Issue 240 / July 2025

IFRS Developments

IASB releases near-final draft of their climate-related illustrative examples

What you need to know

- The IASB released the near-final staff draft of *Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples*.
- The examples illustrate existing requirements in IFRS accounting standards.
- The examples do not have an effective date or transition requirements. However, entities are entitled to sufficient time to implement any changes a result of the illustrative examples.
- The final amendments are expected to be released in October 2025.

Introduction

On 24 July 2025, the International Accounting Standards Board (the IASB or Board) released the near-final staff draft of *Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples* (the Illustrative Examples). The IASB is expected to issue the final version of the Illustrative Examples in October 2025. The near-final draft is intended to help entities start considering which, and if so how, additional disclosures in their financial statements are needed as a result of the Illustrative Examples.

The Illustrative Examples are intended to improve the reporting of climate-related and other uncertainties in the financial statements, particularly to address stakeholders' concerns about consistency of information within the general purpose financial reports and sufficient information on climate-related risks and other uncertainties in the financial statements. The examples illustrate how entities apply existing requirements in IFRS accounting standards to report the effects of uncertainties in the financial statements using climate-related examples. They do not add to, or change, existing requirements in IFRS accounting standards.

Example 1

Example 1 illustrates how an entity applies paragraph 31 of IAS 1 *Presentation of Financial Statements* (paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements)*, which requires an entity to consider whether to provide additional disclosures when compliance with the specific requirements in IFRS accounting standards is insufficient for users to understand the impact of particular transactions, other events and conditions on the entity's financial statements. The example illustrates one of the ways in which paragraph 31 of IAS 1 is applied (consistent with step 4 in IFRS Practice Statements 2: *Making Materiality Judgements*). Example 1 sets out two different scenarios that lead to different conclusions, with the aim of helping entities to consider the need for additional disclosures.

In both scenarios, the entity's climate-related transition plan or greenhouse gas emissions policy has no effect on the recognition or measurement of its assets and liabilities, nor are specific disclosure requirements in IFRS accounting standards applicable. In both scenarios, in applying paragraph 31 of IAS 1, the entity reviews its draft financial statements taking a wider perspective, with its knowledge and experience of transactions or events, to identify whether all material information has been provided in the financial statements.

Scenario 1

In scenario 1, an entity that has significant exposure to climate-related risks determines that an explanation for the lack of effect of its transition plan on its financial statements provides material information. It, therefore, discloses information about the lack of effect of its transition plan on the financial statements. The entity makes a materiality judgement, taking its specific facts and circumstances (including external factors, such as users expectations) into consideration when it discloses information about the lack of effect in applying paragraph 31 of IAS 1.

Scenario 2

In scenario 2, the entity has limited exposure to climate-related transition risks and determines that an explanation of the lack of effect of its greenhouse gas emissions policy on its financial statements would not provide material information for several reasons, including the industry in which the entity operates.

Example 2

Example 2 illustrates the requirements in paragraph 134 of IAS 36 *Impairment of Assets*, which include disclosure requirements about estimates used for impairment testing of goodwill or intangible assets with indefinite useful lives. Example 2 illustrates how an entity discloses key assumptions and sensitivity analysis in relation to an impairment test of goodwill, although the recoverable amount of the goodwill exceeds its carrying amount. Both this example and Example 3 highlight that all key assumptions, not only discount rates or growth rates, should be disclosed if they provide material information.

Example 3

Example 3 illustrates the requirements in paragraphs 125 and 129 of IAS 1, which include disclosure requirements for sources of estimation uncertainty. Example 3 explains that an entity might be required to disclose information about assumptions that have a significant risk of resulting in material adjustments to the carrying amount of assets and liabilities within the next year, even if such assumptions will not be resolved within the next year because revising the assumptions in the next year could result in an adjustment of the carrying amount of the assets and liabilities. The example also provides several risk factors that might cause any adjustments, as well examples of information the entity might disclose.

Example 4

Example 4 illustrates the requirements in paragraphs 35A-38 of IFRS 7 *Financial Instruments: Disclosures*, which include disclosure requirements for credit risk. In the fact pattern provided in this example, the entity identifies two portfolios of loans for which climate-related risks have a significant effect on its credit risk exposures. The example provides several factors that an entity considers when it determines that information about the effects of climate-related risks on its exposure to credit risk for those two portfolios is material as well the examples of information disclosed in applying the requirements in paragraphs 35A-38 of IFRS 7.

Example 5

Example 5 illustrates the requirements in paragraph 85 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, which include disclosure requirements for each class of provision recognised. In Example 5, the entity provides information required in accordance with paragraph 85 of IAS 37 because the information about its obligations to decommission plant and for site restoration is material, although the provision recognised is quantitatively immaterial as the cost to settle the obligation is discounted to its present value. The example illustrates several factors that might be relevant in determining whether the obligation is material (e.g., the risk of early settlement).

Example 6

Example 6 illustrates the requirements in paragraphs 41-42 and B110 of IFRS 18 *Presentation and Disclosure in Financial Statements*, which include disclosure requirements for aggregation and disaggregation. In Example 6, the entity owns and uses two types of property, plant and equipment (PP&E) that are in the same class, but are different in terms of the amount of greenhouse gas emissions they generate from their use. The entity disaggregates information, for example, the carrying amount of the two types of PP&E in the notes to its financial statements. The example illustrates possible factors an entity might consider when determining whether "the two types of PP&E have sufficiently dissimilar risk characteristics that disaggregating information about these types of PP&E would result in material information".[1] Although this example illustrates the application of requirements in IFRS 18, which differ from those in IAS 1, entities need to consider whether disaggregated information is material in applying the relevant requirements in IAS 1 (including paragraphs 29-31 and 77).

Implementation of any changes to disclosures

When the final illustrative examples are issued, they will accompany IFRS accounting standards. However, adding them to the relevant standards does not add to, or change, requirements in IFRS accounting standards. As such, they do not have effective date or transition requirements. Nevertheless, the IASB expects entities to be entitled to sufficient time to implement any changes to their financial statements because they provide additional insights into how to apply disclosure requirements in IFRS accounting standards. There is no definition of 'sufficient time'; this term is also used in relation to IFRS Interpretations Committee agenda decisions. In that context, the Board indicated that it had in mind months, rather than years, when referring to sufficient time.[2]

How we see it

While entities are entitled to sufficient time to implement any changes to their financial statements, these examples reflect existing requirements in IFRS accounting standards and it is likely that regulators will expect entities to have considered the examples in their next set of financial statements. The Board has made clear that these illustrative examples relate not only climate-related risks, but also to other uncertainties. Making the draft examples available before the release of the final amendments may give entities more time to consider the impact of the examples on their financial statements.

[1] Paragraph 6.5 of the draft Illustrative Example 6, IASB staff draft, *Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples*.
[2] *Agenda decisions—time is of the essence*, IASB, 20 March 2019.

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EYG no. 005761-25Gbl

ED None

UKC-040294 (UK) 07/25.

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