



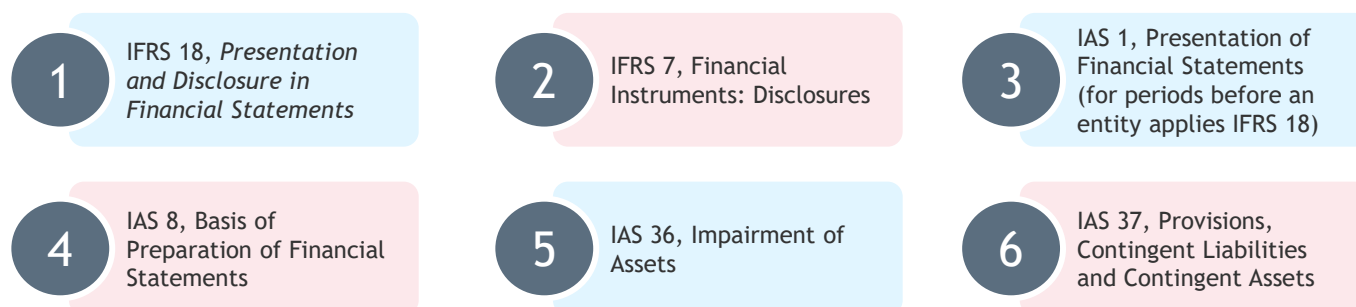
# THE STANDARD STANCE

Turning Climate and Other Uncertainties  
into Objective Decision-Making

Volume 30  
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## BACKGROUND

Uncertainty in financial reporting arising from climate-related and other matters is a focus for many regulators worldwide. On 28 November 2025, the International Accounting Standards Board (IASB) [issued the final illustrative examples](#) titled Disclosures about Uncertainties in Financial Statements to introduce illustrative examples to the following IFRS Accounting Standards:



These examples use climate as an example of one type of uncertainty that may result in additional disclosures being made in financial statements, but these may be useful in making judgements about other uncertainties. The examples do not have an effective date or transition requirements as they accompany the authoritative text of IFRS Accounting Standards, but do not add to or change those requirements.

**In the Indian context, while the aforesaid illustrations are yet to be incorporated into the corresponding Indian Accounting Standards, they provide useful insight into how climate-related and other uncertainties may already be reflected in financial statements prepared in accordance with Indian Accounting Standards and should be applied when material uncertainties (including climate-related risks) exist.**

This edition of *The Standard Stance* summarises these illustrative examples and considers how the principles of the illustrative examples may be used in making judgements about other uncertainties and associated disclosures in financial statements.

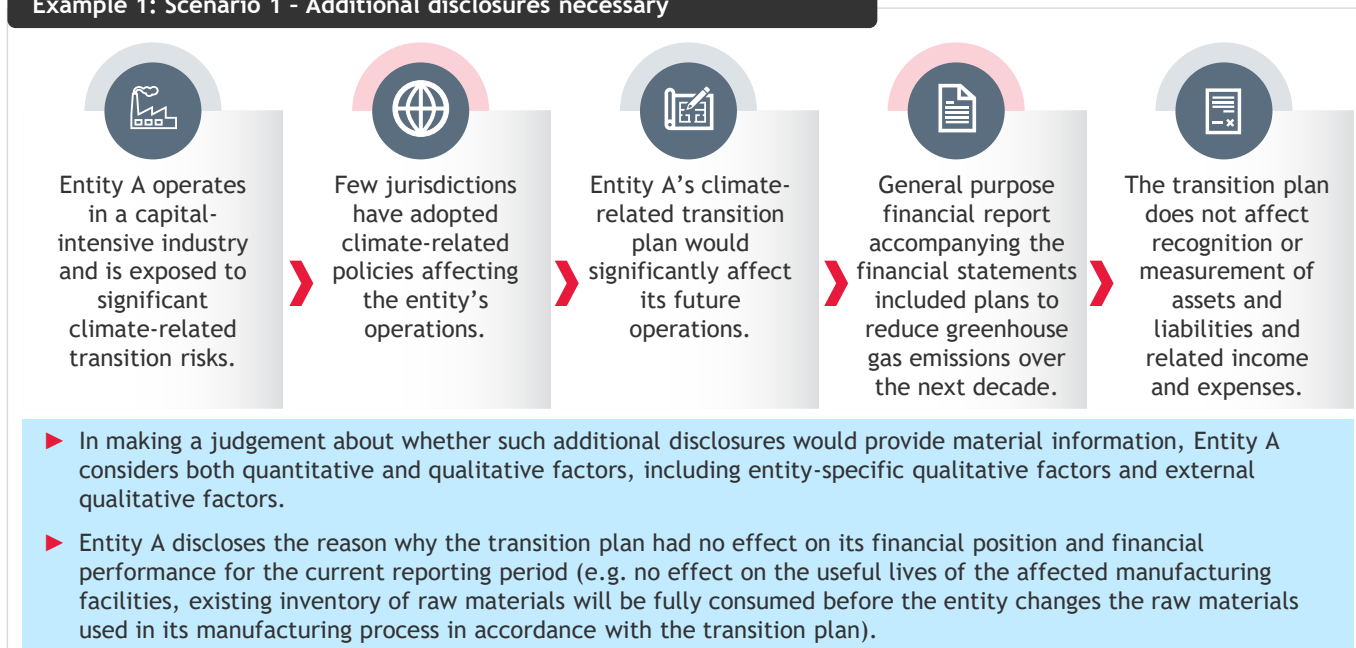
## THEMATIC SUMMARY

The examples illustrate how an entity may apply the requirements in IFRS Accounting Standards to disclose the effects of uncertainties in its financial statements, using climate-related matters as an example. The following is a thematic summary of the illustrative examples.

## MATERIALITY JUDGEMENTS

The IASB developed Example 1 to respond to stakeholder concerns about a perceived disconnect between information about the effects of climate-related risks disclosed in the financial statements and information provided outside the financial statements (e.g. in sustainability reporting). Example 1 sets out two different scenarios that lead to different conclusions.

### Example 1: Scenario 1 - Additional disclosures necessary



The IASB developed Scenario 2 to help address concerns that the consideration of qualitative factors could lead to excessive disclosures. The IASB illustrated that in certain cases, omitting information could not reasonably be expected to influence decisions of the primary users of the entity's financial statements. In such a case, the entity need not provide additional disclosure because doing so would not provide material information.

#### Example 1: Scenario 2 - Additional disclosures not necessary



Entity B operates in an industry with low levels of greenhouse gas emissions and limited exposure to climate-related transition risks.



General purpose financial report accompanying the financial statements disclosed the use of renewable energy and avoidance of exposure to high-emission activities and how the entity plans to maintain the current emission policy.



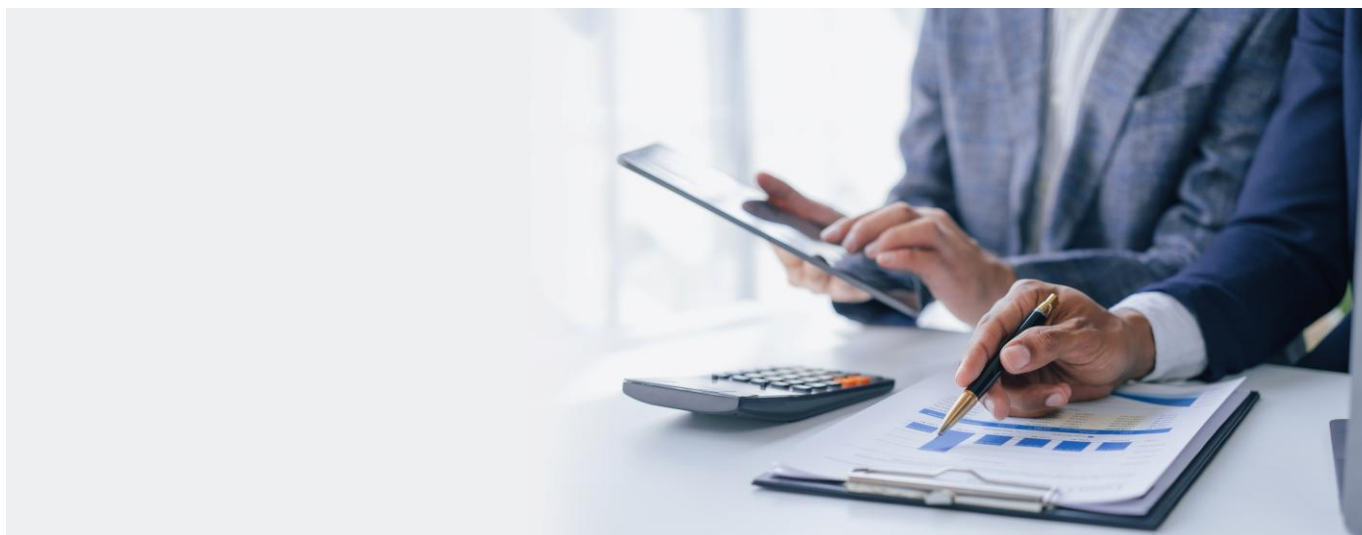
The greenhouse emission policy has no effect on the recognition or measurement of assets and liabilities and related income and expenses.

- ▶ In making a judgement about whether additional disclosures would provide material information, Entity B considers both quantitative and qualitative factors, including the effect of greenhouse gas emissions policy and the industry where the entity operates.
- ▶ Entity B concludes that additional disclosure to explain the lack of effect of its greenhouse gas emission policy on the financial position and financial performance for the current reporting period would not provide material information in the context of its financial statements taken as a whole.

#### BDO India's Comment

In both scenarios, the entity considered its knowledge and experience of transactions or events, and the expectations of users of financial statements to identify whether all material information has been provided in the financial statements, despite no effect on the recognition or measurement of its assets and liabilities and in the absence of specific disclosure requirements in IFRS Accounting Standards.

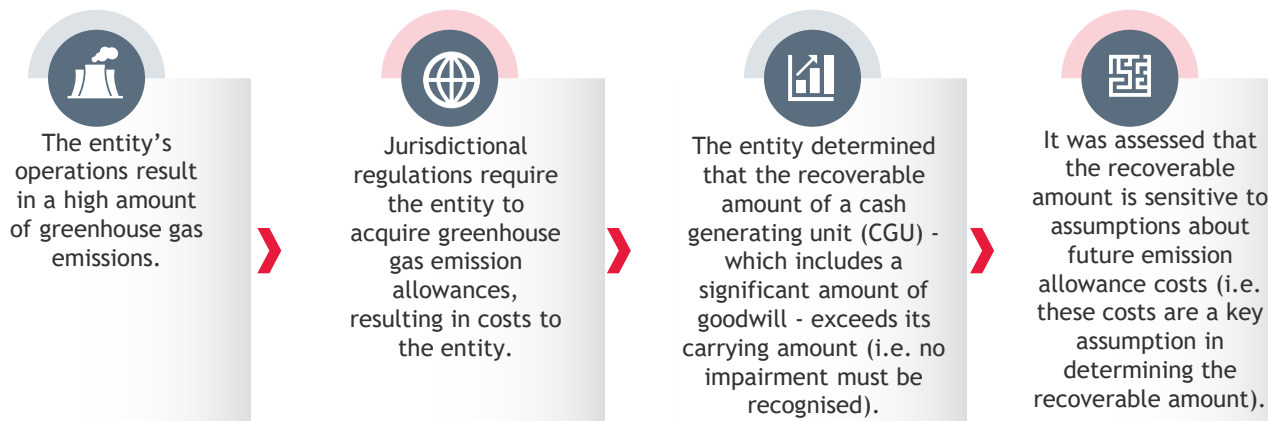
Example 1: Scenario 1 results in the entity disclosing that its climate transition plan does not have a material effect on its financial position and financial performance. Such statements are sometimes referred to as 'negative disclosures' or 'negative statements' in that they assert that a specific circumstance is not applicable, which is not typically the case in financial statements. Entities should carefully consider all relevant quantitative and qualitative factors (including those noted in the illustrative examples) in making the judgement about whether this type of disclosure would provide material information.



## ASSUMPTIONS AND OTHER SOURCES OF ESTIMATION UNCERTAINTY

The IASB developed the following examples to illustrate how applying the requirements in IFRS Accounting Standards may result in an entity disclosing information about assumptions it makes about the future to determine the recoverable amounts of assets. Disclosing information about assumptions used in preparing financial statements may be necessary to enable users of financial statements to understand how climate-related uncertainties affect the recognition and measurement of assets and liabilities.

### Example 2: Disclosure of assumptions - specific requirements



The entity discloses the relevant information in relation to its key assumptions and approach used to determine the values assigned to them, including key assumptions used in the measurement of value in use, the approach to determining the values assigned to these key assumptions and sensitivity information, i.e., whether an impairment loss would result from a reasonably possible change in the assumptions about the future price of emission allowances.

The following example illustrates how an entity may be required to disclose information about assumptions it makes about the future, even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure. This example illustrates what are sometimes referred to as 'close call' impairment disclosures. Such disclosures may be necessary even when no impairment is recognised and CGUs do not contain goodwill or other intangibles with indefinite lives, which trigger specific disclosure requirements.

### Example 3: Disclosure of assumptions - general requirements



The entity discloses qualitative and quantitative information about these assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity.

The following example illustrates the disclosure of information about the effects of climate-related risks on an entity's credit risk exposures and credit risk management practices, as well as factors to use in assessing the materiality of information.

#### Example 4: Disclosures about credit risk



An entity (being a financial institution) considers the effects of various risks on its credit risk exposures, including climate-related risks.



Loans to agricultural customers and corporate real estate customers are exposed to climate-related risks and these risks have a significant effect on the credit risk exposures of these portfolios.



The entity takes actions to mitigate credit risk arising from its customers' exposure to climate-related risks.

The entity discloses the relevant information about the effects of climate-related risks on its exposure to credit risk on two identified portfolios such as an explanation of the credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses and information about collateral held as security and other credit enhancements and information about concentrations of climate-related risks if not apparent from other disclosures the entity makes.

The following example illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial.

#### Example 5: Disclosures about decommissioning and restoration provisions



The entity is obligated to decommission a plant and restore the site.



When discounted to present value, the costs to settle the entity's plant decommissioning and site restoration provision are immaterial.



However, costs to settle these obligations will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects.



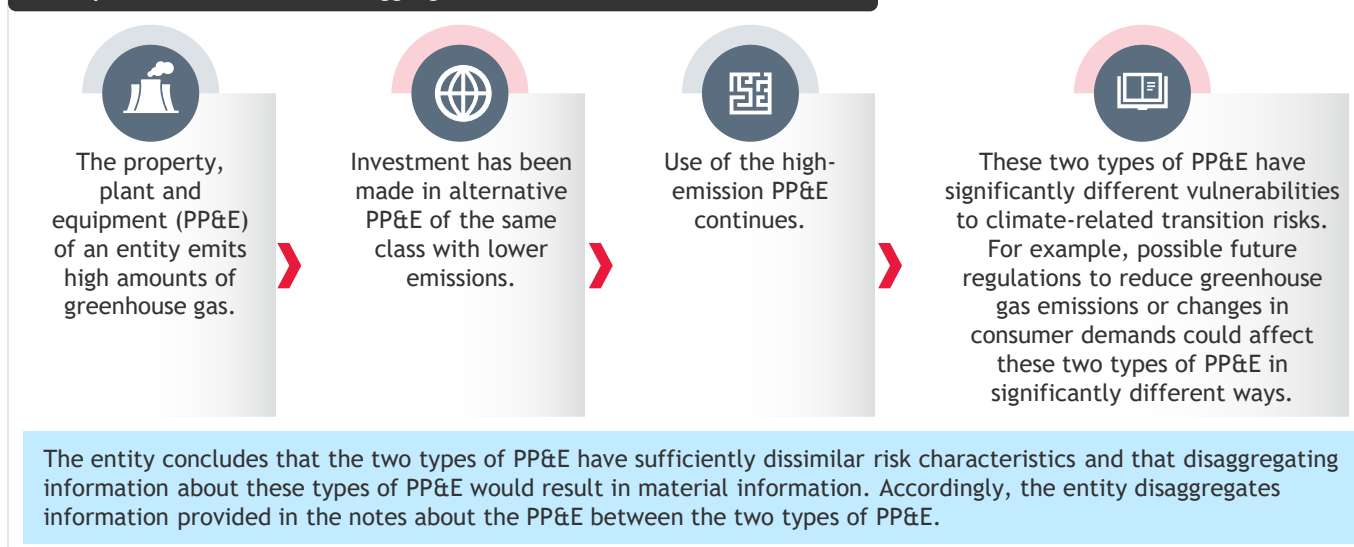
This risk stems from efforts to transition to a lower-carbon economy and possible regulatory and policy actions to reduce greenhouse gas emissions.

The entity assesses and concludes that although the plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision, information about these obligations is material. The entity discloses a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them and an indication of the uncertainties about the amount or timing of the outflows.

## DISAGGREGATION

The following example illustrates the principles of aggregation and disaggregation in IFRS 18 Presentation and Disclosure in Financial Statements.

### Example 6: –Disclosure of disaggregated information in the notes

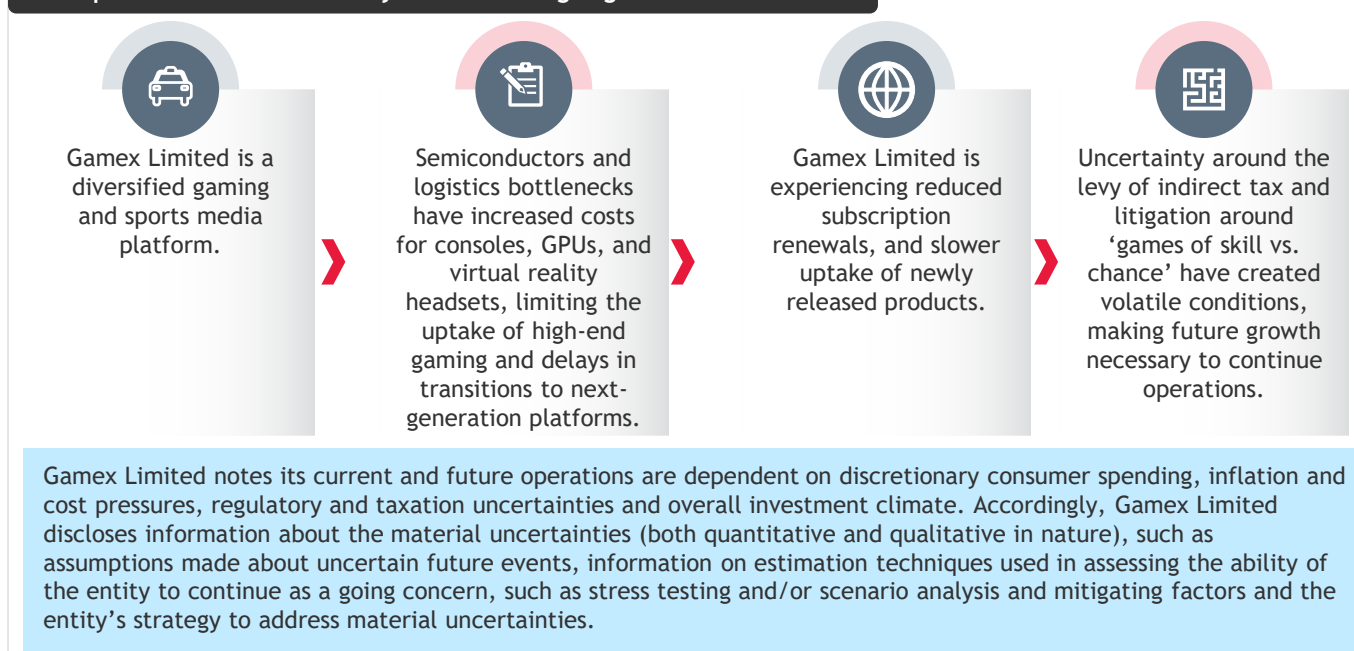


## BEYOND CLIMATE

Financial reporting challenges resulting from economic disruptions and other uncertainties need to be considered as they may have a number of effects, both expected and unexpected (e.g. supply chain disruptions as a result of geopolitical uncertainty, increased costs, price fluctuations and shifts in market demand). When the effects of these uncertainties are material, disclosure of the nature of those risks may be necessary to provide material information to users and meet the requirements of IFRS Accounting Standards.

Building on the IASB's illustrative examples, the following example relates to uncertainties other than climate change.

### Example 7: Material uncertainty in relation to going concern



### BDO India's Comment

The illustrative examples may encourage discussion between finance teams, sustainability specialists, risk managers, and boards, fostering integrated thinking within organisations, such as how all various risks and uncertainties may affect financial reporting.

By illustrating how the effects of climate change and other uncertainties may result in material information being disclosed in the financial statements, it might be reiterated that connected reporting between 'traditional' financial reporting and sustainability and other risks is inherent in preparing financial statements.

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