These scenarios highlight key considerations for climate-related matters for recognition, measurement, disaggregation of information, and disclosures in financial statements and sustainability-related financial disclosures, applying the requirements in both IFRS Accounting Standards and IFRS Sustainability Disclosure Standards.

It should be emphasised that these are examples and material information will depend on entity-specific facts and circumstances. Where this publication describes that information may be disclosed in general purpose financial reports, this does not mean that all entities will reach the same conclusion in similar circumstances.

1. Materiality judgements

EXAMPLE 1: SCENARIO 1 – ADDITIONAL DISCLOSURES NECESSARY (ADAPTED FROM EXAMPLE IV-1 OF ILLUSTRATIVE EXAMPLES ACCOMPANYING IFRS 18)



Entity A operates in a capital intensive industry and is exposed to significant climate related transition risks.

Few jurisdictions in which Entity A operates have adopted climate-related policies that affect its operations.

Entity A's climate-related transition plan would significantly affect its future operations.

1.1 Information reported in general purpose financial reports

1.1.1 Financial statements

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Effects on recognition and measurement	No effects on recognition and measurement in the reporting period.	<p>Consider specific IFRS Accounting Standards – IAS 2, IAS 16, IAS 36 and IAS 37</p> <p>Entity A determines there is no effect on recognition, measurement or disaggregated information because:</p> <ol style="list-style-type: none"> 1. The useful lives of the facilities are not affected, and they are not replaced in the current period; 2. The existing inventory of raw materials will be fully consumed and there is no impairment to the carrying amount; 3. There is no impairment to the cash-generating units ('CGUs') after considering the effect of transition plan; and 4. No effect on the timing and amount to settle decommissioning and restoration obligations. <p>As a result, IFRS Accounting Standards do not specifically require disclosure of the effect (or lack of effect) of the transition plan.</p>
Disaggregated information	No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.	
Related disclosures	Entity A discloses in the notes to the financial statements the reasons why the transition plan had no effect on its financial position and financial performance for the current reporting period (e.g. no effect on the useful lives of the affected manufacturing facilities, existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan).	<p>Consider IAS 1.31 (and IFRS 18.20) - an entity is required to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.</p> <p>In making a judgement about whether such additional disclosures would provide material information, Entity A considers both quantitative and qualitative factors including:</p> <ol style="list-style-type: none"> 1. Entity-specific qualitative factors: For example, the nature and extent of exposure to climate-related transition risks and the significance of the transition plan to its operations; and 2. External qualitative factors: For example, whether the industry and jurisdictions in which the entity operates—including its market, economic, regulatory and legal environments—make the information likely to influence the decisions that primary users of the entity's financial statements make based on those financial statements.

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
		<p>Entity A also considers whether, without additional disclosures, information in its financial statements is inconsistent with corresponding information in the general purpose financial reports accompanying the financial statements. For example, information about changes in manufacturing methods and investment in more energy-efficient technology might suggest that some of its assets might be impaired.</p>

1.1.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Current financial effects</p>	<p>Entity A explains the reason why the transition plan had no effect on its financial position and financial performance for the current reporting period (e.g. no effect on the useful lives of the affected manufacturing facilities, existing inventory of raw materials will be fully consumed before the entity changes the raw materials used in its manufacturing process in accordance with the transition plan).</p>	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make based on those reports.</p> <p>In making the judgement of whether the information of a relevant event is material, Entity A considers both quantitative and qualitative factors discussed above. The information is considered to be material.</p> <p>For information about current financial effects that are already covered in the financial statements, cross-referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p>
<p>Anticipated financial effects</p>	<p>Entity A discloses the qualitative and quantitative information about the effects of its planned future investments in energy-efficient technology and the use of alternative raw materials and manufacturing methods.</p>	<p>Consider IFRS S1.21(b)(ii) - An entity shall provide information in a manner that enables users of general purpose financial reports to understand the connections between disclosures provided by the entity: across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements.</p>
<p>Other disclosures</p>	<p>Entity A explains that its strategy to address climate-related transition risks involves investing in energy-efficient technology and making changes to raw materials and manufacturing methods. The effects of these changes also need to be reflected in the scenario analysis for the climate resilience disclosure.</p>	<p>Entity A considers whether the information disclosed in the general purpose financial reports, for example, information about changes in manufacturing methods and investment in more energy-efficient technology, are consistent with the information disclosed in the financial statements.</p>

EXAMPLE 1: SCENARIO 2 – ADDITIONAL DISCLOSURES NOT NECESSARY (ADAPTED FROM EXAMPLE IV-1 OF ILLUSTRATIVE EXAMPLES ACCOMPANYING IFRS 18)



Entity B operates in an industry with low levels of greenhouse gas emissions and limited exposure to climate-related transition risks.

General purpose financial report accompanying the financial statements disclosed the use of renewable energy and avoidance of exposure to high-emission activities and how the entity plans to maintain the current emission policy.

The greenhouse emission policy has no effect on recognition or measurement of assets and liabilities and related income and expenses.



1.2 Information reported in general purpose financial reports

1.2.1 Financial statements

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Effects on recognition and measurement	No effects on recognition and measurement in the reporting period.	<p>Consider the specific IFRS Accounting Standards</p> <p>Entity B determines there is no effect on recognition, measurement or disaggregated information because the effect of climate-related risks has limited effect to the current and future operations of the entity.</p> <p>As a result, specific IFRS Accounting Standards do not require disclosure of the effect (or lack of effect) of transition plan.</p>
Disaggregated information	No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.	

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Related disclosures</p>	<p>No additional disclosure to explain the lack of effect of its greenhouse gas emission policy on the financial position and financial performance for the reporting period.</p>	<p>Consider IAS 1.31 (and IFRS 18.20) - an entity is required to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of transactions and other events and conditions on the entity's financial position and financial performance.</p> <p>In making a judgement about whether additional disclosures would provide material information, Entity B considers both quantitative and qualitative factors including the following:</p> <ol style="list-style-type: none"> 1. Greenhouse gas emissions policy is not expected to significantly affect its future operations; and 2. The entity operates in an industry that has a low level of greenhouse gas emissions and has limited exposure to climate-related transition risks. <p>Accordingly, Entity B concludes that additional disclosure would not provide material information in the context of its financial statements taken as a whole.</p>

1.2.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Current financial effects</p>	<p>No additional disclosure to explain the lack of effect of its greenhouse gas emission policy on the financial position and financial performance for the reporting period.</p>	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports made on the basis of those reports.</p> <p>In making the judgement of whether information about a relevant event is material, Entity B considers both quantitative and qualitative factors discussed above.</p>
<p>Anticipated financial effects</p>	<p>No disclosure of anticipated financial effects as the effect of climate-related risks has limited effect to the current and future operations of the entity.</p>	<p>Considering the entity's and the industry's generally low greenhouse gas emissions, together with its limited exposure to climate-related risks, Entity B concludes that the information is not material as omitting, misstating or obscuring that information would not reasonably be expected to influence decisions of primary users of the general purpose financial reports.</p>
<p>Other disclosures</p>	<p>Entity B discloses that it uses renewable energy and minimises exposure to high-emission activities whenever feasible. It also discloses that it has low level of greenhouse gas emissions.</p>	<p>Therefore, Entity B is only required to provide minimal information about climate-related effects on the entity assuming that the effects of climate change remain a material sustainability-related risk and/or opportunity.</p>

2. Assumptions and other sources of estimation uncertainty

EXAMPLE 2: DISCLOSURE OF ASSUMPTIONS - SPECIFIC REQUIREMENTS (ADAPTED FROM EXAMPLE 10 OF ILLUSTRATIVE EXAMPLES ACCOMPANYING IAS 36)



<p>Entity C's operations result in a high amount of greenhouse gas emissions.</p>	<p>Jurisdictional regulations require the entity to acquire greenhouse gas emission allowances, resulting in costs to the entity.</p>	<p>Entity C allocated a significant amount of goodwill to one of its CGUs. Assumptions about future price of emission allowance are key assumptions. Impairment test of that CGU needs to be performed at least annually.</p>	<p>Entity C determined that the recoverable amount of a CGU - which includes a significant amount of goodwill - exceeds its carrying amount (i.e. no impairment must be recognised).</p>
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2.1 Information reported in general purpose financial reports

2.1.1 Financial statements

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Effects on recognition and measurement</p>	<p>No impairment is recognised.</p>	<p>Consider the specific IFRS Accounting Standards - IAS 36.33-38, IAS 36.59</p> <p>Entity C needs to consider reasonable and supportable assumptions that reflect management's best estimate of the range of future economic conditions. As the cost of future emission allowances is regarded as a key assumption, factors such as future prices for emission allowances and relevant regulations should be taken into account when measuring value in use, in accordance with IAS 36.33-38.</p> <p>However, because the value in use exceeds the CGU's carrying amount, no impairment is recognised.</p>
<p>Disaggregated information</p>	<p>No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.</p>	

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Related disclosures</p>	<p>It was assessed that recoverable amount is sensitive to assumptions about future emission allowance costs (i.e. these costs are a key assumption in determining the recoverable amount).</p> <p>Entity C should disclose in the notes to the financial statements the following for key assumptions:</p> <ol style="list-style-type: none"> 1. the value of the key assumptions (IAS 36.134(d)(i)) - future price of emission allowances and future developments in emission regulations; 2. the approach to determine the value of these assumptions (IAS 36.134(d)(ii)) – the sources of future price of emission allowances s and whether they are consistent with external sources; and 3. when it is reasonably possible that the change in the key assumptions would result in impairment loss: <ol style="list-style-type: none"> i. the amount by which the CGU's recoverable amount exceeds its carrying amount ('headroom') (IAS 36.134(f)(i)); and ii. the change to the value of the key assumptions, after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount ('breakeven') (IAS 36.134(f)(iii)). 	<p>Consider the specific IFRS Accounting Standards - IAS 36.134</p> <p>As Entity C allocated a significant amount of goodwill to the relevant CGU, information about key assumptions used to measure the recoverable amount must be disclosed even though there is no impairment.</p> <p>Since the recoverable amount of the CGU is based on value in use, IAS 36.134(d) requires specific disclosures regarding the key assumptions applied in determining value in use.</p> <p>If the impairment assessment is sensitive to changes in these key assumptions (i.e. whether an impairment loss would result from a reasonably possible change in the assumptions about the future price of emission allowances), Entity C would also disclose the sensitivity information based on IAS 36.134(f).</p>

2.1.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Current financial effects	Entity C discloses the explanation of why greenhouse gas emission regulations have no effect on its current financial position and performance, noting that assumptions regarding future emission allowance prices and future developments in regulations have been incorporated into the value-in-use measurement, which exceeds the carrying amount, resulting in no impairment.	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.</p> <p>In making the judgement of whether the information about a relevant event is material, Entity C considers both quantitative and qualitative factors including the followings:</p>
Anticipated financial effects	As scenario analysis is routinely employed to evaluate an entity's climate resilience, the inputs and key assumptions used must be disclosed. Entity C needs to explain connections of the assumptions used in relation to the future price of emission allowances and future regulations in scenario analysis and impairment assessment or disclose information and provide explanation about significant differences in these data and assumptions.	<ol style="list-style-type: none"> 1. Size of the goodwill: The amount of goodwill is significant; 2. Entity-specific qualitative factors: Greenhouse gas emissions resulting from its operation are high; and 3. External qualitative factors: Entity C operates in an industry with greenhouse gas emission regulations and Entity C expects that these regulatory changes will affect more jurisdictions that it operates.
Other disclosures		<p>For information about current financial effects that are already covered in the financial statements, cross referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p> <p>Consider IFRS S1.21(b)(ii) - An entity shall provide information in a manner that enables users of general purpose financial reports to understand the connections between disclosures provided by the entity: across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements.</p> <p>Entity C considers the assumptions used in both impairment assessment in the financial statements and scenario analysis in the sustainability-related disclosures. An explanation needs to be provided to explain the connections or any significant differences between the assumptions used in the impairment assessment and those used in the scenario analysis.</p> <p>Consider IFRS S2.29 - an entity shall disclose information relevant to the cross-industry metric.</p> <p>Entity C needs to ensure the relevant goodwill amount is included in the calculation of the amount and percentage of assets or business activities vulnerable to climate-related transition risks. Additionally, the numbers used need be reconciled with the corresponding sections of the financial statements.</p>

EXAMPLE 3: DISCLOSURE OF ASSUMPTIONS – GENERAL REQUIREMENTS (ADAPTED FROM PARAGRAPHS 6.1 TO 6.9 OF IMPLEMENTATION GUIDANCE ACCOMPANYING IAS 8)



<p>Entity D operates in capital intensive industry and is exposed to climate-related transition risks.</p>	<p>Entity D has no goodwill or intangible assets with indefinite lives. However, indications exists that a CGU might be impaired due to transition risks.</p>	<p>Impairment testing involved making several assumptions about climate-related transition risks, including future legal and regulatory developments, consumer demands, commodity prices and future prices of emission allowances.</p>	<p>Entity D determined that the recoverable amount of the CGU exceeds its carrying amount.</p>
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2.2 Information reported in general purpose financial reports

2.2.1 Financial statements

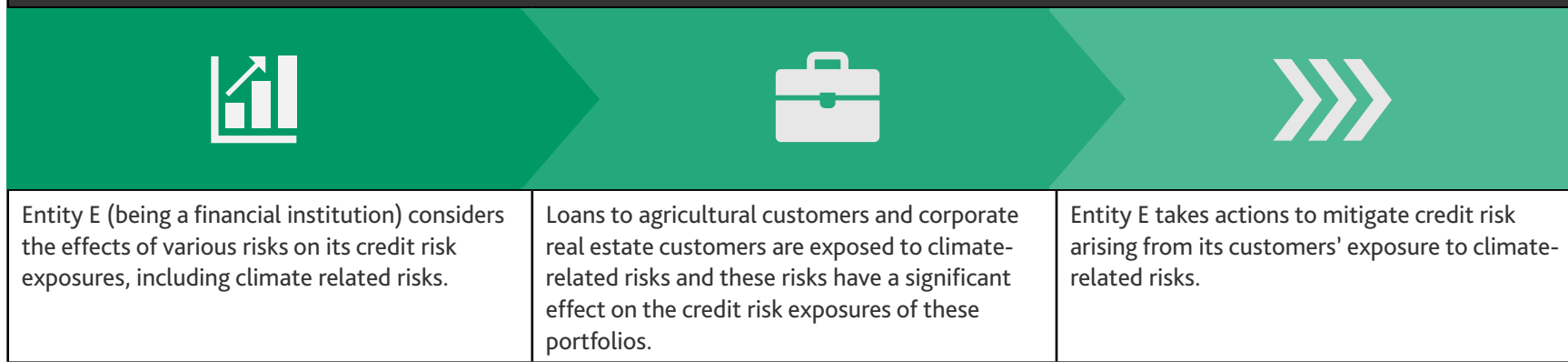
AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Effects on recognition and measurement</p>	<p>No impairment is recognised despite the additional cost of carbon allowances that were included cashflow forecast to assess impairment.</p>	<p>Consider the specific IFRS Accounting Standards - IAS 36.33-38, IAS 36.59 Assumptions about climate-related transition risks need to be considered in recoverable amount calculation.</p>
<p>Disaggregated information</p>	<p>No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.</p>	<p>As the recoverable amount exceeds the CGU's carrying amount, no impairment is recognised.</p>

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Related disclosures</p>	<p>Entity D discloses in the notes to the financial statements the assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. It also discloses details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.</p>	<p>Consider the specific IFRS Accounting Standards - IAS 36.130, IAS 36.134</p> <p>As most of the detailed disclosure requirements in IAS 36 are only triggered when impairment is recognised, no additional disclosure is required for Entity D by IAS 36.</p> <p>Consider IAS 1.125 (and IAS 8.31A) - an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. That paragraph also requires disclosure of details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.</p> <p>In assessing whether the assumptions and estimation uncertainties create a significant risk of material adjustments to the carrying amounts of assets and liabilities over the next financial year, Entity D considers both quantitative and qualitative considerations, including the following:</p> <ol style="list-style-type: none"> 1. <u>Size of the CGU's carrying amount</u>: The CGU makes up a large portion of the total assets. Therefore, a relatively small adjustment to the CGU's carrying amount might result in a material impairment loss. 2. <u>Subjectivity or complexity of the judgements</u>: This high level of subjectivity and complexity about highly uncertain future events (over medium and long term) increases the risk that the assumptions might change due to new information or new developments; 3. <u>Risk that developments in the next financial year might result in changes to the assumptions</u>: Frequent new climate-related market, economic, regulatory and legal developments increase the risk that the entity might have to review its assumptions within the next financial year (including assumptions about medium- and long-term uncertainties); and 4. <u>Sensitivity of the CGU's carrying amount to changes in the assumptions</u>: The carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction of the CGU's recoverable amount and a material impairment loss. <p>Accordingly, Entity D concludes that some of the assumptions have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. Therefore, disclosures are required for those assumptions.</p> <p>Consider IAS 1.129 (and IAS 8.31E) - an entity presents the disclosures in IAS 1.125 (and IAS 8.31A) in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances.</p>

2.2.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Current financial effects</p>	<p>Entity D explains that climate-related transition risk assumptions—covering legal and regulatory developments, consumer demand, commodity prices, and future prices of emission allowances—do not affect its financial position or financial performance in this reporting period. These assumptions were factored into the recoverable amount measurement, which exceeded the carrying value, therefore no impairment was recognised.</p>	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports make on the basis of those reports.</p> <p>In making the judgement of whether the information of a relevant event is material, Entity D considers both quantitative and qualitative factors discussed above.</p> <p>For information about current financial effects that are already covered in the financial statements, cross-referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p>
<p>Anticipated financial effects</p>	<p>Entity D outlines the assumptions and other major sources of estimation uncertainty that have a significant risk of leading to a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The disclosure should include the nature of the assumptions and sensitivity analysis illustrating how changes in these assumptions could affect the outcomes.</p>	<p>Consider IFRS S1.21(b)(ii) - An entity shall provide information in a manner that enables users of general purpose financial reports to understand the connections between disclosures provided by the entity: across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements.</p> <p>Entity D considers the assumptions used in both impairment assessment in the financial statements and scenario analysis in the sustainability-related disclosures. For those data and assumptions that are applied in both assessments, IFRS S1 requires explaining connections, or providing an explanation if there are significant differences in these data and assumptions.</p>
<p>Other disclosures</p>	<p>Entity D discloses its strategy for mitigating risks arising from climate-related transitions. The relevant assumptions used in impairment assessments must also be reflected in scenario analyses as well. If any of these assumptions are relevant in both contexts, Entity D needs to explain connections of the assumptions used in scenario analysis and impairment assessment, or disclose information and provide explanation about significant differences in these data and assumptions.</p>	<p>Consider IFRS S2.29 - an entity shall disclose information relevant to the cross-industry metric.</p> <p>Entity D needs to ensure the CGU exposed to climate-related transition risks is included in the calculation of the amount and percentage of assets or business activities vulnerable to climate-related transition risks. Additionally, the numbers used need be reconciled with the corresponding sections of the financial statements.</p>

EXAMPLE 4: DISCLOSURES ABOUT CREDIT RISK (ADAPTED PARAGRAPH 22A OF IMPLEMENTATION GUIDANCE ACCOMPANYING IFRS 7)



2.3 Information reported in general purpose financial reports

2.3.1 Financial statements

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Effects on recognition and measurement</p>	<p>The climate-related risks and actions taken to mitigate the credit risk arising from its customers may influence the inputs, assumptions and estimation techniques Entity E uses to measure expected credit losses ('ECL') required by IFRS 9.</p>	<p>Consider the specific IFRS Accounting Standards – IFRS 9.5.5</p> <p>Entity E needs to assess if climate-related risks arising from customers and the relevant mitigating actions affect the inputs, assumptions and estimation techniques used to measure ECL in accordance with the requirements of IFRS 9.5.5.</p>
<p>Disaggregated information</p>	<p>No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.</p>	





AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Related disclosures</p>	<p>It was assessed that recoverable amount is sensitive to assumptions about future emission allowance costs (i.e. these costs are a key assumption in determining the recoverable amount).</p> <p>Entity C should disclose in the notes to the financial statements the following for key assumptions:</p> <ol style="list-style-type: none"> 1. An explanation of the credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses; 2. An explanation of how the entity incorporated climate-related risks into the inputs, assumptions and estimation techniques it used to apply the impairment requirements in IFRS 9. For example, information about how the entity incorporated those risks in the modelling of expected credit losses or information about the use of judgement-based adjustments; 3. Information about collateral held as security and other credit enhancements. For example, information about properties held as collateral that are subject to flood risk and whether that risk is insured; and 4. Information about concentrations of climate-related risks if not apparent from other disclosures the entity makes. For example, the carrying amount of the two identified portfolios. 	<p>Consider the specific IFRS Accounting Standards - IFRS 7.31, IFRS 7.35A-36</p> <p>Entity E determines the effects of climate-related risks on its exposure to credit risk on agricultural customers and corporate real estate customers are material based on:</p> <ol style="list-style-type: none"> 1. <u>Size of the portfolios</u>: The two portfolios make up a large portion of the entity's overall lending portfolio; 2. <u>Significance of the effects of climate-related risks</u>: Climate-related risks have a significant effect on the exposure to credit risk compared with other factors affecting that exposure. The effects depend on factors such as loan maturity and the nature, likelihood and magnitude of the climate related risks; and 3. <u>External climate-related qualitative factors</u>: The market, economic, regulatory and legal environments in which the entity operates, as well as climate-related developments make the information more likely to influence the decisions that primary users of the entity's financial statements make on the basis of the financial statements. <p>As a result, Entity E discloses the relevant information as required by IFRS 7.35A-36, enabling users of its financial statements to assess the nature and extent of risks stemming from the financial instruments to which Entity E is exposed at the end of the reporting period.</p>

2.3.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Current financial effects	Entity E discloses how climate-related risks within its portfolios influence credit risk, details the actions it takes to manage the relevant credit risk, and discusses how such measures affect the calculation of ECL required by IFRS 9.	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports made on the basis of those reports.</p> <p>In making the judgement of whether the information of a relevant event is material, Entity E considers both quantitative and qualitative factors discussed above.</p>
Anticipated financial effects	Entity E discloses its estimates of how climate-related risks affect these portfolios and their effect on credit risk in future years. Entity E also outlines the potential implications for ECL, including the influence of proposed mitigating actions and the relevant climate-related risk considerations.	<p>For information about current financial effects that are already covered in the financial statements, cross referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p> <p>Consider IFRS S2.29 - an entity shall disclose information relevant to the cross-industry metric.</p>
Other disclosures	Entity E outlines the steps it takes to identify significant portfolios affected by climate-related risks and describes the mitigation measures it develops. The disclosure also explains how these measures are embedded within the entity's broader credit risk management framework.	Entity E needs to ensure that relevant loan portfolios are included in the calculation of the amount and percentage of assets or business activities vulnerable to climate-related physical risks. Additionally, the numbers used need be reconciled with the corresponding sections of the financial statements.



EXAMPLE 5: DISCLOSURES ABOUT DECOMMISSIONING AND RESTORATION PROVISIONS (ADAPTED FROM EXAMPLE 2A OF D EXAMPLES: DISCLOSURES ACCOMPANYING IAS 37)

			
Entity F is obligated to decommission a plant and restore the site.	When discounted to present value, the costs to settle the entity's plant decommissioning and site restoration provision is immaterial.	However, costs to settle these obligations will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects.	This risk stems from efforts to transition to a lower-carbon economy and possible regulatory and policy actions to reduce greenhouse gas emissions.

2.4 Information reported in general purpose financial reports

2.4.1 Financial statements





AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Effects on recognition and measurement	Entity F does not need to recognise the plant decommissioning and site restoration provision as it is immaterial.	<p>Consider the specific IFRS Accounting Standards – IAS 37.14</p> <p>Entity F shall recognise a provision for decommissioning the plant and restoring the site if the criteria in IAS 37.14 are met— there is a present obligation as a result of past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be measured reliably. However, as the amount becomes immaterial after considering the effect of discounting, recognition of the provision is not necessary.</p>
Disaggregated information	No requirement to provide disaggregated information when applying the requirements in IFRS Accounting Standards in the reporting period.	

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Related disclosures</p>	<p>Entity F discloses information about these obligations:</p> <ol style="list-style-type: none"> 1. A brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them; and 2. An indication of the uncertainties about the amount or timing of the outflows. The entity also discloses the major assumptions made concerning future events including assumptions about the future use of each of the entity's main facilities, e.g. when the entity expects to close the facilities. 	<p>Consider the specific IFRS Accounting Standards – IAS 37.85</p> <p>Although the plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of the provision, Entity F considers both quantitative and qualitative factors—including the following—when judging whether the disclosures would provide material information:</p> <ol style="list-style-type: none"> 1. <u>Size of the of the costs required to settle the obligations</u>: The costs of settling the obligations are high when considered in nominal (i.e. undiscounted) terms; 2. <u>The risk of early settlement</u>: The risk that the entity might be required to settle the obligations earlier than expected is significant and is increasing; 3. <u>External climate-related qualitative factors</u>: The industry and jurisdictions in which the entity operates (including the entity's market, economic, regulatory and legal environments) make the information about the obligations more likely to influence the decisions that primary users of the entity's financial statements make on the basis of the financial statements; 4. <u>Subjectivity or complexity of the judgements</u>: This high level of subjectivity and complexity about highly uncertain future events (over medium and long term) increases the risk that the assumptions might change due to new information or new developments; and 5. <u>Risk that developments in the next financial year might result in changes to the assumptions</u>: Frequent new climate-related market, economic, regulatory and legal developments increase the risk that the entity might have to review its assumptions within the next financial year (including assumptions about medium- and long-term uncertainties). <p>Accordingly, Entity F concludes that information about these obligations is material.</p> <p>Consider IAS 1.125 (and IAS 8.31A) - an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. That paragraph also requires disclosure of details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.</p> <p>Entity F should consider whether the costs and timing of settling the obligations could change within the next financial year and render the provision material. If that is the case, the relevant disclosures would be required. However, although this is subject to estimation uncertainty, the closure of the facilities is not expected to occur soon enough to make the provision material in the next financial year. Therefore, no additional disclosures are required.</p>

2.4.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Current financial effects</p>	<p>Entity E discloses how climate-related risks within its portfolios influence credit risk, details the actions it takes to manage the relevant credit risk, and discusses how such measures affect the calculation of ECL required by IFRS 9.</p>	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports are made on the basis of those reports.</p> <p>In making the judgement of whether the information of a relevant event is material, Entity F considers both quantitative and qualitative factors discussed above.</p> <p>For information about current financial effects that are already covered in the financial statements, cross-referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p>
<p>Anticipated financial effects</p>	<p>Entity E discloses its estimates of how climate-related risks affect these portfolios and their effect on credit risk in future years. Entity E also outlines the potential implications for ECL, including the influence of proposed mitigating actions and the relevant climate-related risk considerations.</p>	<p>The effect of the uncertainties of the timing of the closure of the facilities and its effect on the outflow of resources to decommission plant and restore the site needs to be discussed and reflected in the general purpose financial reports as it is expected to influence decisions of primary users.</p> <p>Consider IFRS S1.21(b)(ii) - An entity shall provide information in a manner that enables users of general purpose financial reports to understand the connections between disclosures provided by the entity: across its sustainability-related financial disclosures and other general purpose financial reports published by the entity —such as its related financial statements.</p>
<p>Other disclosures</p>	<p>Entity E outlines the steps it takes to identify significant portfolios affected by climate-related risks and describes the mitigation measures it develops. The disclosure also explains how these measures are embedded within the entity's broader credit risk management framework.</p>	<p>The connections between the uncertainties and assumptions regarding the timing of facility closures applied in the sustainability-related financial disclosures and financial statements need to be explained. Any significant differences must be disclosed and explained.</p> <p>Consider IFRS S2.29 - an entity shall disclose information relevant to the cross-industry metric.</p> <p>Entity F needs to ensure that the relevant plant is included in the calculation of the amount and percentage of assets or business activities vulnerable to climate-related transition risks. Additionally, the numbers used need be reconciled with the corresponding sections of the financial statements.</p>

3. Disaggregation

EXAMPLE 6: —DISCLOSURE OF DISAGGREGATED INFORMATION IN THE NOTES (ADAPTED FROM EXAMPLE IV-2 OF ILLUSTRATIVE EXAMPLES ACCOMPANYING IFRS 18)			
			
Some property, plant and equipment ('PP&E') of Entity G emits high amounts of greenhouse gas.	Investment has been made in alternative PP&E of the same class with lower emissions.	Use of the high-emission PP&E continues.	These two types of PP&E have significantly different vulnerabilities to climate-related transition risks. For example, possible future regulations to reduce greenhouse gas emissions or changes in consumer demands could affect these two types of PP&E in significantly different ways.

3.1 Information reported in general purpose financial reports

3.1.1 Financial statements

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
Effects on recognition and measurement	Although having two types of PP&E does not affect recognition and measurement, Entity G may need to review the residual values, useful lives, and recoverable amount of high-emission PP&E to ensure the carrying amount accurately reflects the effect of climate-related transition risks.	<p>Consider the specific IFRS Accounting Standards – IAS 16.51</p> <p>Entity G needs to revisit residual values and useful lives at each financial year end. The change in estimate as a result of climate-related transition risks may result in a change in the carrying amount of PP&E.</p> <p>Consider the specific IFRS Accounting Standards - IAS 36</p> <p>Possible future regulations to reduce greenhouse gas emissions or shifts in consumer demand may influence both the way and amount that Entity G will recover high-emission PP&E. These assumptions must be reflected in the measurement of the recoverable amount if these assets are tested for impairment as a result of indicators of impairment being present.</p>

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Disaggregated information</p>	<p>Entity G disaggregates information provided in the PP&E note between the two types of PP&E.</p>	<p>Consider the specific IFRS Accounting Standards – IFRS 18.41-42</p> <p>Entity G is required to disaggregate items based on characteristics that are not shared whenever the resulting information is material. Risks associated with an item is an example of characteristics to consider in accordance with the requirements of IFRS 18.B110.</p> <p>In making the judgement of whether the information of a relevant event is material, Entity F considers both quantitative and qualitative factors discussed above.</p> <ol style="list-style-type: none"> 1. <u>The PP&E's carrying amount</u>: The carrying amount of the two types of PP&E make up a large proportion of the entity's total assets; 2. <u>Significance of climate-related transition risks to the entity's operations</u>: The entity operates in an industry with a high degree of exposure to climate-related transition risks and those risks might significantly affect the way in which the entity will use each type of PP&E and recover their carrying amounts; and 3. <u>External climate-related qualitative factors</u>: The industry and jurisdictions in which the entity operates make the information more likely to influence the decisions that primary users of the entity's financial statements make based on the financial statements. <p>Therefore, Entity G needs to provide disaggregated information for these two types of PP&E because the resulting disaggregation provides material information.</p>
<p>Related disclosures</p>	<p>Entity G discloses the required information for both types of PP&E, including useful lives, the gross carrying amount, accumulated depreciation, and a reconciliation of the carrying amount at the beginning and end of the reporting period, among other necessary disclosures.</p>	<p>Consider the specific IFRS Accounting Standards – IAS 16.73</p> <p>Entity G needs to disclose the required information for the two types of P&PE in accordance with the requirements of IAS 16.73.</p>

3.1.2 Sustainability-related financial disclosures

AREAS	EFFECTS ON RECOGNITION, MEASUREMENT AND DISAGGREGATION/DISCLOSURES	CONSIDERATIONS
<p>Current financial effects</p>	<p>Entity G discloses the difference in climate-related transition risks for the two types of PP&E and explain their effect on residual values, useful lives, and recoverable amounts. Even if there is no effect on those items, Entity G should consider disclosure of that fact.</p>	<p>Consider IFRS S1.18 - information is material if omitting, misstating or obscuring that information could reasonably be expected to influence decisions that primary users of general purpose financial reports are made on the basis of those reports.</p> <p>In making the judgement of whether information about a relevant event is material, Entity G considers both quantitative and qualitative factors discussed above.</p>
<p>Anticipated financial effects</p>	<p>If climate-related transition risks do not affect the residual values, useful lives, or recoverable amounts of high-emission PP&E in the current year, Entity G should still consider potential future effects and provide an explanation.</p>	<p>For information about current financial effects that are already covered in the financial statements, cross-referencing can be used to highlight the connectivity between disclosures in the financial statements and the general purpose financial report.</p> <p>Given that Entity G has invested in alternative PP&E of the same class with lower emissions, and climate-related transition risks to its operations are considered significant in an industry sceptical about such risks, this information may influence the decisions of primary users and is therefore could be considered material.</p>
<p>Other disclosures</p>	<p>Entity G explains its strategy to manage the climate-related transition risks is to invest in alternative PP&E of the same class with lower emissions.</p>	<p>Consider IFRS S2.29 - an entity shall disclose information relevant to the cross-industry metric.</p> <p>Entity G needs to ensure that PP&E emitting significant amounts of greenhouse gases is included in the calculation of the amount and percentage of assets or business activities vulnerable to climate-related transition risks. Additionally, the numbers used need be reconciled with the corresponding sections of the financial statements.</p>



SECTION B – CLIMATE-RELATED DISCLOSURE CHECKLIST

IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
<p>IAS 1 <i>Presentation of Financial Statements</i> (IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>)</p>	<p>IAS 1.31 (IFRS 18.20): consider whether to provide additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users of financial statements to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.</p> <p>However, an entity need not provide a specific disclosure required by an IFRS Accounting Standard if the information resulting from that disclosure, is not material.</p>	<p>Specific IFRS Accounting Standards require disclosures when climate-related factors materially affect the recognition and measurement of assets, liabilities, income and expenses in financial statements.</p> <p>Even when climate-related risks and opportunities affect how entities operate, they may not directly affect the recognition and measurement of assets, liabilities, income, and expenses in financial statements. Consequently, specific IFRS Accounting Standards may not specifically require disclosure of these climate-related matters.</p> <p>Entities shall use judgement to determine whether a lack of understanding about climate-related events might affect decisions made by users of the financial statements. If this information is material, it must be disclosed.</p> <p>This judgement is usually affected by the nature of the industry and regulatory environment that the entities operate in, as well as the disclosures made about climate-related matters in the general purpose financial reports. For example, even if no impairment is identified based on the assumptions used to prepare financial statements, users of the financial statements might reasonably expect a clear explanation as to how the effects of climate risks have been considered in making this assessment, especially if climate-related transition risks are prominent in the general purpose financial reports. Similarly, if energy efficiency measures for investment properties are mentioned in the general purpose financial reports, users may reasonably expect an explanation of how these are factored into the fair value calculation for investment properties.</p> <p>The judgement would always be entity specific. The same matter may be considered as material for one entity but not for others. Users of carbon-intensive sectors, often seen as affected by the transition to net zero, may reasonably expect an explanation of why certain climate-related matters do not affect financial statements. In contrast, for industries that are not carbon-intensive, users of the financial statements might not expect such an explanation for the same matter.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Sustainability-linked financing ▶ Customer preferences ▶ Regulatory and legal pressures



IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
		<p>Entities must consider the overall disclosure in the annual report and evaluate whether additional disclosures outside of specific IFRS Accounting Standards are required to enable users of financial statements to understand the effect of particular transactions, other events and conditions on the entity's financial position and financial performance.</p>	
	<p>Example 1: Scenario 1 and Example 1: Scenario 2</p>		
	<p>IAS 1.122, 125 and 129 (IAS 8.27G, 31A and 31E): disclose significant judgements and estimates made in the process of applying the entity's accounting policies.</p>	<p>Judgements and estimates are significant when the risk of adjustment to carrying amounts of assets and liabilities in the subsequent periods is material.</p> <p>Changing regulatory requirements and accelerating physical effects of climate change may mean that the estimation uncertainty around judgements and estimates continues to increase. Where the climate-related judgements and estimates become significant, additional disclosures may be required when applying the requirements in IFRS Accounting Standards.</p> <p>Judgements and estimates that do not affect the current recognition and measurement of assets and liabilities should still be considered. If changes in these judgements and estimates could materially affect the carrying amounts in subsequent periods, they are likely material and warrant disclosure.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Sustainability-linked financing ▶ Customer preferences ▶ Regulatory and legal pressures
<p>Example 3</p>			
<p>IFRS 18 <i>Presentation and Disclosure in Financial Statements</i></p>	<p>IFRS 18.41-43: an entity shall disaggregate items based on characteristics that are not shared and disclose information in the notes that fulfils the role of the notes in providing material information.</p>	<p>Climate-related risks may cause the same line item in the financial statements to exhibit different characteristics. As a result, IFRS 18 may require these items to be disaggregated in the notes for disclosure purposes. Common examples of line items that may need to be disaggregated include:</p> <ol style="list-style-type: none"> 1. Revenue may need to be disaggregated, as different revenue streams may respond differently to climate-related risks. For example, a car dealership may need to distinguish between revenue from electric vehicles and revenue from traditional diesel vehicles, given that these two streams are affected differently by market preferences, regulatory changes, and other pressures to adopt greener practices; 	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Sustainability-linked financing ▶ Customer preferences



IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
		<p>2. An entity leasing properties in multiple locations may need to consider disaggregating properties located in areas prone to climate-related physical risks from those in areas not prone to such risks, as their fair values would likely be affected differently by climate-related factors; and</p> <p>3. PP&E with different emission levels may also need to be disaggregated. High-emission PP&E may be subject to reduced useful lives, residual values, and recoverable amounts due to climate-related risks, and therefore should be distinguished from PP&E that is not significantly affected by these risks.</p>	<ul style="list-style-type: none"> ▶ Regulatory and legal pressures
Example 6			
IAS 2 <i>Inventories</i>	IAS 2.36(a)-(c): disclose accounting policies, carrying amount, fair value less costs to sell of inventories.	<p>Carbon allowances obtained by an entity through emissions trading schemes or voluntary carbon markets with the intention of selling them to other market participants are often recognised as inventories.</p> <p>Disclosure of information about these carbon allowances similar to other inventories is required.</p>	<ul style="list-style-type: none"> ▶ Carbon prices
	IAS 2.36(e): disclose any write-down of inventories recognised as an expense in the period.	<p>Inventories are required to be measured at the lower of cost or net realisable value (NRV). Climate-related matters can affect both the selling price and the costs of inventory items and therefore could result in NRV write-downs or inventory obsolescence:</p> <ol style="list-style-type: none"> 1. Extreme weather events can damage inventories, reducing their NRV or causing a complete write-off; and 2. Businesses may need to switch to greener production materials due to decarbonisation commitments, consumer preferences or regulatory requirements. As a result of decreasing demand, the NRV of carbon-intensive inventories may reduce, resulting in write-downs. <p>While IAS 2 does not specifically require disclosure of the circumstances causing inventory impairment, if the decision of the primary users of the financial statements could reasonably be expected to be influenced—given the nature of the events, entity-specific factors, and industry considerations—then additional disclosure may be required by IAS 1.31 (see IAS 1.31 considerations above).</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Customer preferences ▶ Regulatory and legal pressures



IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
<p>IAS 10 <i>Events after the Reporting Period</i></p>	<p>IAS 10.19: update disclosures for information received after the reporting period about conditions that existed at the end of the reporting period.</p>	<p>Adjusting events are those events after the reporting period that provide evidence of conditions that existed at the end of the reporting period. Below is a typical adjusting event that arises as a result of climate-related matters:</p> <ol style="list-style-type: none"> 1. The effects of extreme weather events become clearer after the reporting period, especially when these occur shortly before the end of the reporting period. This may affect areas like going concern, asset values (value in use), ECL, etc. <p>Adjusting events may result in changes to the recognition or measurement of relevant financial statements areas.</p> <p>Disclosures of the relevant areas need to be updated to reflect the new information.</p>	<ul style="list-style-type: none"> ▶ Physical risks
	<p>IAS 10.21: disclose information about non-adjusting events occurring after the reporting period that are material if non-disclosure could reasonably be expected to influence decisions of primary users.</p>	<p>Non-adjusting events are those events after the reporting period that are indicative of conditions that arose after the reporting period. Typical non-adjusting events as a result of climate-related matters include:</p> <ol style="list-style-type: none"> 1. The extreme weather events that occur after the reporting period; 2. The capital investment in energy efficient equipment and its effect on existing equipment of the entity; and 3. The introduction of new government legislation or the launch of new government incentive programmes in relation to climate-related matters. <p>If these events could reasonably be expected to influence decisions of primary users, the nature of the events and an estimate of their financial effects should be disclosed.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Regulatory and legal pressures
<p>IAS 12 <i>Income Taxes</i></p>	<p>IAS 12.82: disclose information about the nature of the evidence supporting the recognition of a deferred tax asset when its utilisation is in doubt (see criteria in IAS 12.82(a)-(b)).</p>	<p>Reduction in future profits may trigger the disclosure requirements of IAS 12.82, which requires disclosure of the amount of a deferred tax asset and the evidence supporting its recognition when:</p> <ol style="list-style-type: none"> a. the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and b. the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates. 	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Sustainability-linked financing



IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
		<p>Climate-related matters may have an effect on the profitability of entities.</p> <ol style="list-style-type: none"> 1. Extreme weather events may cause disruption to business operation and its supply chain, thereby reducing the profits of entities; 2. Change in consumer preferences to greener products may reduce revenues for carbon-intensive products and lead to the inventories being written off; 3. Carbon offsets and introduction of new regulations may increase the costs of operations of certain industries and/or in certain jurisdictions; and 4. Entering into financial instruments with sustainability covenants may affect cost of finance in the future. 	<ul style="list-style-type: none"> ▶ Customer preferences ▶ Regulatory and legal pressures
<p>IAS 16 <i>Property, Plant and Equipment</i></p>	<p>IAS 16.76: disclose the nature and effect of change in accounting estimates with respect to residual values, useful lives and estimated cost of dismantling, removing or PP&E.</p>	<p>Entities need to consider relevant climate-related factors when determining the useful life and residual values at initial recognition and during the annual review of these estimates.</p> <p>The timing and estimated cost of dismantling and removing PP&E may change as a result of climate-related matters, which triggers the change in decommissioning provisions, and the estimates of useful life and residual value of PP&E.</p> <p>Examples of relevant climate-related matters that may have an effect on useful lives, residual values and/or decommissioning provision include, but are not limited to:</p> <ol style="list-style-type: none"> 1. Entity's decarbonisation strategy or transition plans: for example, commitments to replace existing fleet with electrical vehicles, or to phase out some of the carbon-intensive equipment to achieve reduction in GHG emissions; 2. Introduction of legislation that would require early closure of carbon-emitting assets (for example in oil & gas sector); and 3. Shift in customer demand/preferences to more environmentally friendly/sustainable goods and services may affect the residual value estimates for carbon-intensive PP&E. <p>If there are any changes to residual values, useful lives, or decommissioning provisions of PP&E as a result of climate-related factors, the nature of these factors causing these changes and their effects or expected effects on current or future periods must be disclosed.</p>	<ul style="list-style-type: none"> ▶ Decarbonisation targets, commitments and transition plans ▶ Customer preferences ▶ Regulatory and legal pressures



IFRS ACCOUNTING STANDARDS	DISCLOSURE / PRESENTATION REQUIREMENT	CONNECTIVITY CONSIDERATIONS – WHEN ADDITIONAL DISCLOSURES IN THE FINANCIAL STATEMENTS ARE REQUIRED	RELEVANT RISKS/ OPPORTUNITIES
<p>IAS 20 <i>Accounting for Government Grants and Disclosure of Government Assistance</i></p>	<p>IAS 20.39: disclose accounting policies for government grants including presentation, the nature and extent of government grants recognised and unfulfilled conditions and other contingencies related to government assistance that has been recognised.</p>	<p>There are various types of government support to assist businesses with a switch to greener operations. Businesses need to consider whether the support from the government fulfils the definition of government grants in accordance with the requirements of IAS 20.</p> <p>Compliance with the conditions attached to the grant and unfulfilled conditions may be a significant judgement to determine if such government grants can be recognised. Disclosures are required to assist users to understand the basis of the decision.</p> <p>IAS 20 permits two presentation methods for both grants related to assets and income. Entities need to disclose the adopted accounting policy and presentation methods.</p> <p>One typical form of government grant is free carbon allowances granted to some high emitting sectors as part of Emission Trading Schemes. Such allowances will be reduced over time with the target to reduce the emissions in these sectors gradually. Usually this is recognised and disclosed as grants related to assets.</p>	<ul style="list-style-type: none"> ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Regulatory and legal pressures
<p>IAS 36 <i>Impairment of Assets</i></p>	<p>IAS 36.126-130(d): disclose the amount of impairment recognised or reversed with the events and circumstances that lead to that and the nature or description of the relevant assets or CGU.</p> <p>IAS 36.130 (e)-(g): disclose information about the recoverable amount, such as fair value level, valuation techniques (for level 2/3 fair value), assumptions (for level 2/3 fair value) and discount rates.</p> <p>IAS 36.134-135: extensive disclosure of key assumptions, growth rate, discount rates, valuation techniques etc. that are relevant to the</p>	<p>Where climate-related matters may significantly affect the entity's operations, it may be necessary to disclose how this has been factored into the calculations of the recoverable amount.</p> <p>Switching to eco-friendly materials or buying carbon allowances to meet emission targets might affect cost assumptions in cash flow forecasts in recoverable amount calculations. On the opposite side, some of the decarbonisation measures may also create energy efficiencies that reduce operating costs.</p> <p>Climate-related factors could affect the medium or long-term cash flows of businesses. For instance, industries facing upcoming regulatory restrictions, holding physical assets in areas vulnerable to rising sea levels or in flood-prone regions might face cash flow reduction in the future. This means that instead of using a single terminal growth rate, adjustment may need to be incorporated to reflect the potential change in the extrapolation of cash flow forecasts. All effects need to be taken into consideration when measuring the recoverable amount.</p> <p>In determining the cash flows used to calculate the recoverable amount, climate-related factors may heighten the uncertainty of forecasted cash flows. Therefore, rather than relying</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Regulatory and legal pressures



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	<p>measurement of recoverable amounts of CGUs containing goodwill or intangible assets with indefinite useful lives.</p> <p>Disclose current headroom of recoverable amount over carrying amount, values assigned to key assumptions and changes to key assumptions for recoverable amount to match the carrying amount if a reasonably possible change in key assumptions would make carrying amount exceed recoverable amount (sensitivity disclosures).</p>	<p>on a single 'most likely' cash flow, it may be more appropriate in some circumstances to use probability-weighted cash flows encompassing all plausible scenarios.</p> <p>Disclosures are required when an impairment loss has been recognised or reversed in the current period (IAS 36.130), or when CGUs contain a significant amount of goodwill or intangible assets with indefinite useful lives (IAS 36.134). If a reasonable change in the key assumptions for the recoverable amount of CGUs with a significant amount of goodwill or intangible assets with indefinite useful lives would result in an impairment loss, additional information as specified by IAS 36.134(f) must be disclosed.</p> <p>Entities need to consider both IAS 36 and IAS 1 to determine disclosures required for various impairment scenarios, as illustrated in example 2 and example 3 of Section A. These two examples also outline the potential disclosures that may be needed in the general purpose financial reports to achieve connectivity.</p>	
<p>Example 2 and Example 3</p>			
<p>IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i></p>	<p>IAS 37.85: disclose information about provisions, including i) a description, ii) an indication of the uncertainties about the timing or amount of any resulting outflows and iii) the amount of any expected reimbursement.</p>	<p>Climate-related matters may affect provisions in certain areas.</p> <ol style="list-style-type: none"> 1. Climate-related legislation requiring payment for wastage, recycling, emissions allowances under mandatory schemes, etc. may give rise to a present obligation, resulting in recognition of provisions; 2. Climate-related risks adversely affecting future revenues and/or costs may turn some of the contracts into onerous contracts, where provision would be required; and 3. Changes in the timing and amount of asset retirement/decommissioning obligations and business restructuring due to climate change may give rise to or alter the relevant provisions. <p>The above factors may affect the recognition of provisions and the estimation of the timing and amount of future cash outflows of existing provisions. Given the climate change uncertainties, entities should include disclosures to help primary users of the financial</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Regulatory and legal pressures



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		<p>statements understand and evaluate the assumptions and judgements made in recognition and measurement of provisions.</p> <p>The amount of outflow and timing of relevant events are usually the key determinants in climate-related provisions recognition and measurement. Disclosures of these elements need to be clear and with sufficient detail for users to understand and evaluate the assumptions and judgements involved.</p>	
Example 5			
	<p>IAS 37.86: disclose a description of the nature of a contingent liability including an estimate of its financial effect, the uncertainties relating to the amount or timing of any outflow and the possibility of any reimbursement.</p>	<p>Climate-related legal disputes, for example compensation for contamination or other environmental damage, that are still awaiting court decisions may create a possible obligation; if such events create a present obligation but it is not probable that outflows will be required for settlement or the amount cannot be measured reliably, contingent liabilities may need to be disclosed.</p> <p>The disclosure requirements are similar to provisions. It is important to disclose the underlying assumptions and judgements that determine the amount and timing to allow users to evaluate the uncertainties.</p>	<ul style="list-style-type: none"> ▶ Decarbonisation targets, commitments and transition plans ▶ Regulatory and legal pressures
<p>IAS 38 <i>Intangible Assets</i></p>	<p>IAS 38.118: disclose useful life, amortisation method, gross carrying amount and a reconciliation for each class of intangible assets.</p>	<p>Carbon allowances obtained by an entity to offset its emission may be recognised as intangible assets.</p> <p>A common example are emissions allowances granted by a government in an emissions trading scheme ('ETS'), which may result in the recognition of intangible assets.</p> <p>Disclosures of information about these carbon allowances, similar to other intangible assets, are required.</p>	<ul style="list-style-type: none"> ▶ Carbon prices
	<p>IAS 38.126: disclose research and development expenditure recognised as expenses during the period.</p>	<p>Research and development ('R&D') costs are spent to develop new products, technology or production facilities to produce more environmentally friendly products or reduce carbon emission during production.</p> <p>Costs that are directly attributable to R&D activities may be recognised as an expense as incurred or capitalised depending on the nature of the expenses and the stage of the R&D process.</p>	<ul style="list-style-type: none"> ▶ Decarbonisation targets, commitments and transition plans ▶ Customer preferences ▶ Regulatory and legal pressures



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		<p>Disclosure is required to be made for R&D expenses recognised during the financial period.</p> <p>Although IAS 38 does not specifically require disclosure of the reasons for changes in R&D expenses, if users of the financial statements would reasonably expect such an explanation—in light of the entity’s climate-related transition plan and industry environment—additional disclosure may be required by IAS 1.31 (see IAS 1.31 considerations above).</p>	
<p>IAS 40 <i>Investment Property</i></p>	<p>For investment properties accounted for in accordance with the fair value model, see disclosure requirements for recurring fair value measurements (IFRS 13 below).</p>	<p>Climate-related matters may significantly affect the measurement of investment property accounted for using the fair value model.</p> <p>Local energy efficiency regulations or consumer preferences towards more environmental-friendly properties may affect the fair value of properties that do not meet expected energy efficiency standard.</p> <p>Physical risks of climate change may affect the properties directly (i.e. damage from extreme weather events) or indirectly (e.g. increasing cost of insurance cover for high risk areas or higher maintenance costs).</p> <p>The fair value of properties with high exposure to physical risks will need to reflect the level of associated risks as well as any energy efficiency improvement CAPEX programs.</p> <p>IFRS 13 sets out different disclosure requirements for the three fair value hierarchies. Level 3 demands the most extensive disclosures. Climate-related matters increase uncertainties in measuring property values. These uncertainties often lead to a greater reliance on unobservable inputs in fair value measurement. As a result, more properties might fall into level 3, requiring comprehensive disclosure in financial statements.</p>	<ul style="list-style-type: none"> ▶ Physical risk ▶ Customer preferences ▶ Regulatory and legal pressures
<p>IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i></p>	<p>IFRS 5.33: present a single amount in the statement of comprehensive income for a discontinued operation and disclose an analysis of the single amount in the notes (e.g. revenue, expenses, etc. comprising the single amount).</p>	<p>Businesses may consider switching to greener assets for operation or restructuring businesses to focus on new environmentally friendly products. Some activities and business units may become a discontinued operation, or some assets may need to be reclassified to held for sale assets. Entities need to make sure the criteria for discontinued operation and held for sale assets are met and relevant disclosures are provided.</p>	<ul style="list-style-type: none"> ▶ Decarbonisation targets, commitments and transition plans ▶ Customer preferences



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	<p>IFRS 5.41: for a non-current asset (or disposal group) that has been classified as held for sale or sold in a period, disclose description of the assets, facts and circumstances of the sale, the gain or loss recognised if not separately presented in the statement of comprehensive income and the reportable segment.</p>		
<p>IFRS 7 <i>Financial Instruments: Disclosures</i></p>	<p>IFRS 7.8: the carrying amounts of each category of financial assets and liabilities (FVTPL, amortised costs and FVOCI) shall be disclosed.</p>	<p>It has become more common for financial instruments to include sustainability covenants (e.g. bank loans with environmental requirements, such as greenhouse gas emission caps). These covenants may link contractual cash flows to the achievement of climate-related targets, helping lenders meet their climate change goals. For example, a loan that adjusts the interest rate based on the borrower's carbon emissions. The sustainability covenants may affect whether the contractual cash flows meet the 'solely payment of principal and interest' ('SPPI') test for lenders.</p> <p>For borrowers, the sustainability covenants may result in the recognition of an embedded derivative depending on the specific facts and circumstances. This affects the classification and measurements of the financial instruments and therefore, the relevant disclosure.</p>	<ul style="list-style-type: none"> ▶ Sustainability-linked financing
	<p>IFRS 7.35A-38: disclose quantitative and qualitative information about the entity's exposure to credit risk and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.</p>	<p>Climate risks and opportunities affect the financial conditions of borrowers and the wider macroeconomic environment, which may affect the assumptions and estimates used in the ECL calculation. How climate-related factors affect ECL calculation, sensitivity analysis and limitation of the current calculation should be explained clearly in the credit risk section to allow readers to understand the nature and extent of effect of climate change. For example, when a significant portion of mortgage collateral is located in areas prone to physical climate risks, it may significantly affect the ECL calculation. Accordingly, IFRS 7.35 requires the relevant inputs and assumptions for the collateral shall be disclosed.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Customer preferences



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		<p>Disclosure on concentration of industries or geographical areas may become relevant because risks to the financial assets may be increased if they are concentrated in industries or geographical areas that are significantly affected by climate-related matters.</p>	<ul style="list-style-type: none"> ▶ Regulatory and legal pressures
	<p>Example 4</p>		
	<p>IFRS 7.39: disclose quantitative and qualitative information about the entity's exposure to liquidity risk and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.</p>	<p>Some sustainability covenants may change the repayment terms and/or principal amount if the carbon emissions target is not met. This may have an effect on the contractual maturities of financial liabilities in the liquidity risk disclosures.</p> <p>Depending on the magnitude of the effect, qualitative information, such as an explanation of how sustainability covenants affect liquidity risk of the entity may need to be provided as well.</p>	<ul style="list-style-type: none"> ▶ Sustainability-linked financing
<p>IFRS 7.40-42: disclose quantitative and qualitative information about the entity's exposure to market risk (e.g. currency, interest rate and other price risk) and its objectives, policies and processes for managing risk including any changes in exposure or policy from the previous period.</p>	<p>As mentioned above, interest rates of loans may be adjusted based on borrower's progress with carbon emissions targets or other sustainability key performance indicators ('KPIs'). This may affect interest rate risk and needs to be reflected in interest rate risk disclosure.</p> <p>Entities with investments in a company that owns hotels in holiday locations prone to rising sea levels may need to sensitise these climate factors in its price risk of investments.</p> <p>Qualitative information, such as an explanation of how sustainability covenants affect interest rate risk and how climate-related factors are incorporated into investment valuations, including sensitivities, should also be disclosed.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Sustainability-linked financing ▶ Customer preferences 	



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<p>IFRS 8 <i>Operating Segments</i></p>	<p>IFRS 8.20: an entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.</p> <p>IFRS 8.21: an entity shall disclose general information, profit or loss and reconciliations of different financial information of the reporting segments (IFRS 8.22-30).</p>	<p>The disclosure of operating segments is subject to quantitative rules (IFRS 8.13-15). The effect of climate-related risks and opportunities may result in adjustment to the number of operating segments reported and which operating segments are disclosed as size and/or composition of operating segments may change. Below are common scenarios to consider:</p> <ol style="list-style-type: none"> 1. The size of businesses in different locations may change due to climate risks and opportunities for international business, leading to changes in operating segments that require disclosures. For example, an oil and gas company may reduce its operation in countries with stringent environmental protection regulation to those with less developed regulations. This may alter the operating segments that require disclosures if they are aggregated based on geography; and 2. The types of goods or services offered by entities may change to accommodate customers' preference or legislation requirements, resulting in changes in operating segments that require disclosures if they are aggregated based on product types. For example, a car dealership may need to consider adding electric vehicles as one of the revenue streams that should be disaggregated due to an increase in the sale of this type of vehicles. 	<ul style="list-style-type: none"> ▶ Physical risks ▶ Customer preferences ▶ Regulatory and legal pressures
<p>IFRS 13 <i>Fair Value Measurement</i></p>	<p>IFRS 13.91-99: disclose information about fair value measurement in financial statements, including significant assumptions, valuation techniques, inputs used, sensitivity of the fair value measurement to unobservable inputs, etc.</p>	<p>Various IFRS Accounting Standards require fair value measurement, including those that permit or require recurring fair value measurement (e.g. IAS 16, IAS 40, IFRS 9, etc.).</p> <p>When climate-related factors are incorporated into fair value measurements, these often require significant judgement, resulting in an increased estimation uncertainty and potential need for enhanced transparency in disclosures.</p> <p>Climate-related matters may directly affect the underlying financial and non-financial assumptions and inputs, thereby affecting fair value. Even if these events do not affect the relevant assumptions and inputs directly, they may increase the volatility in these assumptions and inputs, which may result in significant adjustments to disclosures of unobservable inputs and valuation techniques used to estimate fair value. This is particularly important for the Level 3 fair value hierarchy because of the extensive disclosure requirements for this category.</p>	<ul style="list-style-type: none"> ▶ Physical risks ▶ Decarbonisation targets, commitments and transition plans ▶ Carbon prices ▶ Customer preferences ▶ Regulatory and legal pressures



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		<p>Example of assumptions or inputs that may be affected by climate-related matters include:</p> <ol style="list-style-type: none"> 1. Revenue, earnings, EBITDA forecast; 2. Cash flow scenarios and probability applied; 3. Discount rate and terminal growth rate; and 4. Market multiples. 	
<p>IFRS 15 <i>Revenue from Contracts with Customers</i></p>	<p>IFRS 15.114: an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.</p>	<p>Climate risks and opportunities may affect business models, which may affect the sources of revenue of entities, and in turn, how revenue is disaggregated in disclosures.</p> <ol style="list-style-type: none"> 1. The size of businesses in different locations may change due to climate-related matters for international business, leading to changes in disaggregation. For example, an oil and gas company may reduce its operation in countries with stringent environmental protection regulation to those with less developed regulation, leading to a shift in revenue geographically; 2. The types of goods or services offered by entities may change to accommodate customers' preference or legislation requirements, resulting in changes in disaggregation. For example, a car dealership may need to consider adding electric vehicles as one of the revenue streams that should be disaggregated due to an increase in demand driven by incentive schemes for these types of vehicles; and 3. Some products/services may be adversely affected by physical effects as a result of climate change. For example, the intensified hurricanes in Caribbean countries may significantly reduce the number of tourists staying in the hotels in the region. Therefore, hotel companies with significant operations in the area may need to disaggregate revenue from the region to reflect the different risk characteristics. 	<ul style="list-style-type: none"> ▶ Physical risks ▶ Customer preferences ▶ Regulatory and legal pressures

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IFRS 17 <i>Insurance Contracts</i>	IFRS 17.93: an entity shall disclose qualitative and quantitative information to explain the recognised amount, significant judgements, changes in judgements and, nature and extent of risks from contracts within the scope of IFRS 17.	Climate-related factors may need to be considered when calculating the liability for incurred claims. Although the individual effects of climate-related factors may not be material, disclosure will be required if they contribute to significant judgements or estimates due to increases in the frequency or magnitude of insured events.	► Physical risks

Contact

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