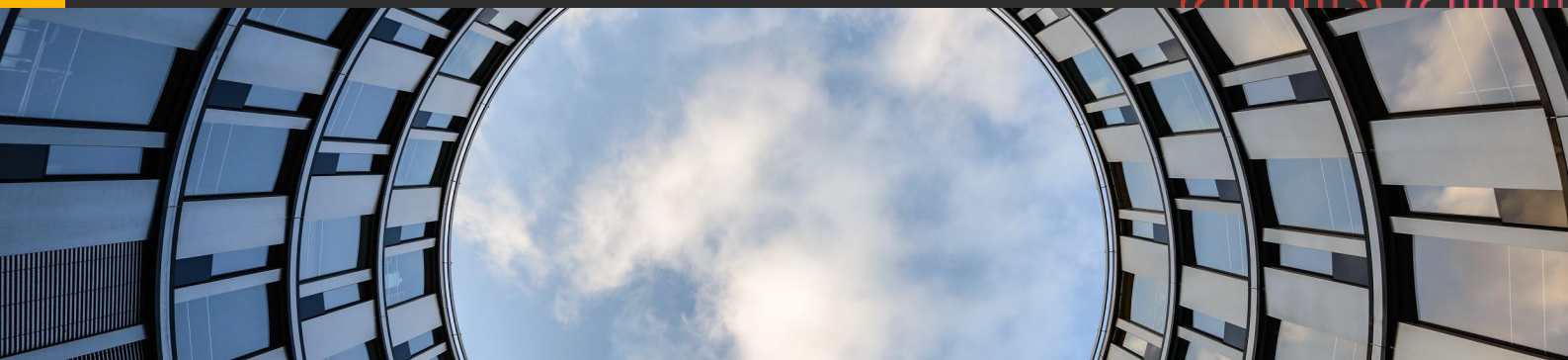


In Brief:

Climate-related risks: The impact on financial reporting



At a glance

There continues to be an unprecedented level of attention on climate-related corporate reporting. In September 2020, the New Zealand government announced that it will introduce a comply or explain disclosure standard based on the Task Force on Climate-related Financial Disclosures (TCFD) framework which will be effective from 2023. This new standard is a few years away, however given current investor focus, entities need to consider the impact on their reporting now.

What's the issue?

Climate-related risks are an important topic which might have an impact on an entity's operations and financial performance. NZ GAAP does not explicitly address climate risk, but the principles that underlie various judgements and estimates made in the preparation of the financial statements will often incorporate climate-related risk factors.

It is also important to note that NZ IAS 1 and PBE IPSAS 1 have overarching disclosure requirements; to disclose information if that information is needed to enable stakeholders to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. Therefore in light of the current focus on, and impact of, climate change, entities should ensure that they have undertaken a rigorous assessment to ensure that all of the material information affecting the financial statements in this respect is provided.

Why engage on climate-related risk disclosures now?

Globally we have seen an ongoing level of engagement from investors on this agenda who are asking not only for more detailed reporting in this area,

but also calling on their auditors to appropriately challenge boards and management on their consideration of climate-related risks.

Recent legal opinions in New Zealand and Australia make it clear that directors' duties of due care and diligence require them to think through climate-related financial risk when making decisions. Just last month, in a ground-breaking case for climate-related financial disclosure, an Australian superannuation fund has settled with an activist fund member: acknowledging climate change to be a 'material, direct and current financial risk'. It is likely similar litigation will arise in New Zealand in the not too distant future.

IASB educational material

IFRS Standards do not refer explicitly to climate-related matters, but do include several requirements which should be considered in the context of climate-related risks. The IASB has recently published educational material that contains examples of how companies might consider climate-related matters and risks when preparing their financial statements in accordance with IFRS.

What topics are covered by the IASB educational material?

The educational material contains a non-exhaustive list of examples regarding how climate risk might affect the measurement and disclosure requirements of various standards and the various paragraphs of those standards that might be referenced in determining how to incorporate such risks. The following is a list of standards covered and the main topics discussed:



Educational material is relevant for PBEs

While the educational material is prepared in accordance with IFRS, the considerations are largely consistent for Tier 1 and Tier 2 public benefit entities applying PBE Standards.

Standards	Main Topics Addressed
IAS 1 - Presentation of Financial Statements	- Disclosures relating to sources of estimation uncertainty, significant judgements and going concern
IAS 2 - Inventories	- Net realisable value of inventories
IAS 12 - Income Taxes	- Recoverability of deferred tax assets
IAS 16 - Property Plant and Equipment IAS 38 - Intangible Assets	- Useful lives and residual values - Research and development expenditures
IAS 36 - Impairment of assets	- Impairment indicators - Recoverable amounts - Disclosures
IAS 37 - Provisions, Contingent Liabilities, and Contingent Assets IFRIC 21 - Levies	- Recognition, measurement and disclosure
IFRS 7 - Financial Instruments: Disclosures	- Risks relating to financial instruments including expected credit losses, concentration of credit risk and concentrations of market risk
IFRS 9 - Financial Instruments	- Classification and measurement, including impairment
IFRS 13 - Fair Value Measurement	- Impact on fair value measurement and disclosures, particularly those within level 3 of the fair value hierarchy
IFRS 17 - Insurance Contracts	- Impact on measurement of insurance contract liabilities and disclosures

Does the educational material discuss materiality?

Yes, the educational material notes that entities must consider climate-related matters in applying IFRS where the effect of those matters is material in the context of the financial statements taken as a whole. It is also noted that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements, which provide information about a specific company. Primary users of financial statements are referred to as investors throughout the document.

What is the nature of educational material and does it contain an effective date?

The educational material is issued by the IASB to support the consistent application of existing requirements in IFRS.

The educational material does not form part of IFRS, and it cannot add to or change the requirements in the standards. However, it is still useful material that IFRS users might benefit from when considering IFRS. PBEs would also find this material useful as the core principles are consistent with those in PBE Standards.

This educational material supplements an [article](#) published in November 2019 by an IASB board member on the subject of climate-related disclosures.

Because the educational material does not modify any existing standards, it does not have an effective date or transition provisions.

Where can I find out more?

For further information read the [IASB Education Material: the effects of climate-related matters on financial statements prepared applying IFRS](#).

Need more information?

If you wish to discuss this or any other financial reporting related matter, please contact your usual PwC contact or one of the following financial reporting or treasury specialists:



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