ICAEW KNOW-HOW

FINANCIAL REPORTING FACULTY

IFRS Standards and climate-related disclosures

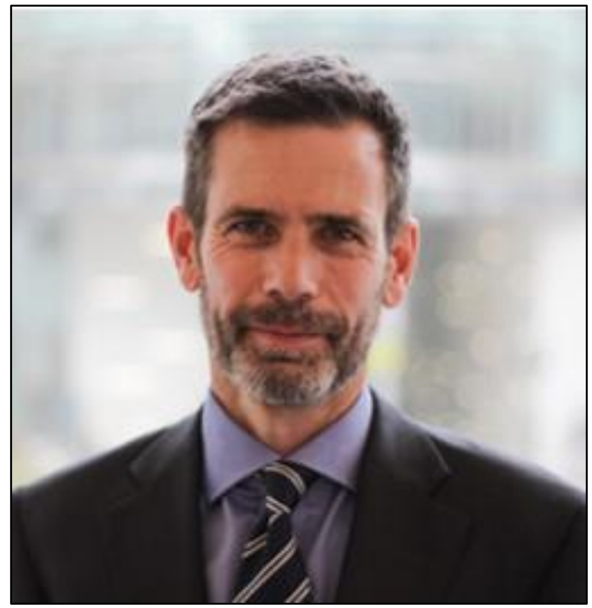
10 JULY 2020

This webinar will commence shortly ……

Introduction

Sally Baker
Technical Manager
ICAEW

Nick Anderson
International Accounting
Standards Board member



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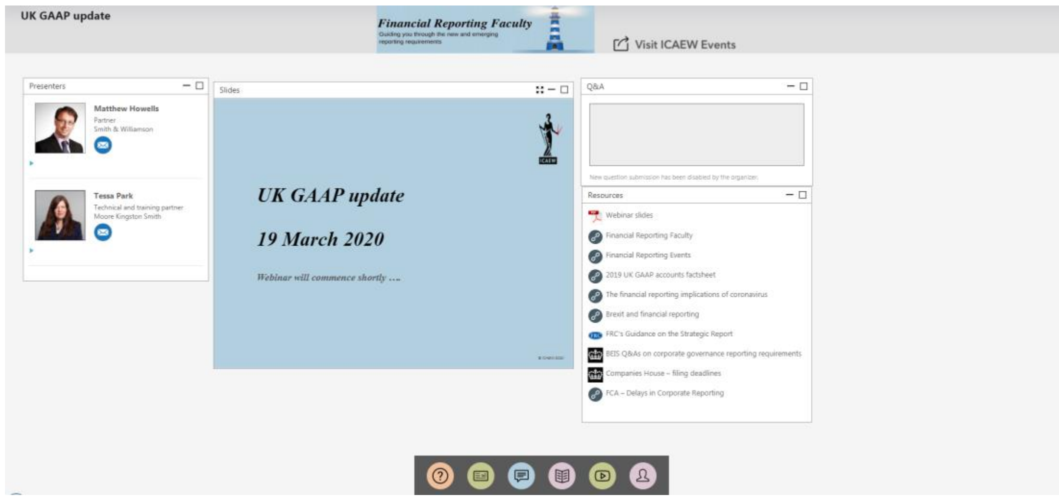

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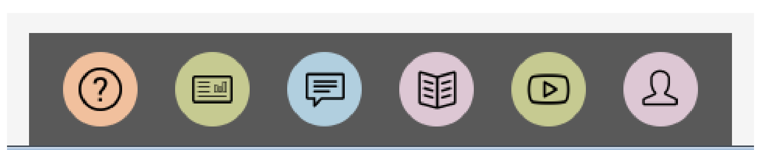
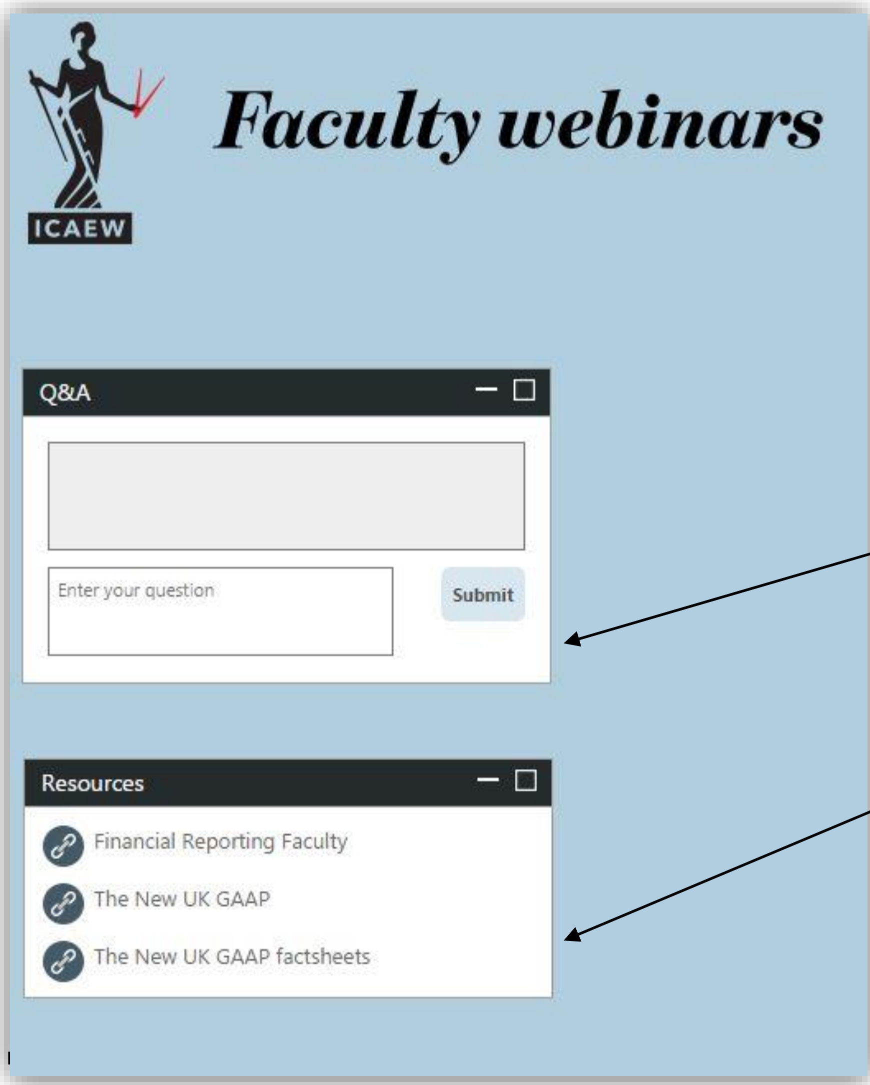


Ask a question and access resources



Audio problems?

- Ensure your volume is turned on
- If you experience poor sound quality try refreshing your page.

Ask a question
Type your question into the box, then click submit.

Download resources
Access related resources, including the presentation slides

Climate change?

Revenue	16,500
Changes in inventories of finished goods and work in progress	(1,000)
Raw material and consumables used	(6,000)
Employee benefits expense	(4,000)
Amortisation expense	(800)
Depreciation expense	(1,200)
Impairment of property, plant and equipment	(500)
Operating profit*	**3,000**
Share of profit of **integral** JVs and associates	500
Operating profit and share of profit or loss of integral associates and JVs*	**3,500**
Changes in the fair value of financial assets	250
Dividend income	50
Share of profit of **non-integral** JVs and associates	100
Profit before financing and income tax*	**3,900**
Interest income from cash and cash equivalents	100
Expenses from financing activities	(1000)
Unwinding of discount on pension liabilities and provisions	(100)
Profit before tax	2,900

Operating

Integral associates and JVs

Investing

Financing

*Proposed new sub-total for general corporates

2015 Agenda Consultation

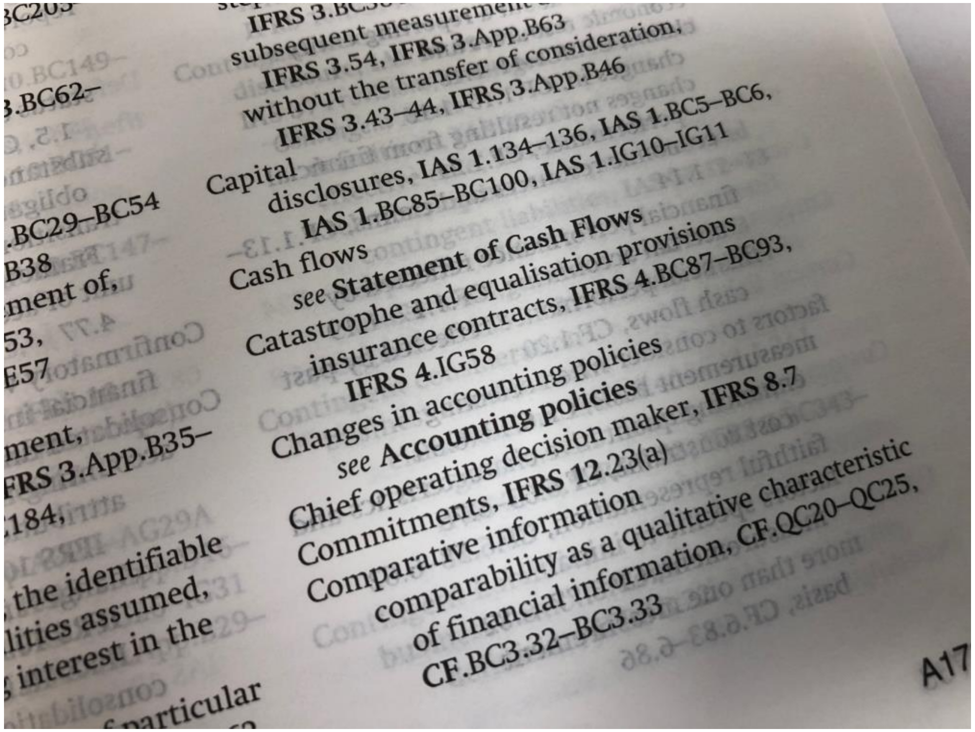
“Climate risks should be included in the IASB’s Agenda

We are writing to request that the IASB include a project on accounting for climate risks in its proposed work agenda. Specifically, we believe there is a need to assess whether companies’ exposure to: 1) increasingly stringent climate-related regulations, and 2) the physical impacts from climate change could result in foreseeable losses / impairments / liabilities that should be reflected in companies’ financial statements.”

Institutional Investor, January 2016

IFRS Standards and climate change

- IFRS Standards are principles based.
- Although “climate change” is not covered explicitly by our requirements……
- ……… the Standards do address issues related to climate and other emerging risks.
- Article published to help analysts and investors better understand our requirements and our guidance on the application of materiality.



IFRS Standards & climate-related disclosures

November 2019

In Brief

IFRS® Standards and climate-related disclosures

Nick Anderson

Climate-change is a topic on which investors and other stakeholders increasingly ask the International Accounting Standards Board (Board), why this is not mentioned explicitly in IFRS Standards.

In this update, Nick Anderson, a member of the Board, provides an overview intended to help investors understand what already exists in the current requirements and guidance on the application of materiality, and how it relates to climate and other emerging risks. While climate-change risks and other emerging risks are not covered explicitly by IFRS Standards, the Standards do address issues that relate to them.

This article has been inspired by work from the Australian Accounting Standards Board (AASB) and Audit and Assurance Board (AUASB).

What is this publication about?

The International Accounting Standards Board (Board) is often asked why IFRS Standards don't mention climate change. While the phrase 'climate-change' does not feature in our requirements, IFRS Standards do address issues that relate to climate-change risks and other emerging risks. The Board is also updating its non-mandatory guidance on management commentary, where it would expect companies to address material environmental and societal issues, complementing the information in financial statements.

In April 2019 the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) issued a joint bulletin, 'Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2'[1]. The focus of that publication was to illustrate how qualitative external factors, such as the industry in which the company operates, and investor expectations may make such risks 'material' and warrant disclosures in the financial statements, regardless of their numerical impact.

Taking inspiration from the joint AASB-AUASB bulletin, we have prepared this publication to help analysts and investors better understand our requirements and our guidance on the application of materiality.

In the rest of this document we discuss:

1. Board guidance on how to make materiality judgements
2. applying IFRS Practice Statement 2 *Making Materiality Judgements* to climate-related and emerging risks
3. financial reporting considerations when applying IFRS Standards
4. disclosing climate-related and other emerging risks in the financial statements
5. management commentary: providing context to the financial statements
6. summary: materiality judgements should serve investors' information needs

IFRS

1 https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASBJointBulletin.pdf

- Board guidance on how to make materiality judgements
- Applying IFRS Practice Statement 2 *Making Materiality Judgements* to climate-related and emerging risks
- Financial reporting considerations when applying IFRS Standards
- Disclosing climate-related and other emerging risks in the financial statements
- Management commentary: providing context to the financial statements

https://www.ifrs.org/news-and-events/2019/11/nick-anderson-ifrs-standards-and-climate-related-disclosures/

IFRS

Financial reporting considerations

IFRS Standards that could require companies to consider climate-related and other emerging risks when making materiality judgements about what to recognise in the financial statements and about what to disclose in the notes include –

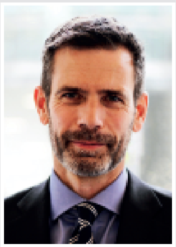
- IAS 1 *Presentation of Financial Statements*
- IAS 36 *Impairment of Assets*
- IAS 16 *Property, Plant and Equipment*
- IAS 38 *Intangible Assets*
- IFRS 13 *Fair Value Measurement*
- IFRS 9 *Financial Instruments*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Key messages

November 2019

In Brief

IFRS® Standards and climate-related disclosures



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6. summary: materiality judgements should serve investors' information needs

1 https://www.aasb.gov.au/admin/file/content102/c3/AASB_AUASB_Joint_Bulletin.pdf

While users of financial statements need companies to make materiality judgements, materiality is defined through the user prism.

The application of judgement requires an assessment of materiality to be made on the basis of size and nature, or a combination of both.

Disclosures in other documents will not compensate for the omission of required disclosures in the financial statements.

Defining materiality: Primary users

IAS 1 *Presentation of Financial Statements*

Information is material if omitting, misstating or obscuring it **could reasonably be expected to influence decisions that the primary users** of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The Conceptual Framework for Financial Reporting

Many **existing and potential investors, lenders and other creditors** cannot require reporting entities to provide information directly to them and must rely on general purpose financial reports for much of the financial information they need. Consequently, they **are the primary users** to whom general purpose financial reports are directed.

Financial reports are prepared for users who have a **reasonable knowledge** of business and economic activities and who **review and analyse the information diligently**.

Making Materiality Judgements

IFRS Practice Statement 2, Example C

Example illustrating—materiality judgements that lead to the disclosure of information in addition to the specific disclosure requirements in IFRS Standards
Background An entity has its main operations in a country that, as part of an international agreement, is committed to introducing regulations to reduce the use of carbon based energy. The regulations had not yet been enacted in the national legislation of that country at the end of the reporting period. The entity owns a coal fired power station in that country. During the reporting period, the entity recorded an impairment loss on its coal fired power station, reducing the carrying amount of the power station to its recoverable amount. No goodwill or intangible assets with an indefinite useful life were included in the cash generating unit. **Application** Paragraph 132 of IAS 36 *Impairment of Assets* does not require an entity to disclose the assumptions used to determine the recoverable amount of a tangible asset, unless goodwill or intangible assets with an indefinite useful life are included in the carrying amount of the cash generating unit. Nevertheless, the entity has concluded that the assumptions about the likelihood of national enactment of regulations to reduce the use of carbon based energy, as well as about the enactment plan, it considered in measuring the recoverable amount of its coal fired power station could reasonably be expected to influence decisions primary users make on the basis of the entity's financial statements. Hence, information about those assumptions is necessary for primary users to understand the impact of the impairment on the entity's financial position, financial performance and cash flows. Therefore, even though not specifically required by IAS 36, the entity concludes that its assumptions about the likelihood of national enactment of regulations to reduce the use of carbon based energy, as well as about the enactment plan, constitute material information and discloses those assumptions in its financial statements.

Defining materiality: Nature or magnitude

IAS 1 *Presentation of Financial Statements*

Materiality **depends on the nature or magnitude of information, or both.** An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

IFRS Practice Statement 2: Making Materiality Judgements

Example K

An international bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other international banks that operate in the same sector as the entity hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country.

The bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

Making Materiality Judgements

IFRS Practice Statement 2, Example K

Example illustrating—influence of external qualitative factors on materiality judgements
Background An international bank holds a very small amount of debt originating from a country whose national economy is currently experiencing severe financial difficulties. Other international banks that operate in the same sector as the entity hold significant amounts of debt originating from that country and, hence, are significantly affected by the financial difficulties in that country. **Application** Paragraph 31 of IFRS 7 *Financial Instruments: Disclosures* requires an entity to disclose information that enables users of its financial statements to evaluate the nature and extent of risk arising from financial instruments to which the entity is exposed at the end of the reporting period. When preparing its financial statements, the bank assessed whether the fact that it holds a very small amount of debt originating from that country was material information. In making that assessment, the bank considered the exposure to that particular debt faced by other international banks operating in the same sector (external qualitative factor). In these circumstances, the fact that the bank is holding a very small amount of debt (or even no debt at all) originating from that country, while other international banks operating in the same sector have significant holdings, provides the entity's primary users with useful information about how effective management has been at protecting the bank's resources from unfavourable effects of the economic conditions in that country. The bank assessed the information about the lack of exposure to that particular debt as material and disclosed that information in its financial statements.

TFCD

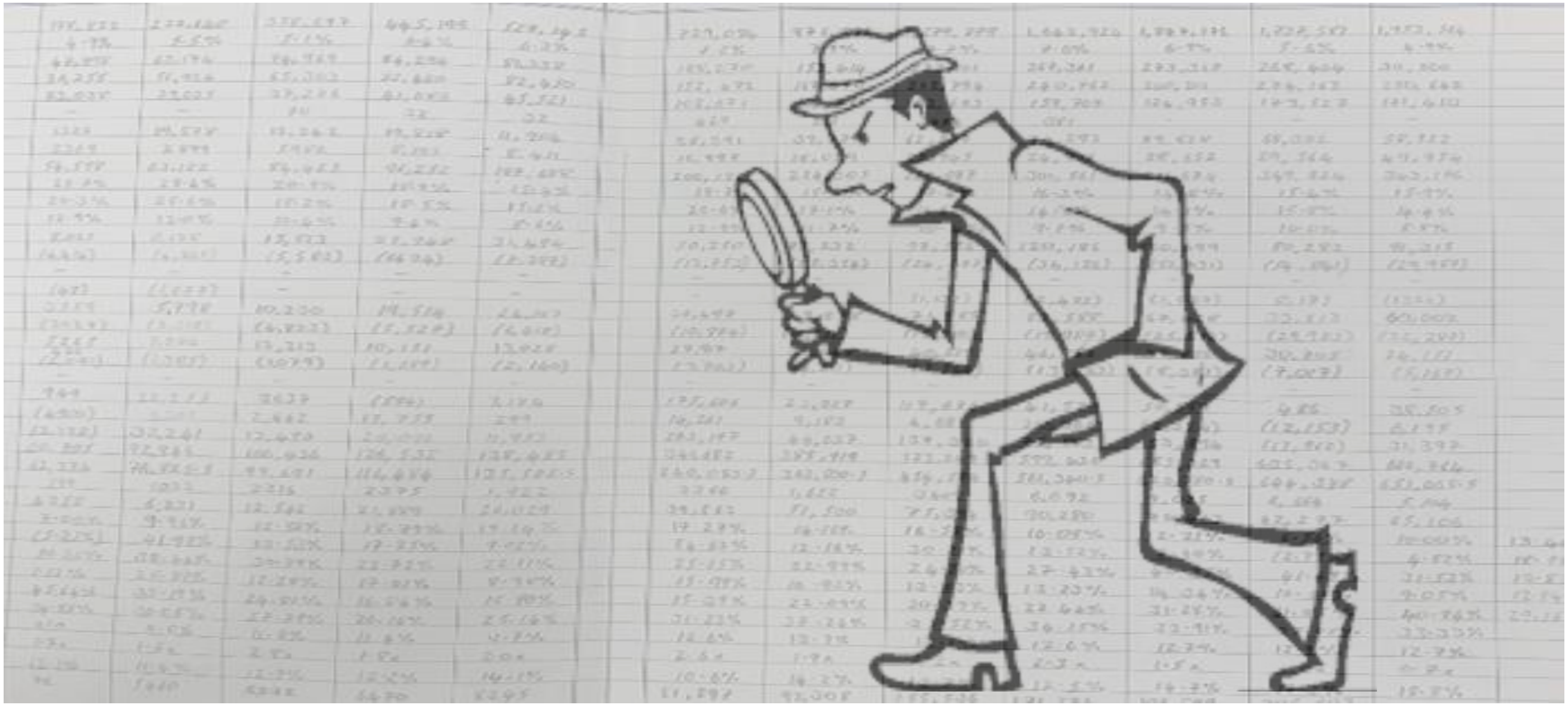
“Increasing transparency makes markets more efficient, and economies more stable and resilient.” Michael R. Bloomberg, Chair

The Task Force on Climate-related Financial Disclosures identifies the following types of company that are likely to be affected by climate-related risks:

Financial sectors	Non-financial sectors
Banks	Energy
Insurance groups	Transportation
Asset owners	Materials and Buildings
Asset managers	Agriculture, Food, and Forest Products

TCFD | TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

Investment analysis



Investor perspective

Climate Action 100+
Global Investors Driving Business Transition

Climate Action 100+ Sign-on Statement

- Sets out the investor signatories' commitment and expectations of the companies
- Signed by more than 450 investors who collectively manage more than USD $40 trillion in assets under management

https://climateaction100.wordpress.com/investor

"We, the institutional investors that are signatories to this statement, are aware of the risks climate change presents to our portfolios and asset values in the short, medium and long term. We therefore support the Paris Agreement and the need for the world to transition to a lower carbon economy consistent with a goal of keeping the increase in global average temperature to well below 2 degrees Celsius above pre-industrial levels."

Other initiatives

- Recent article by Teresa Ko, IFRS Foundation Trustee

  https://www.ifrs.org/news-and-events/2020/05/sustainability-reporting-and-its-relevance-to-the-ifrs-foundation/

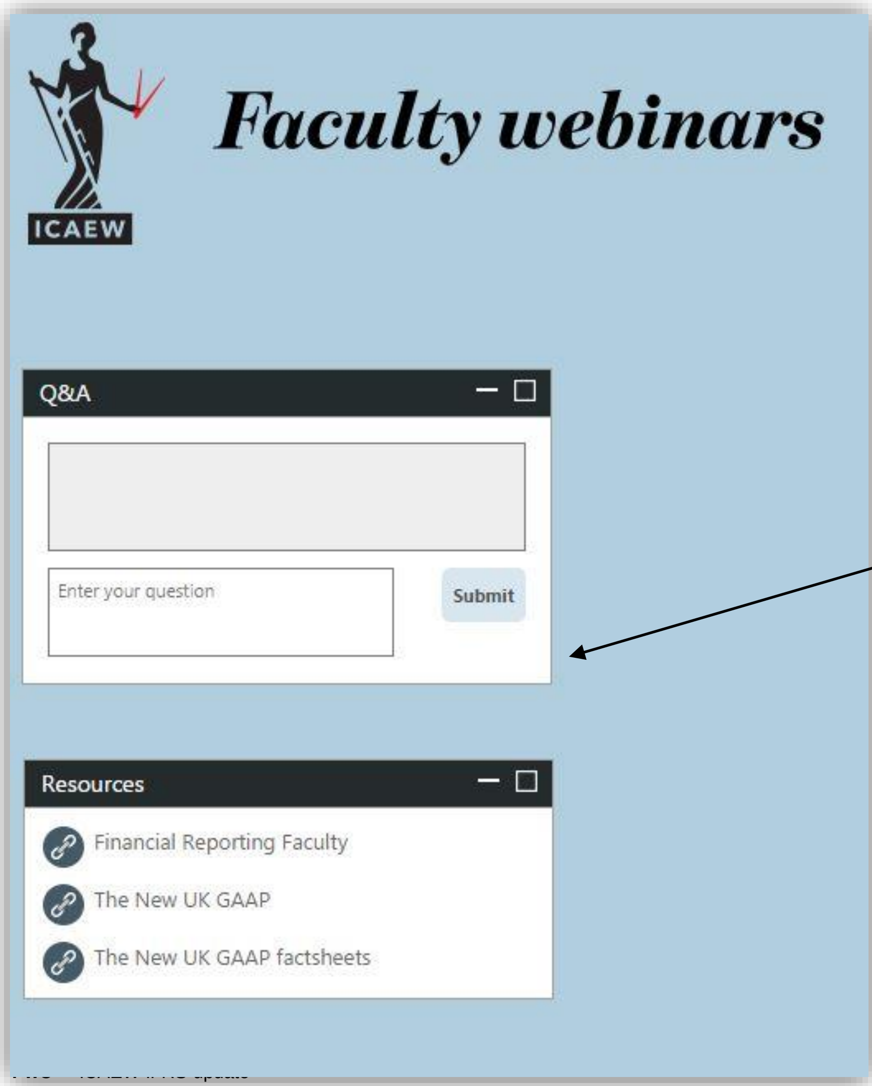
- Management commentary practice statement

- Forthcoming agenda consultation

Some final thoughts

- We are in the communications game
- Climate related risk is a material issue for investors
- Need to move beyond a checklist mentality

Ask a question



Ask a question
Type your question into the box, then click submit.

ICAEW and faculty resources

ICAEW's Climate hub icaew.com/climate
includes Reporting on climate section

Video | 2019 Financial Reporting Conference
icaew.com/frfac

- Climate-related risks and corporate reporting, presented by Doug Johnston, EY

Financial Reporting Faculty members:

By All Accounts articles icaew.com/byallaccounts

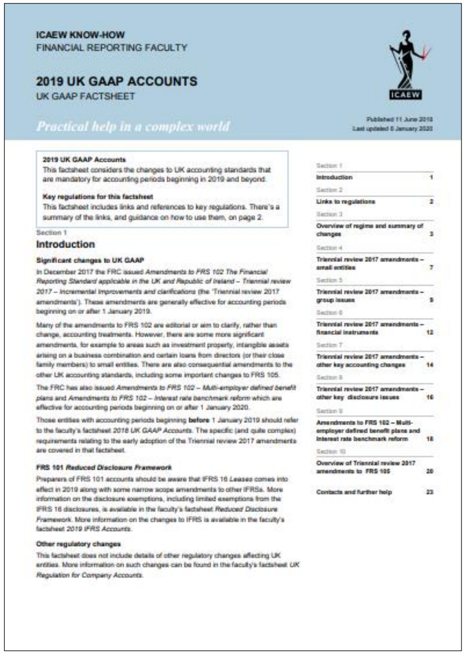
Past webinar recordings icaew.com/frfwebinars

Join the faculty

To find out more, please visit **icaew.com/joinfrf**

Providing support and practical guidance through a broad range of resources

- Factsheets
- By All Accounts
- Standards Tracker
- eIFRS
- Events



ICAEW KNOW-HOW
FINANCIAL REPORTING FACULTY

2019 UK GAAP ACCOUNTS
UK GAAP FACTSHEET

Practical help in a complex world

Published 11 June 2019
Last updated 6 January 2020

2019 UK GAAP Accounts
This factsheet considers the changes to UK accounting standards that are mandatory for accounting periods beginning in 2019 and beyond.

Key regulations for this factsheet
This factsheet includes links and references to key regulations. There's a summary of the links, and guidance on how to use them, on page 2.

Section 1
Introduction

Significant changes to UK GAAP

In December 2017 the FRC issued *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications* (the 'Triennial review 2017 amendments'). These amendments are generally effective for accounting periods beginning on or after 1 January 2019.

Many of the amendments to FRS 102 are editorial or aim to clarify, rather than change, accounting treatments. However, there are some more significant amendments, for example to areas such as investment property, intangible assets arising on a business combination and certain loans from directors (or their close family members) to small entities. There are also consequential amendments to the other UK accounting standards, including some important changes to FRS 105.

The FRC has also issued *Amendments to FRS 102 – Multi-employer defined benefit plans* and *Amendments to FRS 102 – Interest rate benchmark reform* which are effective for accounting periods beginning on or after 1 January 2020.

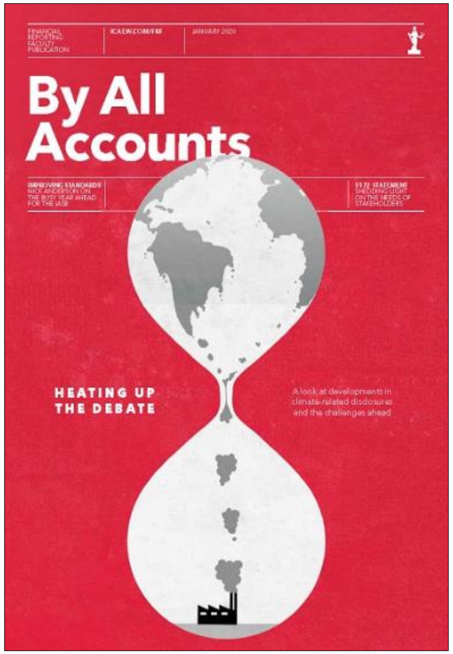
Those entities with accounting periods beginning **before** 1 January 2019 should refer to the faculty's factsheet *2018 UK GAAP Accounts*. The specific (and quite complex) requirements relating to the early adoption of the Triennial review 2017 amendments are covered in that factsheet.

FRS 101 *Reduced Disclosure Framework*

Preparers of FRS 101 accounts should be aware that IFRS 16 *Leases* comes into effect in 2019 along with some narrow scope amendments to other IFRSs. More information on the disclosure exemptions, including limited exemptions from the IFRS 16 disclosures, is available in the faculty's factsheet *Reduced Disclosure Framework*. More information on the changes to IFRS is available in the faculty's factsheet *2019 IFRS Accounts*.

Other regulatory changes

This factsheet does not include details of other regulatory changes affecting UK entities. More information on such changes can be found in the faculty's factsheet *UK Regulation for Company Accounts*.



Questions

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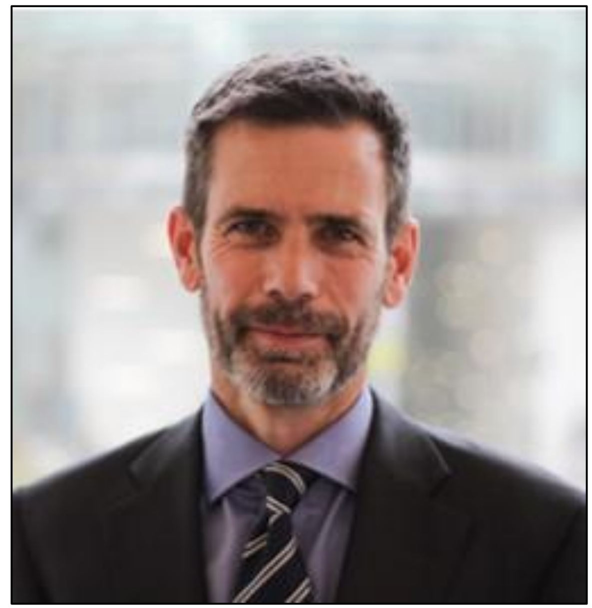

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