

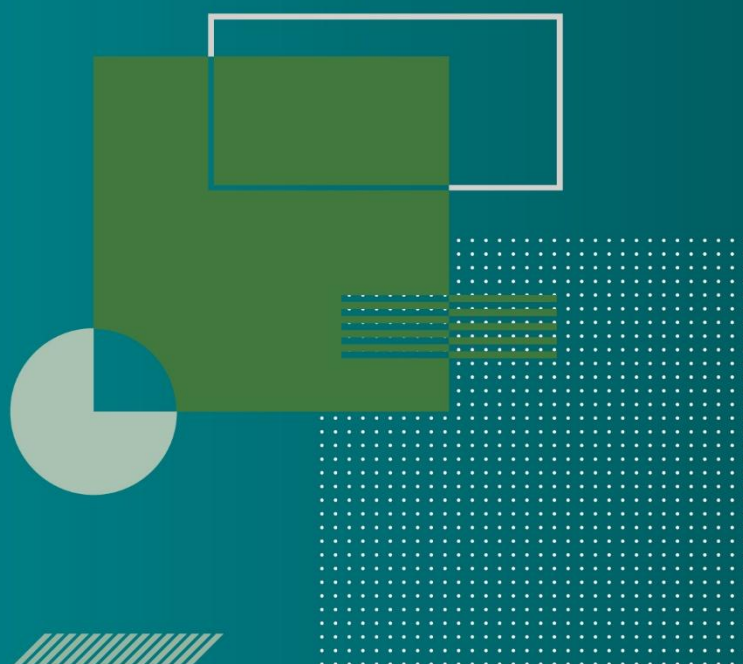


Australian Government

Australian Accounting Standards Board

Disclosing information about anticipated financial effects

Applying AASB S2 *Climate-related Disclosures*



Educational Material

October 2025

This document is not part of AASB S2 *Climate-related Disclosures* and does not add to or change the requirements in the Standard. It was developed to aid stakeholders' understanding of the Standard. This document has been developed in accordance with the requirements set out in AASB S2.



Explanation of key terms used in this document

Financial effects

Effects of climate-related risks and opportunities on an entity's financial position, financial performance and cash flows.

Current financial effects

Effects of climate-related risks and opportunities on an entity's financial position, financial performance and cash flows for the reporting period, such as incurred expenses for flood insurance premiums.

Anticipated financial effects

Anticipated effects of climate-related risks and opportunities on an entity's financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how climate-related risks and opportunities are included in the entity's financial planning, such as an expected investment in energy-efficient equipment.

Primary users

Primary users of general purpose financial reports who are existing and potential investors, lenders and other creditors.

Introduction

This document focuses on disclosures of information about **anticipated financial effects of climate-related risks and opportunities**, in the light of stakeholders' feedback that educational material on how to apply the relevant requirements in AASB S2 would support entities applying these requirements.

The requirements to disclose information about anticipated financial effects of climate-related risks and opportunities are set out in the context of disclosing information that enables primary users to understand a company's strategy for managing climate-related risks and opportunities. AASB S2 requires an entity to disclose the effects of climate-related risks and opportunities on its:

- business model and value chain;
- strategy and decision-making; and
- financial position, financial performance and cash flows—that is, the financial effects.

The financial effect element of this information is an essential part of an entity's general purpose financial reports to enable primary users' understanding of how climate-related risks and opportunities affect the entity's prospects, complementing information in the entity's financial statements.

Information about anticipated financial effects provides a complementary perspective about how the financial statements are expected to be affected over the short, medium and long term.

Structure of this document

This educational material focuses on these key disclosure requirements and comprises three sections:

Overview

1. Overview of the requirements in AASB S2 on disclosures about current and anticipated financial effects of climate-related risks and opportunities and the rationale for those requirements.

Mechanisms

2. Mechanisms in AASB S2 that help entities to prepare disclosures about anticipated financial effects.

Illustrations

3. Illustrations of disclosure of information about anticipated financial effects applying AASB S2.

Section 1: Overview

Overview of the requirements in AASB S2 on disclosures about current and anticipated financial effects of climate-related risks and opportunities and the rationale for those requirements.

The objective of AASB S2 is to provide primary users with decision-useful information about climate-related risks and opportunities.

AASB S2 requires an entity to disclose information about climate-related risks and opportunities that could reasonably be expected to affect the company's cash flows, its access to finance or cost of capital over the short, medium or long term. This information includes information about current and anticipated financial effects as part of disclosures about an entity's **strategy** to manage climate-related risks and opportunities.

Why AASB S2 requires disclosures about financial effects

AASB S2 requires an entity to provide information about:

- the current effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows; and
- the anticipated financial effects in the short, medium and long term.

These requirements are designed to produce information that complements information provided in the related financial statements.

This information is useful to primary users in making decisions relating to providing

resources to an entity.

Engagement with stakeholders, including through feedback received by the AASB on ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* and by the ISSB on the IFRS S1 and IFRS S2 exposure drafts, provided insights into the information that helps primary users better understand how a particular climate-related risk or opportunity has affected, or is anticipated to affect, an entity's financial position, financial performance and cash flows.

Primary users are interested in understanding the relationship and connections between information about an entity's climate-related risks and opportunities and its financial statements. Requirements about current and anticipated financial effects are designed to help establish these connections.

Therefore, AASB S2 requires an entity to provide information in a manner that enables primary users to understand different types of connections, including:

- the connections between **items**—such as connections between various climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects;

- the connections between disclosures provided by the entity **within** its climate-related financial disclosures; and
- the connections between disclosures provided by the entity **across** its climate-related financial disclosures and other components of the general purpose financial reports published by the entity (which includes the financial statements).

The requirements in AASB S2 are consistent with the four core recommendations and 11 recommended disclosures published by the Taskforce on Climate-related Financial Disclosure (TCFD).¹ The TCFD recommendation on strategy asks an entity to disclose the actual and potential impacts of climate-related risks and opportunities on the entity's businesses, strategy and financial planning.²

AASB S2 is consistent with the TCFD recommendations but is more specific in some aspects of the disclosures required to be provided. For example, AASB S2 sets out criteria for circumstances in which quantitative and qualitative information is required and provide mechanisms to support entities in disclosing the information.

Connections within the climate-related financial disclosures

Although disclosure requirements are presented in a logical order in AASB S2, in presenting disclosures about climate-related risks and opportunities, an entity does not need to follow the order of the requirements in AASB S2. The entity instead uses an approach that is useful to **'tell the story'** about its climate-related risks and opportunities, enhancing connections between information and avoiding duplication when possible.

There are, for example, other requirements in AASB S2 beyond the specific paragraphs addressing current and anticipated financial effects that might result in the need to provide information about amounts in the financial statements for the reporting period and anticipated amounts in future periods, thus creating the possibility of referring to or connecting such disclosures when providing information about (current and) anticipated financial effects.

Link with strategy and decision-making

As an example of the link between anticipated financial effects and disclosures about strategy and decision-making, AASB S2 requires a company to provide information about the entity's strategy to mitigate and adapt to climate-related transition and physical risks and respond to climate-related opportunities. This information might include information that is also relevant to anticipated financial effects—for example, information about the effect of the implementation of the entity's transition plan on its financial position, financial performance and cash flows.

¹ Comparison Document AASB S2 Climate-related Disclosures with the TCFD Recommendations, July 2025 https://www.aasb.gov.au/media/ozyjnlcj/tcfd-aasbs2-comparison_07-25.pdf

² TCFD, *Final Report—Recommendations of the Task Force on Climate-related Financial Disclosures*, TCFD, 2017, <https://assets.bbhub.io/company/sites/60/2021/10/FIN-AL-2017-TCFD-Report.pdf>.

In this context, an entity might determine that it is relevant to provide information about:

- anticipated effects on asset valuations and asset lives (for example, a decrease in the value of an asset as a result of a reduced market for products that are not energy efficient in a lower-carbon economy); and
- anticipated investments into infrastructure that can withstand rising sea levels or extreme weather events.³

The entity might determine that this information is relevant for both the disclosure of information about anticipated financial effects and the disclosure of information about its transition planning.

To avoid duplication, the entity could determine that it is appropriate to include information by cross-reference within the climate-related financial disclosures.

Link with climate-related metrics

AASB S2 also requires an entity to disclose:

- the amount and percentage of assets or business activities vulnerable to climate-related transition and physical risks; and
- the amount and percentage of assets or business activities aligned with climate-related opportunities.⁴

These metrics could be relevant to disclosures about current and anticipated financial effects, and thus the same information could be presented in a manner that meets more than one disclosure requirement.

For example, assets identified as being vulnerable to climate-related risks might be an

example of assets whose carrying amounts are at significant risk of material adjustment within the next annual reporting period.

Connections with the financial statements

The disclosure requirements related to current and anticipated financial effects are designed to produce information that complements information provided in the related financial statements, making connections between climate-related risks and opportunities and the information reported in the financial statements.

Consistent with information provided in the financial statements—Risk of adjustment in the next annual reporting period

In some circumstances, a climate-related risk or opportunity might pose a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the financial statements.

Situations in which there might be a significant risk of a material adjustment to the carrying amount of assets and liabilities include measuring the recoverable amount of an asset for impairment purposes or measuring the provision set up for the outcome of pending litigation.

In these circumstances, AASB S2 requires an entity to disclose information about that risk or opportunity.

³ The IFRS guidance document [*Disclosing information about an entity's climate-related transition, including information about transition plans, in accordance with IFRS S2*](#) provides guidance on how an entity might apply

the requirements in IFRS S2 about disclosures of information on a company's climate-related transition.

⁴ See paragraph 29(b)–(d) of AASB S2.

This requirement is similar to the requirements in Australian Accounting Standards. Specifically, Australian Accounting Standards require an entity to provide:

‘...information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In respect of those assets and liabilities, the notes shall include details of:

- (a) their nature; and
- (b) their carrying amount as at the end of the reporting period.’⁵

Connected with information provided in the financial statements—Commitments

Similar to climate-related risks and opportunities, the financial effects of a company’s commitments might not be reflected in the company’s financial statements until a future period. If a commitment relates to a climate-related risk or opportunity, information about the anticipated financial effects is required to be disclosed. Therefore, anticipated financial effects provided in climate-related financial disclosures can provide insight about commitments that are anticipated to be reflected in the financial statements in a future period.

For example, in response to a climate-related risk, a company might have committed to a particular climate-related target. However, that commitment might not have affected the

company’s financial position, financial performance or cash flows in the current year because the applicable recognition criteria have not been met.

In developing the climate-related financial disclosures, the company might determine that it is relevant to explain that the climate-related risk, despite the establishment of a target, has not yet affected its financial position or financial performance (and the reasons), depicting the connections between the commitment and the financial statements.

How to avoid duplication

Information in the notes to the financial statements might explain how climate-related risks and opportunities have affected a company’s **current** financial position, financial performance and cash flows.

If the explanation provides the information that AASB S2 requires an entity to disclose, the entity might consider providing the required information by **cross-reference to the related financial statements to avoid duplication**, subject to the specific requirements set out in Appendix D of AASB S2:

- the cross-referenced information is available on the same terms and at the same time as the climate-related financial disclosures;
- the complete set of climate-related financial disclosures is not made less understandable by including information by cross-reference; and
- the cross-reference clearly identifies the report and specific parts of the report where the information is located.

⁵ See paragraph 31A of AASB 108 *Basis of Preparation of Financial Statements*, which applies to annual reporting periods beginning on or after 1 January 2027. The same

requirement currently appears in paragraph 125 of AASB 101 *Presentation of Financial Statements*, which will be superseded by paragraph 31A of AASB 108.

About connections within the entity's general purpose financial reports

Entity, period and timing

AASB S2 Appendix D paragraph Aus20.1 states that '[a]n entity's climate-related financial disclosures shall be for the same reporting entity as the related financial statements, unless otherwise permitted by law'.¹ The reporting period and reporting timing are required to be the same for the climate-related financial disclosures and the related financial statements.

Currency

When currency is specified as the unit of measure in the climate-related financial disclosures, the currency is the same as the presentation currency of the related financial statements.

Consistent data and assumptions

The data and assumptions used in preparing climate-related financial disclosures shall be consistent—to the extent possible given the accounting standards that the entity is applying—with the corresponding data and assumptions used in preparing the related financial statements. Any significant differences are explained.¹

No duplication of information

Connections between the entity's disclosures should be explained clearly and concisely, with unnecessary duplication of information avoided.¹

Judgement in providing information about current and anticipated financial effects

Management will need to use judgement when providing information about current and anticipated financial effects of climate-related risks and opportunities. The type of information an entity provides will vary based on the entity's circumstances and the mechanisms it applies.

AASB S2 requires an entity to provide information regarding financial effects in the current reporting period and the anticipated effects in the short, medium and long term.

Time horizons

Entities' definitions of short-, medium- and long-term time horizons are likely to differ, depending, for example, on their sector or financial or business planning cycles.

AASB S2 requires an entity:

- to disclose at least one set of definitions for the short term, medium term and long term, along with material information about the effects of climate-related risks and opportunities that could reasonably be expected to occur during each of these time horizons; and
- to provide information about how the entity has defined these time horizons.

A combination of both quantitative and qualitative information is most useful for making investment decisions.

Quantitative information is important for primary users to understand how, or the extent to which, climate-related risks and opportunities have affected or might affect the financial statements. However, qualitative information provides useful context for quantitative information. Therefore, AASB S2 requires an entity to provide both types of information (subject to circumstances in which an entity does not need to provide quantitative information as described in Section 2 of this document).

A single amount or a range

When providing quantitative information, an entity discloses a single amount or a range. Sometimes a range is useful or more appropriate than a single amount.

For example, a clothing manufacturing company might be exposed to decreasing demand for its products because of changing consumer preferences for lower-carbon alternatives. The company provides information about the anticipated financial effects of new or potential products that minimise environmental impacts and, due to the level of measurement uncertainty, might report a range of possible future outcomes rather than a single estimate.

Key Takeaways—Information about anticipated financial effects

What it is	What it is not
Tells the story In providing disclosures about climate-related risks and opportunities, an entity tells the story about these risks and opportunities.	Organised in sequential order - In providing disclosures about climate-related risks and opportunities, an entity does not need to follow the order of the requirements in AASB S2. - Information that is relevant to meet other disclosure requirements in AASB S2 could also be relevant when providing disclosures about anticipated financial effects.
Connected to the financial statements - Information about anticipated financial effects complements information provided in the entity's financial statements. - Data and assumptions used to prepare information about anticipated financial effects are required to be consistent, to the extent possible, with those used in the financial statements. These data and assumptions are available to the entity without undue cost or effort.	Duplication with the financial statements If information in the notes to the financial statements provides information that AASB S2 requires, an entity might disclose that information by cross-reference to the financial statements to avoid duplication.

Section 2: Mechanisms

Mechanisms in AASB S2 that help entities to prepare disclosures about anticipated financial effects.

AASB S2 includes mechanisms to address challenges associated with the disclosure of anticipated financial effects, including proportionality mechanisms to help entities apply these requirements.

The mechanisms are designed to help entities to prepare disclosures about anticipated financial effects, taking into consideration both the nature of the information and entities' resource availability and state of preparedness. These mechanisms are therefore designed to provide permanent support in some circumstances but also are particularly helpful to support entities in the first years of application of AASB S2 as they build capabilities over time.

How to prepare disclosures on anticipated financial effects applying AASB S2

When preparing disclosures on anticipated financial effects, an entity does not need to carry out an exhaustive search for information. Instead, it uses:

- all reasonable and supportable information available at the reporting date without undue cost or effort; and
- an approach commensurate with the skills, capabilities and resources available to the entity.

These two mechanisms are referred to as 'proportionality mechanisms'.⁶ These

mechanisms are included in AASB S2 to ensure that what is required of entities in preparing disclosures about anticipated financial effects is proportionate to their circumstances.

Over time, the reasonable and supportable information that is available without undue cost or effort, and an entity's skills, capabilities and resources are expected to change. As a result, disclosures in these areas will improve over time.

What does 'all reasonable and supportable information available at the reporting date without undue cost or effort' mean?

The concept of 'all reasonable and supportable information that is available to an entity at the reporting date without undue cost or effort' helps companies by establishing parameters for the type of information they consider and the effort they make to obtain such information.

This concept is used in some Australian Accounting Standards (for example, AASB 9 *Financial Instruments* and AASB 17 *Insurance Contracts*) and in relation to specific circumstances that involve a high level of measurement uncertainty.

Therefore, entities that account for expected credit losses under AASB 9 or apply AASB 17 are already familiar with this concept and the concept has been tried and tested.

⁶ A webcast explaining how proportionality mechanisms support the application of IFRS S1 and IFRS S2 is available on the IFRS Foundation website: [https://www.ifrs.org/supporting-](https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s1-and-ifrs-s2/webcast-proportionality-mechanisms-ifrs-sustainability-disclosure-standards/)

[implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s1-and-ifrs-s2/webcast-proportionality-mechanisms-ifrs-sustainability-disclosure-standards/](https://www.ifrs.org/supporting-implementation/supporting-materials-for-ifrs-sustainability-disclosure-standards/ifrs-s1-and-ifrs-s2/webcast-proportionality-mechanisms-ifrs-sustainability-disclosure-standards/).

All reasonable and supportable information available at the reporting date

An entity considers:

- firstly, factors that are specific to the entity; and
- secondly, general conditions in the external environment.

When preparing disclosures on anticipated financial effects, all reasonable and supportable information includes information about past events, current conditions and forecasts of future conditions.

In identifying reasonable and supportable information, entities consider all information that is reasonably available to them, including information they already have.

Entities:

- need only use information that is available to them at the reporting date including historical, current or forward-looking information (such as forecasts of future conditions);
- cannot disregard information that is known or publicly available; and
- need to have an appropriate basis for using the information.

Sources of information

Information comes from various sources of data, both internal and external.

Internal data sources include the entity's risk management processes or other reports and statistics. External data sources include public databases, industry and peer group experience and external ratings.

This proportionality mechanism was designed to accommodate various levels of information availability based on entities' circumstances.

Undue cost or effort

'Undue cost of effort' is the part of the mechanism that provides the parameter about the cost or effort an entity is required to incur in obtaining information to meet a specific requirement. That is, an entity assesses what constitutes undue cost or effort in obtaining information to meet that requirement.

The assessment of undue cost or effort:

- depends on the entity's specific circumstances; and
- requires a balanced consideration of the costs and efforts for the entity, and the benefits of the resulting information for primary users.

An entity:

- need not carry out an exhaustive search to obtain information to meet the relevant disclosure requirement; and
- considers the benefits for primary users and the incremental effort, or costs required to provide such additional information.

To assist entities in determining what information is considered to be available without undue cost or effort, it is noted in paragraph B9 of Appendix D of AASB S2 that some information is always considered to be available to an entity without undue cost or effort. This information includes information the entity used:

- in preparing its financial statements;
- in operating its business model;
- in setting its strategy; and
- in managing its risks and opportunities.

In considering other information that is available without undue cost or effort, it is noted that an entity can carry out a less exhaustive search if the cost of obtaining particular information is proportionately higher for the entity than for other entities with more resources. The information that is available without undue cost or effort to an entity to use in its disclosures can vary depending on its circumstances. The greater the usefulness of information about a climate-related risk or opportunity is to primary users, the greater the effort expected of an entity in obtaining that information. It is also important to highlight that the information that is available and the cost or effort considered undue can change over time. In summary, this proportionality mechanism seeks to set a reasonable basis for the effort required to gather information to prepare disclosures when using AASB S2 and to explain the intended parameter.

The mechanism does not exempt an entity from disclosing information. Entities are required to use the information that is available to them to meet disclosure requirements but only the information that is available without undue cost or effort.

What does ‘an approach commensurate with the skills, capabilities and resources available to the entity’ mean?

The requirement that an approach be commensurate with an entity’s skills capabilities and resources was included in AASB S2:

- to ensure that what is required of entities is proportionate to their circumstances; and
- to enable entities to develop skills and capabilities and thus to improve disclosures over time.⁷

An entity’s available skills, capabilities and resources might be internal and external. They provide the context to inform the entity’s consideration of the potential costs and level of effort required by a particular approach.

⁷ The Basis for Conclusions on IFRS S2 summarises the considerations of the ISSB and explains the rationale for the decisions the ISSB reached in developing IFRS S2. As the proportionality mechanisms in AASB S2 align with IFRS S2, the context provided by the Basis for Conclusions on IFRS S2 can be useful to understand these requirements in AASB S2. Paragraph BC65 of the Basis for Conclusions on IFRS S2 provides an example of the development of skills, capabilities and resources in the context of climate-related scenario analysis for which the same concept applies: ‘The greater an entity’s exposure to climate-related risks and opportunities and the more skills, capabilities and resources available to carry out climate-related scenario analysis, the more sophisticated the form of analysis the entity would be required to use to support its resilience assessment. An entity with fewer resources and relatively low risk exposure might develop a scenario narrative focused on a key product, business unit or operating location. However, a larger entity with high risk exposure and greater analytical experience might carry out sophisticated quantitative modelling using a range of

scenarios to capture multiple risk transmission channels across its own operations and throughout its value chain. **If an entity does not currently have the skills and capabilities** to carry out a more sophisticated form of climate-related scenario analysis but has a high degree of exposure to climate-related risk, **the entity might initially use a simpler approach** to climate-related scenario analysis. The ISSB emphasised that if an entity’s climate-related risk exposure warrants a more sophisticated approach to scenario analysis, **the entity cannot use a lack of skills or capabilities to justify using a less sophisticated approach if it has the resources available to obtain or develop those skills or capabilities. The ISSB expects this guidance will enable entities to develop their skills and capabilities and strengthen their disclosures over time through a process of learning and iteration. For example, as an entity’s capabilities develop so will its assessment of what is considered ‘undue’ in terms of cost or effort.** [emphasis added]

An entity's circumstances are likely to change over time. Therefore, it is expected that an entity:

- will reassess its circumstances; and
- will be able to develop its skills and capabilities over time.

The ISSB noted that an entity cannot avoid providing quantitative information for anticipated financial effects because it does not have the skills or capabilities to do so, if it has the resources available to obtain or develop those skills or capabilities.⁸ In the absence of such resources, the proportionality mechanisms seek to accommodate the development of skills or capabilities over time.

In addition, although an entity's skills, capabilities and resources are referenced in the relief from providing quantitative disclosures, it is noted it is not always necessary for an entity to be well resourced or to be capable of undertaking sophisticated analysis to provide quantitative information. For example, the quantitative information

provided could be information such as the amount of planned investment in new energy-efficient equipment included in the entity's near-term budget.

When can an entity provide only qualitative information about anticipated financial effects?

Providing quantitative information can be challenging in some circumstances. Mechanisms are available in AASB S2 to help address these challenges.

For both current and anticipated financial effects, entities do not need to provide quantitative information if:

- the current and anticipated effects are not separately identifiable; **or**
- the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

⁸ The Basis for Conclusions on IFRS S1 summarises the considerations of the ISSB and explains the rationale for the decisions the ISSB reached in developing IFRS S1. As elements of IFRS S1 are included in AASB S2, the context

provided by the Basis for Conclusions on IFRS S1 can be useful to understand the requirements in AASB S2. See paragraph BC107 of the Basis for Conclusions on IFRS S1.

Although in a different context, these two concepts also exist within Australian Accounting Standards and are familiar to many entities applying these Standards.

These reliefs from the requirement to provide quantitative information relate to the characteristics or nature of the financial effects. These reliefs apply to all entities irrespective of their resources and experience and are not only relevant in the initial years of application of AASB S2. For example, an effect might not be separately identifiable even when the entity applying the requirements is a well-resourced entity that has applied AASB S2 for many years.

In addition, for anticipated financial effects, entities do not need to provide quantitative information if they do not have the necessary skills, capabilities or resources. This relief is designed to be used by all entities, whether large or small, when needed. However, it is expected to be more relevant for more well-resourced entities in their initial years of applying AASB S2 (subject to the expectations of improvement over time).

What does ‘not separately identifiable’ mean?

In some cases, it may not be possible to separately identify the financial effects of a climate-related risk or opportunity. Financial effects might arise from more than one source

and affect several line items in the related financial statements, and therefore isolating the effect of the particular climate-related risk or opportunity may not be possible.

For example, a company has observed a trend of decreasing demand for its products which it believes is partially driven by adverse economic and market conditions, and partially driven by changing consumer demands related to climate considerations. The company cannot isolate the decrease in demand due to the effects of climate-related risk from the effects of other causes. Notwithstanding that the effects of the climate-related risk are inseparable, the company provides quantitative information about the combined effects of decreasing demand.

What about the level of measurement uncertainty?

Measuring anticipated financial effects can be challenging by virtue of its forward-looking nature. In some cases, the level of measurement uncertainty might be so high that quantitative information would not be useful. The concept of usefulness referred to is described in the Conceptual Foundations in Appendix D of AASB S2 that state that climate-related financial information is useful if it is relevant and faithfully represents what it purports to represent.

Explanations to provide

If an entity has determined that it does not need to provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity, it is required:

- to explain why it has not provided quantitative information;
- to provide qualitative information about those financial effects, including identifying line items, totals and subtotals within the related financial statements that are likely to be affected, or have been affected, by that climate-related risk or opportunity; and
- to provide quantitative information about the combined effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors unless the entity determines that quantitative information about the combined financial effects would not be useful.

Exemptions

In two circumstances, AASB S2 relieves an entity from disclosing information otherwise required by AASB S2.

Prohibition from law or regulation—An entity is relieved from disclosing information if law or regulation prohibits the company from disclosing that information.

Commercially sensitive information about opportunities

—An entity is relieved from disclosing information about a climate-related opportunity if that information is commercially sensitive as described in Appendix D of AASB S2.

Therefore, an entity does not need to disclose information about current and anticipated financial effects if that would require the disclosure of information that is prohibited by law or regulation or would result in the disclosure of information about opportunities that is commercially sensitive.

For example, if, in response to a climate-related opportunity, a company has a confidential plan to dispose of a subsidiary in the medium term, it might decide the information provided be limited to describing the overall strategy to respond to the opportunity rather than providing details about the subsidiary and the planned timing of the disposal.

Alternatively, the entity might use the ‘commercially sensitive information exemption’ because it determines that it is in fact not possible to disclose information about the anticipated financial effects of the transaction in a manner that would avoid prejudicing seriously the economic benefits it would otherwise realise from the opportunity.

Key Takeaways—Information about anticipated financial effects

What it is	What it is not
Estimated The use of reasonable estimates is an essential part of preparing climate-related financial disclosures. In providing quantitative information, an entity may disclose a single amount or a range.	Precise / Definitive / Predictive When preparing disclosures about anticipated financial effects, an entity does not need to carry out an exhaustive search for information.
Quantitative and qualitative Providing a combination of both quantitative and qualitative information is most useful for primary users to enable them to make investment decisions.	Commercially sensitive An entity does not need to disclose information about a climate-related opportunity if that information is commercially sensitive as described in Appendix D of AASB S2, such as confidential merger and acquisition plans.

Section 3: Illustrations

Illustrations of disclosure of information about anticipated financial effects applying AASB S2.

The illustrations in Section 3 of this document show some of the information that an entity might determine is relevant to disclose about the anticipated financial effects of its climate-related risks and opportunities and some aspects of preparing the information. The illustrations are not comprehensive. AASB S2 requires entities to disclose information that enables primary users to understand the current and anticipated effects of climate-related risks and opportunities on the entity's financial position, financial performance and cash flows over the short, medium and long term.

For demonstrative purposes, the illustrations present some of the information that would be required to be provided rather than seeking to be complete and focus on illustrating the application of the proportionality mechanisms and reliefs in AASB S2. Monetary amounts are denominated in 'currency units' (CU).

Illustration A—Anticipated financial effects of the risk of carbon prices



Fact pattern

Company A explores, extracts and processes natural resources. The company has identified the introduction of a carbon tax in Jurisdiction A as a climate-related risk because the company's carbon-intensive mining operations in Jurisdiction A are likely to face higher operating costs than other jurisdictions if a carbon tax is implemented. The company would be subject to a tax if its greenhouse gas emissions generated in Jurisdiction A exceed a specified threshold. The company has developed a climate-related transition plan that focuses on actions to embed more energy-efficient equipment and low-carbon technology into its processes in Jurisdiction A. The company's plant and equipment in Jurisdiction A are becoming obsolete (stranded assets) and the company has adjusted their impairment analysis and useful life accordingly. The company might determine that it is appropriate to provide information regarding the carrying amount and depreciation of these assets by cross-reference to its financial statements.

Illustration of preparing information about anticipated financial effects

Company A has defined the time horizons in line with its strategic planning cycle as:

- short term: 2 years
- medium term: 3–6 years
- long term: 7–20 years

In providing information about the anticipated financial effects of its plan to reduce its greenhouse gas emissions in Jurisdiction A, the company discloses that it expects it will make investments in more energy-efficient plant and equipment of up to CU100 million, of which CU10–12 million is anticipated to be incurred in the short term, CU25–30 million in the medium term and CU58–65 million in the long term. The company discloses its planned sources of funding for the investments and that the anticipated effects on operating costs for the repairs and maintenance of these investments in plant and equipment are estimated to be CU1 million in the short term, CU4 million in the medium term and CU10 million in the long term.

Illustration B—Anticipated financial effects of the risk of floods



Fact pattern

Company B is a retailer that sells products manufactured by other companies in its value chain. The company operates brick-and-mortar stores in coastal locations. The company has identified a climate-related physical risk due to its operations being in areas exposed to increased frequency and severity of floods. Severe flooding, which is expected to increase in some of the coastal areas in which the company's stores are located, could reasonably be expected to lead to physical damage to its stores and inventory, reductions in customer traffic, restricted access for employees and disruption in the supply chain.^(a) The company has flood insurance that covers business interruption and damage to real estate and inventory. The company's insurance premiums for these risks have increased in recent years and the company expects the increases to continue due to the increased flood risk that the company is exposed to.

Illustration of preparing information about anticipated financial effects

Company B has defined the time horizons in line with its strategic planning cycle as:

- short term: 1 year
- medium term: 2–3 years
- long term: 4–10 years

The company considered the inputs and assumptions that it could use to determine the anticipated financial effects of the flood risk. The company has historical flood insurance premiums information readily available from managing its business operations. The company also considered information about the projected rise in floods based on scientific studies (instances and severity) in the areas its stores are located, which are available to the company from its risk management process. The company does not have access to information about whether the historical increases in insurance premiums already factored in future rising flood risks or the extent to which the increasing flood risk has been factored into existing premium rates. The company determines that this information is not available to it at the reporting date without undue cost or effort. The company therefore decides to use the most recent annual increase in premium as a proxy for future annual increases. Based on the information that is available to the company without undue cost or effort it is unable to separately identify the effect of the flood risk on the future insurance premiums. Therefore, the company considered recent trends in premium rates to determine the anticipated increase in insurance premiums and decided to disclose this information that combines the effect of increases in insurance premiums as a result of increasing flood risk with the effects of other factors. Using this information, the company estimated that the anticipated financial effects on its financial performance are increases in insurance premiums due to the risk of floods. The company discloses that the effect of the increase in insurance premiums on operating costs is CU7–9 million in the short term, CU15–20 million in the medium term and up to CU50 million in the long term.

(a) The company would disclose the amount and percentage of stores and inventory vulnerable to the risk of floods as part of applying paragraph 29(c) of AASB S2.

Illustration C—Anticipated financial effects of the risk of water scarcity



Fact pattern

Company C operates in the agricultural products industry. The company grows, harvests and packages rice for sale and relies on a third-party supplier in another jurisdiction to supplement its own production. The company's business model depends on water because growing rice relies on rainfall and on irrigation from other water sources. The company's own water supply is not exposed to scarcity risks; however, the third-party supplier is exposed to rising water scarcity risks in the region in which it operates through increasing temperatures and changing precipitation patterns. The company expects the third-party supplier's baseline water stress to worsen over the medium term. The specific type of rice that the company purchases is only available in that region and water scarcity would likely affect all suppliers in the area. The company has identified a risk of water scarcity in the region in which the third-party supplier operates because the company is reliant on this source of rice, and water scarcity gives rise to the risk of increased cost for that rice and risk of delivery failure.

Illustration of preparing information about anticipated financial effects

Company C has defined the time horizons in line with its strategic planning cycle as:

- short term: 2 years
- medium term: 3–6 years
- long term: more than 6 years

The company carries out climate-related scenario analysis to assess how various climate change scenarios might affect its operations in various locations. As a result of this analysis, the company expects a significant reduction in the water available in the third-party supplier's region for irrigation of rice fields in the medium term. Water scarcity can affect the availability of rice and thereby can increase the price the company pays to buy the rice from the third-party supplier.

The company determined that the estimated negative effect on the company's operating result is approximately CU16–18 million per year in the **medium term**, considering the expected cost and volume of rice that will be purchased from the third-party and assuming an average increase in the price of rice of 3% per year arising from water scarcity (excluding inflation) and discloses this anticipated financial effect. Information about the effect on the company's operating result of expected increases in the cost of rice from the third-party supplier in the **short term** is not assessed to be material to primary users and therefore information is not disclosed about the short-term anticipated financial effect of the risk of water scarcity. The effect on the company's operating result of expected increases in the cost of rice from the third-party supplier in the **long term** is uncertain, due to the variables involved, such as the volume of rainfall that could affect the area and the company's ability to obtain agreements with other suppliers in regions that do not have the same exposure to water scarcity. The company determined that the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful. In its disclosures, the company explains why it has not provided quantitative information about this effect in the long term and instead provides qualitative information about the financial effects of the risk of water scarcity.

Illustration D—Anticipated financial effects of the opportunity related to growing market demand for homes made of timber



Fact pattern

Company D is a construction company that builds high-end residential housing. The company builds custom homes and offers different floorplans, styles and construction materials depending on the customers' preferences. The company has observed a growing demand from its customers to use more environmentally-friendly construction materials, such as timber, because using wood instead of other building materials can help to reduce greenhouse gas emissions. The company has identified the growing market demand for homes made with timber as a climate-related opportunity.

Illustration of preparing information about anticipated financial effects

Company D has defined the time horizons in line with its strategic planning cycle as:

- short term: 1 year
- medium term: 2–6 years
- long term: 7–25 years

The company determined that it can increase its revenue in the short, medium and long term by responding to growing demand for houses made of timber. The company has identified uncertainties associated with this opportunity, such as mortgage rates and increasing competition for market share, which could affect the price that its customers are willing to pay for custom homes. Climate change poses significant risks to the timber supply and the forestry industry such as increased temperatures that affect growing patterns and extreme weather events (for example, heatwaves, wildfires and flooding). Other factors such as the spread of pests and diseases can also negatively affect tree growth, thereby increasing the cost for homebuilders.

The company determined that it is not possible to separately identify the effect of the rising demand for houses made of timber on its revenue separately from other effects such as the effects of broader economic factors (for example, the overall level of consumer demand and timber supply). The company therefore determines that it does not need to provide quantitative information about this climate-related opportunity when applying AASB S2.

In its disclosures, the company explains why it has not provided quantitative information and instead provides qualitative information about the climate-related opportunity to increase sales of homes made with timber including identifying the line items, totals and subtotals within the related financial statements that are likely to be affected by the opportunity of growing market demand for timber houses. It determines that the line items affected include:

- financial performance: revenue, and operating expenditure (cost of timber);
- financial position: property, plant and equipment; and
- cash flows: net operating activities for the year (cash inflow), purchase of raw materials (cash outflow).

Illustration E—Anticipated financial effects of the opportunity of e-waste disposal



Fact Pattern

Company E provides information technology infrastructure solutions, including hardware, software and recycling services for electronic devices (e-waste disposal). The company has only recently begun to explore applying climate-related scenario analysis to assess the potential effects of climate change on its business. The company has identified that extreme weather events can damage electronic devices, increasing the amount of e-waste. To take advantage of the opportunity to recycle more e-waste, the company might need to adapt its infrastructure and processes to increase its recycling capacity.

Illustration of preparing information about anticipated financial effects

Company E has defined the time horizons in line with its strategic planning cycle as:

- short term: 1 year
- medium term: 2–4 years
- long term: more than 4 years

The company is undertaking studies of climate-related physical risks to progressively identify, assess and quantify the amount of e-waste that will be produced in the future. The studies will support ongoing evaluation and maturation of the company's processes. The company has not modelled financial effects before and does not currently have the necessary skills, capabilities and resources to model and thus quantify the anticipated effects on its operating result of its plans under development to build its capabilities to respond to the increased need for e-waste recycling. The company expects it will be able to develop its skills and capabilities over time and hire additional resources. The company discloses that it has not provided quantitative information about this opportunity because it does not currently have the skills and capabilities to do so. As the company determined that it does not need to provide quantitative information it instead provides qualitative information about the possible effects of this opportunity including the line items in the financial statements that are likely to be affected.



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