BUILDING CONNECTIONS – NARROWING THE GAP BETWEEN FINANCIAL AND SUSTAINABILITY REPORTING

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SYNOPSIS

The IASB has issued new (draft) *Illustrative Examples* about the disclosure of climate-related and other uncertainties in the financial statements to complement the requirements of existing IFRS Accounting Standards. The *Examples* aim to assist companies when determining if additional or amended disclosures about climate-related or other uncertainties should be included in the audited financial statements. The IASB expects companies to consider the implications of the *Examples* and to modify financial statements, if necessary, in a timely way.

INTRODUCTION

As demand for more corporate disclosure about sustainability risks and opportunities increases globally, directors and senior managers are considering the interrelationship (or connectivity) of financial and sustainability disclosures.

Under the Bursa Listing Requirements, the reporting of sustainability information in accordance with IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and S2 *Climate-related Disclosures*[1] has been made mandatory in Malaysia for main market listed companies with market capitalisation of RM2B and above for financial year-ending on or after 2025.

As companies consider the new sustainability disclosure requirements they must also consider whether changes should be made to disclosures in the financial statements to ensure that financial and sustainability disclosures are complementary. IFRS S1 requires a company to provide information in a way that allows users of the financial reports to understand connections between its disclosures, specifically, sustainability-related financial disclosures and disclosures in the related financial statements[2].

Companies may be assisted in thinking about connectivity in disclosures by new (draft) *Illustrative Examples* issued by the IASB. The *Examples* aim to assist companies to determine if additional disclosures about climate-related or other uncertainties should be included in the audited financial statements. The *Examples* were issued in July 2025 in draft form to allow companies sufficient time to consider their implications in a timely way for 2025 year-end financial reporting. The IASB does not expect to make substantial changes to the draft *Illustrative Examples*.

1 See link below for the Bursa Listing Requirements: https://www.bursamalaysia.com/sites/5bb54be15f36ca0af339077a/content_entry5ce3b50239fba2627b2864be/67736c54cd34aaedad27dc6f/files/Main_PN9A_SRF__31Dec2024_.pdf?1735643091

2 See paragraphs 21-24 of IFRS S1

WHY DID THE IASB ISSUE THE ILLUSTRATIVE EXAMPLES?

The IASB considered that companies were already required to consider climate-related and other uncertainties when preparing their financial statements. These existing requirements are further elaborated in the guidance materials, entitled '*In brief: IFRS Standards and climate-related disclosures*[3]' and '*Education material: Effects of climate-related matters on financial statements*[4]' published in November 2019 and July 2023 respectively. In addition to these guidance materials, the IASB conducted research to better understand the nature and underlying causes of concerns regarding reporting the effects of climate-related risks in financial statements. Among other findings, the research confirmed that stakeholders are concerned that the required disclosures are, at times, insufficient or appear inconsistent with information presented outside the financial statements[5].

Following this, the IASB decided to take several actions to address the matter, including improving the application of IFRS Accounting Standards by publishing the (draft) *Illustrative Examples* as a timely way to provide additional helpful guidance. The *Illustrative Examples* do not create new mandatory requirements. Rather, they illustrate the application of existing requirements of IFRS Accounting Standards in the current environment.

WHAT TOPICS ARE COVERED BY THE ILLUSTRATIVE EXAMPLES?

The *Illustrative Examples* demonstrate how companies can improve the reporting of uncertainties in their financial statements using climate-related examples as practical illustrations.

Example 1 Materiality judgements
Illustrates making materiality judgements – when materiality judgements lead to additional disclosures and when they do not.
Example 2 Disclosure of assumptions – specific requirements
Illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets.
Example 3 Disclosure of assumptions – general requirements
Illustrates how an entity might be required to disclose assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure. The example identifies the assumptions for which disclosure is required and determines what information about these assumptions the entity is required to disclose.

3 https://www.ifrs.org/content/dam/ifrs/news/2019/november/in-brief-climate-change-nick-anderson.pdf

4 https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf

5 See paragraphs BC4-BC7 of IASB ED/2024/6 [https://www.ifrs.org/content/dam/ifrs/project/climate-related-other-uncertainties-fs/iasb-ed-2024-6-climate-uncertainties-fs.pdf]

Example 4 Disclosure about credit risk
Illustrates how an entity might disclose information about the effects of particular risks on its credit risk exposures and credit risk management practices and information about how these practices relate the to the recognition and measurement of expected credit losses.
Example 5 Disclosure about decommissioning and restoration provisions
Illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site restoration provision is immaterial.
Example 6 Disclosure of disaggregated information in the notes
Illustrates how an entity might disaggregate the information it provides in the notes about a class of property, plant and equipment on the basis of dissimilar risk characteristics if necessary to provide material information.

Further reading:

Climate-related and other uncertainties

https://www.ifrs.org/news-and-events/news/2025/07/near-final-climate-related-examples-report-uncertainties/

IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information*

https://www.ifrs.org/issued-standards/ifrs-sustainability-standards-navigator/ifrs-s1-general-requirements.html/content/dam/ifrs/publications/html-standards-issb/english/2023/issued/issbs1/

WHAT ACTION IS REQUIRED BY BOARDS AND MANAGEMENT?

Companies should consider reviewing the (draft) *Illustrative Examples* to determine whether any new disclosures or changes to existing disclosures are warranted in the financial statements. Audit firms may find it useful to discuss the implications of these *Examples* with their clients, and regulators may take the opportunity to review the disclosures in light of these developments.

Ideally, changes should be considered for periods ending 31 December 2025. The IASB expects that, if required, changes to financial statements will be made in a timely manner, following the release of the final version of the *Illustrative Examples* around October 2025. There is no application date because the *Examples* are not new mandatory IFRS requirements. For companies, making changes in a timely manner means sooner rather than later, consistent with the way companies respond to IFRS Interpretations Committee Agenda Decisions.

CONCLUSION

Prepared by the IASB in response to stakeholder demand, this (draft) *Illustrative Examples* which demonstrates the requirements of existing IFRS Accounting Standards represents a positive step toward fostering greater connectivity between financial and sustainability-related disclosures.

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