Annual Accounting Update 2024

For-profit entities applying NZ IFRS

November 2024

Presenters

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Standard Setting Update

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Standard Setting Update

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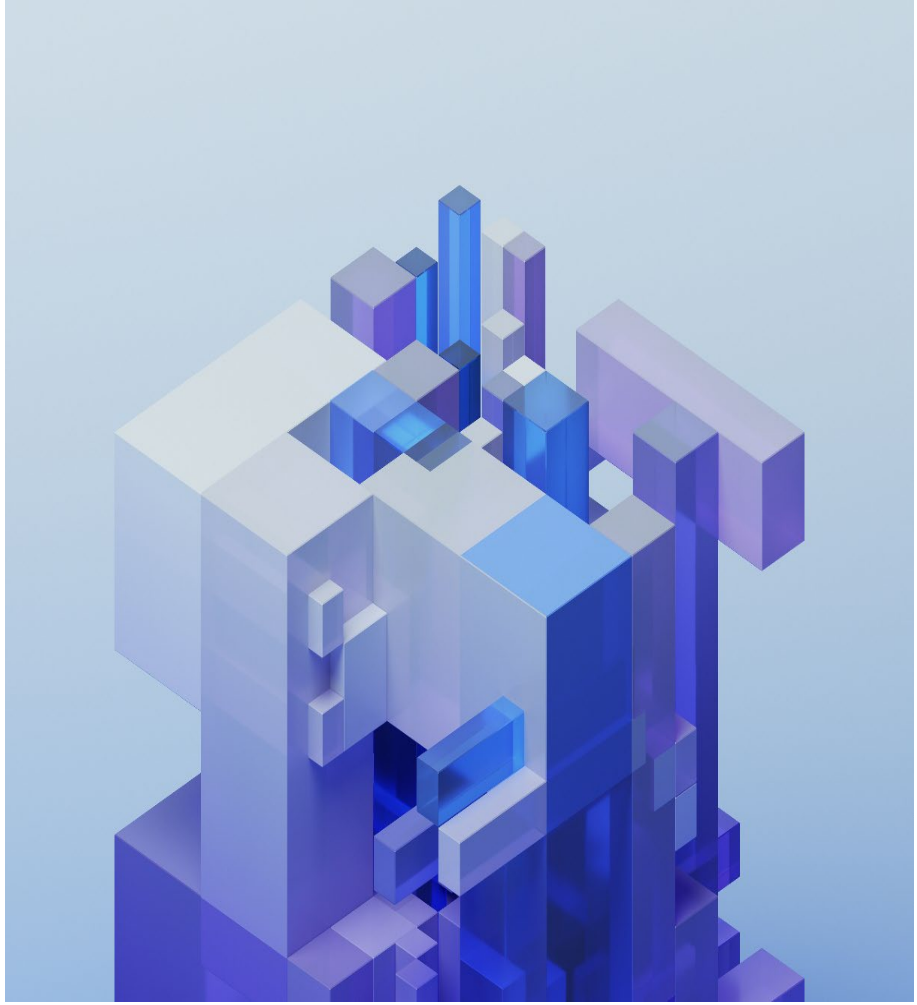
Climate Change in the Financial Statements

Agenda

- New standards, amendments and improvements to accounting standards
- IFRIC agenda decisions
- Future developments
- Climate-related matters in the financial statements



New standards and amendments to accounting standards

New standards and amendments to accounting standards

New Standard	Effective date
NZ IFRS 18 - Presentation and Disclosure in Financial Statements	1 January 2027
IFRS 19 - Subsidiaries without Public Accountability: Disclosures (currently do not have a New Zealand equivalent of IFRS 19)	-
Amendments	**Effective date**
Lease Liability in a Sale and Leaseback – Amendments to NZ IFRS 16 Leases	1 January 2024
Classification of liabilities as Current or Non-Current and Non-current Liabilities with Covenants – Amendments to NZ IAS 1 Presentation of Financial Statements	
Supplier Finance Arrangements - Amendments to NZ IAS 7 Statement of Cash Flows and NZ IFRS 7 Financial Instruments: Disclosures –	
Disclosure of Fee for Audit Firms' Services – Amendments to FRS-44 New Zealand Additional Disclosures	

KPMG

NZ IFRS 18 - Presentation and Disclosure in Financial Statements

NZ IFRS 18 - Presentation and Disclosure in Financial Statements

NZ IFRS 18 is effective from **1 January 2027** and applies **retrospectively.**

Now is the time to get ready!

Why should I be concerned about NZ IFRS 18 now?

30 June 2026	31 Dec 2026	30 June 2027	31 Dec 2027
Interim financial statements:	**Year-end financial statements:**	**Interim financial statements:**	**Year-end financial statements:**
Comparative period	Comparative period	1st year of adoption	1st year of adoption

Entities need to:

- Assess the impact on their financial statements.
- Communicate the impacts with investors.
- Consider how the new requirements impact financial reporting systems and processes.
- Monitor any changes in the local reporting landscape.

What are the key changes

More structured income statement

- New subtotals including ‘operating profit’
- Income and expenses classified into three categories – operating, investing, financing
- Main business activities drive the classification of income and expenses

Disclosed and audited MPMs*

- MPMs are now disclosed in the financial statements and subject to audit
- MPMs capture some but not all ‘non-GAAP’ measures
- New disclosures may involve additional effort

*Management Performance Measures

Greater disaggregation of information

- New disclosures for items labelled as ‘other’
- Enhanced guidance on how to group information within the financial statements
- Remains a judgement area

What will the income statement look like under NZ IFRS 18?

NZ IFRS 18 introduces some key changes for the income statement, including:

- **Two newly required subtotals** on the face of the income statement;
- Income and expenses classified into **three categories**, depending on the entity' main business activities; and
- **Results of equity-accounted investees** no longer presented as part of operating profit (now always in the investing category).

Entities will need to assess which income and expenses belong in each category. Classification will vary depending on whether the entity has a specified main business.

Category	Income statement – Companies without specified main business activities	
OPERATING	Revenue	X
	Operating expenses	(x)
	Operating profit	**X**
INVESTING	**Share of profit or loss of equity-accounted investees**	X
	Income from other investments	X
	Interest income from cash and cash equivalents	X
	Profit or loss before financing and income tax	**X**
FINANCING	Interest expense on borrowings and leases	(x)
	Interest expense on pension liabilities	(x)
	Profit before tax	**X**
	Income tax	(x)
	Profit for the year	**X**

Defining the categories

Operating

- Includes, but not limited to, income and expenses from an entity's main business activities
- Income and expenses not classified in other categories
- Includes volatile and unusual income and expenses arising from an entity's operations

Investing

Income and expenses from:

- Associates and joint ventures accounted for using the equity method
- Assets that generate a return individually and largely independently of other resources, including cash and cash equivalents

Financing

- All income and expenses from liabilities that involve only the raising of finance
- Interest expense and the effects of changes in interest rates from other liabilities

Analysis that provides the 'most useful structured summary'

Factors

- Main components or drivers of the entity's profitability
- The way the business is managed and how management reports internally
- Industry practice
- Method of allocating expenses to various functions

	Manufacturer A	Manufacturer B	Bank	Real Estate
Main business activities	Manufacturing and sale of goods	Manufacturing and sale of goods and Providing finance to customers	Providing finance to customers	Investing in assets
Interest expenses on borrowings	**Financing**	**Operating*** and choice between **operating** and **financing****	**Operating*** and choice between **operating** and **financing****	**Financing**
Gains/losses on investment property	**Investing**	**Investing**	**Investing**	**Operating**

*Includes all interest expenses from borrowings that relate to provide financing to customers

**An accounting policy choice applies to interest expense from borrowings that do not relate to providing financing to customers.

How are operating expenses presented

Income Statement

By function*

Revenue	X
Cost of goods sold	X
Gross profit	X
R&D expenses	X
Admin expenses	X
Operating profit	**X**

By nature

Revenue	X
Purchase of raw material	X
Transport costs	X
Depreciation	X
Employee costs	X
Operating profit	**X**

Mixed*

Revenue	X
Cost of goods sold	X
Gross profit	X
Impairment expenses	X
Admin expenses	X
Operating profit	**X**

*New disclosures apply

How are operating expenses disclosed

When operating expenses are presented **by function**:

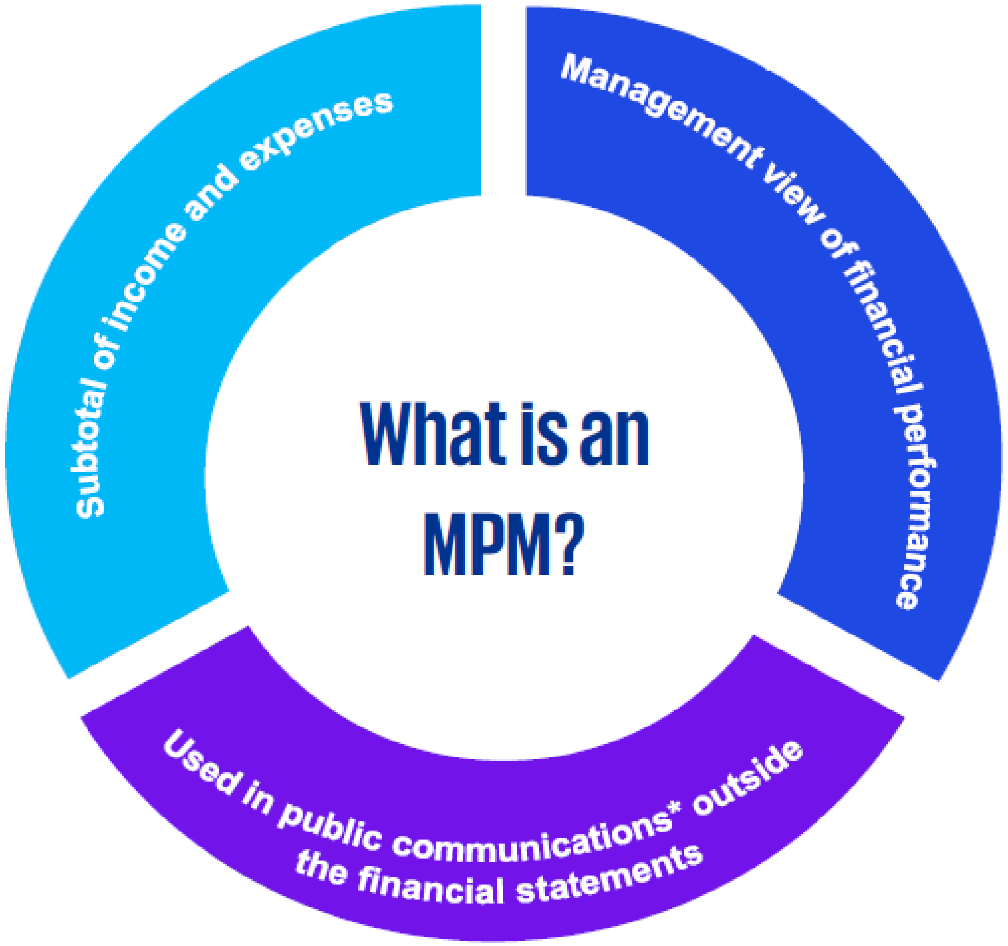
- Present a separate cost of sales line; and
- Disclose a qualitative description of the nature of expenses included in each function line item.
- In a single note, disclose quantitative and qualitative information for each of **five 'nature' operating expenses**.

Entities may need to adjust systems and processes to capture relevant information to satisfy these disclosures.

Notes to the income statement

Operating expenses by nature	Deprecia tion	Amortis ation	Employee Benefits	Impair ment	Inventory write down/ reversals
Total recognised in the period					
Total amount included in:					
Cost of goods sold					
Admin expenses					
R&D expenses					
Total included in operating category					

Management performance measures (MPM's)



What are management performance measures?

Performance measures

Financial performance measures

Subtotals of income and expenses

MPMs
- Adjusted profit or loss
- Adjusted operating profit
- Adjusted EBITDA

IFRS Specified
- Operating profit or loss
- Operating profit before depreciation, amortisation
- profit or loss from continuing operations

Other measures that are not subtotals of income and expenses
- Free cash flow
- Return on equity
- Net debt

Non-financial performance measures
- Number of subscribers
- Customer satisfaction score
- Store surface area

New disclosures for MPMs

Disclose in a single note in the financial statements:

- Statement that the MPM provides management's view of the entity's financial performance and is not necessarily comparable to MPMs of other entities,
- Explanation why the MPM provides useful information and how it is calculated,
- Reconciliation of the MPM to a total/subtotal specified in IFRS, including the tax and non-controlling interest effects for each reconciling item, and
- Explanation of any changes to calculations and any new MPMs.

Notes to the financial statements

	2027	Tax	NCI
Adjusted operating profit **(MPM)**	**X**		
Restructuring costs	(X)	(X)	(X)
Operating profit	**X**		

IFRS 18 requires MPMs to be disclosed in the financial statements. Since the notes are an integral part of the financial statements, the **information disclosed about MPMs will be subject to audit.**

Entities may decide to revisit the purpose and relevance of existing 'non-GAAP' measures communicated outside of the financial statements.

Aggregation and disaggregation

Enhanced guidance on grouping – aggregation and disaggregation in the financial statements

This includes

- **Newly defined 'roles'** for the primary financial statements and the notes;
- **Shared characteristics** of items as a basis for aggregation and disaggregation e.g. nature, function, size, geographical location and regulatory environment; and
- **Single dissimilar characteristic**, which can result in disaggregating items, if material.

New disclosures apply to discourage companies from labelling items as **'other'** and aggregating items into large single amounts.

More **aggregated** information

Role of the primary financial statements

Provide a 'useful structured summary' of the entity's assets, liabilities, income, expenses and cash flows

Role of the notes

Provide additional material information.

More **disaggregated** information

Other changes

Statement of cash flows

- **Operating profit is the starting point** for the indirect method
- The **option** for classifying interest and dividend cash flows as **operating activities** has been **eliminated**

Balance sheet

- **Goodwill** presented as a separate line item on the face of the balance sheet

Cash flows (general model)*

Financing	Investing
• Dividends received	• Dividends received
• Interest received	• Interest received

Non-current assets	
Property, plant and equipment	X
Goodwill	X
Intangible assets	X

*Classifying interest and dividends will differ for entities with specified main business activities

NZ IAS 1 Amendments – Classification of liabilities: current vs non-current

Overview of NZ IAS 1 Amendments – current vs non-current liabilities

The amendments are effective for periods beginning on or after 1 January 2024, with earlier application permitted. Comparatives restated

Substance and existence

The right to defer settlement for at least 12 months after the reporting date must have substance and exist at the reporting date – i.e. the requirements for the right to be 'unconditional' has been removed.

Loan arrangements subject to covenants

Only covenants with which the entity must comply on or before the reporting date affect classification of a liability as current or non-current at the reporting date.

Expectations

The classification of liabilities is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability or will choose to settle early.

Entities will need to disclose information about the timing of settlement of a liability if management expects to settle it earlier than 12 months from the reporting date.

Settlement

Settlement of liability includes the transfer to the counterparty of cash, equity instruments, and other assets or services.

Covenant considerations for loan arrangements

Covenants conditions specified in a loan arrangement

Beginning of financial period
1 Jan 20x3

Reporting date
31 Dec 20x3

Current Reporting Period

12 months After Reporting Period

Covenant

Considered for classification of liability for loan arrangement ***on or before*** reporting date

Future covenant

NOT considered for classification of liability for loan arrangement.

Disclosure requirements for non-current loan liability, risk that loan could be repayable 12-months after reporting date as entity may have difficulty complying with covenants.

NEW Disclosure Requirement

Future covenant

Not considered for classification of liability for loan arrangements.

No new disclosure requirements.

Classification of roll over liabilities

Requirement of NZ IAS 1.73

If an entity ~~expects, and~~ has the right, at the end of the reporting period ~~discretion~~, to ~~refinance or~~ roll over an obligation for at least 12 months after the reporting period under an existing loan facility, it classifies the obligation as non-current, even if it would otherwise be due within a shorter period. If the entity has no such right ~~However, when refinancing or rolling over the obligation is not at the discretion of the entity (for example, there is no arrangement for refinancing)~~, the entity does not consider the potential to refinance the obligation and classifies the obligation as current.

Interaction between IAS 1.73 and IAS 1.72B

If the right to roll over is subject to the entity complying with covenants after the reporting date

- IAS 1.72B extends to all loan arrangements including roll over liabilities.
- In applying IAS 1.73 requirements, IAS 1.72B requirements should be considered.
- If the right to rollover is subject to future covenants and the entity is required to comply with those covenants only after the end of the reporting period, such covenants do not affect whether the right to defer settlement of the liability for at least 12 months exists at the reporting date in accordance with IAS 1.72B(b).

Classification of roll over liabilities - example

Apr 2023	Mar 2024	Apr 2024	Dec 2024	Mar 2025	Apr 2025	Mar 2028
Roll over loan drawn down	Current covenant test	Roll over date	Reporting date	Loan repaid	Financials authorised	Loan maturity date

Fact pattern

Rollover obligation (entity does not intend to roll over and repays the loan before the financial statements are authorised for issue)

- Five-year facility, available until 31 March 2028.
- Drawn down in full as a one-year loan on 1 April 2023; was rolled over on 1 April 2024.
- Ability to roll over the loan is conditional on compliance with an annual covenant test. The test is based on information at 31 March each year that if breached renders the loan repayable on demand. The covenant is a debt/equity ratio of 2 or below.
- The entity was in compliance with the covenant to roll over the facility on 31 March 2024. The reporting date is 31 December 2024 and the date of authorisation of the financial statements is 15 April 2025.
- The entity no longer intends to roll over the facility on 1 April 2025 (e.g. because (i) it no longer needs the loan or (ii) the terms of the roll over became uneconomical and it is seeking alternative financing) and repaid the loan on 31 March 2025.
- There was no change to contractual terms on or prior to the reporting date**.**

Question

How should the roll over obligation be classified at 31 December 2024?

View A: Current

View B: Non-current

Classification of roll over liabilities - example

Solution

Non-current

The roll over obligation is classified as **non-current at the 31 December 2024** reporting date

- The entity has the **'right'** to defer settlement of the roll over obligation at the reporting date as long as the stipulated covenants are complied with **AS AT** the end of the **reporting period**.
- The covenant to be complied with was assessed before the reporting period (at 31 March 2024) and the entity complied with it before the reporting date. The next covenant to comply with will be assessed after the reporting period (at 31 March 2025), and it is irrelevant for the classification at 31 December 2024.
- The classification of the roll over obligation is based on the entity's rights at the reporting date rather than management's intention/expectations or post-reporting date events.

Entity has a right to roll over the obligation for at least 12 months at December 31, 2024. [IAS 1.73]

- The entity is required to **provide disclosures** that enables users of financials to understand the risk that the liability could become repayable within 12 months after the reporting date. [IAS 1.76ZA]

Entity's expectations or intention does not affect classification of a roll over liability

Loan arrangements subject to covenants - Disclosure

New disclosures for non-current liabilities subject to future covenants*

- Information about the covenants (including the nature of the covenants and when the entity is required to comply with them)
- The carrying amount of related liabilities
- Any facts and circumstances indicating difficulty in complying with covenants (e.g. actions to avoid or mitigate the potential breach, potential non-compliance with future covenants 'as if' assessed at the reporting date)

In addition to:
- NZ IFRS 7.18-19 on defaults and breaches
- NZ IFRS 7.39(c), B11F on liquidity risk

*only those covenants that an entity needs to comply with within 12 months of the reporting date

Other Amendments

- NZ IFRS 16 Lease liability in a sale & lease back
- NZ IFRS 7 & NZ IAS 7 Supplier Finance Arrangements
- FRS-44 Disclosure of fees for audit firm services

FRS-44: Disclosure of fees for Audit Firms' Services

Tier 1

Disclose separately total fees incurred for services received from each audit or review firm and a general description of each service using the below categories:

- Audit or review of the financial statements
- Other audit or review services performed during the reporting period such as:
    - Audit or review related services
    - Other assurance services and other agreed upon procedures engagements
- Taxation services
- Other services

Tier 2

Tier 2 is required to disclose the following:

- Total fee incurred for services received from each audit or review of the financial statements.
- Total fee incurred for any other services together with general description of those services

Tier 2 has reduced disclosure requirements than Tier 1

Mandatory from on or after 1 January 2024

Forthcoming amendments to accounting standards

Amendments	Effective date
Lack of Exchangeability – Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates	1 January 2025
Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures	1 January 2026
Annual Improvements to IFRS Accounting Standards – Amendments to: • NZ IFRS 1 First-time Adoption of International Financial Reporting Standards; • NZ IFRS 7 Financial Instruments: Disclosures and its accompanying guidance on implementing NZ IFRS 7; • NZ IFRS 9 Financial Instruments; • NZ IFRS 10 Consolidated Financial Statements; and • NZ IAS 7 Statement of Cash flows	

Amendments to the Classification and Measurement of financial instruments:

Amendments to the requirements related to:

- Settling financial liabilities using an electronic payment system, and
- Assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features

Amendments to the classification and measurement of financial instruments – Settlement by electronic payments (Payments payable perspective)

Issue

Diversity in practice over the timing of the recognition and derecognition of financial assets and liabilities when settled using electronic payment systems (EPS).

New derecognition exception criteria

1. No practical ability to cancel the payment
2. No practical ability to access the 2,000
3. Settlement risk associated with this payment system is insignificant

Next steps

- Consider how the new requirements impact financial reporting systems and processes, e.g. bank recons
- Review T&C's of EPS to assess whether the specific criteria for the exception will be met – accounting policy choice can be made on an electronic system-by-system basis.
- Assess impacts on financial statements

Amendments to the classification and measurement of financial instruments – Settlement by electronic payments (Payments payable perspective)

Example:

- Co. A and its supplier use the same bank
- The payment cannot be cancelled once the payment instruction is initiated
- Co. A's available funds reduce by the payment instruction and cannot use those funds anymore
- It takes 3 days for the bank to process the payment as it must update its recon ledgers and transfers the funds between those accounts
- Co. A has sufficient funds to cover the payment
- The Bank is a reputable institution with strong controls.

TO
29 Dec
Payment instruction initiated

T1
30 Dec

T2
31 Dec
Year-end

T3
1 Jan
Payment completed

- No practical ability to withdraw, stop or cancel the payment
- No practical ability to access the cash to be used for settlement as a result of the payment instruction
- Settlement risk associated with the electronic payment system is insignificant

Classification of financial assets with a contingent feature

General Requirements

Contractual cash flows that are SPPI (solely payments of principal and interest) on the principal amount outstanding are consistent with a basic lending arrangement.

In a basic lending arrangement interest is consideration for:

- Credit risk
- Time value of money
- Other basic lending risk (e.g. liquidity risk)
- Costs (e.g. administrative costs)
- Profit margin

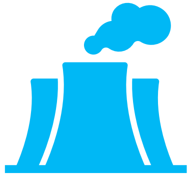
The Amendments introduce an additional SPPI (solely payments of principal and interest) test with contingent features that are not related directly to a change in basic lending risks or costs

Amendments to the classification and measurement of financial instruments – Classification of financial assets

Assessing contractual cash flow characteristics of financial assets, including those with environmental, social and governance (ESG)-linked features.

Issue

Previously unclear whether contractual cash flows of some financial assets with ESG-linked features represented solely payments of principal and interest (SPPI), resulting in such assets being measured at fair value through profit or loss.



E.g. Interest rate on a loan is adjusted by a specified amount if borrower achieves a contractually specified reduction in carbon emissions.

- If the contractual cash flows **before and after** the contingent event meet SPPI (i.e. reflect time value of money and borrower's credit risk) and
- The contractual cash flows would **not be significantly different** for those of an identical financial asset without the contingency in all contractually possible scenarios e.g. in above example, if the maximum possible cumulative adjustments would not significantly change the interest rate on the loan

The contractual cash flows would meet the SPPI criteria and the financial asset is measured at amortised cost

IFRIC agenda decisions

IFRIC agenda decisions

Standard	Final agenda decisions	IFRIC Update
IFRS 8	Disclosure of revenues and expenses for reportable segments	June 2024
IAS 37	Climate-related commitments	March 2024
IFRS 3	Payments contingent on continued employment during handover periods	March 2024
IFRS 3 / IAS 27	Merger between a parent and its subsidiary in separate financial statements	November 2023

Standard	Tentative agenda decisions	IFRIC Update
IAS 7	Classification of Cash Flows related to Variation Margin Calls on 'Collateralised-to-Market' Contracts	June 2024
IFRS 9/ IFRS 17	Guarantees issued on obligations of other entities	September 2024

Disclosure of revenue and expenses for reportable segments

The CODM receives and reviews the following segment information on a monthly basis:

Revenue, Cost of Sales and net profit after tax

Question:

Do items (c) – (i) listed in paragraph 23 of NZ IFRS 8 need to be separately disclosed for each segment in the operating segment note to the financial statements?

Answer: YES

NZ IFRS 8 requires an entity to disclose specified revenue and expense amounts for each segment if amounts are:

a) Included in the measure of segment profit or loss reviewed by the CODM, even if they are not separately reviewed by the CODM, or

b) Regularly provided to the CODM, even if they are not included in the measure of segment profit or loss.

NZ IFRS 8.23

An entity shall also disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the chief operating decision maker, or are otherwise regularly provided to the chief operating decision maker, even if not included in that measure of segment profit or loss:

(a) revenues from external customers;

(b) revenues from transactions with other operating segments of the same entity;

(c) interest revenue;

(d) interest expense;

(e) depreciation and amortisation;

(f) material items of income and expense disclosed in accordance with paragraph 97 of IAS 1 *Presentation of Financial Statements* (as revised in 2007);

(g) the entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method;

(h) income tax expense or income; and

(i) material non-cash items other than depreciation and amortisation.

Climate-related Commitments

Fact Pattern

- In 20X0, an entity, a manufacturer, publicly states its commitment to:
  - reduce its future annual GHG emissions by at least 60% of their current level by 20X9; and
  - offset its remaining emissions in 20X9 and thereafter, by buying carbon credits and retiring them.
- The entity publishes a detailed transition plan to modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in emissions.
- The entity is confident it can make these modifications and continue to sell its products at a profit. It takes a number of actions that publicly affirm its intention to fulfil its commitments.

Issues

1) Does the entity's commitment to reduce or offset its greenhouse gas (GHG) emissions create a constructive obligation for the entity;
2) Does a constructive obligation created by such a commitment meet the criteria in NZ IAS 37 for recognising a provision; and
3) If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised.

Climate-related Commitments

1. Does the entity have a constructive obligation?

A constructive obligation is an obligation that derives from an entity's actions where:

a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the **entity has indicated to other parties that it will accept certain responsibilities**; and

b) as a result, the entity has created a **valid expectation** on the part of those other parties that it will discharge those responsibilities.

2. Does the constructive obligation meet the criteria recognising a provision?

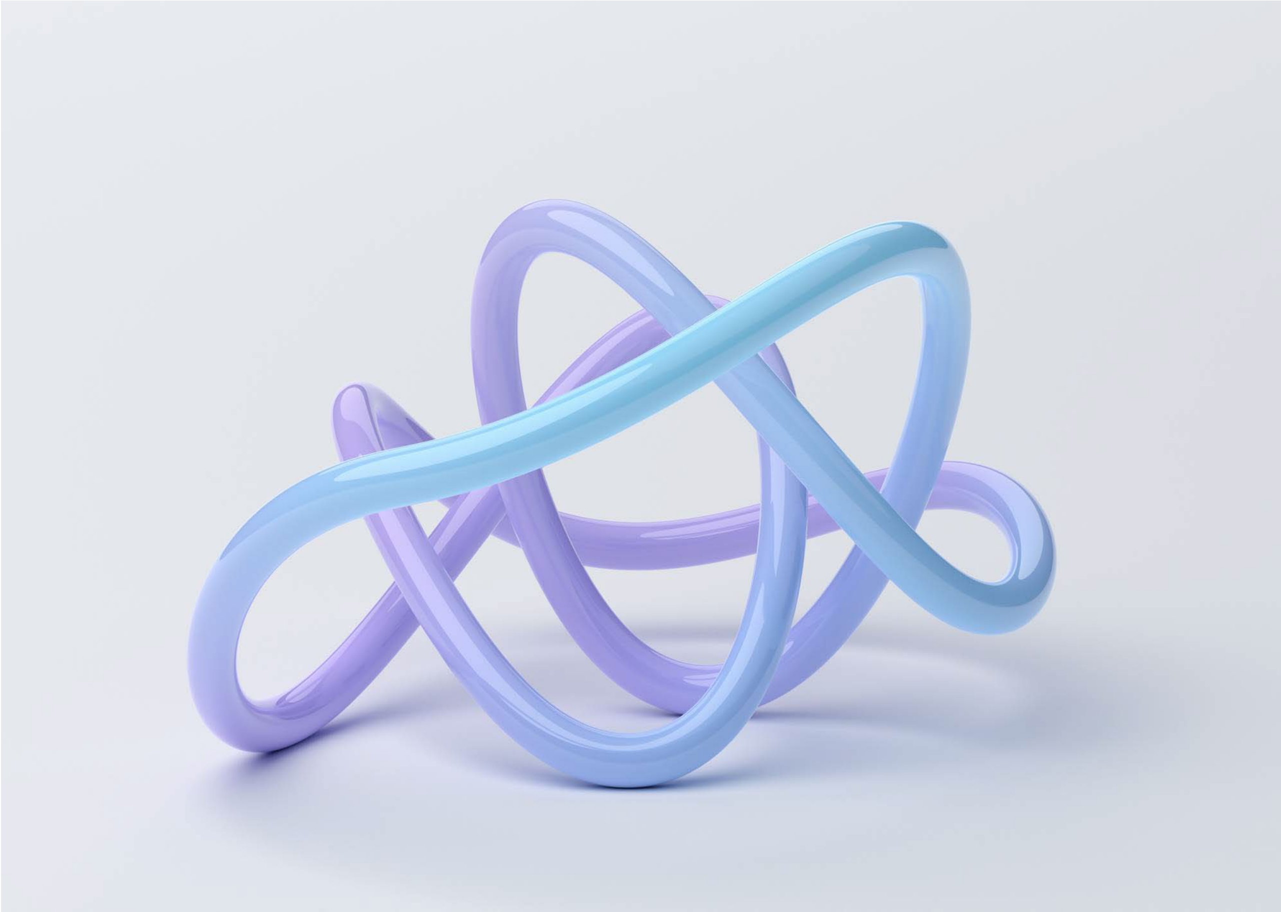
a) The entity does not at any date have a present obligation to reduce its future emissions because the costs of operating with lower emissions in the future are costs that it will incur to operate in the future - the obligations for those costs do not exist independently of the entity's future actions.

b) The entity will have a present obligation to retire carbon credits only if and when it emits GHGs in 20X9 and later years.

3. If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised?

Expense unless it gives rise to – or forms part of the cost of – an item that qualifies for recognition as an asset.

Questions



Climate-related matters in the financial statements

Climate reporting is not just for CREs*

FMA FINANCIAL MARKETS AUTHORITY

OCTOBER 2022

Climate risks and the impact on financial statement audits

This document provides clarity for auditors about the expectations of the Financial Markets Authority – Te Mana Tātai Hokohoko for information about climate risks in audit files. It will also be useful for preparers of financial statements and anyone else involved in climate risk and reporting for businesses with financial reporting obligations.

Businesses with financial reporting obligations have two reasons to consider the impact that climate risks and opportunities have on their financial statements:

1. About 200 reporting entities must comply with a mandatory framework for climate-related disclosure (CRD), to provide investors and other stakeholders with better insights into the climate risks and opportunities impacting those entities; and
2. All entities – whether or not they are captured by the CRD regime or other mandatory framework – have existing requirements, under current Australian and New Zealand Accounting Standards, to assess what impact, if any, climate change has on their financial statements.

The mandatory framework was introduced in 2022 and applies to all reporting periods commencing January 2023. The FMA intends to take a constructive, supportive approach to supervising and enforcing compliance, given the relative newness of the requirement.

The existing requirements are of course more established so, while for the 200 entities captured by the mandatory framework, the framework and some of its specific reporting requirements are new, the overall responsibility to consider the impact of climate change is not. Accordingly, the FMA sees useful overlap in the requirements which should help entities to consider, prepare for, and comply with both (to the extent that is required).

In that context, this document assists auditors to assess the impact of climate-related matters in financial statements arising from both sets of both requirements. We also note as relevant resources:

1. the IFRS Foundation's guidance document from 2020

- International Sustainability Standards Board (ISSB) exposure drafts on the possible development of a single sustainability framework.

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WELLINGTON – Level 2, 1 Grey Street, PO Box 1179, Wellington 6140

fma.govt.nz

Reserve Bank of New Zealand
Te Pūtea Matua

Managing climate-related risks.

Guidance for prudentially regulated entities

26 March 2024

Mandatory climate-related financial disclosures

Policy position statement

The Government is committed to improving the quality of climate-related financial disclosures, providing Australians and investors with greater transparency and more comparable information about an entity's exposure to climate-related financial risks and opportunities and climate-related plans and strategies.

Improving climate disclosures will support regulators to assess and manage systemic risks to the financial system as a result of climate change and efforts taken to mitigate its effects.

A rigorous, internationally aligned and credible climate disclosure regime will support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero. It will bring Australia in line with other jurisdictions, including the EU, UK, New Zealand and Japan.

This statement outlines the Government's policy positions related to: the scope of the reform (including entities covered), the content required in reports, the location of reporting, assurance requirements for disclosures, and the application of liability for disclosures. These policy positions reflect Option 1b as outlined in the Policy Impact Analysis.

Climate-related financial disclosures will be mandated through amendments to the *Corporations Act 2001* (Cth) (Corporations Act) and related legislation. Detailed sustainability and assurance standards will be made and maintained by the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB).

Reporting entities

Who will be included?

- Large entities that are required to prepare and lodge annual reports under Chapter 2M of the Corporations Act will be required to disclose information about climate-related risks and opportunities. This includes listed and unlisted companies and financial institutions as well as registrable superannuation entities and registered investment schemes.
  – Large entities are defined using size thresholds equivalent to the existing Large Proprietary Company definition (this threshold will apply to both listed and unlisted companies).
  – Reporting by large entities will provide transparency to shareholders and support the efficient allocation of capital aligned with risks and opportunities.
- Asset owners (such as registrable superannuation entities and registered schemes) will be considered large if funds under management are more than $5 billion.
  – Reporting by asset owners will support consistent reporting of climate-related risks and opportunities across the financial sector, noting the significance of these entities in Australia's financial system.
- Where entities are subject to both the annual reporting requirements under the Corporations Act and emissions reporting obligations under the *National Greenhouse and Energy Reporting Act 2007* (Cth) (NGER Act), they will be required to disclose regardless of size.
  – Reporting by NGER-covered entities is appropriate and proportionate to the risks they face.

treasury.gov.au Mandatory climate-related financial disclosures | 1

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Reporting Climate-related and Other Uncertainties in Financial Statements

Proposed illustrative examples to support disclosures

Stakeholder concerns about inconsistent application and insufficient disclosures of climate-related matters in financial statements has led the International Accounting Standards Board (IASB) to develop eight illustrative examples to demonstrate how entities should report the effects of climate-related and other uncertainties in their financial statements.

The illustrative examples highlight:

- Materiality judgements
- Assumption and other sources of estimation uncertainty
- Aggregation and disaggregation.

Read the IASB Exposure Draft

Additional information can be found on the IFRS project page.

Consultations

Accounting Standards open for consultation

Closed for comment

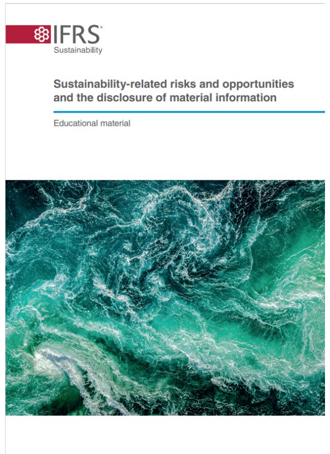
Closed for comment - Archive

Auditing and Assurance Standards open for consultation

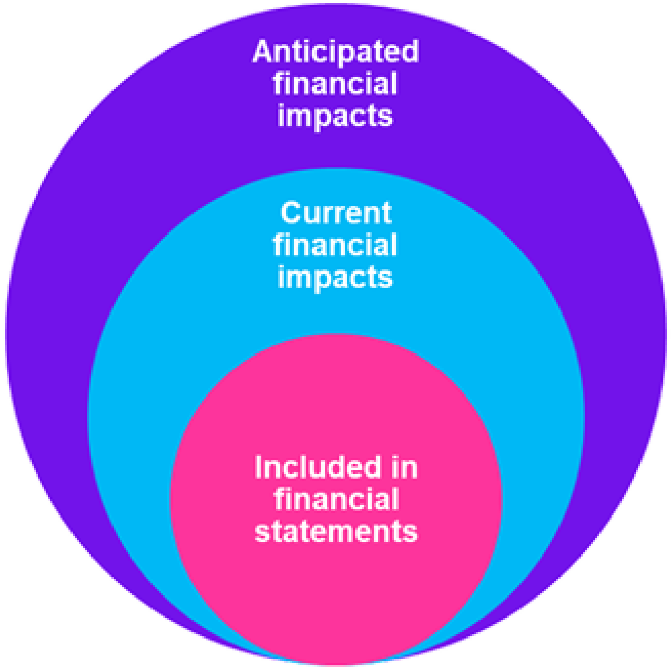
Climate Standards open for consultation

Climate-related and other uncertainties in the financial statements

Assessing materiality



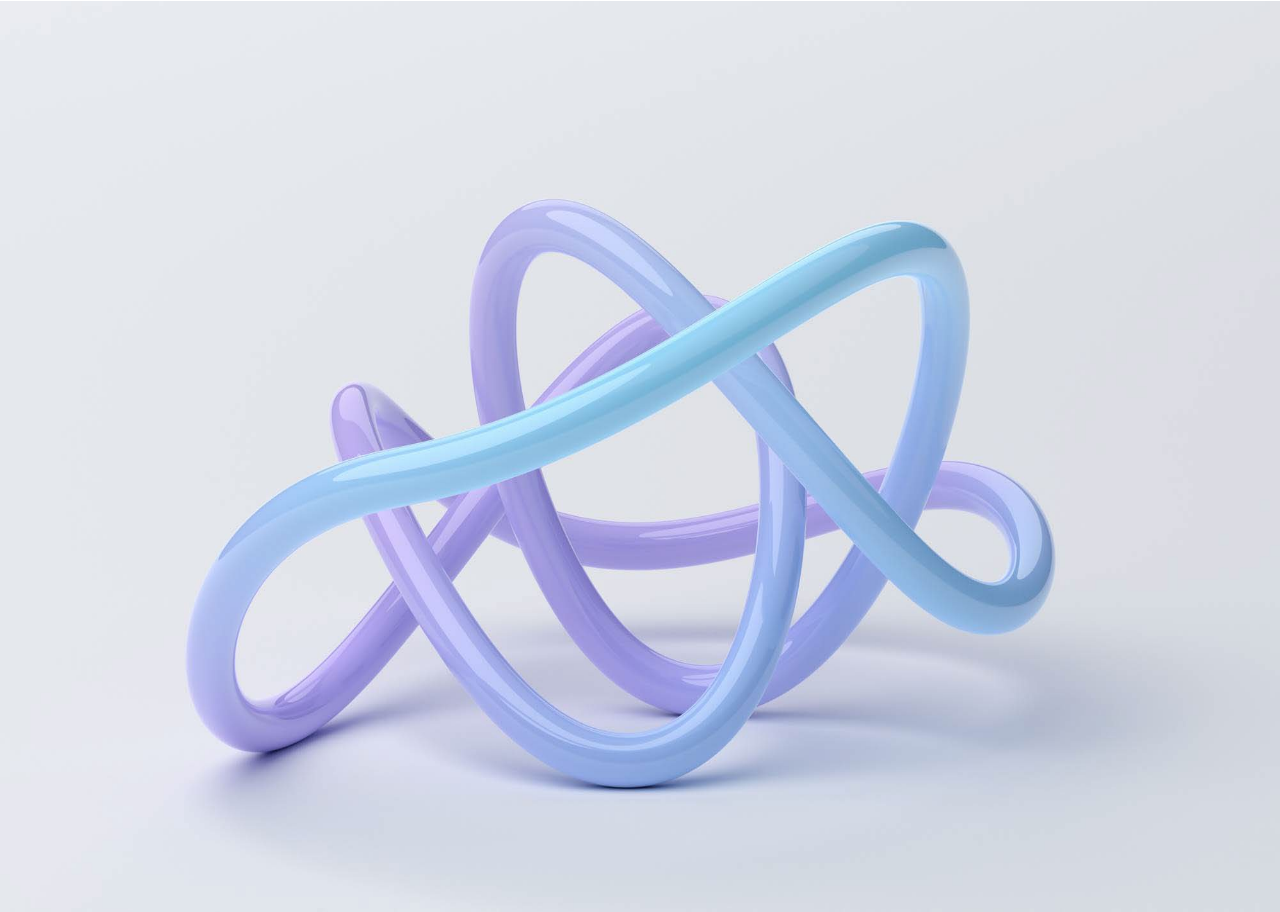
Three key actions to be clear on climate



1. Get the accounting right
2. Get the financial statement disclosures right
3. Tell a connected story

Example climate-related matter
Are you exposed to carbon-related regulation?
Do you take part in an emissions scheme?
Have you made a net-zero commitment?
Have you committed to purchase carbon credits?
Do you have polluting assets?
What about impairment testing and going concern?
What about your inventory and production costs?
How might climate-related matters affect your borrowing?
Do you provide financing?
What about your staff benefits?

Questions



Thank you

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