



Climate-related matters in financial statements

Staff Guidance

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Contents

1. About this guidance	3
2. Impact of climate-related matters in financial statements	4
3. Coherence between financial statements and climate-related disclosures	5
4. Differences between financial statements and climate-related disclosures	7
Appendix 1: Coherence principle	8





1. About this guidance

Coherence between financial statements and climate-related disclosures

Climate change is one of the most pressing issues facing the world today. It poses significant risk and opportunities for businesses, investors and society at large. While accounting standards do not specifically mention climate, in today's world, it is important for entities to consider the potential impact of climate-related matters in financial statements.

This publication is intended to help Climate Reporting Entities¹ understand the requirements in New Zealand accounting standards relating to climate-related matters in financial statements.

With the introduction of mandatory climate-related disclosures Climate Reporting Entities will need to help users understand whether, how, and to what extent, climate-related matters are reflected in an entity's financial statements. Financial statements and climate-related disclosures supplement and complement each other and together should present a coherent picture.

This publication highlights the need for coherence between financial statements and climate-related disclosures. It also explains that while there will be areas of connection, there are also valid reasons for differences between these two types of reporting as they serve fundamentally different purposes.



1. Climate-related disclosures are mandatory for large listed companies (large meaning with a market capitalisation of more than \$60 million); large registered banks, licensed insurers, credit unions, building societies, and managers of investment schemes (large meaning with more than \$1 billion in assets). Some Crown financial institutions (via letters of expectation) are also expected to report. These entities are collectively referred to as Climate Reporting Entities. The applicable climate standards for Climate Reporting Entities are seen below and can be accessed [here](#).





2. Impact of climate-related matters in financial statements

While accounting standards do not specifically mention climate, they do require consideration of climate-related matters when the effect of those matters is material.

Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions by primary users.

The financial statements may be affected by the financial implications of climate-related matters and the risks associated with them.

The potential financial implications may include, but are not limited to:

Asset impairment

Changes in the useful life of assets

Changes in the fair valuation of assets

Provisions and contingent liabilities arising from fines and penalties

Expected credit losses for loans and other financial assets

Provisions for onerous contracts because of increased costs or reduced demand

Disclosure of climate-related matters in the financial statements may also be required, taking into account:

- Qualitative external factors including:
 - industry specific information
 - investor expectations
- Requirements in individual accounting standards
- Overarching disclosure requirements to enable users to understand the impact of particular transactions, other events and conditions

In November 2020 (republished in July 2023) the IFRS® Foundation issued educational material on the [Effects of climate-related matters on financial statements](#). This sets out examples illustrating when Accounting Standards may require entities to consider the effects of climate-related matters.



3. Coherence between financial statements and climate-related disclosures

Coherence is a term used to describe the relationship between the various items of information presented in an entity's climate-related disclosures overall, including how the information relates to its financial statements.

Coherence is one of the principles in *Aotearoa New Zealand Climate Standards*, refer to [Appendix 1](#) where we have re-published the staff guidance on coherence which is relevant for financial reporting teams to consider, as well as preparers of climate-related disclosures.

One of the disclosure requirements in *NZ CS1 Climate-related Disclosures* is the disclosure of current financial impacts. This disclosure is one example of where a user would likely expect an entity to be able to make connections to amounts recognised or disclosures made in its financial statements. Below are a couple of simple examples which we have taken from the [XRB Staff guidance on Climate-related Disclosures](#).



Illustrative Examples

Example 1: Current financial impact and cross-referencing to financial statements

Our storage warehouse was damaged by a flood, impacting all inventory supplies stored there. Those inventories were written down to net realisable value, as disclosed in Note X of the financial statements.

Example 1 shows the connection between the climate-related disclosure and the financial statements.

Example 2: Providing additional information to that in financial statements

In February 2023, our orchard in the Hawke's Bay was devastated by Cyclone Gabrielle. Consequently, we have been unable to fulfil our orders, which has resulted in a loss of revenue for the current reporting period of \$X.

Example 2 shows where the climate-related disclosure supplements the information provided in the financial statements—the lost revenue is simply not in the financial statements, so there is nothing to recognise, nor is it in the cashflows as it did not occur. There is no requirement to disclose this information in the financial statements.



3. Coherence between financial statements and climate-related disclosures (continued)

When preparing financial statements and determining what connections to make, the key point to keep in mind is user needs – will users be left in doubt as to whether, how, and to what extent, climate-related information has been taken into account in financial statements?

What can entities do to help drive coherence?



Governance buy-in: Directors will be signing off on both the financial statements and the climate-related disclosures. Amongst other things, they will need to be comfortable that the coherence principle has been met and can help set the tone on what they view as being of importance to users.



Get your teams connected: Having highly connected teams who are talking the same language is important.

A high degree of connectivity between the people responsible for preparing each type of reporting gives a better chance of achieving coherence between the reports.



Focus on user needs: Aim for clarity for your users and minimise areas of confusion. Where there are valid reasons for differences, if management explains the differences or shows the links, it is easier to understand how these two worlds relate.



4. Differences between financial statements and climate-related disclosures

Climate-related disclosures and financial statements fundamentally have different purposes and are intended to supplement and complement each other. There are valid reasons for differences in reporting. These differences are driven by several factors, and include:



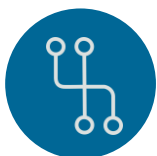
Time horizons - financial statements primarily focus on the entity's past transactions and events and also contain some information that reflects the entity's expectations and assumptions about the future. Climate-related disclosures focuses on forward-looking information that reflects the climate-related risks and opportunities of an entity which may involve a higher degree of uncertainty and judgement.



Materiality thresholds - for both financial statements and climate-related disclosures information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that primary users make on the basis of that information. Due to the higher degree of emphasis on qualitative factors in climate-related disclosures, materiality may be determined differently.



Units used - financial statements are focused on providing information that is measured and reported in monetary terms when the criteria for recognition and measurement are met (or disclosures are required). Climate-related disclosures are focused on providing both quantitative and qualitative information that is measured and reported in physical, monetary and/or non-monetary terms, such as greenhouse gas emissions which are expressed in metric tonnes of carbon dioxide equivalent (CO₂e).



Reporting boundaries - financial statements and climate-related disclosures are prepared for the same reporting entity, however, entities preparing climate-related disclosures must consider the exposure of their value chain as well.

While there are valid reasons for differences between financial statements and climate-related disclosures, if users could reasonably expect that a particular climate-related disclosure would impact the financial statements and it does not, entities should make additional disclosures to explain why this is not the case.



Appendix 1: Coherence principle

[XRB's Climate-related Disclosures Staff Guidance](#) elaborate on the Coherence principle as follows:

10. Coherence with financial statements

One of the principles in NZ CS 3 is coherence. This principle is described as “presenting disclosures in a way that explains the context and relationships with other disclosures of the entity ... coherence also requires an entity to present information in a way that allows primary users to relate information about its climate-related risks and opportunities to the entity’s financial statements” [NZ CS 3 Table 2].

It is important that climate-related disclosures and information in financial statements provide a complete, coherent, and consistent picture to primary users. Information provided in an entity’s climate-related disclosures should complement and supplement information provided in an entity’s financial statements.

Information provided in an entity’s climate-related disclosures will be more useful to primary users if connections are made to the financial statements – for example, by cross-referencing to notes in financial statements, or identification of the impacted line items in the financial statements. Information is also more useful to primary users if differences are explained – for example, differences in estimates and assumptions used in producing the financial statements to those used in the climate-related disclosures.

10.1. Including climate-related matters in financial statements

NZ IFRS® and PBE Standards (the accounting standards that apply to Tier 1 and Tier 2 reporting entities) already require consideration of climate-related matters, when the effect of those matters is material in the context of the financial statements as a whole.

From a financial statement perspective, information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions made by primary users.



Appendix 1: Coherence principle (continued)

Climate-related risks and opportunities could impact many aspects of an entity's financial statements. For example, they could be:

- recognised within assets, liabilities, revenue, and expenses, or included in cash flows, to the extent they relate to past events or transactions and meet the recognition and measurement criteria;
- incorporated into judgements, estimates, and assumptions underpinning the financial statements;
- disclosed in accordance with specific requirements or overarching disclosure objectives in individual accounting standards.

Potential financial implications arising from climate-related risks and opportunities are also broad and can include, but are not limited to:

- asset impairment (including goodwill);
- changes in the useful life of assets;
- changes in the valuation of assets;
- changes in provisions for onerous contracts because of increased costs or reduced demand;
- changes in provisions and contingent liabilities arising from fines and penalties; and
- changes in expected credit losses for loans and other financial assets.



Guidance on the application of accounting standards

In November 2019, Nick Anderson, a member of the International Accounting Standards Board (IASB), published an article, [IFRS® Standards and climate-related disclosures](#), which discussed how climate change and other emerging risks are captured by existing standards, despite not being referenced directly.

This was followed up by educational material issued by the IFRS® Foundation in November 2020 (republished in July 2023) on the [Effects of climate-related matters on financial statements](#). This sets out examples illustrating when IFRS® Standards may require entities to consider the effects of climate-related matters.

In April 2019, the Australian Accounting Standards Board and the Australian Auditing and Assurance Board jointly published a bulletin: [Climate related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2](#). Page 5 contains a decision flowchart.



Appendix 1: Coherence principle (continued)

10.2. Climate-related disclosures and financial statements

Climate-related disclosures made in climate statements do not replace the need for adequate reflection of climate-related risks and opportunities in financial statements when the recognition, measurement, and disclosure criteria are met. Primary users' expectations may make climate-related risks and opportunities 'material' when preparing financial statements, regardless of their numerical impact.

Primary users are looking for connections/coherence between the more forward-looking information provided in an entity's climate-related disclosures and information provided in an entity's financial statements.

When preparing financial statement disclosures, entities need to consider two overarching requirements. These are:

- disclosure of information not specifically required by NZ IFRS® and PBE Standards and not presented elsewhere in the financial statements, but that is relevant to an understanding of any of the financial statements;
- consideration of whether any material information is missing from its financial statements – i.e., an entity is required to consider whether to provide additional disclosures when compliance with the specific requirements in NZ IFRS® and PBE Standards is insufficient to enable primary users to understand the impact of particular transactions, other events, and conditions on the entity's financial position and financial performance.

In considering these overarching requirements in relation to whether and how climate-climate-related matters, entities may consider:

- related risks affect their financial statements and how to disclose these considerations;
- whether net zero commitments (or other climate-related commitments) result in recognition of liabilities, disclosure of contingent liabilities, or otherwise impact financial statements, or whether the lack of impact requires disclosure;
- whether and how to factor long-term uncertainties into the measurement of amounts in the financial statements and what disclosures are required.



Appendix 1: Coherence principle (continued)

By way of an example, say Entity ABC includes a net zero target/commitment in its climate-related disclosures, so primary users will be looking to see connections to the financial statements.

Primary users might ask the following questions

- Are the assumptions and judgements used in producing the financial statements in line with this commitment?
- Have any provisions been recognised because of this commitment, such as provisions for onerous contracts?
- Have any emissions-intensive assets been impaired?
- Have useful lives of these emissions-intensive assets been reduced?
- Have contingent liabilities been disclosed?

Lastly, if the net zero target/commitment has not resulted in an impact in the financial statements, but primary users would reasonably expect that it would have, has the entity considered whether additional disclosures are required to explain the lack of impact?

Disclaimer

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