

Uncertain times

Uncertainty in financial reporting | New illustrative examples

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VIDEO TRANSCRIPT

Uncertainty in financial reporting

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“Uncertainty in financial reporting, particularly on climate-related matters, is an ever-hotter topic. In response, the IASB has agreed to issue a set of six new examples illustrating disclosures in the financial statements.”

Uncertainty in financial reporting, particularly on climate-related matters, is an ever-hotter topic.

In response, the International Accounting Standards Board (IASB) has agreed to issue **a set of six new examples** illustrating disclosures in the financial statements. In fact, the IASB has just published a near-final draft of these examples.

Now, issuing a near-final draft is an unusual move. So why has the IASB done this? Well, these examples illustrate the application of existing IFRS® Accounting Standards. The IASB hopes that publishing the near-final draft will allow companies to reconsider whether their disclosures are hitting the mark – sooner rather than later.

What requirements are being illustrated?

The six examples use climate-related scenarios. However, the disclosure requirements apply to uncertainties broadly.

The examples highlight some specific disclosure requirements around impairment testing, provisions, credit risk... They also highlight some overarching requirements.

One of the most interesting examples illustrates so-called ‘no impact’ disclosures.

In this example, a company’s climate transition plan has no impact on its financial position and performance at the reporting date. The example highlights that the lack of impact on the financial statements could itself be material information requiring disclosure.

Judgement will be needed to assess whether, and if so where, to include such a no-impact disclosure. Depending on the facts and circumstances, that may be in the financial statements or in another general-purpose financial report – perhaps the sustainability report or management commentary.

Do they introduce new requirements?

The final examples will be released later this year, probably in October. They will not have an effective date because they illustrate the disclosure requirements in current IFRS Accounting Standards. However, the IASB expects that companies will be entitled to sufficient time to implement any changes. This would be similar to agenda decisions published by the IFRS Interpretations Committee.

Do you need to look at the near-final draft?

Whether and how uncertainty is reflected in financial reporting is a top priority. The illustrative examples are non-authoritative. However, investors, regulators and auditors will pay close attention.

I recommend that you start working through the examples and identify any gaps as soon as possible.

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