KPMG

Climate disclosures within the Annual Report

An Australian focus

1 June 2020

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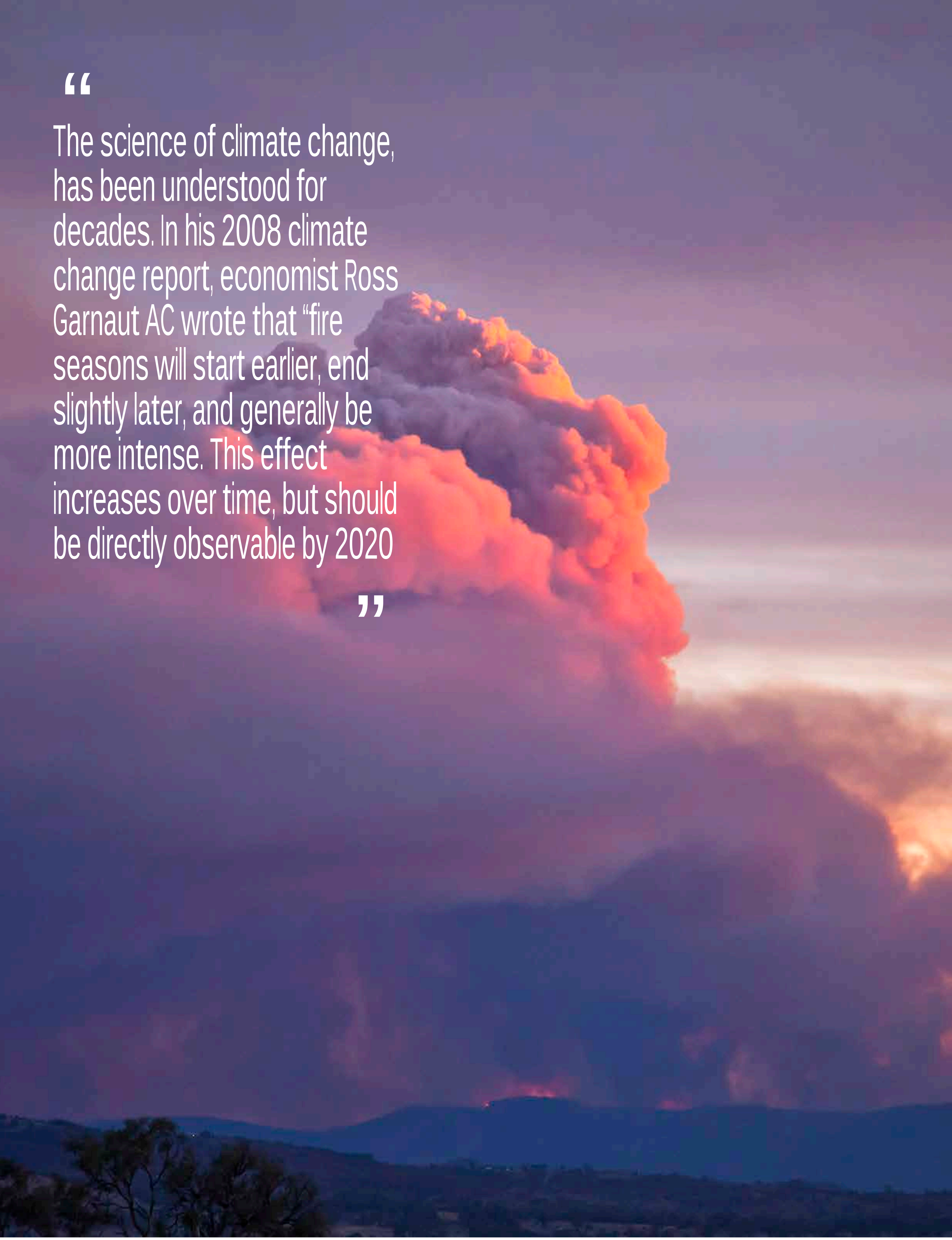

> “The science of climate change, has been understood for decades. In his 2008 climate change report, economist Ross Garnaut AC wrote that “fire seasons will start earlier, end slightly later, and generally be more intense. This effect increases over time, but should be directly observable by 2020”

A changing Climate

Australia saw Garnaut's predictions come true in the summer of 2019/20 through the intense bushfires that followed an extended drought that impacted huge areas of the eastern states. These terrible events led not only to loss of life and destruction of assets but also a wide range of second order impacts including on the regional and rural economy, social well-being, the natural environment and productivity.

Current climate modelling shows us that even if global emissions are significantly and quickly reduced, events that led to the bushfires will continue and increase in frequency and severity in future decades. The long term prognosis for the Australian climate under the 'business as usual' emissions profile is catastrophic.

Even as Australia recovers, the realisation that the risks posed by a changing climate are real, systemic and accelerating is stark. Expectations that businesses need to act to minimise their contribution to potential future climate change have increased. Corporate entities are beginning to explore the potential opportunities and risks presented by the socio economic responses to climate risk and manage the impact of potential carbon prices, new low emissions technologies and changing customer demands.

The growing understanding that financial value is at risk through inaction - and that there is potential strategic and long term competitive advantage by climate-friendly strategies - is increasingly the focus of investors, regulators, customers and communities in the activities of Australian corporates. Studies repeatedly show ESG (Environmental, Social and Governance) investments outperforming other investments.

Consequently investors and regulators are keen to understand how companies are addressing the impact of climate (both transitional and physical). What risks and opportunities have been identified, what assumptions have been made in their analysis and how have strategies been flexed or redefined to minimise risks and maximise opportunities?

We would say that while there has been progress in this area there is still room for significant improvements to be made, in terms of increasing the depth and focus of climate disclosure.

Our key financial regulators and standard setters, ASIC, APRA and the ASX Corporate Governance Council have all recently issued guidance emphasising the importance of considering climate change.

Not just as a matter of corporate sustainability reported outside of annual reports but as a matter that should be considered as part of the preparation of the annual reports. Guidance developed jointly by the AuASB and AASB indicate a need to describe how material climate risks have been considered in the Financial Statements and therefore be subject to audit.

Last year saw a significant increase in questions asked at AGMs in relation to climate risk – a trend we expect to see increase going forward and we have already seen climate-related resolutions raised at several leading companies' AGMs in May.

We acknowledge that this topic can be complex and that there are many uncertainties. Our understanding of how, when and how quickly the impacts of climate change and the societal and economic response will impact on individual organisations also continues to evolve. The impacts (current and future) are not uniform across or within industries, sectors or geographies, nor is their timing certain.

But one thing is clear - this complexity is no excuse to do nothing. Businesses deal with complexity and uncertainty every day. Assessing how, when and where climate risks and opportunities may impact your business model is a critical first step. Disclosure of these potential impacts and your strategic responses in your Annual Report and Financial Statements is the second.

In this report, we aim to help businesses navigate the different disclosure requirements and recommendations applicable in Australia that may be impacted by climate risks. This report will be useful to CFOs, accountants and other preparers as they look to communicate the impacts of climate on their business models, strategy, financial performance, and future prospects in their Annual Reports and Financial Statements.

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Purpose of this report

The purpose of this report is to provide you with a summary of the various requirements, recommendations and guidelines that govern the preparation of the Annual Report and Financial Statements in Australia and help you identify where climate risks may need to be considered and disclosed for your company based on its specific facts and circumstances.

Key take aways

1

Climate risk is here – climate change is impacting current corporate strategies, valuations and investor decisions.

2

Climate risks may be material even if you do not think they are – materiality is assessed from a user's perspective.

3

Regulators expect climate impacts to be disclosed in the Annual Report – climate risk impact on governance, business model, strategy, risk management, and performance and prospects should be made in the your Annual Report – where material.

4

Disclose impacts and key assumptions in the Financial Statements – assets and liabilities should be measured and recognised taking into account the impact of climate change. Material climate-related assumptions and associated uncertainties should be disclosed even if there are no quantitative impacts on recognised balances.

5

Be consistent – disclosures in the Financial Statements need to be consistent with statements and strategies outlined in the Front-end of your Annual Report (where relevant and material to a user's understanding).

The Annual Report is a primary document through which companies communicate details of their activities, financial results and strategies to shareholders and other stakeholders.

For the purposes of this report when we refer to the 'Front-end' of the Annual Report we include all sections of the Annual Report before the Financial Statements including the Directors Report.

Why do I need to disclose?

“It is increasingly obvious that climate change is and will inevitably affect the economy, and it is increasingly difficult … for directors of companies of scale to pretend that climate change will not intersect with the interests of their firms. In turn, that means that the exposure of individual directors to “climate change litigation”.

Noel Hutley SC

Business and financial landscape

The Australian regulators and standard-setters have a consistent message on the significance of the risks and opportunities generated by a changing climate. This consensus has built over the years since the ratification of the Paris Climate Agreement in 2015 .

Climate risk is now widely recognised as a critical risk to both business, society and the capital markets. In the World Economic Forum's Global Risk Report 2020, released in Davos on January 15th 2020, the top 5 risks facing businesses are all related to environmental factors associated with a changing climate.

In Australia, the first significant post-Paris warning to business came from senior legal counsel Noel Hutley, who issued an updated opinion in 2019 stating that: "It is increasingly obvious that climate change is and will inevitably affect the economy, and it is increasingly difficult in our view for directors of companies of scale to pretend that climate change will not intersect with the interests of their firms. In turn, that means that the exposure of individual directors to "climate change litigation" is increasing, probably exponentially, with time."

In 2017, the first substantial guidance on climate risk to the financial sector came from the Taskforce on climate-related Financial Disclosure (TCFD) which was set up by the G20 Financial Stability Board (and which KPMG was one of the inaugural members). The TCFD identified the broad range of climate risks and how they may impact an organisations income statement, cash flow and balance sheet. The TCFD specifically identified that disclosure was expected to improve over time as organisations 'learn by doing.' This insight is equally applicable to organisational understanding, as they work through the process of identifying a range of climate risks and potential impacts on their governance, strategy and risk management processes.

Pressure has also come from investor groups, such as Climate Action 100+, the Investor Group on Climate Change (IGCC), signatories to the Principles of Responsible Investment (PRI) and the UN Environmental Program Financial Initiative (UNEP FI), who represent many trillions of dollars of assets under management. These groups continue to issue statements confirming the importance of climate risk to the functioning of the capital markets, and their commitment to align their investment portfolios with the Paris Agreement, a 1.5 degree future and to push key corporate entities on climate risk management and disclosure.

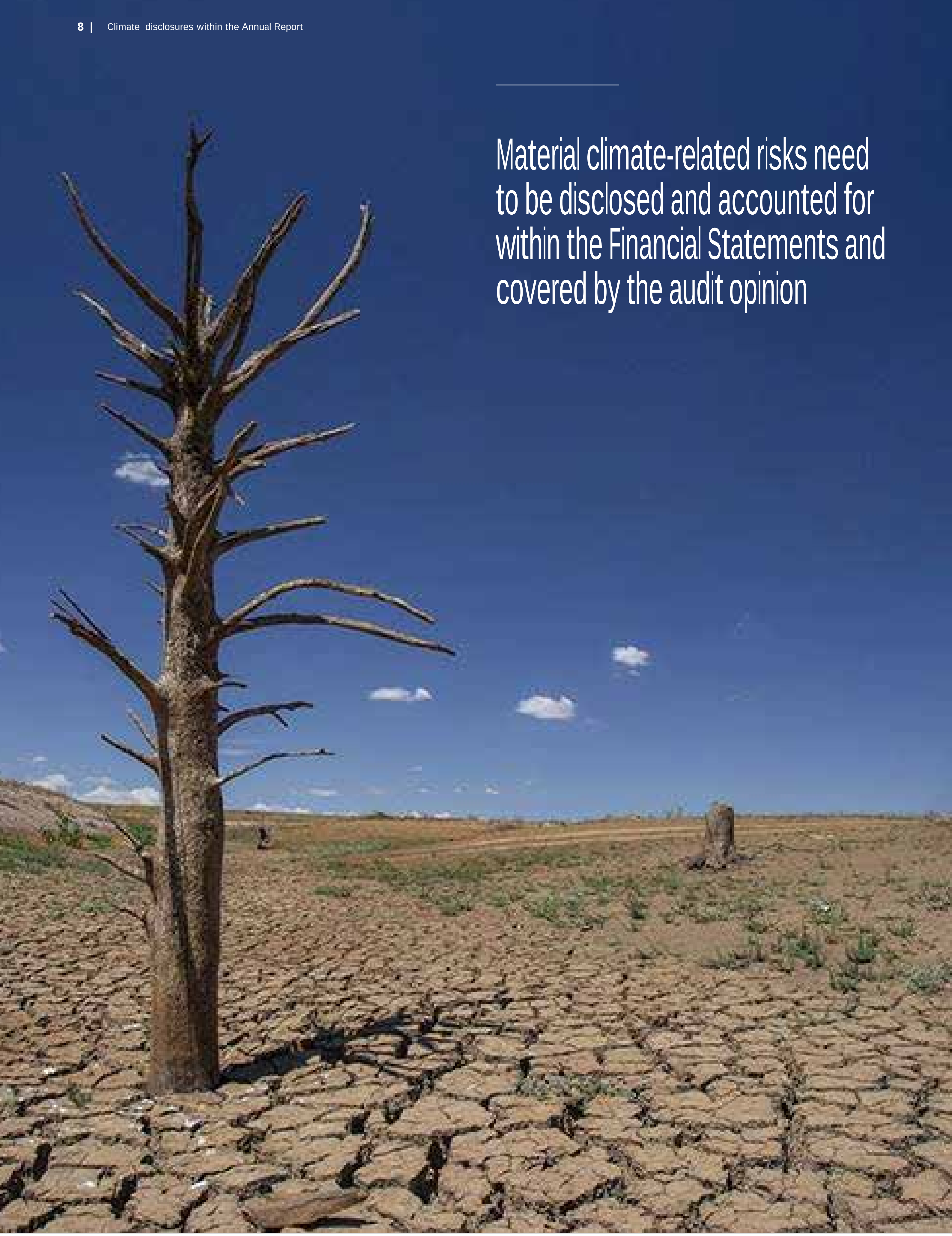
Locally, the Australian Sustainable Finance Initiative (ASFI) brings together leaders of Australia's major banks, superannuation funds, insurance companies, financial sector peak bodies and academia to develop a Sustainable Finance Roadmap. The roadmap, to be launched in 2020, will recommend pathways, policies and frameworks to better enable the financial services sector (through their allocation of capital) to contribute, amongst other things, to the Paris Climate Agreement and support the achievement of the Sustainable Development Goals.

Studies continue to show that ESG investing outperforms 'mainstream' investments. This outperformance has also continued in the post COVID-19 era[1].

Note: (a)Recommendations of the Task Force on Climate-related Financial Disclosures, Final Report: June 2017

[1] Post COVID-19 era

Material climate-related risks need to be disclosed and accounted for within the Financial Statements and covered by the audit opinion



Recent relevant regulatory developments within Australia

In the last two years, regulators and standard setters in Australia have increased guidance and 'encouragement to disclose' on climate risk. Currently there are no explicit requirements to provide climate-related information in the Annual Report, but there are a number of implicit requirements or recommendations that are likely to be significant for a climate-exposed business. With growing investor and community expectations on companies to 'do the right thing', it is important that best practice be followed.

AASB and AuASB

A joint bulletin released by the standard-setters in December 2018, considers how AASB Practice Statement 2 Making Materiality Judgements should be applied to climate-related and other emerging risks. The joint bulletin observes that climate change considerations have most commonly been disclosed outside of the Financial Statements (i.e. in the Front-end of the Annual Report or a separate Sustainability/Integrated Report).

But, importantly, it recommends that material climate-related risks need to be disclosed and accounted for within the Financial Statements and covered by the audit opinion. Further consideration of climate risk materiality is included in page 13 below. Even though Practice Statement 2 is not mandatory, it represents the AASB's best practice guidance for making the materiality judgements required by Australian Accounting Standards when preparing general purpose Financial Statements.

Companies should note that this Practice Statement is effective now.

ASX Corporate Governance Council

The ASX Corporate Governance Principles and Recommendations (4th Edition) address emerging issues around culture, values and trust. Recommendation 4.3 asks boards to focus and report on their process to verify the integrity (accuracy and balance) of all periodic corporate reporting including integrated and / or sustainability reporting. Recommendation 7.4 specifically asks for disclosure of any material environmental or social risks and how they are being or will be managed. Recommendation 7.4 specifically references use of the TCFD framework, where appropriate. The 4th Edition is effective for listed companies for financial year ends commencing on or after 1 January 2020.

ASIC

ASIC updated its guidance in Regulatory Guide 247 Effective disclosure in an operating and financial review (RG247) in August 2019 for boards preparing an Operating & Financial Review (OFR) under the Corporations Act. The updated RG 247 requires a discussion on environmental, social and governance risks (RG247.64) with a specific focus on systemic climate change risk (RG247.66) where material to a listed entity's future financial position, performance or prospects. ASIC advises directors to consider additional disclosures as required under TCFD, as appropriate.

Further, ASIC has highlighted climate within their financial reporting surveillance areas of focus over recent years, specifically calling it out disclosures in the OFRs. ASIC also highlights the need to consider climate in the determination of asset values in the Financial Statements.

APRA

APRA continues to encourage the adoption of the Taskforce on Climate-related Financial Disclosure's recommendations to assist entities with assessing, managing and disclosing financial risks associated with climate change. APRA have also stated that they will focus on climate risk in future years to develop a climate change financial risk Prudential Practice Guide (PPG) as well as undertaking vulnerability assessments which will consider the estimated potential physical impacts of a changing climate, including extreme weather events, on the balance sheet of regulated entities, as well as the risks that may arise from the global transition to a low-carbon economy.

Note: (a)Recommendations of the Task Force on Climate-related Financial Disclosures, Final Report: June 2017

What are climate risks and opportunities and what are their impacts?

Identifying significant risks and opportunities

The first step to reporting is an understanding of the types of climate risk and how they might impact on your company's business model.

Consideration should also be given to climate impacts on your supply chain and in your value chain.

Transition Risks – Market and Reputational

The company may be perceived to be undertaking activities that are damaging to the climate, resulting in potential disruption to its key relationships.

For example:

- prolonged reputational damage resulting in significant loss of customers
- perceived exposure or poor climate response may reduce supply of capital or availability of insurance cover
- inability to meet business customers' qualifying thresholds for environmental matters
- societal pressure for increased regulation or taxation of key business activities
- competitors may move to decarbonise.

Market and reputational risks may represent the most immediate climate-related risks a company faces and may crystallise with little advanced warning.

Disclosures covering risk governance and management, and the company's external impacts (and responses if developed) may be of particular relevance.

Physical Risks – Acute and Chronic

The company's ability to operate successfully if directly exposed to potential adverse physical effects from climate change.

For example:

- damage to owned or public infrastructure
- loss of access to key business inputs
- disruption to key markets
- loss of demand for key products.

Direct climate impacts may be the most significant risk for many companies in the long term. However, there may be substantial uncertainty over both the physical impacts, and their ultimate financial impact – for example, the extent to which costs are borne by consumers or producers. Which activities are exposed to which risks may be of particular relevance.

Transition Risks – Policy, Legal and Technology

The company or its customers are exposed to the potential impacts of climate-related legislation or regulation.

For example:

- additional carbon costs or taxes may be imposed on business activities
- additional carbon costs or taxes may be imposed on suppliers activities or may impact on the cost/ attractiveness of services provided by an entity in the hands of a customer
- increased risk of climate-related litigation
- localised constraints may be placed on the ability to operate specific sites
- widespread constraints may be placed on the ability to operate the underlying business model
- prohibitions on key business inputs or products
- loss of demand due to curtailment of customers' activities
- risk of emerging technologies aimed at supporting the global carbon transition.

The political uncertainty inherent in climate-related regulation may lead to a wide range of potential outcomes – some may be negative, others may be margin enhancing. Disclosure of how a specific risk is being managed, the assumptions made and the process to assess potential impacts across different regulatory responses may be of particular relevance.

Strategic Opportunities - Resource Efficiency, Energy Source, Products/Services, Markets, Resilience

The company may identify opportunities from a climate-related matter – the counter to any of the risks identified above.

For example:

- demand for new or established products given certain characteristics favoured under changing climate environment
- damage to competitor business models as a result of a greater impact of climate risk on their business model than on your own.

Where climate-related opportunities are an important part of a company's value story, information on progress in this area may be material despite the opportunity being at the early stages of development.

Which risks should I disclose?

Climate risks may be material even if you do not think they are – materiality is assessed from a user's perspective.

Applying materiality to climate information in the Annual Report

Whilst s299A of Corporations Act and ASIC's RG247 do not explicitly refer to 'materiality', RG247.31 and 32 state that the OFR in a directors' report must contain information that shareholders in the entity would 'reasonably require to make an informed assessment' of the matters set out in s299A(1)(a)–(c). Information that shareholders would 'reasonably require' needs to be determined by considering the specific circumstances of the entity.

ASIC gives guidance on good disclosure practices in Section E of RG247. Directors and preparers of an OFR should present the narrative and analysis in a way that maximises its usefulness to shareholders.

As a matter of good practice, an OFR should present information in a single section, and in a manner that is:

- complementary to and consistent with the annual financial report
- balanced and unambiguous
- clear, concise and effective.

ASX Corporate Governance Principles & Recommendations (4th Edition) recommendation 7.4 states that a listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks.

Applying materiality to climate information in the Financial Statements

We sometimes hear that materiality is difficult to apply to climate-related matters – but recommendations by the AASB and AuASB in their Joint Bulletin emphasise the need to assess the materiality of climate-related risks on financial statement disclosures. In making this assessment an entity should consider both quantitative and qualitative factors.

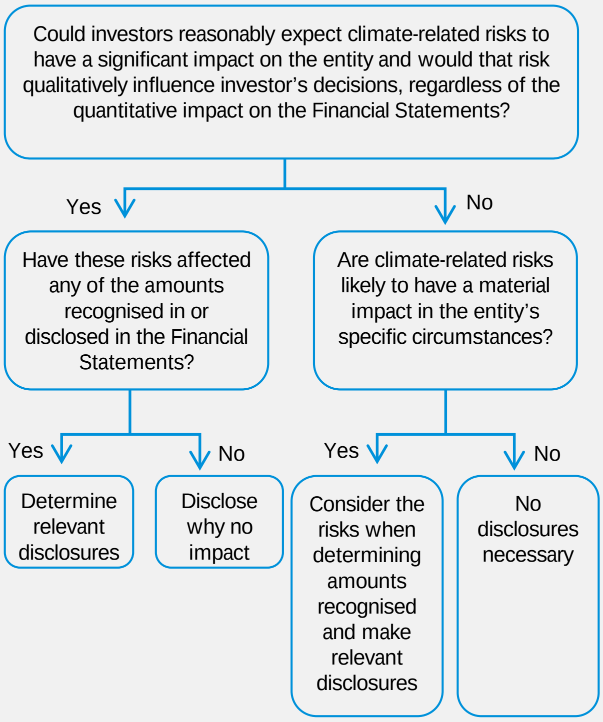
Broadly, information will be material to the Financial Statements if it could reasonably be expected to affect the primary users' economic decisions. Primary users include existing and potential investors, lenders and other creditors. Australian Accounting Standards link this assessment to the practical question of whether the information would affect a user's assessment of the company's long-term future cash flows or management's stewardship of its resources.

The result is that there is no difference in how quantitative and qualitative information should be approached. Materiality is assessed from the perspective of the primary users and the decisions they make about resource allocation, not the magnitude of the source data.

Applying materiality requires a focused approach: specific information on the typically small number of matters that could move the user's assessment, rather than superficial information on a collection of matters that would not. Directors will need to take account of the magnitude, time value, and likelihood of potential impacts when determining which matters would affect a user's economic decisions and so should be reported.

The AASB and AuASB Joint Bulletin provides further insights for companies that operate in the industries that are expected to be affected by climate risks (as identified by the TCFD). The financial, energy, transportation, material and buildings and agriculture, food and forest products sectors should all explain whether and how climate-related risks have been considered, even if there are no material impacts disclosed in the balance sheet.

What disclosures are material to the Financial Statements?



Source: Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2

Note: (a) Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2: December 2018

There is a real danger that climate-related risks and their impact on performance and prospects are under disclosed in Annual Reports

Where should I report climate impacts?

Disclosure guidance covering the Front-end of the Annual Report and Financial Statements

Climate-related disclosures are often approached on a siloed-basis, with a specific segment of the Front-end of the Annual Report (basic TCFD and/or risk information), devoted to the issue. A number of organisations will address the whole matter in the sustainability report. Whilst this may allow companies to feel they have ‘ticked the climate box’, this is not the approach which regulators, investors and other key stakeholders wish to see. It is not considered good practice.

There is real danger that climate-related risks and their impact on performance and prospects are under disclosed in Annual Reports or that financial statement disclosures are not consistent with disclosures made in the Front-end of the Annual Report, or in other documents. There is also a lesser risk of potential over-disclosure of matters that are not material and not useful to shareholders.

We strongly encourage companies to approach climate-related matters as a part of their mainstream reporting, recognising that climate may impact each area of the Annual Report. This can range from financial statement impacts, in some cases, through to including disclosures in the Annual Report on the material social and environmental risks (including climate risk) information required by shareholders. To do this, we suggest the following ladder as a starting point for considering how to reflect climate-related matters in an Annual Report. The remainder of this report is divided into three different sections outlining the following detailed disclosure recommendations:

- Guidance on disclosures relevant to the Front-end section of the Annual Report.
- Guidance on accounting for climate impacts.
- Guidance on disclosures relevant to the Financial Statements.

Disclosures in the Front-end of the Annual Report

Matters monitored as an emerging and potential business issue

Governance and Business Model disclosures

Where the board is monitoring climate as a potential risk (see pages 10-12)

Matters represent current and known risk & opportunity

Strategy, Risk Management, Performance and Outlook

Information needed to understand the principal risks and opportunities faced by the business and how they are managed/ mitigated (see pages 13-18)

Accounting for climate impacts

Obligations resulting from climate-related matters

Accounting Considerations : Provisions

E.g. onerous contracts or legal and constructive obligations (see page 21)

Climate-related expectations resulting in adjustments to carrying amounts

Accounting Considerations: Asset Impairments

E.g. where expectations of an asset’s value in use or useful life no longer support its carrying amounts (see pages 22-24)

Disclosures in the Financial Statements

Contingent liabilities arising from climate-related factors

Financial statements disclosure: Contingent liabilities

E.g. relating to potential environmental remediation obligations (see page 27)

Climate-related factors which require significant accounting judgements, estimates or assumptions

Financial statements disclosure: Accounting judgements and estimates

Where climate considerations represent an important accounting judgement (e.g. valuation or impairment) (see page 28-29)

How should I report climate effects in the Front-end of the Annual Report?

Climate risk impacts on Governance, Business Model, Strategy, Risk Management and Performance and Prospects should be made in the your Annual Report – if material, and not hidden away in a separate sustainability report

Governance

Describing board oversight of climate risks and opportunities

Changes in the 4th Edition of the ASX Corporate Governance Principles & Recommendations (4th Edition) focus the board's attention on addressing emerging issues around, for example, culture, values and trust, and the importance of managing, monitoring and reporting on material non-financial risks (or value drivers) impacting operations today, or likely to do so in future. Climate change and the TCFD reporting requirements is explicitly referenced in Recommendation 7.4 (Risk).

Furthermore, the 4th Edition requires the board to consider and report on how they verify the quality and accuracy of this additional 'non-financial' information for use by shareholders and other stakeholders.

Likewise, ASIC's guidance to boards, updated in 2019, on preparation of the operating & financial review (OFR) in their annual directors' reports (RG247) also highlights a number of specific risks that currently, or will in future, materially impact on the entity's financial performance, position and prospects. Again ASIC draws out climate change.

This recent 'regulatory' guidance requires boards to assess and report on the sustainability of the company's business model, including describing how they are responding to the potential short and longer term implications of climate-related matters. Shareholders' understanding of and confidence in the process by which boards have assessed climate-related matters will be particularly important for companies that have identified lower-levels of climate-risk compared to the market perception of sector-exposure.

TCFD Guidance gives specific guidance on what governance questions should be considered and disclosed.

Governance: Disclosures that may need to address climate-related matters

Aspect	Disclosure Requirement
Section 299(1)(f) Corporations Act	Directors' report needs to include if the entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory—disclosures should include policies and practices in place to monitor and review performance (or links to those details on-line) and provide details of the entity's performance in relation to compliance with relevant environmental regulation.
Section 299A Corporations Act and RG247.5 Requirement for an OFR	RG247.5 explains The objectives of the OFR requirements are to provide shareholders with a narrative and analysis to supplement the financial report and assist shareholders in understanding the operations, financial position, business strategies and prospects of an entity. To the extent that climate change is impacting current operations, financial position, strategy and prospects, or is likely to in future, then fulsome disclosure in the OFR is appropriate (linked to any financial disclosures in the Financial Statements).
4th Edition – R4.3 on the integrity of any periodic corporate reports	Recommendation 4.3 states that a listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor. The Commentary explains that investors increasingly rely on a broader range of reporting, including integrated and sustainability reports. It is important for the board to explain the process by which the entity has satisfied itself that the climate disclosures made are materially accurate, balanced and support provides investor decision making.

TCFD Guidance that may assist with the disclosures (where material):

TCFD Disclosure	TCFD Guidance(a)
1a Describe the board's oversight of climate-related risks and opportunities	Describe the processes and frequency for informing the board and its committees on climate-related issues
	Discuss how the board and its committees consider climate-related issues when: • considering strategy, plans, and risk management policy • setting performance objectives • monitoring implementation and performance, and • overseeing major capital expenditures, acquisitions, and divestitures. Discuss how progress against goals/ targets for climate-related issues is monitored.
1b Describe management's role in assessing and managing climate-related risks and opportunities	Describe any climate-related responsibilities assigned to management-level positions or committees, covering: • whether the committee or management-level position reports to the board • the associated organisational structure(s) • the processes by which management is informed about climate-related issues • how management monitors climate-related issues.

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Business Model

The role of business model descriptions in supporting investor assessments of climate-risk

Business model descriptions should provide essential context for the matters raised throughout the OFR. Information on the business model may be material to shareholders where it supports an assessment of the business's exposure to uncertainties such as those associated with climate-related matters.

ASIC's guidance on the OFR emphasises the importance of explaining the business environment, for example the impact of material climate change matters on the continued availability and affordability

Business model – climate-exposed features that may need to be disclosed

Aspect	Disclosure Requirement
Section 299A Corporations Act and RG247 Section C – Operations & financial position	Discussion of an entity's operations should include an explanation of the entity's business model and its effect on the entity's operations. This will include a discussion of results for key operating segments and major components of the overall result to assist the shareholders to understand the entity's results.
Section 299A Corporations Act and RG247. 40 – Tailored information	RG247.40 Information about an entity's operations and financial position should be tailored to reflect the individual circumstances of the entity and the business environment in which it operates. This includes the timing and impact of climate risks on the business model.
Section 299A Corporations Act and RG247.42 - Operations	RG247.42 continues: This includes explaining the key features of the business model – that is, how the entity makes money and generates income or capital growth for shareholders, or otherwise achieves its objectives. Where material, entities will need to disclose the likely timing and impact of climate matters on its supply chain, activities and products and services, as well as actions being taken to adapt the business model, where required.
Section 299A Corporations Act and RG247.43 – Underlying drivers of performance (or resources & relationships/ capitals)	RG247.43 An OFR should include matters that are relevant to understanding an entity's performance and the factors underlying its results – in other words, the underlying drivers and reasons for the entity's performance. Examples provided include external drivers, i.e. new competitors, exchange rates, ESG risks (RG247.64), and internal financial and non-financial drivers i.e. major new products (innovation); new markets (expanded customer base); intangible and off-balance sheet assets (intellectual capital) (RG247.47);

TCFD Guidance that may assist with the disclosures (where material):

TCFD Disclosure	TCFD Guidance(a)
2a Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	Provide the following information: – A description of what is considered to be the relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of the organization's assets or infrastructure and the fact that climate-related issues often manifest themselves over the medium and longer terms, – A description of the specific climate-related issues for each time horizon (short, medium, and long term) that could have a material financial impact on the organization, and

Strategy

Explaining strategic responses to climate-related factors

ASIC's guidance on describing company strategy in the OFR states that it should cover both shorter and longer-term aspects of strategy.

Strategy - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
Section 299A Corporations Act and RG247.27 Information about an entity's business	RG247.27 An OFR should … provide an overview of the entity's business strategies, and prospects for future financial years.
Section 299A Corporations Act and RG247.54 discussion of business strategies and prospects	RG257.54 - We consider that information on business strategies and prospects for future financial years , should focus on matters that may have a significant impact on the future financial performance and position of the entity. RG247.55 – Section 299A does not specify any particular time period for which business strategies and prospects should be described… for future financial 'years'. The relevant time period will depend on the individual circumstances of the entity, taking into account factors such as the age of the entity, the business in which it is engaged, the industry in which it operates and the types of commitments it enters into. RG247.57 – To make an informed assessment of an entity's business strategies and future prospects, shareholders are likely to need information that provides them with context about the entity as a whole – that is the OFR sets out the entity's business objectives, how these objectives are to be achieved and significant factors on which the achievement of these objectives depends. Where a company's assessment of climate risks and opportunities are material, the impact on current strategy and/ or on future plans should be disclosed.
4th Edition Principle 1 – Lay solid foundations for management and oversight	The Commentary to Recommendation 1.1 says that Generally speaking, the board should be responsible under its charter for: (inter-alia): … defining the entity's purpose and setting its strategic objectives;…overseeing management in its implementation of the entity's strategic objectives, instilling of the entity's values and performance generally; … overseeing the entity's process for making timely and balanced disclosure of all material information;… satisfying itself that the entity has in place an appropriate risk management framework (both for financial and non-financial risks).

Information on strategy may be material where it addresses shorter-term factors (for example the company's strategy for managing a climate-stressed asset), and longer-term factors that affect the achievement of the company's disclosed outcomes (for example, where they may necessitate a change in the company's business model and strategic priorities).

Where the company has identified material climate risks or opportunities it is likely that shareholders will need information on the company's strategy for responding to them.

TCFD guidance will assist in explaining how climate-related factors are incorporated into the strategy setting process.

TCFD Guidance that may assist with the disclosures (where material):

TCFD Disclosure	TCFD Guidance(a)
2b Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	Describe how climate-related issues serve as an input to financial planning, the time period(s) used, and how these risks and opportunities are prioritized. Describe the impact on businesses and strategy in the following areas: – products and services – supply chain and/or value chain – adaptation and mitigation activities. – Investment in research and development. Describe any climate-related scenarios used to inform the organisation's strategy and financial planning – operations (including types of operations and location of facilities) Operating costs and revenues – capital expenditures and capital allocation – acquisitions or divestments – access to capital.
2c Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	Describe how resilient strategies are to climate-related risks and opportunities, taking into consideration a transition to a lower-carbon economy consistent with a 2°C or lower scenario and, where relevant, scenarios consistent with increased physical climate-related risks. Consideration given to disclosing: – where strategies may be affected by climate-related risks and opportunities – how strategies might change to address such potential risks and opportunities – the climate-related scenarios and associated time horizon(s) considered.

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Risk Management

Explaining climate-related risks and how they are assessed

climate-related risks may feature in a number of areas at the Front-end of the Annual Report:

In the first instance, the company's governance discussion may need to address how the board is monitoring the emergence of climate-related risk. Consideration of transition risks and physical risk are given particular emphasis in the Commentary to Recommendation 7.4 of the 4th Edition of the ASX Corporate Governance Principles & Recommendations (4th Edition).

RG247.25 requires discussion of business performance and the factors underlying its results and financial position. This discussion is not limited to short-term factors. Longer term future prospects should also be considered, taking account of their timing and uncertainty to determine whether they are likely to affect an investor's decisions.

Directors are advised to consider disclosure of additional information in the OFR on systemic risks, like climate change (RG247.66). Where climate change risk is considered material to the current position and future prospects, the risk discussion should be specific to the nature of the risk identified. Disclosure cannot be approached as a box-ticking exercise. In some instances it may be the case that climate risk is a component of a broader risk, for example because it may result in changing customer needs or tendering criteria.

As with any other material business risk, the OFR should explain how the risk is being managed, and its possible impact on the company. There may well be significant uncertainties over how climate risk ultimately affects the company. In this case disclosures may best be addressed by providing sufficient detail to support shareholders' assessments of potential exposure, rather than on management describing a particular set of potential effects.

Risks - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
Section 299A Corporations Act and RG247.62 Prospects for future financial years	RG247.62 – It is important that a discussion about future prospects is balanced. It is likely to be misleading to discuss prospects for future financial years without referring to the material business risks… By 'material business risks', we mean the most significant areas of uncertainty or exposure, at a whole-of-entity level, that could have an adverse impact on the achievement of the performance or outcomes disclosed in the OFR.
Section 299A Corporations Act and RG247.64 Prospects for future	RG247.64 - An OFR should include a discussion of environmental, social and governance risks where those risks could affect the entity's achievement of its financial performance or outcomes disclosed, taking into account the nature and business of the entity and its business strategy.
Section 299A Corporations Act and RG247.65 Climate disclosures	Each risk that is disclosed should: (a) be described in its context (e.g. why the risk is important or significant, and its potential impact on the entity's financial prospects) (b) include any relevant associated analytical comments (e.g. whether the risk is expected to increase or decrease in the foreseeable future) (c) where the risk relates to factors within the control of management, specify how these factors will be controlled or managed by the entity.
Section 299A Corporations Act and RG247.66 Climate change disclosure requirements	The board is specifically asked to consider climate change risk: Climate change is a systemic risk that could have a material impact on the future financial position, performance or prospects of entities…. Directors may also consider whether it would be worthwhile to disclose additional information that would be relevant under integrated reporting, sustainability reporting or the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), where that information is not already required for the OFR.
4th Edition – Principle 7 Recognise and manage risk	A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.
4th Edition - Glossary	The 4th Edition's glossary defines environmental risks as the potential negative consequences (including systemic risks and the risk of consequential regulatory responses) to a listed entity if its activities are adversely affect the natural environment or if its activities are adversely affected by changes in the natural environment.

FRONT-END CLIMATE REPORTING

Risk Management

Risks - disclosures that may need to address climate-related matters:	
Aspect	**Disclosure Requirement**
4th Edition – Recommendation 7.4 on environmental and social risk	Recommendation 7.4 states that a listed entity should disclose whether it has any material exposure to environmental or social risks and, if it does, how it manages or intends to manage those risks. The Commentary explains How an entity manages environmental and social risks can affect its ability to create long-term value for security holders. Accordingly, investors increasingly are calling for greater transparency on the environmental and social risks faced by listed entities, so that they in turn can properly assess the risk of investing in those entities. It goes on to say: "One particular source of environmental risk relates to climate change. This includes: – risks related to the transition to a lower-carbon economy, including policy and legal risks, technology risk, market risk and reputation risk – physical risks, such as changes in water availability, sourcing, and quality; food security; and extreme temperature changes affecting an organisation's premises, operations, supply chains, transport needs, and employee safety – many listed entities will be exposed to these types of risks, even where they are not directly involved in mining or consuming fossil fuels. The Council would encourage entities to consider whether they have a material exposure to climate change risk by reference to the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD") and, if they do, to consider making the disclosures recommended by the TCFD.

TCFD Guidance that may assist with the disclosures (where material):	
TCFD Disclosure	**TCFD Guidance(a)**
2a Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term.	– describe the organisation's relevant short-, medium-, and long-term time horizons, taking into consideration the useful life of its assets or infrastructure – describe the specific climate-related issues potentially arising in each time horizon (short, medium, and long term) that could have a material financial impact on the organisation – describe the processes used to determine which risks and opportunities could have a material financial impact on the organisation – describe the risks and opportunities by sector and/or geography if applicable.
3a Describe the organisation's processes for identifying and assessing climate-related risks.	– describe the risk management processes for identifying and assessing climate-related risks including how the relative significance of climate-related risks is determined – describe the factors considered including existing and emerging regulatory requirements. – disclose the processes for assessing the potential size and scope of risks, definitions of risk terminology, and references to risk classification frameworks used.
3b Describe the organisation's processes for managing climate- related risks	– describe the processes for managing climate-related risks, covering decisions to mitigate, transfer, accept, or control those risks – describe the processes for prioritising climate-related risks, including how materiality determinations are made within their organisations.
3c Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management.	– describe how processes for identifying, assessing, and managing climate-related risks are integrated into their overall risk management.

Note: (a) This is a summary, the guidance is available at https://www.fsb-tcfd.org/publications/

Performance and Outlook

Reporting on progress managing climate-related matters

ASIC's guidance requires the OFR to include a discussion of the underlying drivers that address matters relevant to understanding the company's operations, performance, position and future prospects.

Where a climate-related matter has been identified as a material risk, a business environment factor, or a strategic priority, it is likely that the underlying drivers and progress in managing the matter will be relevant. As with other aspects of the OFR, disclosures should be included where relevant and material to shareholders. Climate-related impacts may be relevant, for example, where the company is exposed to relationship and reputational risks because of its activities.

Companies may also find they are being asked by ratings agencies to disclose climate-related performance measures. Nevertheless, the Performance disclosures in the OFR should be those relevant to a shareholder's assessment of the company's specific circumstances as they relate to its performance, position and future prospects.

Metrics and targets should be designed to allow management to measure performance and ensure that the business is being managed in a way that minimises climate risks and ensures that opportunities are maximised.

Drivers of Performance - disclosures that may need to address climate-related matters:

Aspect	Disclosure Requirement
Section 299A Corps. Act RG247.25 Entity's business	RG247.25 An OFR provides an overview that enables shareholders to understand an entity's business performance and the factors underlying its results and financial position.
Section 299A Corps Act RG247 Section C Operations; financial position	Information about an entity's operations involves an explanation of the underlying drivers of its results, and of key developments in the reporting period…. A discussion of the results for the key operating segments and major components of the overall result would also assist shareholders to understand the entity's results.
4th Edition Principle Recommendation 4.3	A listed entity should disclose its process to verify the integrity of any periodic corporate report it releases to the market that is not audited or reviewed by an external auditor. The Commentary explains that increasingly, investors are relying on a broader range of corporate reports including integrated reports and sustainability reports. Boards will need to explain how they have verified the balance and accuracy of climate-related performance KPIs and other narrative disclosures.

Reporters need to strike a balance in the OFR disclosures and make sure disclosures made are relevant to requirements of Corps Act/RG247. Additional information of interest to other stakeholders can be referenced and included in other reports.

TCFD Guidance that may assist with the disclosures (where material):

TCFD Disclosure	TCFD Guidance(a)
4a Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process.	– provide the key metrics used to measure and manage climate-related risks and opportunities, including those related to water, energy, land use, and waste management. Metrics should allow for trend analysis, and include a description of the methodologies used to calculate or estimate the metric – describe whether and how related performance metrics are incorporated into remuneration policies – provide internal carbon prices applied if applicable – provide climate-related opportunity metrics such as revenue from products and services designed for a lower-carbon economy
4b Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	– provide Scope 1 and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions and the related risks, calculated using the GHG Protocol methodology. Provide related, generally accepted industry-specific GHG efficiency ratios – GHG emissions and metrics should allow for trend analysis – provide a description of the methodologies used to calculate or estimate the metrics.
4c Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.	– describe key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc., in line with anticipated regulatory requirements or market constraints or other goals, such as: a) Efficiency or financial goals; b) Financial loss tolerances; c) Avoided GHG emissions through the entire product life cycle; and d) Net revenue goals for products and services designed for a lower-carbon economy – consider addressing whether the target is absolute or intensity based, time frames over which the target applies, base year from which progress is measured, and key performance indicators used to assess progress against targets – where not apparent, organizations should provide a description of the methodologies used to calculate targets and measures

Note: (a) Applicable to large companies

How do I account for climate impact?

Companies that operate in the industries expected to be affected by climate risks need to consider if and how the financial consequences of these risks impact the recognition and measurements of assets and liabilities

Accounting considerations

Accounting considerations

Whether or not climate-related risks impact the recognition and measurement of assets and liabilities recognised in are Financial Statements very industry and entity specific. Although many entities are getting better at identifying and articulating the climate-related risks for their specific operations and are considering how their evolution or development can be monitored, it is safe to say that, at this time, for many entities there are a lot of unknowns and uncertainties when it comes to considering the impacts (if any) on the recognition and measurement of assets and liabilities recognised in their Financial Statements.

This section goes through some of the areas of the Financial Statements where climate risk may have some form of impact on the recognition and measurement of assets and liabilities now or in the future. Entities should apply the concepts of materiality in 'Which risks should I disclose' (see page 8) to their specific facts and circumstances when considering these accounting considerations and revisit them periodically to determine whether positions, judgements and assumptions made continue to hold true.

Provisions

Australian Accounting Standards do not permit the recognition of provisions for future operating losses. However, climate-related considerations may be applicable in relation to the following:

- legal obligations resulting from changes or potential changes to law and regulation (for example, the implementation of legislation aligned with the Paris Agreement). In general, obligations arising from regulatory change will not be recognised until the regulatory change is virtually certain of being enacted
- obligations for litigation and/or fines or penalties arising from climate-related matters
- constructive obligations arising from specific commitments, or past practice, to remedy environmental damage made by the entity
- provisions for contracts assessed to be onerous as a result of expected climate-related costs that do not amount to provisions for loss making operations.

Key Accounting Considerations: Provisions(a)

AASB 137: Provisions, Contingent liabilities, and Contingent Assets

Provisions for future losses	Future operating losses do not meet the definition of a liability, provisions should not be recognised for future operating losses.	AASB 137 §63-64
Onerous contracts	AASB 137 defines an onerous contract as 'a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.' Where the entity identifies an onerous contract it recognises the present obligation under the contract as a provision after taking account of any impairment losses on assets dedicated to the contract. Some contracts may be part of an overall loss-making operation. In our view, a provision should not be recognised for these contracts unless the cash flows related to the contract are clearly distinguishable from the operations as a whole. Otherwise, a provision would effectively be recognised for future operating losses.	AASB 137 §66-69
Consequences of potential changes to law and regulation	Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. The standard notes that in many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.	AASB 137 §22

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Accounting considerations (cont.)

Asset lives and values

The effect of climate-related risk on financial and non-financial assets

Climate-related factors, for example those that create the possibility of adverse regulatory outcomes, may affect an entity's expectations of the future returns an asset is capable of generating, leading to a reassessment of asset useful lives, an impairment indicator or expenses not meeting the definition of an asset that can be capitalised.

These same climate-related factors may impact the determination of asset fair values as they may influence a market participants view of what they would be willing to pay for the asset given the potential climate risk related uncertainties.

In respect of financial instruments, where an entity has customers or lendees affected by climate-related risks, this may need to be considered in the assessment of expected credit losses. This is a forward-looking assessment that may require consideration of potential future economic scenarios and the likelihood of their occurrence, alongside whether there have been significant increases in credit risk.

Asset lives, values and impairments: Key accounting treatments that may be affected by climate-related risk(a)		
AASB 13: Fair Value Measurement		
Assets accounted for at fair value	AASB13 defines fair value as the price that would be received to sell an asset ... in an orderly transaction between market participants at the measurement date.	AASB 13 §9
	A fair value measurement using present value techniques is made under conditions of uncertainty because the cash flows used are estimates rather than known amounts. In many cases both the amount and timing of the cash flows are uncertain.	AASB 13 §B15
	Market participants generally seek compensation (ie a risk premium) for bearing the uncertainty inherent in the cash flows of an asset or a liability. A fair value measurement should include a risk premium reflecting the amount that market participants would demand as compensation for the uncertainty inherent in the cash flows. Otherwise, the measurement would not faithfully represent fair value. In some cases determining the appropriate risk premium might be difficult. However, the degree of difficulty alone is not a sufficient reason to exclude a risk premium.	AASB 13 §B16
AASB 116: Property, Plant, and Equipment		
Reassessment of asset useful lives	AASB 116 requires the residual value and the useful life of an asset to be reviewed at least at each financial year-end.	AASB 116 §51
	Example Disclosure: APA Group reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period. Physical, economic and environmental factors are taken into consideration in assessing the useful lives of the assets, including but not limited to asset condition and obsolescence, technology changes, commercial contract lives and renewals, global and regional gas supply-and-demand, and **climate change based on TCFD scenario testing to 2030**. Any reassessment of useful lives in a particular year will affect the depreciation expense. (Source: APA Group Annual Report 2019, page 76)	
Assets accounted for under the revaluation model	Where assets are measured under the revaluation model subsequent to initial recognition, revaluations should be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.	AASB 116 §31
AASB 116: Property, Plant, and Equipment and AASB 138: Intangible Assets		
Recognition of expenditure as an asset	AASB 116 only allows the cost of an item of property, plant and equipment to be recognised as an asset if it is probable that future economic benefits associated with the item will flow to the entity, and the cost can be measured reliably. AASB 138 has the same requirement, along with the item needing to meet the definition of an intangible asset.	AASB 116 §7 AASB 138 §18

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Accounting considerations (cont.)

Asset lives and values (cont.)

Asset lives, values and impairments: Key accounting treatments that may be affected by climate-related risk(a)		
AASB 6: Exploration for and Evaluation of Mineral Resources		
Impairment testing of mineral resource assets	AASB 6 provides specific requirements for assessing the impairment of exploration and evaluation (E&E) assets. These differ to the requirements of AASB 136. E&E assets are assessed for impairment only when specific facts and circumstances suggest that the carrying amount of the asset may exceed its recoverable amount, and on the transfer of the assets to development assets. In contrast to other assets, there is no requirement to assess whether an indication of impairment exists at each reporting date until an entity has sufficient information to reach a conclusion over the technical feasibility and commercial viability of extraction. This standard does however include industry specific examples of facts and circumstances that indicate an entity should test for impairment.	AASB 6 §18
AASB 9: Financial Instruments		
Financial instrument measurement of expected credit losses	**Measurement of expected credit losses** An entity shall measure expected credit losses of a financial instrument in a way that reflects: a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes b) the time value of money c) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.	AASB 9 §5.5.17
	Significant increase in credit risk AASB 9 requires at each reporting date, an assessment of whether the credit risk on a financial instrument has increased significantly since initial recognition.	AASB 9 §5.5.9
	Example Disclosure: **Climate risk** is a risk for the Group. The impacts of climate change have the potential to affect our customers' ability to service and repay their loans, and the value of collateral the Group holds to secure loans. These impacts include long-term changes in climatic conditions, extreme weather events, and the action taken by governments, regulators or society more generally to transition to a low carbon economy. The Group is a major provider of non-retail loans. A key step in credit risk due diligence for non-retail lending is the assessment of potential transactions for environmental, social and governance (ESG) risks, including climate risk, through our ESG Risk Assessment Tool. All Institutional Banking and Markets loans, as well as large loans in other business units, are evaluated through the Group's compulsory ESG risk assessment process. The risk of climate change is assessed at origination and during the annual review process. Exposures with medium or high risk profile are subject to additional due diligence and heightened consideration and assessment in the credit process. As at 30 June 2019, there is considered to be no material risk of loss due to climate-related risk in our client exposures. (Source: Commonwealth Bank Annual Report 2019, page 206)	

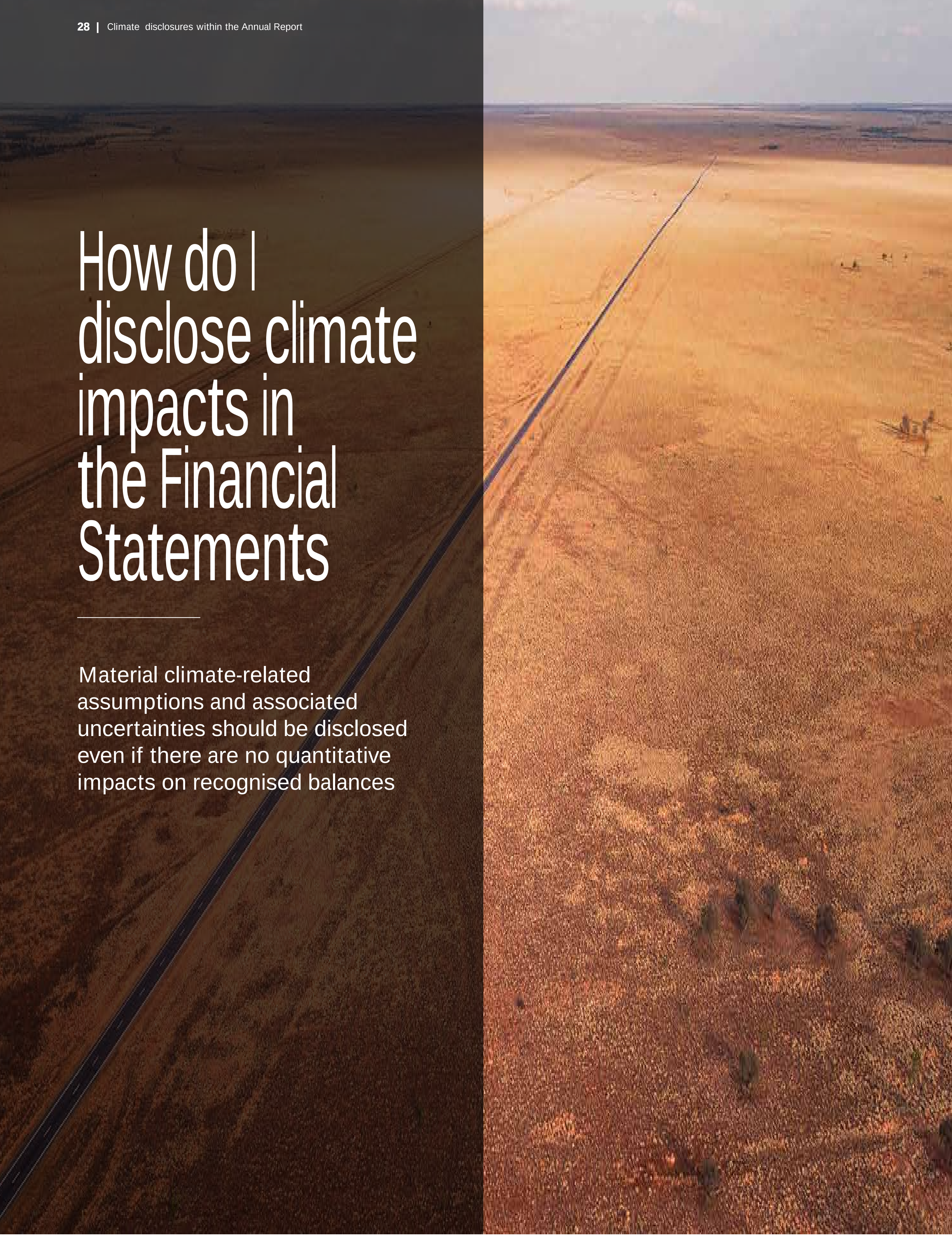
Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Accounting considerations (cont.)

Asset lives and values (cont.)

Asset lives, values and impairments: Key accounting treatments that may be affected by climate-related risk(a)		
AASB 136: Impairment of Assets		
Requirement to assess assets for impairment	AASB 136 requires an assessment at the end of each reporting period of whether there is any indication that an impairment test is required. Intangible assets with indefinite useful lives and goodwill must be tested annually.	AASB 136 §9, 10
Basis on which assets are assessed for impairment	**Level at which assets are assessed** Recoverable amounts are determined at an individual asset level unless the cash inflows are not largely independent of other assets or groups of assets. If this is the case, recoverable amount is determined on a cash-generating unit basis.	AASB 136 §22
	Calculating value in use The calculation of an asset's value in use is based on the estimated future cash flows from the asset, taking account of possible variations in the amount or timing of those future cash flows, time value of money (represented by the current market risk-free rate of interest), the price for bearing the uncertainty inherent in the asset and other factors, such as illiquidity, that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.	AASB 136 §30
	Longer-term assumptions for calculating value in use Budgets and forecasts used for value in use projections should cover a maximum period of five years, unless a longer period can be justified. Beyond this period projections should be extrapolated using a steady or declining growth rate unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.	AASB 136 §33
	Example Disclosure: The recoverable value estimates used in the impairment of assets analysis considers climate change risk through the adjustment of cash inflows associated with the planned closure of Group's Power Station. This recoverable value estimate demonstrates that the carrying value of Group's Operations CGU is not impaired. Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within our annual financial filings in accordance with Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), and Australian Accounting Standards Board (AASB) recommendations. Notwithstanding the above, any change to the planned closure dates of Group's coal-fired generation plants as a result of climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. No impairment loss has been recognised for the Customer Markets, Wholesale Markets or the Group Operations CGUs for the year ended 30 June 2019 (2018: $nil). (Source: AGL Annual Report 2019, page 111)	

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.



How do I disclose climate impacts in the Financial Statements

Material climate-related assumptions and associated uncertainties should be disclosed even if there are no quantitative impacts on recognised balances

CLIMATE EFFECTS IN THE FINANCIAL STATEMENTS

Disclosure considerations

Even if entities determine that based on their operations, climate-related risks do not have a material quantitative impact on the recognition and measurement of assets and liabilities recognised in Financial Statements at the present time, there is certainly an increasing focus and expectation from regulators and investors on more information being provided in the Financial Statements on this topic. As a result, it is important, particularly for entities operating in sectors that are more significantly impacted by climate, to consider the disclosures they make in the notes to their Financial Statements and whether climate-related risks discussions should be featured. For some entities this will manifest itself in judgement and estimation uncertainties disclosures related to specific assets or liabilities.

This section goes through some of the possible disclosure requirements of the accounting standards where information on climate-related risks may be relevant to include based on an entity's specific facts and circumstances.

Accounting judgements and estimates

Disclosure of climate-related accounting judgements and estimates

In some situations, climate factors may give rise to significant judgements and estimation uncertainty associated with the recognition or measurement of assets or liabilities e.g. provisions. Where there is significant risk that these assumptions may change within the next financial year (for example because of an uncertain regulatory environment), AASB 101 requires the assumptions on which the accounting is based to be explained.

For assets carried at fair value, expectations of climate factors may be a significant component of the fair value assumptions required to be disclosed under AASB 13.

Climate-related risk may also be a consideration in impairment assessments for non-financial assets including goodwill and indefinite life intangible assets. Where the impact of specific climate-related risks represents a key assumption in cash flow forecasts used to determine recoverable amount (for example, because the assessment makes assumptions about particular regulatory outcomes), AASB 136 and AASB 101 require this to be explained. Further AASB 136 requires disclosure of the impact of a reasonably possible change in these key assumptions (if material) where they are used to determine the recoverable amount of goodwill or indefinite life intangible assets.

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Disclosure considerations (cont.)

Disclosure of key accounting judgements affected by climate-related risk(a)

AASB 101: Presentation of Financial Statements

Disclosure of assumptions and estimates affecting the Financial Statements

For the entity's significant accounting policies, AASB 101 requires the disclosure of those judgements that have the most significant effect on the amounts recognised in the Financial Statements — AASB 101 §122

AASB 101 also requires disclosure of information about the assumptions the entity has made about the future and other major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to assets and liabilities within the next financial year. The disclosures must include their nature and carrying amount. The standard provides the following examples of potential disclosures: — AASB 101 §125,129

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

d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved.

Example Disclosure:

The recognition of site closure and rehabilitation provisions requires significant estimates and assumptions such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination; the timing, extent, and cost of required closure and rehabilitation activity; and potential changes in climate conditions. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time.

(Source: South32 Annual Report 2019, page 102)

Additional disclosures

AASB 101 requires additional disclosures when compliance with the specific requirements in Australian Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance. — AASB 101 §17(c)

Disclosure of key accounting judgements affected by climate-related risk(a)

AASB 13: Fair value measurement

Disclosure of assumptions relating to assets carried at fair value

AASB 13 contains a comprehensive disclosure framework for amounts measured at fair value that aims to provide information necessary to assess: — AASB 13 §91-99

– the methods and inputs used to develop those measurements

– the effect of the measurements on profit or loss or OCI of recurring fair value measurements that are based on significant unobservable inputs – for recurring Level 3 measurements.

For 'Level 3' assets (that is those where the valuation depends on unobservable inputs), the disclosure requirements include the valuation technique and inputs used, quantitative information about significant unobservable inputs, valuation processes and policies, narrative description of the sensitivity to changes in unobservable inputs, and narrative discussion of sensitivity to changes in unobservable inputs — AASB 13 §93

The entity must consider amongst other matters how much aggregation or disaggregation to undertake and whether additional information is needed to evaluate the quantitative information disclosed.

Application guidance to AASB 13 discusses how risk should be taken into account, recognising that this may be done by the use of most-likely cash flows at a risk-adjusted discount rate, risk-adjusted cash flows (discounted at the risk free rate) or unadjusted cash flows discounted using a risk-premium — AASB 13 Application Guidance

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Disclosure considerations (cont.)

Disclosure of key accounting judgements affected by climate-related risk(a)

AASB 136: Impairment of Assets

Asset impairment assumptions

AASB 136 requires disclosure of information for an individual asset or a cash-generating unit where an impairment loss has been recognised or reversed during the period and the recoverable amount is fair value less costs of disposal. Disclosures include:

- for fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy, each key assumption on which management has based its determination of fair value less costs of disposal. Key assumptions are those to which the asset's (cash-generating unit's) recoverable amount is most sensitive.
- the discount rate applied where a present value technique was used.

AASB 136 §130(f)

Example Disclosure:

Exploration and evaluation write-offs key assumptions

This assessment requires management to make certain estimates and apply judgement in determining assumptions as to future events and circumstances; in particular the assessment of whether economic quantities of reserves have been found. Any such estimates and assumptions may change as new information becomes available.

If, after having capitalised expenditure under the policy, the Group concludes that it is unlikely to recover the expenditure by future exploitation or sale, then the relevant capitalised amount will be written off to the income statement.

Exploration and evaluation impairment key assumptions

The FVLCD for the Kitimat LNG AOI was determined as the present value of the estimated future cash flows (expressed in real terms) expected to arise from the development and use of the asset using assumptions that an independent market participant would take into account. These cash flows were discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the Kitimat LNG AOI.

The FVLCD is classified as Level 3 on the fair value hierarchy and has been determined based on the following key assumptions:

- Resource estimates - 50% of contingent resources (2C) included as disclosed in the reserves and resources statement on page 44 - 47.
- Inflation rate – an inflation rate of 2.0% has been applied.
- Discount rate – a post-tax discount rate of 10.5% has been applied. The discount rate reflects an assessment of the risks specific to the asset.
- An estimated cost of supply on produced and third-party gas.
- An evaluation of climate risk impacts.
- Oil price – derived from long-term views of global supply and demand, building upon past experience of the industry and consistent with external sources. Prices are adjusted for premiums and discounts based on the nature and quality of the product. The nominal Brent oil prices (US$/bbl) used were:

2020	2021	2022	2023	2024	2025
63	63	68	72	76	80[1]

[1.] Based on US$72.50/bbl (2020 real terms) from 2025 and prices are escalated at 2.0% onwards.

(Source: Woodside Petroleum Annual Report 2019, page 93)

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Disclosure considerations (cont.)

Asset lives, values and impairments: Key accounting treatments that may be affected by climate-related risk(a)		
AASB 6: Exploration for and Evaluation of Mineral Resources		
Goodwill or intangible assets with indefinite useful lives recoverable amount assumptions	AASB 136 requires disclosure of information for each cash-generating unit (group of units) for which the carrying amount of goodwill or intangible assets with indefinite useful lives is significant in comparison with the entity's total carrying amount of goodwill or intangible assets with indefinite useful lives. For assets where the recoverable amount is based on value in use, disclosures include: –the key assumptions affecting the recoverable amount –management's approach to determining each key assumption –the period for which cash flows have been projected, and justification if this exceeds five years –the growth rate assumed beyond the projection period, and justification if it exceeds the long term average growth rate for the country or market of operation –the discount rate applied.	AASB 136 §134(d)
	For assets where the recoverable amount is based on fair value less costs of disposal, if fair value less costs of disposal is not measured using a quoted price for an identical unit (group of units), disclosures include: –the key assumptions affecting the recoverable amount –management's approach to determining each key assumption –the level of the fair value hierarchy (see AASB 13) within which the fair value measurement is categorised in its entirety –if fair value less costs of disposal is measured using discounted cash flow projections: –the period for which cash flows have been projected –the growth rate assumed beyond the projection period –the discount rate applied.	AASB 136 §134(e)
	If a reasonably possible change in a key assumption on which management has based its determination of the unit's (group of units') recoverable amount would cause the unit's (group of units') carrying amount to exceed its recoverable amount: –The amount by which the unit's (group of units') recoverable amount exceeds its carrying amount. –The value assigned to the key assumption. –The amount by which the value assigned to the key assumption must change, after incorporating any consequential effects of that change on the other variables used to measure recoverable amount, in order for the unit's (group of units') recoverable amount to be equal to its carrying amount.	AASB 136 §134(f)

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Disclosure considerations (cont.)

Contingent liabilities and Financial instruments

Disclosure of climate-related contingent liabilities

Contingent climate-related liabilities (such as those relating to environmental remediation or potential climate-related litigation) are disclosed under AASB 137 where the likelihood of settlement is less than probable, but not remote.

Climate-related investments and other financial instruments risk

The systemic nature of climate-risk may create pockets of 'concentration risk' for some entities (for example equity investments or loan/trade receivables carrying exposure to a particular climate-exposed sector, geography, or wider climate outcome). AASB 7 requires the identification of groups of financial instruments that are exposed to a particular risk characteristic.

Contingent liabilities disclosures that may be affected by climate-related risk(a)

AASB 137: Provisions, Contingent liabilities, and Contingent Assets

Disclosure of contingent liabilities **Financial instrument measurement of expected credit losses**	Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable: (a) an estimate of its financial effect (b) an indication of the uncertainties relating to the amount or timing of any outflow (c) the possibility of any reimbursement.	AASB 137 §86
	A contingent liability is: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation (ii) the amount of the obligation cannot be measured with sufficient reliability.	AASB 137 §10

Financial instruments disclosures that may be affected by climate-related risk[(a)]

AASB 7: Financial Instruments Disclosures

Disclosure of risks relating to financial instruments	The general disclosure principle in AASB 7 requires an entity to make qualitative and quantitative disclosures that enable users of its Financial Statements to evaluate the nature and the extent of risks arising from financial instruments to which the entity is exposed at the reporting date, and how the entity has managed them. An entity discloses summary quantitative data about its exposure to each risk arising from its financial instruments at the reporting date. The disclosure is based on information that is provided internally to key management personnel of the entity. **Example Disclosure:** Credit Risk incorporates the risks associated with us lending to customers who could be impacted by **climate change** or by changes to laws, regulations, or other policies adopted by governments or regulatory authorities, including carbon pricing and climate change adaptation or mitigation policies. (Source: ANZ Annual Report 2019, page 151)	AASB 7
Concentration risk exposures	Concentrations of risk arise from financial instruments that have similar characteristics; and are affected in a similar manner when there are changes in economic or other conditions. Identifying concentrations of risk is a matter of judgement and therefore an entity discloses: – a description of how management determines concentrations – a description of the shared characteristics that identify each concentration - e.g. counterparty, geographic area, currency or market – the amount of the risk exposure associated with financial instruments sharing that characteristic.	AASB 7 guidance B8

Note: (a) This list is intended to provide an introduction to the accounting considerations only. The specific facts of each issue will need to be considered in the context of Australian Accounting Standards requirements as a whole.

Contact us to dicuss your specific needs

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