Australian Government
Australian Accounting Standards Board

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Auditing and Assurance Standards Board

Climate-related and other emerging risk disclosures: assessing financial statement materiality using AASB Practice Statement 2

22 Feb 2019

Welcome

Why do we need to talk about the financial statements?

What?

- Investors publicly stating that their decisions are being impacted by climate-related risks
- Climate-related risks and other emerging risks are currently predominantly discussed outside the financial statements
- Entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and should consider them also in the context of their financial statements.

So what:

- The AASB and AUASB has issued a bulletin on **Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB Practice Statement 2** which guides directors, preparers and auditors when preparing and auditing financial statements.

Now what?

- The AASB and AUASB expect that directors, preparers and auditors will be considering AASB Practice Statement 2 (APS 2) *Making Materiality Judgements*, when preparing and auditing financial statements for their next half and full year ends.

What have we heard?

- Existing and potential investors are increasingly demanding more specific information about an entity's exposure to, and management of, climate-related risks
- Investors have specifically identified climate-related risks as being used in their decision making, but not being adequately addressed in annual reports

Briefing Paper on the 2018 Global Investor Statement to Governments on Climate Change

This Briefing Paper accompanies the 2018 Global Investor Statement to Governments on Climate Change. It has been prepared by seven investor organizations including the Asia Investor Group on Climate Change (AIGCC, Asia), CDP, Ceres (North America), the Investor Group on Climate Change (IGCC, Australia/New Zealand), the Institutional Investor Group on Climate Change (IIGCC, Europe), Principles for Responsible Investment (PRI) and the UN Environment Finance Initiative (UNEP FI). These groups collectively represent hundreds of investors worldwide with trillions of dollars in assets under management.

Vanguard, BlackRock, HSBC call for climate risk disclosure

Katie Kross · November 13, 2017

- **BlackRock**, the world's largest asset manager, called for investors to factor climate change risk into investment decisions in a much publicized move in 2016. Read more >
- **Vanguard Group** announced in Aug. that that it is urging companies to disclose how climate change could affect their business and asset valuations. Read more >
- In Nov., **HSBC** announced it will provide $100 billion in financing by 2025 for clean energy and lower-carbon technologies and that it will adopt the recommendations of the Task Force on Climate-related Financial Disclosures. Read more >

BLACKROCK®

MARCH 2018

BlackRock Investment Stewardship's approach to engagement on climate risk

We have received a number of inquiries from clients and others about how BlackRock Investment Stewardship analyzes and engages companies on climate risk. The following is intended to explain our approach to a broader audience.

Notice of annual general meeting

Whitehaven Coal Limited ACN 124 425 396

Super funds demand climate reporting as one of their own faces court action

CBA hit with climate change court action from shareholders (Australian Financial Review)

By EJA Comms | August 8, 2017

Polling question 1

- Have you included climate-related risk disclosures/information in your annual report?

1. Yes, in the OFR, MD&A and/or sustainability report
2. Yes, in the financial statements
3. No

Polling question 1 - results

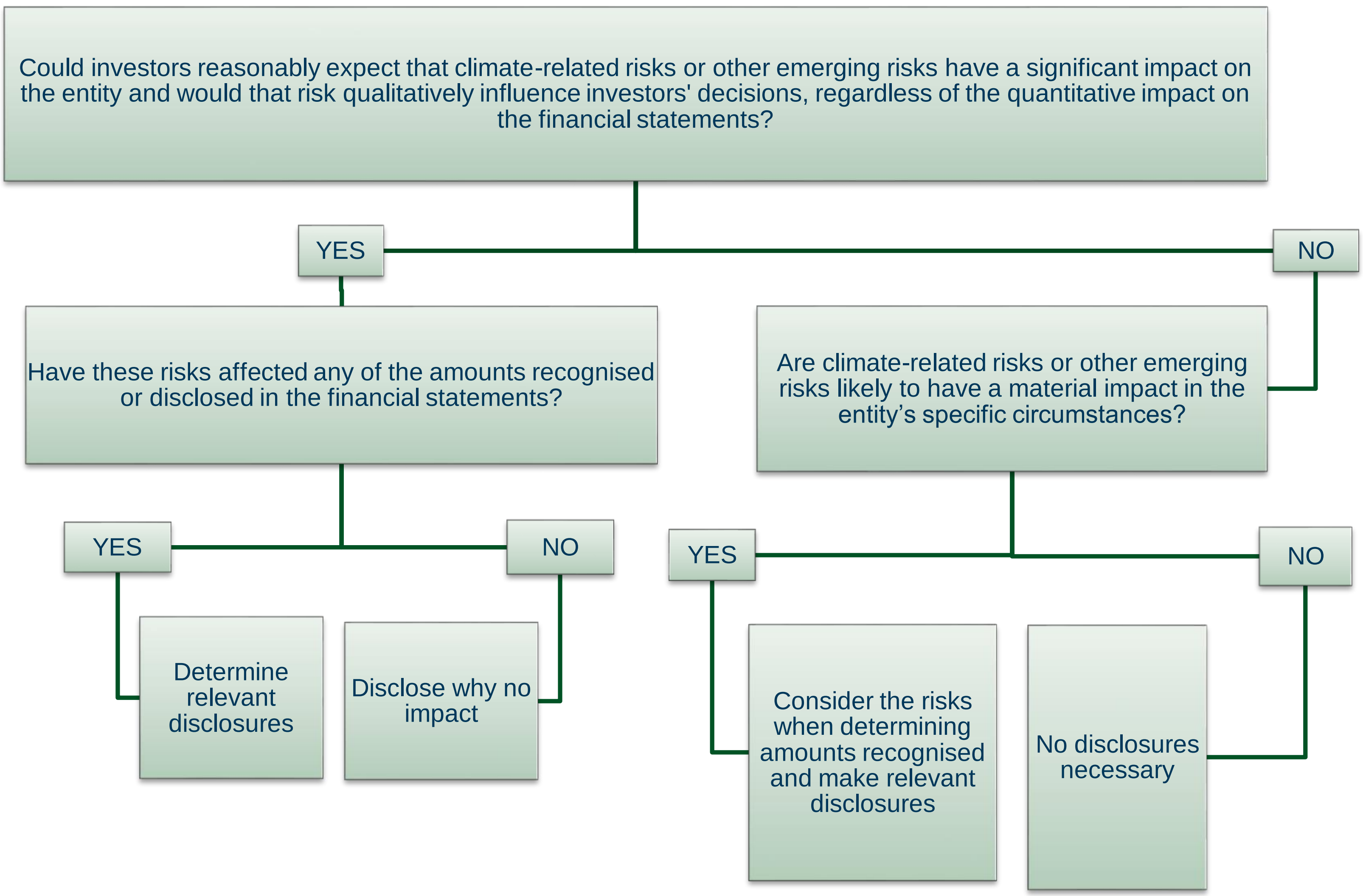
- Have you included climate-related risk disclosures/information in your annual report? (out of 33 votes received)

1. Yes, in the OFR, MD&A and/or sustainability report – 79%
2. Yes, in the financial statements – 9%
3. No – 18%

What is AASB Practice Statement 2 *Making Materiality Judgements* (APS 2)?

- Per AASB 101 *Presentation of Financial Statements*, information is material if omitting it or misstating it could **influence decisions** that users make on the basis of financial information about a specific reporting entity
- Materiality assessment should made on the basis of size (quantitative) and nature (qualitative) factors, or a combination of both
- APS 2 provides non-mandatory guidance on making materiality judgements when preparing general purpose financial statements
- APS 2 only applies to the financial statements and not to the other information contained in the annual report

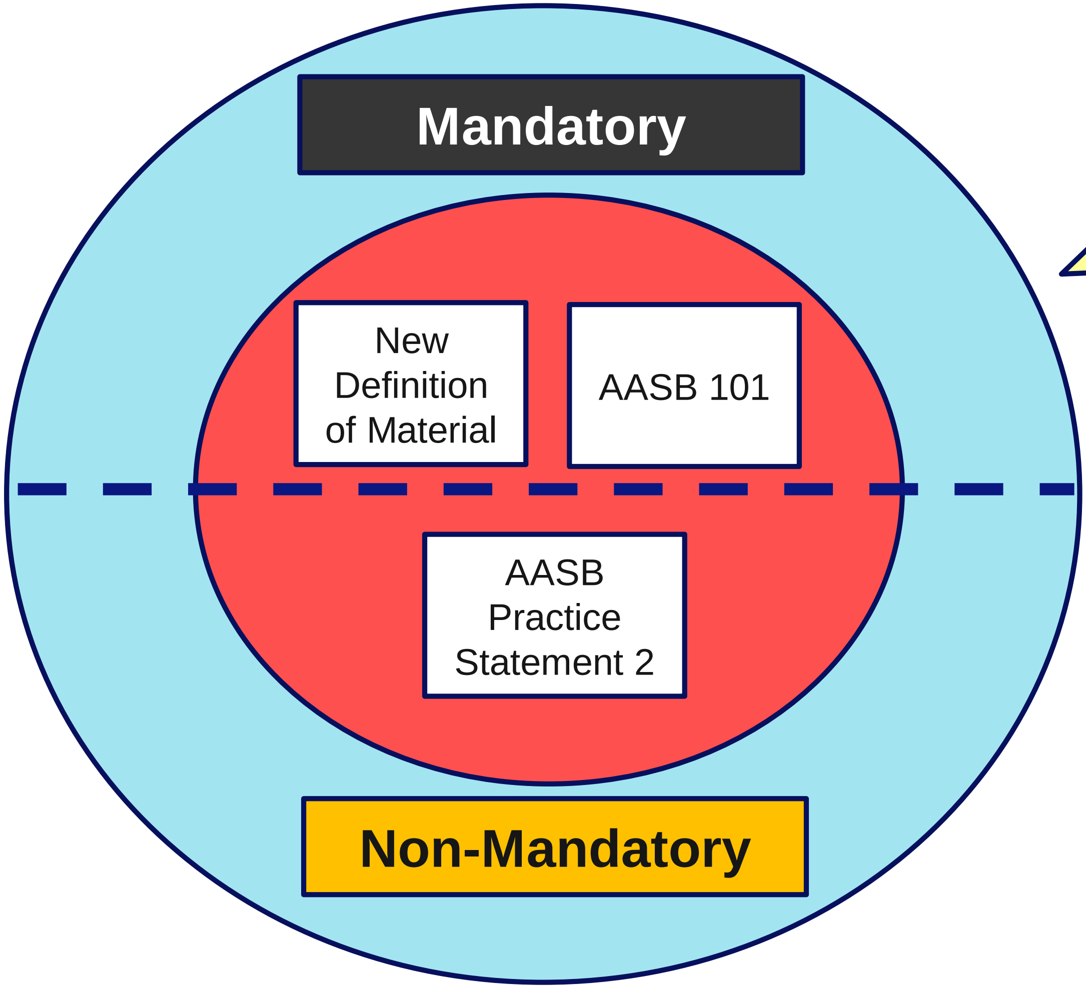
How does it apply to disclosing climate-related and other emerging risks in financial statements?



Discussion: Question 1

- Are you in an industry that is expected to be significantly affected by climate-related risks?
- If so, have your stakeholders made it clear climate change is important to their decision making?

Mandatory vs non-mandatory



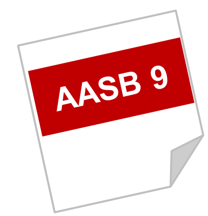
- ❑ Considering materiality when making disclosures in the financial statements is mandatory !
- ❑ APS 2 cannot be ignored because it is “non-mandatory”

Financial reporting considerations: examples

- Recoverable amount calculations and asset impairments:
  - Climate-related risks could be impairment indicator
  - Disclose whether and how have they been factored into the recoverable amount calculations, what assumptions have been made

- Consider impact on estimated useful lives of assets, the amount of depreciation or amortisation

- For assets measured at fair value, disclose how climate-related risk has been factored in to the fair value calculations



- Consider impact on expected credit losses of loans and investments

- Climate-related risk and uncertainties may result in onerous contracts and affect best estimate of a provision

Polling question 1

- Have you considered if climate-related risks could affect the amount reported in the financial statements?

1. Yes, when calculating impairment of assets
2. Yes, when estimating provisions
3. Yes, in other areas
4. No

Polling question 1- results

- Have you considered if climate-related risks could affect the amount reported in the financial statements? (out of 32 votes received)

1. Yes, when calculating impairment of assets – 9%
2. Yes, when estimating provisions – 19%
3. Yes, in other areas – 25%
4. No – 53%

Polling question 1

- If you answer to Q2 is Yes, have you disclosed this information in the notes to the financial statements?

1. Yes
2. No
3. Not applicable (no impact)

Polling question 1- results

- If you answer to Q2 is Yes, have you disclosed this information in the notes to the financial statements? (out of 26 votes received)

1. Yes – 12%
2. No – 42%
3. Not applicable (no impact) – 46%

Assurance recommendations - what would auditors ask?

- Auditors may ask the preparers of the financial statements:

- Have you considered climate-related risk when preparing your financial statements?
- If so and it is material has this been adequately reflected in the financial statements?
- What disclosures in the annual financial report are there as to why there has been no impact?
- If not recognised or disclosed in the financial statements what disclosures in the broader annual report as to why there is no impact have been made?
- Are there any implications to the entity of climate-related risk in relation to regulatory, market, committed and proposed cap ex and the entities overall objectives and strategies e.g. acquisitions, divestments?
- Have you considered potential climate-related risk in determining accounting estimates including assumptions used to arrive at a fair value estimate and potential impairment of assets and provisions?

Discussion: Question 2

- After this discussion, will you be reconsidering your disclosures in the financial statements?
- If so, what are the possible areas (based on slide 10) you would consider in the context of your company?

Engage with the AASB

Australian Accounting Standards Board Discussion group

@AASBAustralia
@krispeachAASB

Keep in touch with the AASB

website: www.aasb.gov.au

e-mail: standard@aasb.gov.au