

## TRANSITIONING LAWS

ACCOUNTING FOR THE IMPACTS OF CLIMATE-RELATED LAWS



WHAT ARE TRANSITION LAWS?

Transition Laws are laws and regulations introduced to reduce greenhouse gas emissions, build resilience and meet the goals of the Paris Agreement.





### Transition laws are reshaping business realities — influencing markets, financial

performance, and the way companies account for climate-related risks.





example, by shifting market forces, changing the cost of doing business, and impacting profits and expenditure.

Transition Laws can materially

affect the private sector — for



climate-related risks to be treated like any other — including how impacts are evaluated, disclosed and integrated into financial reporting.

DISCLOSURE Despite IASB guidance, many financial

can mislead investors, expose directors and auditors to risk, and slow the transition by prolonging investment in high-emission activities. ZOOMING OUT: BACKGROUND TO THE IFRS ACCOUNTING STANDARDS

statements lack the information needed. This



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The goal is for financial statements to be consistent, transparent and comparable across jurisdictions.

should report their financial performance and position.

The IASB has confirmed its standards are sufficient to address climate risk - the a

problem instead lies in their application.



**SUSTAINABILITY** STANDARDS BOARD (ISSB) SUSTAINABILITY DISCLOSURE STANDARDS

**INTERNATIONAL** 

GENERAL REQUIREMENTS FOR DISCLOSURE OF **CLIMATE-RELATED** SUSTAINABILITY-RELATED FINANCIAL INFORMATION **DISCLOSURES** 



CASE STUDIES ON TRANSITION LAWS The NZLA aims to support the application of these requirements in the context of Transition Laws and contribute to the growing

Over 140 jurisdictions endorse IFRS,

with 116 requiring most listed companies

and financial institutions to comply.



The IFRS Sustainability Disclosure Standards

(IFRS S1 + S2) are designed to complement, not replace, traditional IFRS Accounting Standards.



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REHABILITATION

BONDS

body of guidance (including the IASB's Illustrative Examples). We look at five areas where Transition Laws are being introduced,



### Some Transition Laws introduce carbon pricing mechanisms. These

provide a financial incentive to

decarbonise and can take a variety of

forms (e.g. carbon taxes, emissions

trading schemes and carbon border adjustment mechanisms (CBAMs)).





Some Transition Laws institute a

ban on high-emitting activities,

forcing assets to be retired before

the end of their useful life (e.g.

Netherlands' phase-out of

coal-fired power plants).

**OBLIGATIONS** 





Some Transition Laws require

financial assurance to cover the

cost of rehabilitating the

environmental impact of

operations (e.g. Queensland's

Financial Provisioning Scheme).

**CLIMATE RISK AS FINANCIAL RISK** 

Transition Laws all signal a clear direction of travel and will impact the private sector; updating the

frameworks they work within by changing market forces, impacting expenditure, profits and the cost of

doing business, and affecting how companies operate and manage their financial and business risk.



REGULATIONS



Some Transition Laws provide

legislative targets and/or





## In this way, Transition Laws can give rise to financially material consequences that are highly relevant for companies' financial reporting and frequently stimulate new opportunities.

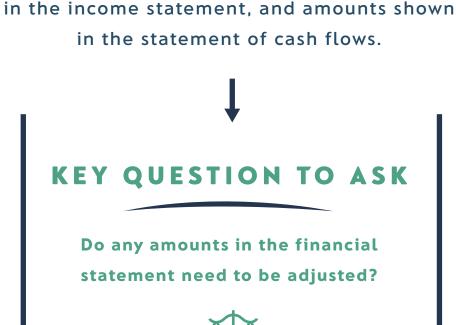
Climate risk includes transition risk, investment risk, and financial statement risk. For example, a major energy company faces climate risk as new regulations limit fossil fuel use (transition risk), investors divest over stranded asset concerns (investment

risk), and it's obligated to reassess asset valuations and future cash flows in its financial statements (financial statement risk).



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**KEYS TO COMPLIANCE** 



**NUMBERS** 

'Numbers' refers to the amounts presented in

the financial statements. This includes the

value of assets and liabilities included on the

balance sheet, income and expense amounts

CHANGES TO DEPRECIATION

OF PROPERTY, PLANT &

depreciation in the future?

HOW THIS APPLIES IN PRACTICE FOR NUMBERS...

## financial position and performance.

**KEY QUESTIONS TO ASK** 

Is material information missing from the

footnotes to the financial statements?

Will those using the financial statements

**DISCLOSURE** 

'Disclosure' refers to the 'material information'

included in the footnotes. Where material, disclosures

should provide a sufficient understanding of how

climate matters were considered in the financial

statements and how this affects the company's

understand how the financial impacts of the Transition Law have been considered?

## CONSISTENCY 'Consistency' refers to the need for

the financial statements (including the

assumptions and estimates used) to be consistent

with other information in the annual report.

Inconsistency may indicate misstated financial

statements, misstated narrative reporting or both.

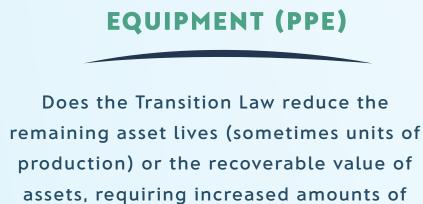
### financial statements match the company's wider reporting on the Transition Law(s), including other

information in the annual report?

**KEY QUESTION TO ASK** 

Does the information in the

**EXAMPLES OF HOW ASSETS AND LIABILITIES COULD BE** OVER OR UNDER-STATED ON THE BALANCE SHEET Consider what material climate-related information looks like, including: which assets and liabilities are affected, how assumptions



# **ADJUSTMENTS TO**

DECOMMISSIONING

**PROVISIONS** 

Do provisions for decommissioning obligations

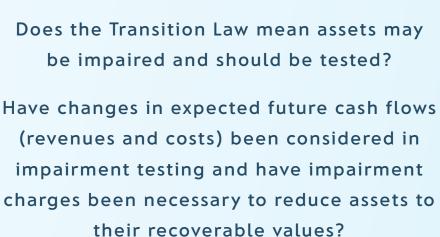
need to be re-estimated (e.g. to reflect the earlier

timing of activities to meet the obligations and/or

and estimates were made, whether adjustments were necessary, and whether the financial statements align with other disclosures.

improved estimates of the costs involved in meeting the obligations)? Are there previously off balance sheet decommissioning obligations that, given the

Comprehensive financial statements that provide material information relating to climate risk (including Transition Laws) have the power to unlock investment in businesses and technologies. This investment can accelerate the transition to net



IMPAIRMENT OF PPE OR

**GOODWILL AND OTHER** 

**INTANGIBLES** 

Non-compliance can, for example, lead to liability for:

Compliance also avoids the legal and reputational risks that can

result from failing to satisfy the IFRS Accounting Standards.

**FRAUDULENT** 

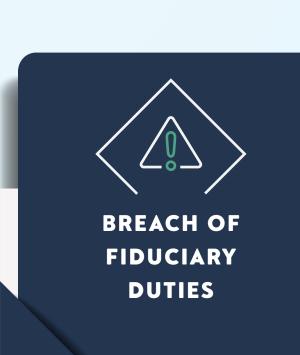
AND NEGLIGENT

**MISREPRESENTATION** 

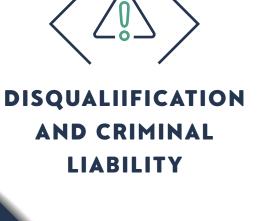


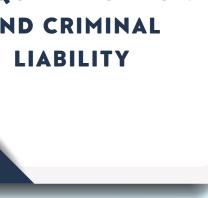
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net zero lawyers alliance

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