

Effects of climate-related matters on financial statements prepared in accordance with the IFRS for SMEs Accounting Standard

Just as many public companies are affected by climate change and efforts to manage its impact, so are SMEs.¹ Users of SMEs' financial statements are increasingly interested in climate change because of its potential effect on companies' business models, cash flows, financial position and financial performance. Most industries have been, or are likely to be, affected by climate change and efforts to manage its impact. However, some companies, industries and activities are affected more than others.

In November 2020, the IFRS Foundation published [educational material](#) to illustrate how IFRS Accounting Standards require companies to consider climate-related matters that have a material effect on the financial statements.

As with IFRS Accounting Standards, the *IFRS for SMEs Accounting Standard* does not refer explicitly to climate-related matters. However, companies are required to consider climate-related matters in applying the *IFRS for SMEs Accounting Standard* when the effect of those matters is material in the context of the financial statements taken as a whole. For example, information about how management has considered climate-related matters in preparing a company's financial statements may be material with respect to the most significant judgements and estimates that management has made.

Table A sets out examples illustrating when the *IFRS for SMEs Accounting Standard* may require companies to consider the effects of climate-related matters in applying the principles in several sections of the Standard. The list is non-exhaustive—there could be other instances in which climate-related matters are relevant when applying the *IFRS for SMEs Accounting Standard*, for example, in the measurement of defined benefit obligations. The table also includes references to the [Exposure Draft Third edition of the IFRS for SMEs Accounting Standard](#) (Exposure Draft), issued in September 2022, which proposes changes to the

IFRS for SMEs Accounting Standard. These references will enable companies to consider how the examples in the table might be updated in the future. The comment period on the Exposure Draft closed on 7 March 2023 and the IASB will be considering the feedback on the proposals during 2023–2024.

For purposes of illustration, the descriptions in the table do not always explain the relevant requirements completely; it is therefore important to refer to the requirements in the *IFRS for SMEs Accounting Standard* when preparing financial statements.

In addition to the specific paragraph references to [requirements in the IFRS for SMEs Accounting Standard](#) outlined in Table A, Section 3 *Financial Statement Presentation* contains some overarching requirements that could be relevant when considering climate-related matters. For example, paragraph 3.2 requires disclosure of additional information when compliance with the specific requirements in the *IFRS for SMEs Accounting Standard* is insufficient to enable financial statement users to understand the effect of particular transactions, other events and conditions on the company's financial position and financial performance. This paragraph, together with the concept of materiality in Section 2 *Concepts and Pervasive Principles*, requires a company to consider whether any material information is missing from its financial statements. Therefore, companies will need to consider whether to provide additional disclosures when compliance with the specific requirements in the *IFRS for SMEs Accounting Standard* is insufficient to enable users to understand the impact of climate-related matters on the company's financial position and financial performance. These overarching requirements may be especially relevant for companies whose financial position or financial performance is particularly affected by climate-related matters.

¹ The *IFRS for SMEs Accounting Standard* defines SMEs as entities that do not have public accountability and publish general purpose financial statements for external users.



Table A—Examples of how climate-related matters affect SMEs' financial statements

Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
Section 3 <i>Financial Statement Presentation</i> , paragraphs 3.8–3.9	Section 3 <i>Financial Statement Presentation</i> , paragraphs 3.8–3.9	Going concern Section 3 requires management to assess a company's ability to continue as a going concern when preparing financial statements. In assessing whether the going concern basis of preparation is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. If climate-related matters create material uncertainties related to events or conditions that cast significant doubt upon a company's ability to continue as a going concern, Section 3 requires disclosure of those uncertainties. When management has concluded that there are no material uncertainties related to the going concern assumption that require disclosure, but reaching that conclusion involved significant judgement (for example, about the feasibility and effectiveness of any planned mitigation), Section 8 requires disclosure of that judgement.
Section 8 <i>Notes to the Financial Statements</i> , paragraphs 8.6–8.7	Section 8 <i>Notes to the Financial Statements</i> , paragraphs 8.6–8.7	Sources of estimation uncertainty and significant judgements If assumptions a company makes about the future have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year, Section 8 requires disclosure of information about those assumptions and the nature and carrying amount of those assets and liabilities. This requirement means disclosure of assumptions about climate-related matters may be necessary, for example when those matters create uncertainties that affect assumptions a company uses to develop estimates, such as estimates of future cash flows when testing an asset for impairment or the best estimate of the expenditure required to settle a decommissioning obligation. Companies are required to present that disclosure in a manner that helps investors understand the judgements that management makes about the future. Although the nature and extent of the information provided can vary, it might include, for example, the nature of the assumptions or the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity.

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Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
		Section 8 also requires disclosure of the judgements (apart from those involving estimations) that management has made that have the most significant effect on the amounts recognised in the financial statements. For example, a company operating in an industry particularly affected by climate-related matters might test an asset for impairment by applying Section 27 <i>Impairment of Assets</i> but recognise no impairment loss. That company would be required to disclose judgements management has made, for example, in identifying the asset's cash-generating unit if such judgements are among those that have the most significant effect on the amounts recognised in the company's financial statements.
Section 11 <i>Basic Financial Instruments</i> , paragraphs 11.8–11.9 and 11.21–11.26	Section 11 <i>Financial Instruments</i> , paragraphs 11.8–11.9ZA, 11.21–11.26J and 11.49	Financial instruments Climate-related matters may affect the accounting for financial instruments in several ways. For example, a loan might include terms linking contractual cash flows to a company's achievement of climate-related targets. Those targets may affect whether the loan satisfies the conditions in paragraph 11.9 to qualify as a basic financial instrument measured at amortised cost (for example, whether the returns to the holder meet the conditions in 11.9(a)). If a debt instrument does not satisfy the conditions in paragraph 11.9, it is measured at fair value with changes in fair value recognised in profit or loss. Climate-related matters may also provide evidence of impairment. For example, wildfires, floods or policy and regulatory changes could negatively affect a borrower's ability to meet its debt obligations to the lender. Furthermore, assets could become inaccessible or uninsurable, affecting the value of collateral for lenders. <i>The Exposure Draft proposes to introduce an expected credit loss impairment model for all financial assets measured at amortised cost, except for trade receivables and contract assets. In recognising and measuring expected credit losses, the proposals would require a company to use all reasonable and supportable information that is available without undue cost or effort. Therefore, climate-related matters may be relevant—for example, they could affect the range of potential future economic scenarios and the measurement of expected credit losses. The Exposure Draft also proposes to require companies to explain the inputs, estimates and estimation techniques used in the measurement of expected credit losses. The proposals mean it may be necessary for companies to disclose information about their assumptions about the effect of climate-related matters on such measurement.</i>

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Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
Section 11 <i>Basic Financial Instruments</i> , paragraphs 11.29 and 11.43 (and related disclosure requirements in other sections, including paragraphs 16.10, 17.33 and 34.7)	Section 12 <i>Fair Value Measurement</i> , paragraphs 12.3, 12.18 and 12.27–12.28	Fair value measurement Climate-related matters may affect the fair value measurement of assets and liabilities in the financial statements. For example, market participants' views of potential climate-related legislation could affect the fair value of an asset or liability. Section 11 states that a valuation technique would be expected to arrive at a reliable estimate of the fair value if: • it reasonably reflects how the market could be expected to price the asset; and • the inputs to the valuation technique reasonably represent market expectations and measures of the risk return factors inherent in the asset, which may include market participants' assumptions about climate-related risk. Climate-related matters may also affect disclosures about fair value measurements because a company is required to disclose the assumptions it has applied in determining fair value. <i>The Exposure Draft proposes to align the guidance on fair value measurement in the IFRS for SMEs Accounting Standard with the principles of the fair value hierarchy set out in IFRS 13 Fair Value Measurement. This proposal would add clearer, more detailed guidance on fair value measurement and related disclosures. Specifically, the proposals would require fair value measurements that use significant unobservable inputs to be categorised within Level 3 of the fair value hierarchy. The Exposure Draft proposes that unobservable inputs reflect the assumptions that market participants would use when pricing—including assumptions about risk, which may include climate-related risk.</i>

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Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
Section 17 <i>Property, Plant and Equipment</i>, paragraphs 17.4, 17.19 and 17.31 Section 18 <i>Intangible Assets other than Goodwill</i>, paragraphs 18.4–18.16, 18.24, 18.27 and 18.29	Section 17 <i>Property, Plant and Equipment</i>, paragraphs 17.4, 17.19 and 17.31 Section 18 <i>Intangible Assets other than Goodwill</i>, paragraphs 18.4–18.16, 18.24, 18.27 and 18.29	Property, plant and equipment and intangible assets Climate-related matters may prompt a company to change its expenditure or adapt its business activities and operations, including research and development. Section 17 and Section 18 specify requirements for the recognition of costs as assets (as an item of property, plant and equipment or as an intangible asset). Under Section 18, expenditure incurred internally on an intangible item, including research and development expenditure, is not recognised as an intangible asset (that is, it is expensed when incurred). Section 18 requires a company to disclose the amount of research and development expenditure it has recognised as an expense during a reporting period. Section 17 and Section 18 require companies: • to review the estimated residual values and expected useful lives of assets if indicators are present that these estimates might have changed since the most recent reporting date; and • to reflect changes—such as those that might arise from climate-related matters—in the amount of depreciation or amortisation recognised in the current and subsequent reporting periods. Climate-related matters may indicate a change in the estimated residual value and expected useful lives of assets, for example, because of obsolescence, legal restrictions or inaccessibility of the assets. Companies are also required to disclose the expected useful lives for each class of asset and to disclose the nature and amount of any change in estimated residual values or expected useful lives (to be disclosed as changes in accounting estimates under Section 10).

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Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
Section 21 <i>Provisions and Contingencies</i> , paragraphs 21.4–21.12 and 21.14–21.15	Section 21 <i>Provisions and Contingencies</i> , paragraphs 21.4–21.12 and 21.14–21.15	Provisions and contingent liabilities Under Section 21, climate-related matters may affect the recognition, measurement and disclosure of provisions and contingent liabilities in the company's financial statements, for example, matters related to: • levies imposed by governments for failure to meet climate-related targets or to discourage or encourage specified activities; • regulatory requirements to remediate environmental damage; • contracts that may become onerous (for example, due to potential loss of revenue or increased costs as a result of climate-related changes in legislation); or • restructurings to redesign products or services to achieve climate-related targets. Section 21 requires disclosure of the nature of a provision or contingent liability and an indication of the uncertainties about the amount or timing of any resulting payments.
Section 27 <i>Impairment of Assets</i> , paragraphs 27.2–27.3	Section 27 <i>Impairment of Assets</i> , paragraphs 27.2–27.3	Impairment of inventories Climate-related matters may cause a company's inventories to become obsolete, its selling prices to decline or its costs of completion to increase. If the carrying amount of inventories is not fully recoverable, Section 27 requires the company to write down those inventories to their estimated selling price less costs to complete and sell.

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Reference in the <i>IFRS for SMEs Accounting Standard</i>	Reference in Exposure Draft	Effects of climate-related matters on financial statements
Section 27 <i>Impairment of Assets</i> , paragraphs 27.7, 27.9, 27.16–27.17 and 27.19	Section 27 <i>Impairment of Assets</i> , paragraphs 27.7, 27.9, 27.16–27.17 and 27.19	Impairment of other assets Section 27 sets out requirements for when companies need to estimate recoverable amounts to assess impairment of goodwill and impairment of assets such as property, plant and equipment, and intangible assets. A company is required to assess whether there is any indication of impairment at the end of each reporting period. Climate-related matters may give rise to indications that an asset (or a group of assets) is impaired. For example, a decline in demand for products that emit greenhouse gases could indicate that a manufacturing plant may be impaired, requiring the asset to be tested for impairment. Section 27 also notes that external information, for example significant changes in the environment (including changes in regulation) in which a company operates with an adverse effect on the company, can be an indication of impairment. If a company is estimating the recoverable amount of an asset using value in use, Section 27 requires the company to do that by reflecting in its calculation an estimate of the future cash flows it expects to derive from the asset and expectations about possible variations in the amount or timing of those future cash flows. Companies should consider whether climate-related matters affect projections of cash flows from continuing use and the disposal of the asset at the end of its useful life—for example, an increase in projected cash outflows as a result of the introduction of emission-reduction legislation that increased manufacturing costs. Section 27 requires a company to estimate future cash flows for an asset in its current condition, excluding any estimated cash flows the company expects to arise from future restructurings or from enhancing the asset's performance. For detail about estimating the recoverable amount using fair value less costs to sell, see the section in this table on fair value measurement.
Section 29 <i>Income Tax</i> , paragraphs 29.16–29.23	Section 29 <i>Income Tax</i> , paragraphs 29.16–29.23	Deferred tax assets Section 29 generally requires companies to recognise deferred tax assets for deductible temporary differences and unused tax losses and credits, to the extent it is probable that future taxable profit will be available against which those amounts can be utilised. Climate-related matters may affect a company's estimate of future taxable profits and may result in the company being unable to recognise deferred tax assets or being required to derecognise deferred tax assets it has previously recognised.