

Proposed Amendments for Disclosures about Uncertainties in the Financial Statements

Amendments to IPSAS 1, *Presentation of Financial Statements*

Paragraphs IG5–IG13 and their related headings are added. New text is underlined.

Implementation Guidance

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Disclosures About the Effects of Uncertainties

Example – Disclosures about Assumptions

IG5. This example illustrates the requirements in paragraphs 140 and 144 of IPSAS 1. In particular, it illustrates how an entity:

- (a) Might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IPSAS Standards require no such disclosure;
- (b) Identifies the assumptions about which it is required to disclose information; and
- (c) Determines what information about these assumptions it is required to disclose.

Background

IG6. The entity is a government-owned electricity utility that operates extensive energy infrastructure. The entity is exposed to climate-related transition risks that might affect its ability to recover the carrying amount of some of its non-current assets. The entity has no goodwill or intangible assets with indefinite lives.

IG7. At the end of the current reporting period, there are indications that some of the entity's non-current assets might be impaired. Because the entity concludes it is not possible to estimate the recoverable amount of the individual assets, it tests the cash-generating unit (CGU) to which they belong for impairment. The entity concludes that the CGU's recoverable amount is greater than its carrying amount and, therefore, recognizes no impairment loss. In determining the CGU's recoverable amount, the entity makes several assumptions related to the climate-related transition risks to which it is exposed. Such assumptions include assumptions about future:

- (a) Legal and regulatory developments;
- (b) Consumer demand;
- (c) Commodity prices; and
- (d) Costs of acquiring greenhouse gas emission allowances.

Application

Considering the Specific Requirements in IPSAS Standards

IG8. IPSAS 26, *Impairment of Cash-Generating Assets*, does not require an entity to disclose information about the assumptions used in determining a CGU's recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognizes no impairment loss for that CGU during the current reporting period. However, the entity considers whether paragraph 140 of IPSAS 1 requires it to disclose information about these assumptions.

Considering the Requirements in Paragraph 140 of IPSAS 1

IG9. Paragraph 140 of IPSAS 1 requires an entity to disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. That paragraph also requires an entity to disclose details of the nature and the carrying amount at the end of the reporting period of those assets and liabilities.

IG10. The entity concludes that some of the assumptions it made in determining the CGU's recoverable amount have a significant risk of resulting in a material adjustment to the carrying amount of the non-current assets within the next financial year. These include assumptions about uncertainties that will not be resolved within the next financial year but that have a significant risk of resulting in a material adjustment to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year. The entity reaches this conclusion after considering:

- (a) The size of the CGU's carrying amount—the CGU makes up a large portion of the entity's total assets. Therefore, a relatively small adjustment to the CGU's carrying amount might result in a material impairment loss.
- (b) The subjectivity or complexity of the judgements management made in determining the assumptions—the judgements involve a high level of subjectivity and complexity because they reflect management's expectations about highly uncertain future events that will take place over the medium and long term, such as government actions to limit the effects of climate change and the timing of such actions. This high level of subjectivity and complexity increases the risk that the assumptions might change due to new information or new developments.
- (c) The risk that new information or new developments in the next financial year might result in changes to the assumptions—frequent new climate-related market, economic, regulatory and legal developments increase the risk that the entity might have to review its assumptions within the next financial year (including assumptions about medium- and long-term uncertainties). The higher the likelihood of new information or new developments in the next financial year, the higher the likelihood that an entity might have to revise its assumptions.
- (d) The sensitivity of the CGU's carrying amount to changes in the assumptions—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction in the CGU's recoverable amount and a material impairment loss.

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- IG11. Applying paragraph 140 of IPSAS 1 to the assumptions identified in paragraph IG10, the entity discloses:
- (a) Information about these assumptions; and
 - (b) Details of the nature and carrying amount of the CGU's non-current assets at the end of the reporting period.
- IG12. Paragraph 144 of IPSAS 1 requires an entity to provide these disclosures in a manner that helps users of financial statements to understand the judgement that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information an entity provides vary according to the nature of the assumption and other circumstances.
- IG13. The entity therefore determines the nature and extent of the information it provides to meet the objective described in paragraph 144 of IPSAS 1 for the assumptions it identified. For example, the entity discloses qualitative and quantitative information about the assumptions—including the nature of the assumptions, the sensitivity of the non-current assets' carrying amount to these assumptions and the reasons for the sensitivity—if doing so is necessary to meet that objective.

Amendments to IPSAS 19, *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs IG20A–IG20C, their related headings, and the introductory text in italics are added. New text is underlined.

Implementation Guidance

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Disclosures

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Decommissioning and Site-Restoration Obligations

The example below illustrates the requirements in paragraph 98 of IPSAS 19. In particular, it 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.

Background

IG20A. The entity is a government-owned electricity utility and has plant decommissioning and site-restoration obligations for its facilities. The entity assumes it will continue to maintain and operate some of its facilities for an extremely long time. Consequently, the costs required to settle the obligations related to these facilities will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial. However, the costs to settle the obligations relating to these facilities will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects. This risk stems from efforts to transition to a lower-carbon economy, which might include shifting consumer demand for the entity's products and possible regulatory and policy actions to reduce greenhouse gas emissions in the jurisdictions in which the entity operates.

Application

IG20B. Paragraph 98 of IPSAS 19 requires an entity to disclose information for each class of provision. The entity concludes that, although some of its plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision (see the 'Background' section), information about these obligations is material. The entity reaches this conclusion after considering, among other factors:

- (a) The size of the costs required to settle the obligations—the costs of settling the obligations are high;
- (b) The risk of early settlement—the risk that the entity might be required to settle the obligations earlier than expected is significant and is increasing; and
- (c) External climate-related qualitative factors—the industry and jurisdictions in which the entity operates (including the entity's market, economic, regulatory and legal environments) make the information about the obligations more likely to influence the

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decisions that primary users of the entity's financial statements make on the basis of the financial statements.

IG20C. In applying paragraph 98 of IPSAS 19, the entity discloses information about its plant decommissioning and site-restoration provision. This information includes information about the obligations that have an immaterial effect on the carrying amount of the provision. The information the entity discloses includes:

- (a) A brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them.
- (b) An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the entity's main facilities—for example, when the entity expects to close the facilities.

Amendments to IPSAS 26, *Impairment of Cash-Generating Assets*

Paragraphs IG30–IG35 and their related headings are added. New text is underlined.

Implementation Guidance

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Disclosure of Assumptions Related to Uncertainties

This example illustrates the requirements in paragraphs 123(d)(i)–(ii) and 123(f) of IPSAS 26. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amounts of assets.

Background

IG30. The entity's operations result in a high amount of greenhouse gas emissions. The entity is subject to greenhouse gas emission regulations in some of the jurisdictions in which it operates. Those regulations require the entity to acquire emission allowances for some of its emissions, resulting in costs (emission allowance costs). This example illustrates only the entity's consideration of emission allowance costs when testing an asset for impairment and its disclosure of information about related key assumptions. The example does not cover, for example, other costs an entity might incur in managing climate-related risks.¹ The entity expects such regulations to become more widespread in the future.

IG31. The entity has allocated a significant amount of goodwill to one of its cash-generating units (CGUs) and tests that CGU for impairment at least annually. The entity has concluded that the CGU's recoverable amount is greater than its carrying amount and, therefore, recognizes no impairment loss in the current reporting period. The entity has determined that its assumptions about future emission allowance costs are key assumptions—that is, they are among the assumptions to which the CGU's recoverable amount is most sensitive.

Application

Reasonable and Supportable Assumptions

IG32. The entity measures the value in use of the CGU when testing it for impairment. Applying paragraphs 46–51 of IPSAS 26 in measuring the CGU's value in use, the entity bases its cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist in the future. These assumptions include assumptions about future emission allowance costs.

IG33. The assumptions about future emission allowance costs include assumptions about the future price of emission allowances and future emission regulations. However, these assumptions do not reflect risks already reflected in the discount rate.

¹ This example illustrates only the entity's consideration of emission allowance costs when testing an asset for impairment and its disclosure of information about related key assumptions. The example does not cover, for example, other costs an entity might incur in managing climate-related risks.

Disclosures

Key Assumptions and Approach Used to Determine the Values Assigned to Them

IG34. Applying paragraph 123(d)(i)–(ii) of IPSAS 26, the entity discloses:

- (a) That its key assumptions include future emission allowance cost assumptions, such as the future price of greenhouse gas emission allowances and future emission regulations; and
- (b) Its approach to determining the values assigned to these key assumptions, including whether its assumptions about the future price of greenhouse gas emission allowances and future emission regulations are consistent with external sources of information and, if not, how and why they differ from such sources of information.

Sensitive Information

IG35. Applying paragraph 123(f) of IPSAS 26, the entity also considers whether a reasonably possible change in a key assumption would cause the CGU's carrying amount to exceed its recoverable amount—that is, whether such a change in assumption would result in an impairment loss. For example, the entity considers whether an impairment loss would result from a reasonably possible change in the entity's assumptions about the future price of greenhouse gas emission allowances. If so, the entity discloses:

- (a) The amount by which the CGU's recoverable amount exceeds its carrying amount;
- (b) the values assigned to the assumptions about the future price of greenhouse gas emission allowances; and
- (c) The amount by which these values must change, after incorporating any consequential effects of that change on the other variables used to measure the recoverable amount, in order for the CGU's recoverable amount to be equal to its carrying amount.

Amendments to IPSAS 30, *Financial Instruments: Disclosures*

Paragraphs IG24A and its related heading are added. New text is underlined.

Implementation Guidance

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Nature and Extent of Risks Arising from Financial Instruments (paragraphs 38–49 and AG6–AG30)

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Credit Risk (paragraphs 42A–43, AG8A–AG10)

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Disclosures Related to The Effects of Particular Risks

IG24A. This example illustrates requirements in paragraphs 42A–43 of IPSAS 30. In particular, it illustrates how an entity might disclose:

- (a) Information about the effects of particular risks on its credit risk exposures and credit risk management practices; and
- (b) Information about how these practices relate to the recognition and measurement of expected credit losses.

| Background |
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| <p>Government A provides financing to various types of individuals and entities. As part of its credit risk management practices, Government A considers the effects of various risks on its credit risk exposures, including climate-related risks. Government A identifies two portfolios of loans for which climate-related risks have a significant effect on its credit risk exposures, requiring it to monitor and take action to mitigate credit risk arising from the borrowers' exposure to climate-related risks. Those portfolios are:</p> <ul style="list-style-type: none"> (a) <u>Loans to farmers for which climate-related events such as droughts could affect the borrowers' ability to repay their loans; and</u> (b) <u>Loans to corporate real estate entities that are secured by properties in low-lying areas subject to flood risk.</u> |
| Application of Requirements |
| <p>Paragraphs 42A–43 of IPSAS 30 include disclosure requirements about credit risk arising from financial instruments. In considering these requirements, Government A determines that information about the effects of climate-related risks on its exposure to credit risk on the two identified portfolios is material. Government A reaches this conclusion after considering, among other factors:</p> <ul style="list-style-type: none"> (a) <u>The size of the portfolios—the two portfolios make up a large portion of Government A's overall lending portfolio.</u> (b) <u>The significance of the effects of climate-related risks—climate-related risks have a significant effect on Government A's exposure to credit risk compared with other factors affecting that</u> |

exposure. The effects depend on factors such as loan maturities and the nature, likelihood and magnitude of the climate-related risks.

- (c) External climate-related qualitative factors—the market, economic, regulatory and legal environments in which Government A operates, as well as climate-related developments (for example, an increase in the occurrence and severity of weather-related events and long-term shifts in climatic patterns), make the information more likely to influence the decisions that primary users of Government A's financial statements make on the basis of the financial statements.

Applying the requirements in paragraphs 42A–43 of IPSAS 30, Government A considers what information to provide about the effects of climate-related risks on its exposure to credit risk on the two identified portfolios. This information might include, for example:

- (a) An explanation of Government A's credit risk management practices related to climate-related risks and how those practices relate to the recognition and measurement of expected credit losses.
- (b) An explanation of how Government A incorporated climate-related risks in the inputs, assumptions and estimation techniques it used to apply the requirements in paragraphs 73–93 of IPSAS 41. This explanation might include, for example, information about how Government A incorporated those risks in the modelling of expected credit losses or information about the use of judgement-based adjustments (also referred to as 'post-model adjustments' or 'management overlays').
- (c) Information about collateral held as security and other credit enhancements. This information might include, for example, information about properties held as collateral that are subject to flood risk and whether that risk is insured.
- (d) Information about concentrations of climate-related risks if not apparent from other disclosures Government A makes. This information might include, for example, the carrying amount of the two identified portfolios.