CDSB Climate Disclosure Standards Board

Accounting for climate

Climate-related checklist for IFRS financial statements

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cdsb.net/ClimateAccounting

CDSB is an international consortium of business and environmental NGOs. We are committed to advancing and aligning the global mainstream corporate reporting model to equate natural capital with financial capital.

We do this by offering companies a framework for reporting environmental information with the same rigour as financial information. In turn, this helps them to provide investors with decision-useful environmental information via the mainstream corporate report, enhancing the efficient allocation of capital. Regulators also benefit from compliance-ready materials.

Recognising that information about natural capital and financial capital is equally essential for an understanding of corporate performance, our work builds the trust and transparency needed to foster resilient capital markets. Collectively, we aim to contribute to more sustainable economic, social and environmental systems.

For more information, visit cdsb.net or follow Climate Disclosure Standards Board on LinkedIn and Twitter @CDSBGlobal.

We welcome your input and discussions. If you would like to comment on this document, please contact us at info@cdsb.net.

CDSB would like to thank members of the CDSB Technical Working Group's Climate Accounting Standards sub-group for their guidance and contribution to the content of this publication. The contents of this publication represent the views of CDSB only, rather than any of the organisations represented in the sub-group.

Introduction

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This checklist has been produced to support preparers in identifying where climate-related matters may be relevant in the preparation and presentation of financial statements in accordance with International Financial Reporting Standard (IFRS Standards), as issued by the International Accounting Standards Board (IASB).

It is intended to prompt preparers as to when climate-related matters may be relevant in relation to the accounting for and disclosure of various financial statement disclosure items. It builds on previous "Accounting for climate" papers that have been produced by CDSB and which should be referred to for more detailed guidance:

1. Accounting for climate December 2020 guidance[1] ("December 2020 paper")
2. Accounting for climate – Supplementary paper 1[2]
3. Accounting for climate – Supplementary paper 2[3]

The December 2020 paper followed two IASB[4] and IFRS Foundation[5] papers clarifying that existing IFRS Standards require the incorporation of material information about the financial effects of climate-related matters in financial reporting, even though the term 'climate-change' is not explicitly referenced in the standards. In particular, the papers outline that when assessing whether climate-related matters may be material, preparers will need to consider whether: a) climate-related matters materially affect their financial statements, due to the magnitude of the effect; or whether b) the nature of climate-related matters results in investors expecting disclosure. In other words, even if a climate-related matter may not have a material impact on a company's financial numbers based on its size, disclosure may be required due to its nature.

Therefore, preparers will need to consider whether the financial statements reflect all climate-related information that is relevant to understanding the entity's financial position and financial performance. Similarly, preparers do not need to provide information via disclosure on those climate-related matters that are not considered material, which may reduce the relevance of the financial statements. However, preparers should consider whether users might reasonably be expecting climate disclosures based on the entity's facts and circumstances, and accordingly it may be appropriate to explain why it has determined climate-related matters not to be material.

This checklist identifies core financial accounting and disclosure matters that preparers may need to consider in relation to the financial impacts of climate-related matters on an entity, including physical and transition-related risks and opportunities. Readers should be aware this checklist should not be considered comprehensive or exhaustive, but is intended to serve as an 'aide-memoire' by demonstrating the range of climate-related matters that preparers might need to consider in relation to a range of financial statement items before delving into the more detailed papers on these issues. We recognise that in practice, there is diversity of views, this is an emerging area of financial disclosure despite the two IASB and IFRS Foundation papers, and that interpretations, along with the standards, will change over time. Therefore, this checklist should not be used as a substitute for referring to the requirements of relevant standards and other relevant interpretive guidance.

The information contained in the checklist is of a general nature and is not intended to address the circumstances of any particular entity. Readers should also consider applicable legal and regulatory requirements, as this checklist does not consider the requirements of any particular jurisdiction.

Financial reporting is an important part of the broader suite of corporate reporting that investors rely on to understand entities' climate-related risks and opportunities to help in making their capital allocation decisions. Investors continue to ask for improvement in the quality of such reporting. The IFRS Foundation's announcement of the formation of an International Sustainability Standards Board (ISSB) to develop a comprehensive global baseline of high-quality sustainability disclosure standards, is a reminder to preparers of the need for complete, consistent and comprehensive disclosure of material climate and sustainability-related information across mainstream annual reporting, including the financial statements.[6]

Checklist

General

Presentation of financial statements

Relevant standards: IAS 1 – Presentation of Financial Statements

1	**IAS 1.25**	Is management aware of material climate-related uncertainties that may cast doubt upon the entity's ability to continue as a going concern? If so, have these been disclosed?	☐
2	**IAS 1.17** **IAS 1.31**	Have additional disclosures been provided if the requirements in IFRSs are insufficient to enable users to understand the impact of material climate related matters on the entity's financial position, financial performance and cash flows?	☐
3	**IAS 1.112**	Do the notes to the financial statements disclose climate-related information that is not presented elsewhere in the financial statements (including the statement of financial position and statement of profit or loss) but is relevant to an understanding of them?	☐
4	**IAS 1.55**	Where the magnitude, nature or function of an item is relevant to an understanding of the entity's financial position, have additional line items (including disaggregation of existing items) been provided in the statement of financial position? For example, disaggregating an entity's non-current assets into 'green' and 'brown'.	☐
5	**IAS 1.85**	Have additional line items (including disaggregation of existing items) been provided in the statement of profit or loss, where such presentation is relevant to an understanding of the entity's financial performance? For example, disaggregating an entity's revenues into 'business as usual' and 'low carbon'.	☐

For further guidance refer to the December 2020 paper.

Estimation uncertainties and assumptions

Relevant standards: IAS 1 - Presentation of Financial Statements

6	**IAS 1.125** **IAS 1.129**	Have the key assumptions about the future and other major sources of key estimation uncertainty at the reporting date, relating to climate-related matters that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, been disclosed? In respect of those assets and liabilities have the following been disclosed: a. their nature; and b. their carrying amount as at the reporting date? Have disclosures under IAS 1.125 above been presented in a manner that helps users of financial statements to understand management's judgements about the future, including those related to the financial impacts of climate change, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year and / or that could influence investors' decision-making? Examples of such disclosures are: a. the nature of the assumption or other estimation uncertainty; b. the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity; c. the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and d. the changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.	☐

For further guidance refer to the December 2020 paper.

Fair value measurement

Relevant standards: IFRS 13 – Fair Value Measurement and IAS 1 - Presentation of Financial Statements

7	IFRS 13.86-.90	Have climate-related factors (both risks and opportunities) been incorporated into the fair value measurement of level 3 assets and liabilities as defined in IFRS 13.86, based on information that is reasonably available? Examples of climate-related factors that impact fair value measurement, include: • Changes in legislation or regulatory actions as well as changing consumer and supplier behaviours impacting revenues and growth as well as the cost base. • Changing investor and lender behaviour affecting financing costs or availability of funding. • Physical risks resulting in higher future costs or depressed revenue forecasts.	☐
8	IFRS 13.91 IFRS 13.92	Have disclosures been provided, as detailed per IFRS 13, to help users assess the valuation techniques and inputs, including climate-related factors, used to develop the measurement at fair value of assets and liabilities? The entity should also consider whether users need additional information, including on climate-related matters, to evaluate the quantitative information disclosed pertaining to those assets and liabilities held at fair value.	☐
9	IAS 1.125 IAS 1.128	Where climate-related inputs into the fair value measurement of assets and liabilities is considered a major source of estimation uncertainty, has the appropriate disclosure been provided as required under IAS 1? Note however that that such disclosures are not required for assets and liabilities that are measured at fair value based on a quoted price in an active market for an identical asset or liability.	☐

For further guidance refer to Supplementary paper 1.

Statement of financial position

Financial instruments

Relevant standards: IFRS 9 – Financial Instruments, IFRS 7 – Financial Instruments: Disclosures and IAS 1 - Presentation of Financial Statements

10	IFRS 9.4.1.1-.3	Has the entity considered the implications of 'green' or 'sustainable' features of financial instruments that could result in financial assets failing the SPPI ("solely payments of principal and interest on the principal amount") criterion? In such a case, the financial asset would have to be accounted for as FVTPL ("fair value through profit and loss").	☐
11	IFRS 9.5.5	Has the entity considered climate-related risks when measuring the expected credit losses (ECL) of its financial instruments? Climate-related matters may impact borrower-specific (idiosyncratic) risk and risks posed by the wider macroeconomic environment (systemic risk), as well as the probability of default (PD) and loss given default (LGD).	☐
12	IFRS 9.4.3.3	Where borrowings include 'green' or 'sustainable' features, has the entity assessed whether the features meet the definition of an embedded derivative? If so, the embedded derivative may need to be separated from the financial liability and accounted for as FVTPL.	☐
13	IFRS 7.33	Has disclosure been provided on how the entity is managing risks arising from climate change as they relate to financial instruments within scope, where considered significant?	☐
14	IFRS 7.34	Has appropriate disclosure been provided on the impact of climate risk on the concentration of credit and market risk based on certain shared characteristics such as those associated with physical and/or transitional climate risks, or by geographical location or sector of the investee?	☐
15	IFRS 7.35 IAS 1.125 IAS 1.129	Has the entity provided disclosure on the impact of climate risk, where significant, on their ECLs that is material information for investors? The entity should also consider providing disclosure on its key climate-related assumptions and judgements in calculating its ECLs and related sensitivities.	☐

16	IFRS 7.40-.41	Has the entity provided market risk sensitivity analysis on the impact of changes in factors in relation to climate risk?	☐
17	IFRS 7.8B	Where climate risk has resulted in a change in the entity's investment and risk management strategy for its investment portfolio, has the entity disclosed how climate change influenced that shift?	☐
18	IFRS 7.B10A	Where an entity has borrowings subject to climate-related covenants, has the entity provided any disclosure to enable users to understand the impact on their liquidity positions of breaches of those covenants resulting in early repayment?	☐
19	IFRS 7.39(c)	Has the disclosure been provided on how liquidity risk arising from climate change has been managed, where material?	☐

For further guidance refer to Supplementary paper 1.

Impairment

Relevant standards: IAS 36 – Impairment of Assets and IAS 1 - Presentation of Financial Statements

20	IAS 36.9	Has the entity considered whether there are any climate-related indicators of impairment of its assets? Examples include, but are not limited to, declining demand or commodity prices, regulations limiting emissions, technological innovation and rising costs of carbon or to insure assets.	☐
21	IAS 36.30	Where climate-related indicators have been identified, has the impact these may have on long-term future cash flows, the asset's remaining useful lives, and the value in use calculation when estimating the recoverable amount of the assets in question been assessed?	☐
22	IAS 36.33	Have cash-flows beyond the forecast or budget period been taken into account in line with the assets' useful lives (e.g. when calculating terminal values), if the entity's best estimate is that the future cash-flows will be affected by climate-related matters?	☐
23	IAS 1.17 IAS 1.31 IAS 1.125 IAS 1.129	Have disclosures around the assumptions used to determine the recoverable amount of assets been provided? Under IAS 36.132 companies are encouraged to disclose this, however there is no requirement to do so unless the carrying value includes goodwill or an intangible asset with an indefinite useful life. Under IAS 1, such disclosure may nonetheless be expected if it would be a material item for users. Disclosures that may be required include: • the indicators of impairment (even if no impairment was recognised); • the significant assumptions and estimates used to determine projected cash flows when calculating an asset's recoverable amount using value in use; • a sensitivity analysis to material changes to key assumptions and estimates; and • whether a reasonably possible change to assumptions would result in further material impairments or a reversal of previous impairments within the next year.	☐
24	IAS 36.134	For goodwill and intangible assets with indefinite lives, which are required to be tested annually for impairment, irrespective of whether there is an indication that they may have been impaired, have disclosures been provided on the following, including where climate-related matters are relevant: • the key assumptions affecting the recoverable amounts; • management's approach to determining each key assumption; • the period for which cash flows have been projected, explaining if this exceeds five years; and • the growth rate assumed beyond the projection period, justifying if it exceeds the long-term average growth rate for the country or market of operation?	☐

For further guidance refer to the December 2020 paper.

Income taxes

Relevant standards: IAS 12 – Income Taxes

25	**IAS 12.24** **IAS 12.34**	Has the entity considered whether the recoverability of deferred tax assets has been impacted by climate-related factors, ensuring that the assumptions used when preparing projections of future taxable profits are consistent with those used for other recoverability assessments, such as impairments? The impacts of both physical and transition risks that may impact future profit forecasts should be taken into account, including where such risks reduce the probability of future taxable profits. Equally climate opportunities may increase the probability of sufficient taxable profits thus additional deferred tax assets may become recognisable.	☐

For further guidance refer to Supplementary paper 1.

Intangible assets

Relevant standards: IAS 38 – Intangible Assets

26	**IAS 38.104**	As part of the entity's annual review of the amortisation period and amortisation method for intangible assets with a finite useful life, have the impacts of climate-related matters been considered on the expected useful life of the asset?	☐

For further guidance refer to the December 2020 paper.

Inventories

Relevant standards: IAS 2 – Inventories

27	**IAS 2.10**	Where climate-related events (such as an abnormal heatwave) have caused interruptions in the production or development of inventories while costs are still being incurred that do not necessarily contribute to "bringing the inventories to their present location and condition" and are considered "abnormal", have such costs should been excluded from inventory balances and expensed as incurred?	☐
28	**IAS 2.28**	Where inventory is held over the long-term, has the entity assessed whether climate-related factors, particularly transitional risks, such as the introduction of new regulation, have impacted the net realisable value of any inventory held?	☐

For further guidance refer to Supplementary paper 1.

Leases

Relevant standards: IFRS 16 – Leases

29	**IFRS 16.20**	Has the entity assessed whether climate-related factors, such as exercising a break clause to curtail the lease of carbon-intensive equipment to meet new government regulations, would require lease terms to be adjusted? This would require the remeasurement of the lease liability taking into consideration the new lease term.	☐
30	**IFRS 16.44**	Where terms to an existing lease contract have been modified for climate-related reasons, for example changing the scope of the lease to allow for carbon-related capital improvements to the property by the landlord, has the entity considered whether this modification would require it to be treated as a separate lease?	☐
31	**IFRS 16.9**	In fulfilling commitments to reduce carbon emissions through entering new contracts, such as long-term renewables purchase contracts, has the entity evaluated whether such agreements contain a lease? Such contracts would then need to be accounted for in accordance with the requirements of IFRS 16.	☐

For further guidance refer to Supplementary paper 2.

Property, plant and equipment

Relevant standards: IAS 16 – Property, Plant and Equipment and IAS 1 - Presentation of Financial Statements

32	IAS 16.51	Has the entity considered whether climate-related factors have impacted the useful life and residual value of assets held? For example, the introduction of government legislation, consumer pressure or changing demands.	☐
33	IAS 1.125 IAS 1.129	Where significant climate-related assumptions or estimate have been used in calculating the useful life and/or residual value of the asset, have these sources of estimation uncertainty and key assumptions been disclosed, as well as related sensitivities?	☐

For further guidance refer to the December 2020 paper.

Provisions and contingent liabilities

Relevant standards: IAS 37 – Provisions Contingent Liabilities and Contingent Assets and IAS 1 - Presentation of Financial Statements

34	IAS 37.14 IAS 37.59	Has the entity considered whether climate-related matters may require the recognition of new provisions or require adjustment of existing provisions to reflect the current best estimate? This may include provisions resulting from obligations arising due to the introduction of new environmental laws and climate-related commitments by the entity such as net-zero targets, as well as provisions needed for contracts now considered onerous due to the growing cost of fulfilling these due to climate-related matters.	☐
35	IAS 37.45	Where the effect of the time value of money is material, has the entity considered the risks and uncertainties in relation to climate-related matters when determining the cash flows and discount rates to measure its provision? In particular, where the entity has recognised provisions for obligations associated with decommissioning or retiring tangible long-lived assets such as coal, oil and gas, chemical and cement plants, if the underlying asset undergoes a write-down or reduction in useful life, the relevant decommissioning obligation may be affected especially if it cannot be separated from the related asset. This may result in a revision to the carrying amount of the related provision.	☐
36	IAS 37.85	Have disclosures been made on uncertainties in relation to climate-related matters about the timing of the outflows of the obligation for which the entity has provided? Similarly, where necessary to provide adequate information for users, has the entity disclosed its major climate-related assumptions concerning future events?	☐
37	IAS 37.86	Has the entity considered whether new contingent liabilities may need to be disclosed in relation to climate-related matters for possible obligations, or for existing contingencies previously considered remote becoming possible? Similarly, has the entity considered disclosure of contingent liabilities for potential litigation and fines or penalties because of the introduction of climate-related regulations, where there may be a dispute over whether the company has broken a regulation, but the probability that it will have to make a payment is lower than 50%?	☐
38	IAS 1.17 IAS 1.31 IAS 1.112	Where a climate-related obligation does not meet the recognition criteria for both a provision and a contingent liability under IAS 37, such as commitment by the entity to reduce its greenhouse gas emissions at a future date, has disclosure been provided on the implications of the obligation if considered material to investors?	☐

For further guidance refer to the December 2020 paper.

Statement of profit or loss and other comprehensive income

Revenue

Relevant standards: IFRS 15 – Revenue from Contracts with Customers and IAS 1 - Presentation of Financial Statements

39	**IFRS 15.51**	Has the entity considered the impact of climate-related factors on the revenue or costs incurred in fulfilling multi-period contracts? For example, where a contract has a variable revenue clause, such as penalty clauses for late delivery, the occurrence of adverse weather events exacerbated by climate-related factors in future years could increase the likelihood of incurring a penalty and trigger a reduction of revenue recognised.	☐
40	**IFRS 15.95 - .104**	If the entity has capitalised contract costs, having met the criteria per IFRS 15.95 to do so, has it considered whether climate-related factors may impact the amortisation period of those capitalised contract costs? Climate-related factors may cause the obsolescence of products in relation to the capitalised cost, require the rescope and redesign the underlying product, or bring about general changes in market demand for those products, which would reduce the amortisation period of the capitalised contract cost.	☐
41	**IFRS 15.114**	Has the entity disclosed revenues recognised from contracts with customers into disaggregated climate-related categories, such as those revenues relating to 'business as usual' activities in contrasts to revenues from 'low carbon' activities where considered material for users?	☐
42	**IAS 1.125**	Has the entity provided additional disclosure where significant judgement has been required in assessing the impact of climate-related factors on multi-period contracts, and / or on the amortisation period of capitalised contract costs?	☐

For further guidance refer to Supplementary paper 2. Refer to both the IAS 37 section above and the December 2020 paper, as well as Supplementary paper 2 for further guidance on contracts that become onerous due to revenue or costs that are adversely impacted by climate-related matters.

Share-based payment

Relevant standards: IFRS 2 – Share-based Payment

43	**IFRS 2.45**	If the entity has linked employees' and directors' share-based payments with progress towards climate goals , has the entity disclosed details of the climate-related performance condition of the share-based payment arrangements to enable users to understand the terms (and financial implications) of the arrangements? Accounting for such climate-related performance conditions should be in line with IFRS 2. Where the input to the valuations of the share-based payment represents significant estimates per IAS 1, the entity may need to disclose key assumptions, including those related to climate, and the sensitivity of the valuations to these key assumptions.	☐

For further guidance refer to Supplementary paper 2.

Employee benefits

Relevant standards: IAS 19 – Employee Benefits

44	**IAS 19.8**	Where the entity has offered additional benefits to employees to encourage them to adopt climate-positive behaviours have these been accounted for in line with IAS 19? Is the disclosure provided consistent with narrative reporting elsewhere and to the level of detail required by users?	☐

For further guidance refer to Supplementary paper 2.

Sector specific standards

Biological assets

Relevant standards: IAS 41 – Agriculture

45	IAS 41.12 IAS 41.B62	Where the entity holds biological assets such as fisheries, poultry and plantations, has it considered the effects of climate change on its fair value measurement of those assets?	☐
46	IAS 41.30	If a biological asset is being recognised for the first time and where quoted market prices are unavailable, has the entity considered whether uncertainties driven by climate change mean that a fair value measurement is clearly unreliable? In this case the biological asset shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses, until a point when the fair value of the biological asset becomes reliably measurable.	☐

For further guidance refer to Supplementary paper 2.

Extractive activities

Relevant standards: IFRS 6 – Exploration for and Evaluation of Mineral Resources

47	IFRS 6.13	Where an entity is incurring expenditure on the exploration for and evaluation of mineral resources ("E&E" expenditure), has it considered whether, in light of climate-related factors, its accounting policy remains appropriate for determining whether to capitalise or expense costs? For example, entities in carbon-intensive sectors may need to reconsider whether it remains appropriate to capitalise E&E expenditure.	☐
48	IFRS 6.18- .20	Have any changes in facts and circumstances occurred, such as a climate-driven strategic decision to cease expenditure on further E&E resources in a particular geography, interim and long-term emissions reductions targets, or changes in the commercial viability of an E&E asset due to climate-related changes in market demand or government regulation, which would suggest that the carrying amount of an E&E asset may exceed its recoverable amount? In such a case, any resulting impairment loss should be measured, presented and disclosed in accordance with IAS 36.	☐

For further guidance refer to Supplementary paper 2.

Insurance contracts

Relevant standards: IFRS 17 – Insurance Contracts

49	IFRS 17.32 IFRS 17.33 IFRS 17.40	Has the entity considered if climate-related factors have impacted the key assumptions that drive the measurement of insurance liabilities, including the impacts on the frequency, magnitude or timing of insurance events?	☐
50	IFRS 17.117	Has disclosure been provided on the significant judgements and changes in judgements in relation to climate-related matters in applying IFRS 17, specifically the inputs, assumptions, and estimation techniques used?	☐
51	IFRS 17.121	Has the entity disclosed information on the extent to which its insurance policies are impacted by increased frequency and severity of climate-related events in order to enable users of its financial statements to evaluate the nature, amount, timing and uncertainty of future cash flows that arise from insurance contracts?	☐
52	IFRS 17.124 IFRS 17.127 IFRS 17.128	Where relevant, has disclosure been provided on how climate-related matters impact exposure to risks, concentrations of risk, and sensitivity analysis illustrating how profit or loss and equity would have been affected by changes in risk exposures that were reasonably possible at the end of the reporting period?	☐

For further guidance refer to Supplementary paper 1.

References

1. CDSB (2020) Accounting for climate: Integrating climate-related matters into financial reporting [PDF]. Available from: https://www.cdsb.net/sites/default/files/cdsb_climateaccountingguidance_s_110121.pdf

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