



net zero
lawyers
alliance

TRANSITIONING LAWS

Accounting for the impact of climate-related laws

October 2025

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Foreword | A legal perspective

The *Transitioning Laws* report grew out of in-depth discussions between seasoned legal practitioners, accountants and auditors, from a shared recognition that “business as usual” is no longer usual. With an ever-evolving legal and regulatory environment, an uncertain geopolitical landscape and an increasing rate of digital innovation, boards and management teams face a daunting task of staying ahead of the curve and future proofing their organisations. For resilient businesses focused on long term shareholder value, the impact of extreme weather, supply chain disruptions, value at risk and other effects of climate change remain top of mind despite politicised rhetoric and noise.

In simple terms, this report provides the context to understand how climate- and nature-related transition is showing up in law and in accounting. Through clear and concise case studies, *Transitioning Laws* connects the dots between the changes that are happening in the legal and regulatory systems within which companies operate and the preparation of financial statements. It provides examples illustrating how evolving laws and clarificatory guidance from international legal and accounting bodies show up in real life, today.

For leading commercial lawyers, one of the distinguishing features of the accomplished practitioner is to be truly multidisciplinary in their understanding and approach. Any successful rain maker or global general counsel recognises that a key aspect of delivery – whether executing deals, advising on M&A or serving as the trusted corporate counsel – comes through a deep understanding of the client. This insight is impossible without grasping the evolving regulatory environment, the risks their client faces and information reflected in the financial statements. Indeed, lawyers who can effectively interpret financial information set themselves apart from the competition.

For legal and accounting practitioners ready to embrace the opportunity of being the trusted advisor to their clients, I recommend you read on.

For responsible investors looking to understand what questions they should be asking their portfolio companies, I recommend you read on.

For directors with fiduciary duties that must be discharged, I recommend you read on.

Analysed and presented through the lens of real-world challenges faced by corporations and investors – and set in the financial and legal context that they operate within – these case studies and supporting discussion equip leaders to ask the right questions, understand the answers and make better informed decisions. These illustrate how the CFO and the General Counsel can deliver value and resilience to organisations by working together and evaluating the same information and data from multiple complementary directions. *Transitioning Laws* demonstrates that the key to success in a rapidly changing world is not in knowing the answers, but in formulating the right questions.



– Anna-Marie Slot (October 2025)
Co-Founder, Transition Value Partners
Director, Net Zero Lawyers Alliance

Foreword | An accounting perspective

Addressing climate change can no longer be relegated to a distant future; in many jurisdictions Transition Laws* are being introduced now. And accounting is considerably forward looking, requiring material information about how climate was considered in preparing the financial statements to be communicated via disclosure in the financial statements, so they can be understood.

These are some of the underlying themes that this report seeks to relay, using five illustrative developments in Transition Laws, and leveraging guidance from the International Accounting Standards Board ("**IASB**") on how the IFRS Accounting Standards should be applied in the context of climate-related risks and uncertainties.

The IASB will have done their bit later this year with the publication of six Illustrative Examples ("**IEs**"), each focusing on the application of an existing requirement for disclosure on uncertainty, using climate-related examples. Helpfully, near-final drafts of the IEs have been available for consideration since July.

But it is now up to those preparing financial statements to apply the requirements illustrated in the IEs to their own company-specific circumstances, largely by analogy given the principles-based approach of the IFRS Accounting Standards.

This NZLA report is therefore particularly timely, aiming to help those responsible for ensuring compliant financial statements – in-house accountants and lawyers (and their advisors) and those charged with governance responsibilities, such as directors. It should also be of interest to auditors and accounting and audit regulators in their respective responsibilities – and to investors.

It may be relatively easy to spot some developments relating to climate – for example, the increased frequency and magnitude of climate-related weather events causing physical damage, or company announcements of their climate risk assessments and steps to address those risks such as new strategies or emissions reduction commitments.

What has remained more difficult to find is comprehensive financial statement disclosure on how such developments were addressed in the financial statements, for example information on the many forward-looking assumptions and estimates that will have been made (estimates of remaining asset lives for depreciation, of future cash flows for impairment testing, and of costs and their timing for decommissioning provisions etc.). This has attracted attention from investors and others, as have persistent concerns over potential inconsistency in reporting. With increasing discussion of climate outside the financial statements, it does not seem reasonable that so many say so little about such matters in their financial statements.

Very much to its credit, the IASB has responded by developing the six IEs. This guidance and previous Education Materials on climate in the financial statements is all rooted in the application of existing IFRS Accounting Standards requirements where climate matters are likely to be financially material.

This report begins the journey of considering how these materials might be used in the context of Transition Laws, linking each to how it may result in material financial statement adjustments, and to material



* "Transition Laws" are laws and regulations introduced to reduce greenhouse gas emissions, build resilience to climate impacts and, ultimately, achieve the goals of the Paris Agreement.

information needing to be disclosed whether or not adjustments have been necessary. In keeping with the principles-based requirements of the IFRS Accounting Standards – the approach is not prescriptive. Instead, it identifies the sort of questions that might be asked in the process of preparing the financial statement numbers (asset and liability values on the balance sheet) and accompanying footnote disclosures.

I congratulate the Net Zero Lawyers Alliance for helping to amplify the reach of these IASB guidance materials to the legal community in particular. It will be important that all stakeholders in financial statement reporting take up the opportunity to improve that reporting (and compliance where necessary) in future periods.

– **Sue Harding (October 2025)**

Technical Accountant and Accounting & Governance Analyst
Harding Analysis and the Climate Accounting and Audit Project

Foreword | An investor perspective

By far the most important and impactful information which a company provides to its investors is its audited annual financial statements – often referred to as the accounts. Indeed, so important are the accounts that they are subject to global standard setting, to regulation and to independent audit. As one wit put it, “if it isn’t in the accounts, it isn’t happening”.

Accounts are produced with investors in mind. They should include all “material” information. Information is material if “omitting misstating or obscuring it could reasonably be expected to influence the decisions which [investors] make on the basis of those financial statements”. Furthermore, information in accounts including the assumptions used in preparing them should be “consistent” with other messages in the company’s annual report.

It seems pretty clear that for many companies climate risk is material, and that investors should therefore expect assumptions relevant to climate to be clear in the accounts. For example, if a company has a coal fired power station in California, is it assuming that it will be running for its full technical life of 50 years, or that legislation might require early closure? What assumptions have been made for the timing of decommissioning, which impacts the value of the related accounting liability for this? Investors need to know what assumptions have been used since that is likely to make a considerable difference to company valuation, and hence to their decisions.

Yet what evidence we have suggests that transparency on such assumptions is seldom provided.* Perhaps that is understandable. Companies wish to maintain consistency from year to year, and the climate challenge, like the proverbial boiling frog, has emerged slowly. But as we know it could be a very real risk, and investors need to understand how it has been dealt with in drawing up accounts and calculating company profitability. That is particularly true since there are new laws being passed to encourage the climate transition, which will have real world effect on the value of a company’s assets and liabilities – so too it should impact their accounts to the extent required.

In response to concerns over transparency and consistency of reporting, the global standard setter, the International Accounting Standards Board (IASB), has recently published Illustrative Examples of how to use the existing accounting rules so that they properly deal with climate change, and other uncertainties. These examples clarify existing requirements and hence are applicable immediately.

That has big implications. In particular it has implications for investors, and what they should expect and demand from company reports. That is why the Net Zero Lawyers Alliance has drawn up this excellent document. It looks at how changing climate laws will affect how companies should report to their investors, and how recent legislation impacts on that. It is an excellent “primer” in both senses of that word. It is a primer in helping investors understand what is required in the accounts of the companies in which they invest. But it is also a primer—an encouragement—for investors who take their fiduciary responsibility seriously, to insist that companies are open about the assumptions which underpin their profits, and hence allow us to understand how far those assumptions are consistent with a sustainable world.



– **David Pitt-Watson**

Visiting Fellow, Cambridge Judge Business School
Climate Accounting and Audit Project

* See Carbon Tracker’s [Flying Blind](#) reports, most particularly the first three measures on what is found in company accounts. (Note other measures go beyond what is required by accounting standards).

Executive summary

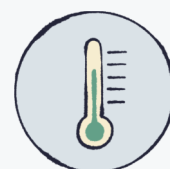
Climate change is one of today's greatest global challenges. Without urgent action and bolder collective efforts, it will have devastating consequences for every country, every sector, every community and every company. However, the solution – a transition to clean energy and a climate-friendly economy – also represents unprecedented economic opportunities with myriad co-benefits.

Despite geopolitical shifts and the politicization of climate action in some jurisdictions, the transition to net zero continues to gather momentum. Most national governments and private sector entities are now recognising – and responding to – the risks and opportunities presented by climate change. Recent research by the Net Zero Tracker underscores this, providing evidence that the number of net zero targets are expanding – and strengthening – worldwide.¹

This positive trend is encouraging in the face of landmark findings that:

Urgent action is needed to limit temperature rise to 1.5°C

In June 2025, over 60 of the world's leading climate scientists warned that there are three years left to limit warming to 1.5°C.² With every degree of warming, the world also inches closer to critical tipping points. If we cross these thresholds, experts warn that the consequences could be severe – for people, the planet and the economy.³



Countries have a legal obligation to take action on climate change

In July 2025, the International Court of Justice ("ICJ") delivered its landmark advisory opinion on States' climate change obligations. The ICJ unanimously found that countries have binding obligations to protect the climate system and other parts of the environment from anthropogenic emissions – including by pursuing domestic mitigation and regulating the activities of private actors.⁴ These obligations are likely to accelerate the development of legislation designed to achieve climate change commitments and decarbonise the global economy ("**Transition Laws**").



Company financial statement reporting must include the material impacts of climate-related matters – including Transition Laws

In July 2025, the International Accounting Standards Board ("IASB") released a set of near-final Illustrative Examples.⁵ These use climate-related examples to demonstrate that the International Financial Reporting Standards ("**IFRS Accounting Standards**") already require financial statements to disclose material information relating to uncertainties.⁶ The IASB is expected to publish the final Illustrative Examples soon after the release of this report, along with accompanying information (including a basis for conclusions).



The Illustrative Examples do not change any aspect of the IFRS Accounting Standards and will be effective upon publication, however companies are expected to be given sufficient time to implement improvements to their disclosure.

This report steps into this space, providing practical guidance for those responsible for their company's financial statements and seeking to navigate the rapidly evolving regulatory environment (e.g. company directors, general counsel, accountants and auditors). By stepping through the potential accounting consequences of Transition Laws, the report hopes to improve application of the IFRS Accounting Standards in a timely manner that leverages the new IASB guidance. The report also aims to help companies understand the impact of climate-related risks and opportunities.

With a focus on Transition Laws, the report uses a series of Case Studies to highlight global trends and draw attention to the material financial impacts that may result from these legal requirements – including impacts on the company and its business, as well as the company's financial statements. In each case, those responsible for preparing financial statements are encouraged to:

1

Look at the Transition Laws that may affect the company

What Transition Laws are relevant now and what legislative developments are on the horizon? How will they affect the company (i.e. consider the impact of increased risks and strategies to mitigate those risks, as well as possible opportunities)?

2

Look at the numbers

Do any of the amounts in the financial statements (e.g. the values of assets or liabilities) need to be adjusted in light of the requirements in the Transition Laws or the company's response to them?

3

Look at the disclosures

Is material information⁷ missing from the footnotes to the financial statements? Will those using the financial statements understand how the impact(s) of the Transition Laws have been considered by the company? If not, are additional disclosures needed?

4

Look for consistency

Does the information provided in the financial statements (the numbers and the footnotes) match the narrative and other reporting on climate and Transition Laws across the company's annual report?

Providing a true representation of how climate change is affecting a company's business is critical for the transition. Comprehensive financial statements that detail the material impacts of climate change – both good and bad and why that is the case – have the power to unlock investment in businesses and technologies that hasten the transition to net zero, yielding net benefits for individual companies, as well as people, the planet and the economy.

Compliance also avoids the legal and reputational risks that can result from failing to satisfy the IFRS Accounting Standards.

- **For companies,** financial statements that contain incomplete or inaccurate information create legal⁸ and reputational risks and may compromise the ability to secure investment in the future.

- **For investors,** financial statements that contain incomplete or inaccurate information affect the ability to manage risk across their portfolios, allocate capital, engage in effective stewardship, engage in policy advocacy and generally act in the best interests of their beneficiaries.
- **For the transition,** the consequences of non-compliance could be even more devastating – potentially prolonging investment in damaging activities, leading to continued emissions, further temperature rise and worsening impacts.

¹ The Net Zero Tracker's [latest stocktake](#) report tracks net zero targets set by both national governments and the private sector. It reports that 137 of 198 countries now have net zero targets, with 67 per cent now enshrined in either law or policy. The stocktake also highlights that "almost two-thirds (63%) of the Forbes Global 2000 have net zero targets, covering \$36.6 trillion in revenue (70% of total)". For more information, see [Net Zero Tracker](#) (2025) Net Zero Stocktake 2025.

² Mark Poynting, 'Three Years Left to Limit Warming to 1.5°C, Top Scientists Warn' (BBC News, 19 June 2025); for more information, see Piers M Forster and others, 'Indicators of Global Climate Change 2024: Annual update of key indicators of the state of the climate system and human influence' (2025) 17 Earth System Science Data 2641.

³ Tim Lenton and others, [Global Tipping Points Report 2023](#) (University of Exeter 2023). For an illuminating online video summary, see Johan Rockström, 'The tipping points of climate change and where we stand' (TED Talk, July 2024). See also: Will Steffen and others, 'Trajectories of the Earth System in the Anthropocene' (2018) 115 Proceedings of the National Academy of Sciences of the United States of America 33 8252; OECD, [Climate Tipping Points: Insights for Effective Policy Action](#) (OECD Publishing 2022) ("It is no longer appropriate to consider the risk of crossing tipping points as low-probability. Overshooting 1.5°C may likely lead to irreversible and severe impacts, which must be avoided, heightening the urgency to drastically reduce emissions within this decade").

⁴ International Court of Justice, [Obligations of States in respect of Climate Change \(Advisory Opinion\)](#) (23 July 2025) ("ICJ Advisory Opinion") [252]–[254], [282], [428].

⁵ Early release of the near-final Illustrative Examples was intended to support their timely and informed application.

⁶ The near-final draft can be found at: International Accounting Standards Board, [Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples: \(Near-final staff draft\)](#) (July 2025). IASB staff have indicated that significant changes are not expected.

⁷ Under IAS 1, information is material if its omission, misstatement or obscuring could reasonably be expected to influence the economic decisions of primary users of financial statements (i.e. investors and creditors).

⁸ Non-compliance can expose companies and company directors to liability for negligence and negligent misstatement, fraudulent and negligent misrepresentation, and a breach of fiduciary duties. Consequences for individual directors vary, but can include disqualification and criminal liability. For more information, see [Consequences of Non-Compliance](#) (pages 64 – 69).

Introduction

Driven by the physical threats posed by climate change and the legal imperative to take action, many countries are enacting “**Transition Laws**” to reduce greenhouse gas emissions (“**emissions**”), build resilience and deliver the goals of the Paris Agreement.¹⁰

Many companies are – or will be – affected by Transition Laws. Transition Laws can, for example, result in changes to permitted activities, early end dates for legacy activities and incentives for transitioning activities, as well as cost consequences for their operations, strategy and/or business model. In many cases, the changes effected by Transition Laws will also have consequences for companies’ reported earnings and the strength of their balance sheet – consequences that should be reported in the financial statements.

In most countries outside the United States,¹¹ companies must prepare financial statements in accordance with IFRS Accounting Standards and are therefore required to include climate-related matters where they are material.¹²

Many companies take climate change seriously and are actively taking steps to navigate the rapidly evolving regulatory environment and ensure climate-related matters are properly considered in their financial reporting. However, despite this willingness, reporting in the financial statements frequently fall short of the mark.

Designed for those responsible for preparing financial statements (including company directors, general counsel and accounting professionals), this report provides practical guidance to identify the material financial impacts of Transition Laws and ensure they are included in the financial statements. It does this by:

- Exploring five illustrative areas where Transition Laws are being introduced to achieve the net zero transition. Each Case Study represents a global trend and teases out the financial and business risks that may result.
- Indicating the types of questions that company directors, corporate counsel and accountants should consider as they prepare their financial statements and address the potential accounting and disclosure consequences of Transition Laws.
- Outlining the potential consequences of failing to accurately consider and disclose material climate-related information in the financial statements.
- Explaining the importance of compliant financial statements for investors, whose decisions are informed by their understanding of the risks companies face and the real costs of their investments (including in fossil fuels or other high-emissions activities).

Transition Laws matter

195 countries¹³ are Party to the Paris Agreement, committing to:

- Limiting temperature rise to well below 2°C and pursuing efforts to limit warming to 1.5°C above pre-industrial levels.¹⁴

A Transition Law is a law or regulation designed to reduce emissions, build resilience to climate impacts and, ultimately, deliver the goals of the Paris Agreement.

Unlike a domestic climate change framework, Transition Laws tend to be specific – providing detailed requirements and/or incentives that drive change within – or across – key sectors.

- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low emissions development without threatening food production.¹⁵
- Aligning finance flows with low emissions and climate resilient development.¹⁶

While not a universal trend, many countries have already introduced laws and regulations to meet their commitments under the Paris Agreement and the United Nations Framework Convention on Climate Change (“UNFCCC”) and, ultimately, facilitate the shift to – and align finance flows with – a low-emissions, climate-resilient future.

The proliferation of Transition Laws is likely to accelerate in the wake of the recent advisory opinion issued by the ICJ and unanimously agreed by its fifteen judges. Of particular relevance is the Court’s finding that States have binding obligations to ensure the protection of the climate system and other parts of the environment from anthropogenic emissions – including by pursuing domestic mitigation measures¹⁷ and regulating the activities of private actors.¹⁸ Many of these obligations not only arise under climate change treaties,¹⁹ but other sources of international law (including environmental treaties²⁰ and customary international law²¹). A failure to meet these obligations will render countries vulnerable to litigation and potential legal consequences.²²

Transition Laws are many, varied and tailored to specific national circumstances. In some cases, they may focus on a single sector and, in others, cut across many. Some laws are prohibitive (i.e. instituting a ban,²³ tax²⁴ or other restrictions/conditions²⁵), others are incentive based²⁶ and some will be a combination of the two.²⁷ In almost all cases, Transition Laws are designed to shift economic activity from high emissions activities to low (or net zero) emissions activities, often through market mechanisms or economic interventions.

Transition Laws all signal a clear direction of travel and will impact the private sector; updating the frameworks that 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. In this way, Transition Laws may also give rise to financially material consequences for financial statement reporting purposes.

Financial statement reporting matters

In general, companies are under a legal obligation to periodically report their financial position and performance.²⁸ These obligations are imposed by national laws and, in most countries, either directly or indirectly implement IFRS Accounting Standards.²⁹

Climate change – and the transition to a more resilient, low emissions economy – have wide-ranging implications for companies, both creating risks and stimulating new economic opportunities. These risks and emerging opportunities may well influence the financial strength of companies now and in the future.

As noted above, the material financial impacts of climate change (including Transition Laws) should be included in financial statements prepared in accordance with the IFRS Accounting Standards. While compliance is improving, there is still scope to do better.³⁰ The IASB maintains that the problem lies in how the standards are being applied, stating that the existing standards:

- Are adequate to address climate-related matters (e.g. climate-related risks and the energy transition);
- Already require relevant matters to be considered where they have a material financial impact; and
- Already require material information to be disclosed.

2025 is likely to be a watershed for financial statement reporting and climate-related risk. The final Illustrative Examples³¹ will contribute to the existing body of official IASB guidance, using climate-related examples to

provide unprecedented clarity around how the IFRS Accounting Standards apply to uncertainties in the financial statements more generally. The guidance does not change the existing requirements, but seeks to enhance their application and improve disclosure of how climate-related risks and uncertainties have been treated.

National laws in many jurisdictions also include a mandatory requirement for information in the financial statements to be consistent with other information provided in companies' annual reports.³² In the context of climate change matters, this means that the figures in the financial statements, the assumptions they are based on and the information in the footnotes to the financial statements, should be consistent with other climate-related disclosures (for example, information on risks and emissions reduction targets) in the annual report. For more information about consistency, see: *Preparing Financial Statements* (pages 16 – 22).

While we focus on financial statement reporting in relation to five areas of Transition Laws, we note that many companies may also be taking additional voluntary steps to transition. Where this is the case, many of the same accounting and disclosure issues are likely to arise in applying the principles-based IFRS requirements.³³ As a result, the Case Studies should be relevant for companies facing mandatory changes and those taking voluntary steps that go beyond the Transition Laws in their jurisdiction.

While Transition Laws modify the status quo and seek to reduce reliance on fossil fuels and high-emissions activities, it is important not to lose sight of the financial opportunities associated with the transition. Transition Laws can generate new markets and stimulate innovation, driving the development of clean technology and creating new opportunities for businesses and investors alike. In some cases, they may also reduce the cost of doing business – for example by reducing reliance on traditional energy sources and exposure to price hikes. Where material, these financial impacts should also be captured in a company's financial statements to the extent required by the IFRS Accounting Standards.

Investor information matters

Investors are the target audience for financial statements prepared using IFRS Accounting Standards.³⁴ Financial statements represent the most fundamental information about a company's financial position and performance. They contain critical information about the financial and business viability of the company, as well as the material risks it faces and how these are being addressed. In this way, financial statements are the gateway to understanding a company, helping investors identify opportunities and risks across the world to improve capital allocation and the stability of the global financial system.

Ensuring that financial statements provide a true and fair representation of how climate change will impact a particular company now and in the future is far more than a technical accounting issue. This information is critical for investors – enabling them to both make informed decisions and discharge their own legal duties to their stakeholders and regulatory authorities.³⁵

Without accurate financial information from corporate entities in the real economy, investors are unable to properly assess financial risk. In the case of inaccurate information about the impact of climate change and/or Transition Laws, this not only exposes investors to financial loss, but risks undermining national and international efforts to reduce emissions, meet their Paris Agreement commitments and align finance flows with net zero. How? By potentially prolonging investment in high emissions activity and diverting capital from investment in the transition (e.g. renewable energy and clean technology), exacerbating the long-term costs of climate change.

Many Transition Laws are therefore only effective if companies comply with the IFRS Accounting Standards and reflect the material financial impacts in their financial statements, in turn supporting capital allocation and other decisions by investors. This must be done in an informed manner. Investors play a key role in calling for increased transparency – as do regulators – both having the ability to safeguard transparency, promote market integrity and create greater financial stability.³⁶

¹⁰ Article 2(1)(a)-(c) sets out the three primary goals of the [Paris Agreement](#). These are to: (1) limit average temperature rise to well below 2°C above pre-industrial levels and pursue efforts to limit temperature rise to 1.5°C; (2) increase the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions developments, in a manner that does not threaten food production; and (3) make finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development. [Paris Agreement](#) (adopted 12 December 2015, entered into force 4 November 2016) UN Doc FCCC/CP/2015/10/Add.1, art 2(1) (“[Paris Agreement](#)”).

¹¹ As of the time of this publication, the United States has its own accounting standards – Generally Accepted Accounting Principles (GAAP) – but currently permits overseas companies with US listings to use accounting standards issued by the IFRS Foundation.

¹² Please see [Appendix 2 \(Use of IFRS Accounting Standards by Jurisdiction\)](#) for a list of the countries that either require or permit the use of IFRS Accounting Standards. For more information, including the extent of IFRS application in different countries and the relevant jurisdictional authorities, see IFRS Foundation, [‘Who Uses IFRS Accounting Standards?’](#) (IFRS).

¹³ The European Union is also a Party to the Paris Agreement.

¹⁴ [Paris Agreement](#), art 2(1)(a).

¹⁵ [Paris Agreement](#), art 2(1)(b).

¹⁶ [Paris Agreement](#), art 2(1)(c).

¹⁷ [ICJ Advisory Opinion](#) [253] (“These measures may include putting in place a national system, including legislation, administrative procedures and an enforcement mechanism, and exercising adequate vigilance to make such a system function effectively, with a view to achieving the objectives in their [Nationally Determined Contributions or] NDCs”).

¹⁸ [ICJ Advisory Opinion](#) [252]-[254], [282], [428] (“Regulating the activities of private actors” involves the creation and enforcement of laws and regulations that compel businesses, financial institutions and other non-state entities to reduce their greenhouse gas emissions and adapt to climate impacts. In this report, we collectively refer to these as “Transition Laws”).

¹⁹ These are the United Nations Framework Convention on Climate Change (adopted 9 May 1992, entered into force 21 March 1994) 1771 UNTS 107 (“UNFCCC”), the Kyoto Protocol to the United Nations Framework Convention on Climate Change (adopted 11 December 1997, entered into force 16 February 2005) 2303 UNTS 162 (“Kyoto Protocol”) and the Paris Agreement; see [ICJ Advisory Opinion](#) [116], [121].

²⁰ [ICJ Advisory Opinion](#) [125]-[130].

²¹ [ICJ Advisory Opinion](#) [131]-[142].

²² [ICJ Advisory Opinion](#) [427] (“Failure of a state to take appropriate action to protect the climate system from GHG emissions – including through fossil fuel production, fossil fuel consumption, the granting of fossil fuel exploration licences or the provision of fossil fuel subsidies – may constitute an internationally wrongful act which is attributable to that State. The Court also emphasizes that the internationally wrongful act in question is not the emission of GHGs per se, but the breach of conventional and customary obligations identified under question (a) pertaining to the protection of the climate system from significant harm resulting from anthropogenic emissions of such gases”). See also [ICJ Advisory Opinion](#) [444]-[455] for an overview of the potential legal consequences in relation to the duty of performance, duty of cessation and duty of cessation and guarantees of non-repetition.

²³ A growing number of countries are taking steps to phase out fossil fuels, including coal. Viet Nam is a very recent example. In February 2025, the Prime Minister issued [Decision No 266/QĐ-TTg](#) (Socialist Republic of Viet Nam, 12 February 2025), ‘Plan for Implementation of the Global Coal-to-Clean Power Transition Statement’, which established a strategy to phase out coal in three phases between 2025 and 2050. Many countries in the EU have also committed to phasing out coal. This includes the Netherlands, which enacted [Wet verbod op kolen](#) (Coal Ban Act for Electricity Production) (Netherlands, 20 December 2019) to prohibit electricity production from coal beyond 2030. For more information, see Case Study 2.

²⁴ Carbon pricing mechanisms act as a tax on emissions and are frequently introduced via legislation. See [Climate Change Response Act 2002](#) (Public Act, New Zealand, 18 November 2002) No 40 (introducing the New Zealand Emissions Trading Scheme) and [Regulation \(EU\) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism](#), OJ L 130, 16 May 2023, 52–104 ([Regulation \(EU\) 2023/956](#)) (introducing the EU Carbon Border Adjustment Mechanism). For more information, see Case Study 1.

²⁵ For example, in the United States, the [Inflation Reduction Act of 2022](#) (US) Pub L No 117-169, 136 Stat 1818 (16 August 2022) imposed conditions for federal tax credits (i.e. to qualify, projects were required to meet certain labour and environmental standards). These tax credits were designed to incentivise renewable energy, electric vehicles, clean manufacturing and more.

²⁶ Climate change legislation often includes incentives to encourage individuals and businesses to reduce their emissions. These incentives can take various forms, such as financial rewards, tax breaks, and subsidies for adopting eco-friendly practices. See, for example, Canada’s [Fall Economic Statement Implementation Act](#), 2023 (Canada) SC 2024, c 15 (introducing a series of tax benefits for climate measures, including carbon capture and storage and the purchase of certain clean technology equipment) and [Decreto-legge 10 febbraio 2009, n. 5](#): Misure urgenti a sostegno dei settori industriali in crisi (Italy) Gazzetta Ufficiale, 11 February 2009, n. 34 (temporary incentive scheme for consumers to replace their old vehicles with cleaner vehicles that was introduced in Italy as part of a suite of measures to support industrial sectors in crisis).

²⁷ For example, California’s [Advanced Clean Cars II \(ACC II\) Regulations](#) (California Air Resources Board, filed with OAL 30 November 2022), combine prohibitive elements (e.g. a requirement that 100 per cent of new passenger vehicles must be zero emissions by 2035) with incentives (e.g. state-level rebates and tax credits for EV purchasers). This law codified the “Zero Emission by 2035” [Executive Order N-79-20](#) (California, US, 23 September 2020); see also California Air Resources Board, [‘Governor Newsom’s Zero-Emission by 2035 Executive Order \(N-79-20\)’](#) (Fact Sheet, 19 January 2021).

²⁸ At a minimum, this is on an annual basis, but companies may also report every six months or every quarter.

²⁹ In the UK, for example, companies must prepare their individual and consolidated accounts in accordance with either the IFRS endorsed by the UK Endorsement Board ("UK-endorsed IFRS") or generally accepted accounting practice (see [Companies Act 2006 \(UK\)](#), ss 395(1) and 403(2)). While the Companies Act 2006 provides this choice, UK-listed companies must use UK-endorsed IFRS in accordance with [The International Accounting Standards and European Public Limited-Liability Company \(Amendment etc.\) \(EU Exit\) Regulations 2019 SI 2019/685](#). For countries in the EU, compliance with the IFRS is required by [Regulation \(EC\) 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards \[2002\] OJ L243/1](#). Other jurisdictions require compliance with reporting standards that are based on the IFRS but adapted for individual national circumstances. This is the case, for example, where the New Zealand Financial Reporting Standards fully converge with the IFRS and additional domestic requirements (see External Reporting Board, '[Accounting Standards](#)' (last updated 25 July 2025)). Compliance with these standards, as well as other components of generally accepted accounting practice, is required by [Companies Act 1993 \(NZ\)](#) s 201.

³⁰ For a series analysis on whether companies and their auditors are assessing the financial impacts of climate and energy transition matters and reflecting these impacts in financial statements today, see Barbara Davidson, [Flying Blind: In a Holding Pattern – The Continued Absence of Climate and Transition Risks in Financial Reporting](#) (Carbon Tracker, 22 February 2024).

³¹ This series on reporting uncertainties in financial statements using climate-related examples was initially released for consultation in July 2024, and a near-final version was [published](#) in July 2025, so that they can be applied to the next cycle of financial reporting. No significant changes are expected in the final version to be published in late 2025. See IFRS Foundation, [Near-Final Staff Draft: Disclosures about Uncertainties in the Financial Statements Illustrated using Climate-related Examples](#) (July 2025) ("Near-Final Draft of Illustrative Examples").

³² For example, the [Companies Act 2006 \(UK\)](#), s 496 requires the auditor's report to state information in the directors' report is consistent with the annual accounts. Additionally, [International Standard on Auditing \(UK\) \(ISA \(UK\)\) 720 \(Revised November 2019\)](#), paras A53-4-A53-6 requires the auditor to state whether, based on the work undertaken in the course of the audit, the information in the strategic report, directors' report and corporate governance statement is consistent with the financial statements. Other jurisdictions also require consistency across a company's financial statements and annual report, including: France (Code de commerce, [art L 823-10](#)); Netherlands ([Dutch Civil Code](#), Book 2, Title 9, art 2:393); and Australia (Corporations Act 2001, s 336) (implementing Auditing and Assurance Standards Board (Australia), [Compiled Auditing Standard ASA 720: The Auditor's Responsibilities Relating to Other Information](#) (12 February 2025)).

³³ For example, many aspects of IFRS accounting require best estimates of the future (e.g. a company taking voluntary steps would still need to consider the following aspects when preparing their financial statements: estimates of remaining asset lives for depreciation, future cash flows for impairment testing, future costs and timing of fulfilling a decommissioning obligation for a provision etc.) and consistency requirements still apply (i.e. across the company's financial statements and other sections of their annual report).

³⁴ International Financial Reporting Foundation, [Conceptual Framework for Financial Reporting](#) (2018) para 1.2 ("The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling or holding equity and debt instruments; (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence, management's actions that affect the use of the entity's economic resources").

³⁵ This report focuses on fiduciary duties and, in particular, those that apply to investors. To learn more about the connection between financial statements and fiduciary duties – and the five principles for responsible investment – see Maurits Dolmans and Andreas Wildner (on behalf of the NZIA Secretariat), [Sustainable Fiduciary Duties for Investors: How Fiduciary Duties Can Be a Key to Escape the Climate Prisoner's Dilemma](#) (June 2025).

³⁶ Sepi Roshan and Barbara Davidson, [Flying Blind: Accounting and Audit Regulation](#) (Carbon Tracker, 3 March 2025) (providing insights into how regulators can safeguard transparency in financial reporting, promote market integrity and financial stability).

Preparing financial statements

An introduction to the IFRS Accounting Standards

The IFRS Accounting Standards are a principles-based set of accounting requirements for the preparation of financial statements. Endorsed by over 140 jurisdictions,³⁷ the IFRS Accounting Standards provide a common accounting language that allows financial statements to be easily compared across countries and industries. In this way, adherence with these standards enhances the transparency and reliability of financial statement information.

The IFRS already require consideration of climate-related risks

Climate-related matters are highly relevant to financial statements, despite not being explicitly mentioned³⁸ in the IFRS requirements.³⁹ The IASB has reiterated the sufficiency of the existing requirements, stressing that climate-related risks and opportunities should be treated the same as any other risks and circumstances where their impact is material.⁴⁰

“Climate-related risk” is often categorised into physical and transition risk,⁴¹ but liability risk is sometimes added as a third category.⁴² Regardless of the category a climate-related risk falls into, it may represent business and financial risk to a company, as well as an investment risk to parties investing in its securities and a credit risk to its lenders. These risks may include:

Business risk relating to changes across a company’s business model, value chain and/or its operations. These changes may include steps taken to mitigate climate-related risks and reduce emissions (e.g. replacing assets earlier than had been planned).



Financial risks, including incremental cost increases to the business, reduced revenue from lost production, decreases in demand or market price reductions, a need to bring forward activities to meet asset decommissioning obligations and/or other decreases in a company’s future cash flows.



Additionally, **financial statement risk** may arise out of misstated financial information. This represents a compliance and reputational risk for the company preparing the financial statements, with potential consequences for those who use the financial statements, including investors and lenders. Misstatement can occur if reported assets/liabilities and profitability are not adjusted, resulting in misstated amounts being included in financial statements. It may also occur if material information is not disclosed.

Misstatement may drive a range of decisions by companies and investors (including capital allocation and investments in projects/companies, executive remuneration etc.) and can therefore have serious consequences.

The proper application of existing standards matters

As noted above, evidence suggests that material information on climate risk is still missing from companies’ financial statement accounting. In 2024, Carbon Tracker analysed the financial statements prepared by 140 emissions intensive companies and reported that:⁴³

"In 2023, **no company met all of the financial statement assessment criteria**... Of the 140 companies that we reviewed, 52 (37%) partially provided the information necessary to meet this sub-indicator [for financial statements].

"Only four companies – bp, Repsol, Rio Tinto and Rolls-Royce – met the criteria for consideration [of climate] in the financial statements; 31% provided some of the information sought. This means that investors do not know if the balance sheets of the remaining 66% anticipate impacts from climate change and the energy transition or not.

"Most companies still do not disclose the relevant quantitative climate-related inputs used to prepare the financial statements, even when indicating that climate risks may impact these inputs. Without this information, investors lack a window into management's views of the energy transition, and requisite data to make accurate adjustments. Only one company, Shell, met the criteria for providing all relevant assumptions and estimates.

"While we are starting to see some consistency across reporting there is still a notable lack of discussion about the impacts of achieving interim (and long-term) targets in the financial statements. In particular, we noted that company targets were often dependent on the use of technologies that are either not developed or not available at scale, such as carbon capture and storage, with no insight into the financial statement impacts. This also raises the question as to whether companies truly intend to meet such targets".

– Carbon Tracker (2025)

The IASB has acknowledged concerns relating to the lack of disclosure and has taken steps to remedy this by developing guidance. This guidance does not change any of the requirements and instead clarifies how existing IFRS Accounting Standards⁴⁴ should be applied in the context of climate change risk. Key guidance includes:

- Educational Materials on the effects of climate-related matters on financial statements amounts and disclosures made in the footnotes.⁴⁵
- Agenda Decision on the application of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).⁴⁶ This focuses on situations in which emissions reduction commitments might result in a provision being recognised on the balance sheet.
- Illustrative Examples that aim to improve footnote disclosure relating to uncertainties in financial statements, using climate-related examples.⁴⁷

This report seeks to demonstrate the potential impact of Transition Laws and help those preparing financial statements to consider their broader financial statement implications.

Key considerations when preparing financial statements

This report uses five Case Studies to demonstrate the potential impact that legislative changes could have on financial statement reporting. Each Case Study explores an area where Transition Laws have been introduced and highlights key considerations for those preparing financial statements. These considerations focus on three core elements:

- **Numbers:** Do any of the amounts in the financial statements (e.g. the values of assets or liabilities) need to be adjusted in light of the requirements in the Transition Laws or the company's response to them?

- **Disclosure:** Is material information⁴⁸ missing from the footnotes to the financial statements? Will those using the financial statements understand how the impact(s) of the Transition Laws have been considered by the company? If not, are additional disclosures needed?
- **Consistency:** Does the information provided in the financial statements (the numbers and the footnotes) match the narrative and other reporting on climate and Transition Laws across the company's annual report?

NUMBERS: Are there financial statement amounts that need to be adjusted?

In the context of this report, 'numbers' refers to the amounts presented in the financial statements.⁴⁹ This includes the value of assets and liabilities included on the balance sheet, income and expense amounts in the income statement and amounts shown in the statement of cash flows.

When considering the potential financial statement impact of climate matters, a useful starting point is to ask whether any assets or liabilities on the balance sheet may be over (or under) stated relative to developments in Transition Laws. In other words, is there reason to expect a potentially material adjustment (for example, a material value of assets that are subject to the Transition Law may be subject to an impairment) or would such adjustments be expected but the potential significance is unclear (for example, the value of assets subject to impairment risk might be expected to be material, but the value is not made clear in the financial statements)? The point is to consider how financially material risk associated with the Transition Law links to the value (or potential value) of amounts of assets and liabilities in the financial statements.

In the Case Studies, this is considered in light of the relevant Transition Laws. Table 1 shows some examples of potential climate-related risks and their adjustment impact on the numbers included in a company's financial statement. For more information on potential impacts, see the IASB's Educational Materials and *Appendix 1 (IFRS Accounting Standards: Key Requirements)*.

Table 1. Examples of climate-related risk and their potential impact on asset / liability amounts

FINANCIAL STATEMENT AMOUNTS	FINANCIAL STATEMENT RISK AND ILLUSTRATIVE IMPACTS
Property plant and equipment (PPE)	Shorter remaining lives and/or lower end-of-life residual values – increases future depreciation expense. Decreased expectations of future cash flows reduces an asset's recoverable value. Asset values are decreased for impairment losses down to their recoverable value, potentially down to nil. (Note that testing for impairment is only required if the company identifies an indicator of impairment).
Goodwill and other intangibles	As for PPE, but Goodwill and intangibles with indefinite lives are not amortised/depreciated and are tested for impairment at least annually.
Loans, sales financing receivables (i.e. autos)	Borrowers subject to significant climate risk, decreased collateral value of carbon intensive assets sold – potentially increases credit losses on these assets.

Inventory	Higher inventory costs and/or decreased demand/pricing for carbon-intensive inventory – decreases inventory value via loss adjustments down to net realizable value.
Equity investments	Climate-related risk, costs, demand and price declines – decreases asset values for impairment/fair value losses.
Deferred tax assets	Decreased recoverability for lower climate-impacted future profits, for example assets related to tax loss carryforwards – increases tax expense.
Decommissioning (asset retirement) obligations	Shortened remaining asset lives and better ability to estimate the amounts/timing of meeting obligations – increases the balance sheet liability and either future depreciation expense or current period operating expense, as well as interest expense (note many obligations are fully off balance sheet and may be adjusted to reflect their full amount).

In considering each of the Case Studies, we look at both the direct or transactional accounting impact of the Transition Law and some of the more likely indirect consequences. For example, accounting considerations for carbon pricing mechanisms would include the carbon pricing mechanisms themselves (e.g. their costs, when liabilities for amounts owed are recognised on the balance sheet and how certificates might be accounted for), as well as the potential indirect consequences (e.g. how increased carbon pricing costs are considered in impairment testing given the cash cost increase they represent to future cash flows that are expected to be generated).

The Case Studies do not illustrate issues relating to the recovery of deferred tax assets (for example, those relating to the future use of tax loss carry forwards) or to equity investments that are not consolidated in the company's financial statements. These would be specific to any company's circumstances and whether such asset amounts are significant. Where a company does have deferred tax assets (the recovery of which depends on sufficient future profits) or equity holdings, these topics may also warrant consideration of incremental future costs or reduced revenues that could bring the recoverability of their balance sheet values into question.

DISCLOSURE: Is material information missing from the footnotes to the financial statements?

Disclosure refers to the 'material information'⁵⁰ included in the footnotes to the financial statements. Disclosures should include detailed information required on specific topics and also meet the overarching aspects of the IFRS requirements. In other words, they must provide a sufficient understanding of how material climate matters were considered in the financial statements and present fairly the financial position and performance of the company.

The IASB's six Illustrative Examples focus specifically on disclosure. Each demonstrates how a specific requirement may apply to a climate-related circumstance (examples on disclosure of information on impairment and shortened asset lives, information on credit risk, information on decommissioning obligations) or an overarching requirement of IFRS Accounting Standards for disclosure may apply

(examples on requirements for disclosure of additional material information, assumptions about the future and disaggregated information) may apply.

For those preparing financial statements, considering how these Illustrative Examples inform the need for disclosure under each of the six requirements illustrated will need to incorporate the context of the company's own circumstances.

See *Appendix 1 (IFRS Accounting Standards: Key Requirements)* for more information on the accounting topics that are likely to require companies to consider both the accounting numbers and the related disclosure in relation to climate.

Examples of key considerations

The following considerations will be important when determining the disclosures that are necessary. In particular, those preparing the financial statements will need to determine whether or not the impact of the Transition Law – and the company's response – is clear.

If not, additional material information may need to be disclosed. This may include:

- How the company considered the climate-related Transition Law and the potential for large adjustments to the amounts of assets and liabilities on the balance sheet.
- The assets and liabilities (or potential liabilities) this consideration was relevant to, as well as the relevant accounting policies and how they were applied.
- Information on the assumptions and estimates made (taking account of climate-related matters, including the Transition Laws). For example, their nature, how they were determined and the quantified amounts.
- Information on sensitivity to assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
- Given the above, why it was appropriate to adjust the financial statement numbers – or, conversely, why it was not appropriate.
- How the consequences for the financial statements are consistent with other information (including, at a minimum, information included in other sections of the annual report).

CONSISTENCY: Does information in the financial statements (the numbers and the footnotes) match the narrative and other reporting in the annual report?

Consistency is generally required between information in the financial statements (including the assumptions and estimates used in preparing them) and other information in the annual report.⁵¹ For example, narrative reporting might include climate-related information on risks and uncertainties (including those relating to Transition Laws), strategy, transition plans and the business model. Inconsistency may indicate misstated financial statements, misstated narrative or both.

Disclosure in the financial statements or changes to information in other sections of the annual report may be needed to avoid inconsistency. Under international auditing standards, auditors of the financial statements are also required to assess consistency of information in the financial statements and other information based on knowledge obtained when auditing the financial statements.⁵² Auditors must also comment on any material inconsistencies.⁵³

Such inconsistency can be fairly direct. For example, this may be the case where a quantitative carbon price assumption mentioned in the reporting of sustainability information in the annual report differs from the price the financial statements identify as being used for impairment testing and assessing future cash costs.

It can also be more nuanced, but no less important, for investors seeking to understand whether – or how – information is consistent. In *Case Study 2 (Accelerated Asset Retirement Obligations)*, for example, the Dutch Government announced a ban on coal-fired power plants to take effect from 2030 and introduced legislation to implement this ban in 2019. In these circumstances, the financial implications should be reflected in operators' financial statements. Inconsistency is likely to be perceived if it is unclear whether (or how) the financial implications that might reasonably be expected (e.g. resulting from the changes to the remaining asset lives, decommissioning provisions and impairment) have been considered. However, a few words of disclosure can remove such inconsistency by explaining how such matters were considered by the company and the consequences for the financial statements.

³⁷ As of 2025, over 140 jurisdictions worldwide endorse the use of the IFRS, with 116 jurisdictions requiring most if not all listed companies and financial institutions to comply with the requirements. Often the IFRS are applied through the introduction of domestic legislation. For example, [EU Regulation \(EC\) No 1606/2002](#) requires all listed companies to prepare their consolidated financial statements in accordance with the IFRS as adopted in the EU. To explore the countries that use the IFRS, including the extent of its application and the relevant jurisdictional authorities, see IFRS Foundation, [‘Who Uses IFRS Accounting Standards?’](#) (IFRS)

³⁸ The IFRS do not contain a list of matters that may have a material financial impact and must therefore be considered when preparing financial statements. Instead, the principles-based requirements must be applied across all facts and circumstances relevant to the company, including climate-related matters.

³⁹ This report focuses on financial reporting standards (i.e. using the IFRS Accounting Standards). These are distinct from the sustainability disclosure standards produced by the International Sustainability Standards Board (“IASB”) set out in [IFRS S1 \(General Requirements for Disclosure of Sustainability-related Financial Information\)](#) and [IFRS S2 \(Climate-related Disclosures\)](#).

⁴⁰ International Accounting Standards Board, [Educational Materials: Effects of Climate-Related Matters on Financial Statements](#) (November 2020, updated June 2023) p 1 (“...[C]ompanies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements, which provide financial information about a specific company. 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”).

⁴¹ The Task Force on Climate-related Financial Disclosures (“TCFD”) categorises climate-related risks into physical risks and transition risks. Physical risks relate to the impacts of climate change on assets and operations and are further grouped into two categories: acute (i.e. driven by specific events, such as floods, hurricanes or wildfires) and chronic risks (i.e. resulting from longer-term shifts in climate patterns (e.g. sea level rise, changing precipitation patterns and increased temperatures). Transition risks, on the other hand, are associated with the shift to a lower-carbon economy. These can include policy and legal risks, technology risks, market risks and reputational risks. For more information, see Task Force on Climate-Related Financial Disclosures, [Recommendations of the Task Force on Climate-related Financial Disclosures](#) (June 2017) 5–6.

⁴² “Liability risk” refers to the risks associated with people or businesses seeking compensation for the damage and/or losses that they have suffered as a result of the physical and/or transition risks stemming from climate change. Liability risks are, for instance, recognised by the UK’s prudential Regulation Authority. For more information, see Bank of England Prudential Regulation Authority, [The Impact of Climate Change on the UK Insurance Sector: A Climate Change Adaptation Report](#) (September 2015) (Educational Materials: Effects of Climate-Related Matters on Financial Statements”) 57-65.

⁴³ [Davidson](#), 15-16.

⁴⁴ For a summary of the IFRS requirements most likely to be affected by climate-related matters, see [Appendix 1 \(IFRS Accounting Standards: Key Requirements\)](#).

⁴⁵ See [Educational Materials: Effects of Climate-Related Matters on Financial Statements](#) (n _). This builds on existing guidance on material information to be disclosed in the financial statements (see Materiality Practice Statement at <https://www.ifrs.org/issued-standards/list-of-standards/materiality-practice-statement/>).

⁴⁶ The agenda decision of the IASB’s Interpretations Committee focused on how to apply IAS 37 requirements on the recognition of provisions in the context of a company’s commitment to reduce their greenhouse gas emissions. See IASB Interpretations Committee, [Agenda Decision: Climate-related Commitments \(IAS 37 Provisions, Contingent Liabilities and Contingent Assets\)](#) (April 2024).

⁴⁷ The IASB is expected to publish a final set of Illustrative Examples (“IEs”) in late 2025, to help companies, auditors, and regulators apply the existing requirements for disclosure of climate in the financial statements. In July 2025, a near-final version was published to support timely and informed application. See Near-Final Draft of Illustrative Examples. While the Illustrative Examples will be non-mandatory, the requirements of the standards they illustrate are mandatory. It is therefore expected that the IEs will be used by companies, auditors and regulators in making improvements to climate-related disclosure in the financial statements.

⁴⁸ Under IAS 1, information is material if its omission, misstatement or obscuring could reasonably be expected to influence the economic decisions of primary users of financial statements (i.e. investors and creditors).

⁴⁹ Sometimes these numbers are referred to as being ‘on the face of’ the financial statements.

⁵⁰ The IASB notes that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements make on the basis of those financial statements, which provide financial information about a specific company. See [Educational Materials: Effects of Climate-Related Matters on Financial Statements](#) 1.

⁵¹ The IFRS Foundation promotes consistency across financial statements and annual reports by providing a unified framework for financial reporting. The need for consistency is frequently reinforced by legislation introduced at a national level – for example, the UK Financial Reporting Council’s Guidance on the Strategic Report indicates that ‘[t]here should be consistency between the strategic report and the information presented in the financial statements’ as part of the purpose of that report. (See Financial Reporting Council, [Guidance on the Strategic Report](#) (June 2022) 17).

⁵² The IAASB has confirmed that while climate is not mentioned in the ISAs, climate-related risk is to be considered just as any other risk in assessing the risk of material misstatement of the financial statements. For more information, see IAASB, [Staff Audit Practice Alert: The Consideration of Climate-Related Risks in an Audit of Financial Statements](#) (October 2020).

⁵³ See IAASB, [International Standard on Auditing \(ISA\) 720 \(Revised\) – The Auditor’s Responsibilities Relating to Other Information, and Related Conforming Amendments](#) (April 2015). Despite these requirements to read other information in the annual report for the purpose of considering material inconsistencies, Carbon Tracker’s research notes very limited evidence of auditors identifying the inconsistencies articulated in Carbon Tracker’s assessment of consistency. For more information, see [Davidson](#) 1, 16.

Case studies

Five emerging areas of Transition Laws and their potential accounting consequences



Case study #1

Carbon pricing mechanisms

Case study 1

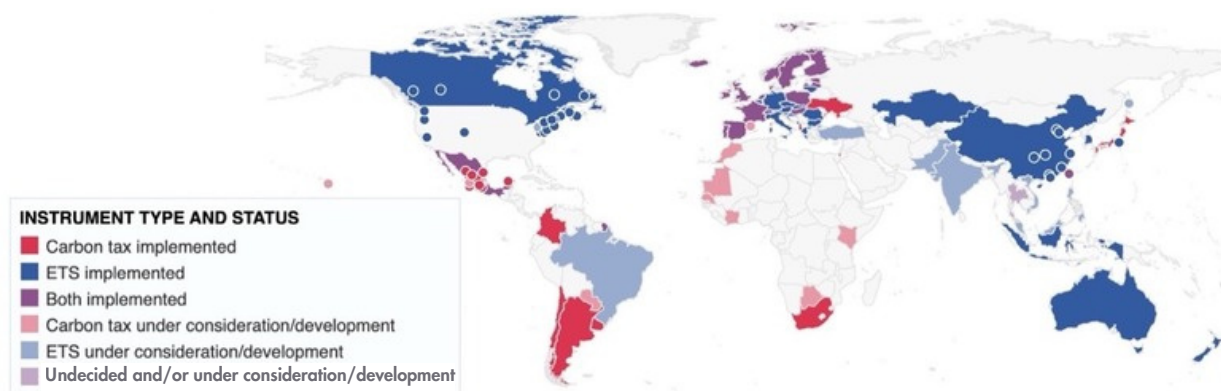
CARBON PRICING MECHANISMS

What is the Transition Law?

Carbon pricing mechanisms are a powerful tool to reduce emissions, providing a financial incentive to decarbonise and generate revenue to support further climate action. As a market correction mechanism, carbon pricing has received uninterrupted support from economists since at least the Kyoto Protocol in 1997. Article 6 of the Paris Agreement contains a series of carbon pricing mechanisms that are available to states to mitigate their emissions.

Although carbon pricing mechanisms are not new, changes are afoot. A growing number of countries have now instituted mandatory carbon pricing systems,⁵⁴ increasing the share of global emissions covered by a direct carbon price to 28 per cent⁵⁵ (see Figure 1).

Figure 1. Compliance carbon pricing instruments around the world | Source: World Bank (2025)⁵⁶



The sectors and industries subject to carbon pricing are also expanding. In 2024, for example, Denmark announced a tax on agricultural emissions – a world first.⁵⁷ Maritime transport is another area of expansion; originally excluded from the EU Emissions Trading Scheme (“EU ETS”), maritime transport is now being brought within its scope.⁵⁸

This trend suggests that if a company, sector or region is not affected by carbon pricing now, it is likely that it will be in the future.⁵⁹ Where a carbon pricing regime is in place, the impacts can be felt throughout the affected value chain, creating compliance costs, disrupting business as usual and requiring companies to make a number of strategic decisions.

This Case Study focuses on a recent development: the introduction of the EU Carbon Border Adjustment Mechanism (“EU CBAM”).⁶⁰ While currently the only such scheme in force, the United Kingdom has announced that it will implement its own CBAM from January 2027⁶¹ and similar schemes are under active consideration in Australia,⁶² Canada and Norway.⁶³

Example: EU Carbon Border Adjustment Mechanism

The EU CBAM is part of the “Fit for 55” package⁶⁴ introduced to meet the EU’s 2030 target.⁶⁵ Timed to coincide with the end of free allocation under the EU ETS,⁶⁶ the EU CBAM seeks to:

- Level the playing field between EU and non-EU producers by ensuring that they are subject to the same carbon price.
- Prevent carbon leakage (i.e. where businesses transfer production to countries with more relaxed climate policies, resulting in an overall increase in emissions).
- Encourage the decarbonisation of production globally.

The EU CBAM will apply a carbon price to specific goods with carbon-intensive production processes that are produced elsewhere and imported into the EU. The price of CBAM certificates will be based on the average closing price for EU ETS allowances on the auction platform.⁶⁷

Initially, the EU CBAM will apply to imported goods whose production is emissions intensive and at the greatest risk of carbon leakage – namely, aluminium, electricity, steel and iron, fertilisers, cement and hydrogen (“relevant goods”). When the scheme has been fully implemented, the EU CBAM will capture over 50 per cent of the emissions in the sectors covered by the EU ETS. Other goods may also be added, including organic chemicals and polymers, which would bring a number of oil and gas products within scope.⁶⁸

The EU CBAM is being introduced in two phases:

1 Reporting (Transitional Phase)⁶⁹

Since 1 October 2023, importers have needed to submit quarterly reports that set out:

- The quantity of relevant goods imported during the quarter, specifying the country of origin and the production site(s).
- The emissions⁷⁰ linked to the production of relevant goods imported into the EU – commonly known as “embedded emissions”.⁷¹
- The carbon price due in the country of origin, if applicable.

EU CBAM certificates are not needed during this phase, but penalties may be imposed for non-compliance with the reporting requirements.

2 Pricing

From 1 January 2026, companies must purchase EU CBAM certificates to cover the emissions embedded in imports of relevant goods. The cost of these certificates will mirror the price in the EU ETS and the number of certificates corresponds to the emissions emitted during the production of the imported goods.

More specifically, importers will need to:

- Obtain authorisation to import relevant goods.

- File an annual declaration for each calendar year that includes the:⁷²
 - Total quantity of relevant goods imported into the EU.
 - Total embedded emissions of those relevant goods (confirmed by an EU accredited verifier⁷³).
 - Total number of EU CBAM certificates to be surrendered.
 - Carbon price paid in the country of origin, if applicable.⁷⁴
 - Copies of verification reports.
- Surrender CBAM certificates to cover the declared emissions.⁷⁵

The financial impact of EU CBAM is likely to be significant, with some commentators suggesting that the cost of importing relevant goods from certain countries could rise by as much as 24 per cent.⁷⁶

Non-compliance will also have a financial impact, resulting in fines based on the weekly average carbon price in the EU ETS.⁷⁷ The European Commission can also take action to address circumvention of the EU CBAM regulation.⁷⁸

What are the potential accounting consequences?

1 NUMBERS: Are there financial statement amounts that need to be adjusted?

Carbon pricing mechanisms vary in nature and terms, but will likely give rise to a number of accounting considerations. While not exhaustive, these issues are likely to include accounting for:

- Cost of EU CBAM certificates (or other relevant instruments).
- Obligation to surrender certificates or otherwise pay for emissions and penalties.
- Costs of carbon pricing mechanisms and ensuring compliance.

Costs will also need to be considered (less directly) in the context of asset valuation. Those preparing financial statements will, for example, need to think about inventory valuation at net realisable value and the valuation of tangible and intangible assets associated with impairment testing (i.e. based on estimates of cash flows that include EU CBAM costs) available to recover the balance sheet value of such assets.

Cost of EU CBAM certificates (or other instruments)

Accounting for the certificates obtained will need to be considered, however how this is done in practice currently varies considerably.⁷⁹ Considerations may include:

- Are the certificates accounted for as inventory, intangibles, or even financial instruments?

- Why is the approach used appropriate to the circumstances?

Obligations to surrender certificates or otherwise pay for emissions and penalties

From 1 January 2026, companies importing affected goods into the EU will face an obligation to purchase EU CBAM certificates, which must then be surrendered to meet the obligation incurred.

Companies will need to consider when the accounting criteria for recognising a provision on the balance sheet have been met,⁸⁰ noting that:

- Importing would appear to create a legal obligation to surrender certificates in the future (present obligation due to a past event criteria).
- It seems likely that certificates will need to be surrendered, whether they are held or need to be purchased (probable outflow of benefits criteria).
- Estimates can be made on the basis of embedded emissions and the price of certificates (reliable estimate criteria).

Cost of carbon pricing mechanisms and ensuring compliance

- Are the costs associated with EU CBAM (or other requirements) treated like an import duty and included in inventory (IAS 2) or as an environmental levy that should be expensed (IAS 37 or IFRIC 21⁸¹)?
- Why is the approach taken appropriate in the circumstances?

Asset valuation: Inventory write-downs and asset impairment

The costs of complying with the EU CBAM (or other requirements) may also have further implications for asset values on the balance sheet:

- **Inventory** – Do costs included in inventory valuation increase the chances that such inventory will need to be written down to its net realisable value?
- **Long-term assets** – Have costs associated with the EU CBAM (or other requirements) been considered in impairment testing and the associated estimates of cash flows, given that those costs capitalised in inventory may depress margins and other costs will directly decrease cash flows? Such estimates relate to cash flows over the life of the assets being tested (i.e. the remaining finite lives for assets that are depreciated or amortised) and the terminal value period for assets (including goodwill) that have no finite life. While the accounting for provisions will only begin in Phase 2, best estimates of cash flows for impairment testing should already include such carbon cost estimates over the entire period of estimated future cash flows.

Where such information is material, companies should disclose how the impacts of the EU CBAM (or other requirements) have been considered in preparing the financial statements.⁸²

In relation to the accounting areas considered above, those preparing the financial statements will also need to consider whether the following information would be material for those seeking to understand the financial statements:

Accounting policy information

Companies need to explain how particular items in the numbers section above are accounted for, especially where industry practice varies. For example, certificates may be classified as inventory, intangibles or financial instruments – each classification having different approaches for when they are recognised on the balance sheet, their initial measurement amount and subsequent valuation requirements (e.g. mark to market, cost less impairment or adjustment to net realisable value).

Information on how the amounts in the financial statements were affected

Information on how the amounts in the financial statements were affected by these issues (regardless of whether accounting adjustments were made), including details about key assumptions and the estimates used. This might include:⁸³

- **Certificates:** Amounts included in line items on the balance sheet, the number of EU CBAM certificates purchased/held and the price.
- **Provisions:** Amounts included in line items on the balance sheet, assumptions and estimates used in determining the provision amount such as certificate numbers to be surrendered and the price/cost estimated.
- **Costs of carbon pricing mechanisms:** Amounts capitalised and expensed in the period.
- **Asset valuation:** For inventory and the assessment of net realisable value, assumptions made on the ability to pass costs through to customers.
- **Impairment testing of other assets:** Assumptions made for the future cash flows associated with the mechanism including the cost of certificates (carbon price and volume of certificates), and the level of other related costs.

Information on assumptions about the future

Financial statements should disclose information on assumptions made about the future that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In relation to the accounting topics above, this might include the assumed price/cost of certificates that was used to estimate the provision amount, assumptions relating to inventory net realisable value considerations, and the carbon costs included in impairment testing. Disclosure would provide insight on the assumptions made, the sensitivity of the related balance sheet amount(s) and the reasons for that sensitivity.⁸⁴

Consistency between information in the financial statements and other sections of the annual report is not only a requirement of most jurisdictions, but a useful check on the adequacy of disclosure in the notes to the financial statements. The consistency of information about the risk associated with Transition Laws is particularly relevant to each of the Case Studies, as are the steps the company anticipates will be needed to mitigate those risks.

In Case Study 1, is it clear how information on EU CBAM (or other relevant carbon pricing mechanisms) is consistent across the annual report? This may include information on:

- How the pricing mechanism and certificates described outside the financial statements have been considered in the financial statements, and the amounts (assets, provisions, costs) arising in the financial statements based on application of the relevant accounting policies.
- How carbon price assumptions noted outside the financial statements are consistent with price assumptions used in preparing the financial statements.
- How future costs mentioned outside the financial statements have been included in estimated future cash flows used in the testing of tangible and intangible assets for impairment.

⁵⁴ As of June 2025, 80 carbon pricing instruments have been implemented around the world. This includes 43 carbon taxes and 37 emissions trading schemes. Of 95 jurisdictions which have compliance instruments in place, 52 function at a national level and 43 at subnational. To illustrate the geographic spread of these instruments, please note that the following countries have implemented a national emissions trading scheme: Australia, Austria, Canada, China, Germany, Indonesia, Kazakhstan, Korea, European Union, Mexico, Montenegro, New Zealand, Switzerland and the United Kingdom. For more information, see World Bank, [Carbon Pricing Dashboard](#) (accessed 12 October 2025).

⁵⁵ China's expansion of carbon pricing brought three gigatons of greenhouse gas emissions under its emissions trading system, noting that around 28% of global emissions are now covered by a direct carbon price. Economies representing nearly two-thirds of global economic output have implemented either a carbon tax or emissions trading system. See World Bank, [State and Trends of Carbon Pricing 2025](#) (World Bank, Washington DC, 2025) 9.

⁵⁶ World Bank, [Carbon Pricing Dashboard](#).

⁵⁷ In 2024 Denmark became the first country in the world to price agricultural emissions. From 2030, farmers will be taxed 300 kroner per tonne of carbon dioxide equivalent ("CO₂e") produced each year, rising to 750 kroner from 2035. The revenue generated will be returned to the agriculture sector through a green transition support pool that will support the adoption of on-farm green technologies and initiatives. For more information, see Regeringen, [Aftale om et Grønt Danmark \(Green Tripartite Agreement\)](#), (announced 24 June 2024, concluded 18 November 2024); Ministry of Food, Agriculture and Fisheries (Denmark), [The Agreement on a Green Transition of the Agricultural Sector](#) (English fact sheets on the content of the agreement).

⁵⁸ In 2023, the EU introduced amendments that expand the EU ETS to include maritime shipping. This will be phased in between 2024 and 2028. The first phase began in January 2024, applying to CO₂ emissions from all large ships (5,000 gross tonnage and higher) entering EU ports, regardless of the flag they fly. For more information about maritime emissions and the EU ETS, see European Commission, [Reducing emissions from the shipping sector](#). For the legislative amendments that effected these changes, see [Regulation \(EU\) 2023/957 of the European Parliament and of the Council of 10 May 2023 amending Regulation \(EU\) 2015/757 \(Amendments to the Regulation on the Monitoring, Reporting and Verification \(MRV\) for Maritime Transport\)](#); [Directive \(EU\) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC \(Amendments to the ETS Directive\)](#).

⁵⁹ For the latest information on existing and emerging direct carbon pricing initiatives around the world, see World Bank, [Carbon Pricing Dashboard](#).

⁶⁰ [Regulation \(EU\) 2023/956](#); [Commission Implementing Regulation \(EU\) 2023/1773 of 17 August 2023](#) laying down the rules for the application of Regulation (EU) 2023/956 of the European Parliament and of the Council as regards reporting obligations for the purposes of the carbon border adjustment mechanism during the transitional period [2023] OJ L 228/94 (Commission Implementing Regulation 2023/1773).

⁶¹ In 2024, the UK Government consulted on the detailed policy design and implementation of the UK CBAM. The Government's response was published on 30 October 2024 and confirmed that the UK CBAM will be introduced from 1 January 2027. The primary legislation was released for technical consultation on 24 April 2025. For more information, see UK Government, [Factsheet: Carbon Border Adjustment Mechanism \(CBAM\)](#) (24 April 2025).

⁶² The Australian government is undertaking a "Carbon Leakage Review". This will explore, inter alia, the feasibility of an Australian Carbon Border Adjustment Mechanism, particularly in relation to steel and cement. For more information, see Department of Climate Change, Energy, the Environment and Water, [Australia's Carbon Leakage Review](#) (19 February 2025).

⁶³ The Norwegian Government has announced its intention to introduce a CBAM in Norway from 2027, issuing invitations to a meeting about the proposed regulation in March 2025. For more information, see Norwegian Government, [Slik skal Norge innføre CBAM](#) (7 March 2025).

⁶⁴ The European Union has committed to reducing greenhouse gas emissions by at least 55 per cent by 2030 (compared to 1990 levels) and achieving climate neutrality by 2050. These targets are part of the European Green Deal (introduced in 2019 and adopted in 2020) and are now enshrined in legislation. See European Commission, [The European Green Deal](#) (European Commission, 2019-2024); [Regulation \(EU\) 2021/1119 of the European Parliament and of the Council of 30 June 2021](#) establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 (European Climate Law) OJ L 243, 9.7.2021, 1–17.

⁶⁵ Please note that the EU CBAM may be updated as part of the EU Omnibus: a package of measures to simplify and streamline various EU regulations, with a particular focus on those relating to sustainability reporting and due diligence. On 18 June 2025, the European Council and European Parliament's negotiators reached a provisional agreement on proposals to strengthen and simplify the EU CBAM, however these are unlikely to have an impact on the accounting considerations explored in this Case Study.

⁶⁶ For more information, see European Commission, [Free allocation — EU Emissions Trading System](#) (European Commission, Climate Action).

⁶⁷ [Regulation \(EU\) 2023/956, art 21](#).

⁶⁸ Dr Alexander Schmidt, Lucas Gebrim and Evan Farbstein, [The EU's Carbon Border Adjustment Mechanism \(CBAM\), explained](#) Normative (19 March 2025) (By 2030, the EU CBAM's scope is expected to extend to all product groups covered by the EU ETS and to products with a risk of carbon leakage, including: crude petroleum and petroleum products, inorganic basic chemicals, industrial gasses, synthetic rubber, and non-ferrous metals.).

⁶⁹ For more information about the transitional period, [Regulation \(EU\) 2023/956, Ch X](#).

⁷⁰ This includes direct and indirect greenhouse gas emissions.

⁷¹ For information about how to calculate embedded emissions, see [Regulation \(EU\) 2023/956, art 7](#).

⁷² [Regulation \(EU\) 2023/956, art 6](#).

⁷³ For information about verification, see [Regulation \(EU\) 2023/956, art 8](#).

⁷⁴ Where goods are imported from a country with a carbon pricing system in place, the amount paid under that system can be deducted from the CBAM obligation. Allowing for this deduction achieves the goals of the EU CBAM and avoids double taxation, but will only be possible where the carbon price paid abroad meets EU requirements and can be substantiated. This will require verification of the carbon price paid, equivalence with the EU ETS and the avoidance of double counting. For more information, see [Regulation \(EU\) 2023/956, art 9](#).

⁷⁵ For calendar year 2026, the annual declaration and surrender of EU CBAM certificates are due by 31 May 2027.

⁷⁶ Grant Thornton, [CBAM – not just another tariff](#) (Grant Thornton, 9 April 2025).

⁷⁷ For more information about the penalties associated with non-compliance, see [Regulation \(EU\) 2023/956, art 26](#). The fines referenced above will be in addition to the obligation to surrender the outstanding number of EU CBAM certificates for the given year.

⁷⁸ [Regulation \(EU\) 2023/956, art 27](#).

⁷⁹ The IASB decided in January 2025 to defer further consideration on whether to prioritise a project on what they refer to as ‘pollutant pricing mechanisms’, so the topic can be included in its next Agenda Consultation. The Board papers refer to diversity in practise as one aspect that makes addressing the topic complex. See IASB, [Horizon-scanning activities and prioritisation considerations](#), Agenda Paper 10, IASB Meeting, January 2025.

⁸⁰ For criteria to recognise a provision in the balance sheet under IAS 37, see Appendix 1 (IFRS Accounting Standards: Key Requirements).

⁸¹ The IASB has proposed certain changes to IAS 37 (see the Provisions project page on the IASB’s website, IFRS Foundation, [Provisions — Targeted Improvements](#) (IFRS)).

⁸² See Illustrative Example 1, Materiality judgements applying paragraph 31 of IAS 1 ([Near-Final Draft of Illustrative Examples](#)).

⁸³ The IASB’s Illustrative Examples on disclosure may be helpful to consider. In addition to IE1 on material information, see IE6 addressing disaggregation of amounts, IE5 on provisions, and IE2 on impairment assumptions. (See [Near-Final Draft of Illustrative Examples](#)).

⁸⁴ The IASB’s Illustrative Example 3 addresses consideration of the requirements for this in IAS 1 paragraphs 125-129; see [Near-Final Draft of Illustrative Examples](#) 11-13.

Case study #2
Accelerated asset
retirement obligations

Case study 2

ACCELERATED ASSET RETIREMENT OBLIGATIONS

What is the Transition Law?

Despite being the world's most carbon-intensive fossil fuel and the single largest contributor to global temperature rise, coal continues to be in hot demand and still supplies around 30 per cent of electricity generation globally.⁸⁵

A rapid shift away from the use of unabated coal⁸⁶ in the energy system by 2050 is critical to achieving the temperature goals of the Paris Agreement.⁸⁷

In 2021, the Intergovernmental Panel on Climate Change ("IPCC") reported that delivering the necessary emissions reductions will require the cancellation of new coal power projects and the accelerated retirement of existing coal plants.⁸⁸ In the same year, UN Secretary-General António Guterres urged all governments, local authorities and private companies to "end their deadly addiction to coal", encouraging OECD countries to phase out coal by 2030 and non-OECD countries to do so by 2040.⁸⁹

Many countries have already set targets and enacted laws to support the coal phase-out. In Europe, for instance, 14 countries have committed to phasing out coal by 2030⁹⁰ and several are already coal-free, including the United Kingdom, Sweden, Belgium, Austria and Portugal.⁹¹ We are also seeing these shifts beyond Europe, with Canada committed to phasing out unabated coal-fired electricity by 2030.⁹²

The accelerated retirement of fossil fuel assets is not limited to coal-fired power plants. For example, the decommissioning of oil and gas infrastructure is a growing trend that is driven by the transition to a net zero economy and associated pressure to adapt to the changing energy landscape.⁹³

Example: Phase out of coal in the Netherlands

This Case Study focuses on the Netherlands, which has committed to phasing out all coal-fired power plants by 2030 and, in doing so, contributing to the EU's emissions reduction targets.⁹⁴

The Netherlands' coal phase out is being achieved through legislative instruments such as:

- **2019: The Climate Act (Klimaatwet).**⁹⁵ This set legally binding emissions reduction targets, which require the Netherlands to achieve: climate neutrality in 2050; carbon neutrality in the electricity sector by 2050; and a 55 per cent reduction in net emissions by 2030 (compared to 1990).
- **2019: National Climate Agreement (Klimaatakkoord).**⁹⁶ Forged between the Dutch government and over 100 companies and organisations, the National Climate Agreement includes the government's central goal: to reduce emissions by 49 per cent by 2030 (compared to 1990). It also contains a specific focus on scaling up the production of energy from renewable sources and references the coal phase out.
- **2019: Prohibition of Coal in Electricity Production Act (Wet verbod op kolen bij elektriciteitsproductie).** This requires all coal-fired power plants to stop using coal by 2030 (or transition to low-emissions alternatives). The law provides for a phased approach, with the oldest power plants required to close in 2024.⁹⁷

The Netherlands has three remaining coal-fired power plants (Eemshaven, Onyx and Maasvlakte 3). These plants opened in 2015–2016 and will operate for less than half of their initially expected lifetimes.⁹⁸ Some plants are being converted into biomass power stations, including Eemshaven.⁹⁹

What are the potential accounting consequences?

1 NUMBERS

Early retirement and/or conversion of assets could give rise to expectations in relation to the numbers in the financial statements, including adjustments for:

- Decommissioning and other provisions.
- Asset valuation and impairment.
- Depreciation (i.e. changes in remaining useful lives and residual values).

Please note that this list is not exhaustive and will depend on the asset owner's specific circumstances, strategy and plans. For example, if plant facilities are converted, this will require CapEx that may be invested over several years.

Decommissioning and other provisions (IAS 37)

Early retirement of coal-fired plants could give rise to changes in the provisions¹⁰⁰ that appear as liabilities on the balance sheet for decommissioning. In preparing their financial statements, companies that have such obligations will likely need to ask:

- Do provisions for decommissioning obligations¹⁰¹ or environmental restoration need to be re-estimated for improved estimates of costs required to meet the obligations, and/or earlier timing of activities to meet these obligations?
- Are there previously off balance sheet decommissioning obligations that, given the increased certainty of the timing of closure, need to be recognised on the balance sheet?
- Are any changes to decommissioning provisions capitalised as incremental costs of the plant assets – adding to the balance sheet carrying amount that is subject to depreciation and/or impairment, or are some expensed?¹⁰²
- Do other provisions require recognition or updated measurement, for example those relating to restructuring of a company's operations or onerous contracts (i.e. contracts that under the new circumstances will be loss-making, such as power purchase agreements that can no longer be fulfilled at a profit)?

Asset valuation and impairment of assets (IAS 36)

Once the cost of the assets has been updated for any revisions to decommissioning provisions, the following would likely need consideration in light of phasing out of coal-fired plants by 2030:

- Has the phase-out been considered as a "triggering event"? If so, has impairment testing been undertaken for the value of coal-fired power plant assets?

- How is the phase-out considered in determining the recoverable amount? What assumptions and estimates were made (e.g. to reflect the reduced useful life of the assets, operational constraints on their use, and any other revisions to best estimates of the cash flows to be generated by the assets, including the impact of broader climate and transition-related factors)? How was potential compensation or recovery of losses considered?¹⁰³
- Does an impairment need to be recognised to reduce the carrying amount on the balance sheet to the recoverable value?

It is worth noting that valuation practitioners, including those at Morgan Stanley¹⁰⁴ and Societe Generale,¹⁰⁵ are already assigning no value to coal power plants in the long-term due to regulatory and industry risk. For similar reasons, some coal power plant operators have recorded impairments even before the coal ban¹⁰⁶ – including Eemshaven, one of the Netherlands' three remaining coal-fired power plants.¹⁰⁷

Depreciation (changes in remaining useful lives and residual values) (IAS 16)

Companies must regularly review the useful lives and residual values of their assets and apply any revisions prospectively, affecting the company's depreciation expense calculations over the assets' remaining lives or production capacities.

Where an impairment has been recognised, such considerations would address the depreciation of the asset value that remains on the balance sheet following the impairment loss. The clear deadline for phasing out coal-fired power plants in the Netherlands, gives rise to accounting considerations including the following for the affected companies:

- How do the changes impact estimates of remaining lives / production for earlier retirement and residual value estimates of affected plants?
- How much will future depreciation expense increase for the changes? Is the change likely to be significant to future earnings?

2

DISCLOSURE: Is material information missing from the footnotes to the financial statements?

Where such information is material, companies should disclose how the impacts of the early phase-out of coal-fired plants have been considered in preparing the financial statements, including plans for conversion or closure.¹⁰⁸

In relation to the accounting areas considered above, those preparing the financial statements will likely need to consider whether the following information would be material for those seeking to understand the financial statements.¹⁰⁹

Provisions (IAS 37)

- The amount of increase in decommissioning provisions on the balance sheet relating to the early closure, and of onerous contract and restructuring provisions.
- The significant quantitative assumptions underlying the decommissioning provision amount (and how each was determined) including:¹¹⁰

- the estimated cost of meeting the obligations as of the balance sheet date
- the estimated future timing of meeting those costs
- inflation rate assumptions
- the estimated undiscounted future cash flows that result from applying inflation rates to the assumed costs
- the discount rate assumed in calculating the discounted cash flow amount of the provision on the balance sheet.
- The extent of off-balance sheet decommissioning obligations, rationale in support of not recognising any balance sheet liability, and a current estimate of the cost of fulfilling them.
- In relation to potential or actual onerous contract provisions, information needed to understand what these amounts represent and why they are recognised on the balance sheet or not.
- In relation to restructuring activities, information needed to understand how these are reflected in the financial statements.

Impairment of assets (IAS 36)

- Identification of the assets subject to impairment testing and their value on the balance sheet, including PPE tested where there is an indication of potential impairment and any intangibles subject to periodic testing.
- The assumptions and estimates used to determine the recoverable value of assets tested, including cash flow assumptions for income and expenses over the reduced production life of assets subject to early closure. This may include production and sales price estimates, carbon prices/costs and other costs to achieve emissions reduction targets, assumed compensation or loss recovery from relevant sources such as the government, as well as the discount rate assumed.
- The amount of impairment recognised or the significance of headroom (the excess of recoverable value over the balance sheet carrying amount) determined by the testing performed.

Depreciation (changes in useful lives and residual values) (IAS 16)

- The remaining useful lives of the coal-fired plant assets and their amounts on the balance sheet.
- Information on changes to residual value assumptions.
- Information on the significance of the change in estimate of future depreciation resulting from the reduction in expected production life.

Information on assumptions about the future

Information should be also disclosed where assumptions 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. In relation to the accounting topics above, this might include changes to assumptions underlying decommissioning or onerous contract provisions, the recoverable value of assets estimated for impairment testing, or significant changes to depreciation assumptions. Disclosure would provide insight on the assumptions made, the sensitivity of the related balance sheet amount(s) and the reasons for that sensitivity.¹¹¹

3

CONSISTENCY: Do the financial statements match the narrative and other reporting?

Consistency between information in the financial statements and in other sections of the annual report is not only a requirement in most jurisdictions, but a useful check on the adequacy of disclosure in the notes to the financial statements. The consistency of information about the risk associated with Transition Laws is particularly relevant to each of the Case Studies, as are the steps the company anticipates will be needed to mitigate those risks.

In this Case Study, it is clear that information on the phase-out and the company's plans for managing the coal-fired assets affected should be consistent across the annual report. It will therefore be important to consider:

- How remaining asset production lives are consistent with information on the mandatory phase out by 2030.
- How impairment testing has taken account of the phase out disclosed outside the financial statements.
- How plans for decommissioning described outside the financial statements have been addressed in assumptions and estimates used in preparing the financial statements, including the estimated provision for decommissioning on the balance sheet.
- How plans for conversion described outside the financial statements have been addressed in the financial statements. For example, can the progress on the CapEx expected for the conversion be seen in the financial statements?

⁸⁵ ClientEarth Communications, 'Fossil Fuels and Climate Change: the Facts' (ClientEarth, 27 March 2025); International Energy Agency (IEA), Coal (IEA, 2024).

⁸⁶ "Unabated coal" means the use of coal without carbon capture and storage ("CCS").

⁸⁷ The Paris Agreement aims to strengthen the global response to climate change by holding global temperature increase to well below 2 degrees Celsius above pre-industrial levels and pursuing efforts to limit global temperature rise to 1.5 degrees. See Paris Agreement, art 2(1); Leon Clarke and others, 'Chapter 6: Energy Systems' in P R Shukla, J Skea, R Slade and others (eds), Climate Change 2022: Mitigation of Climate Change. Contribution of Working Group III to the Sixth Assessment Report of the IPCC (Cambridge University Press 2022).

⁸⁸ The IPCC has reported that limiting warming to 2°C or lower, and without new builds, will require existing coal plants to retire 10 to 25 years earlier than the historical average operating lifetime. See Clarke.

⁸⁹ United Nations, 'UN Chief Calls for Immediate Global Action to Phase Out Coal' (UNFCCC, 2 March 2021).

⁹⁰ For example, Ireland (2025), France (2027), Spain (2025), Italy (2028) and Greece (2026).

⁹¹ Beyond Fossil Fuels, 'Europe's Coal Exit' (Beyond Fossil Fuels).

⁹² Canada has introduced national regulations to phase out traditional coal-fired electricity by 2030 (in particular, the Reduction of Carbon Dioxide Emissions from Coal-fired Generation of Electricity Regulations (SOR/2012-167, updated 30 November 2018) (Canada)). These regulations are complemented by subnational action in the four provinces that currently generate power from coal (i.e. Alberta, Saskatchewan, New Brunswick and Nova Scotia). For a general overview, see Powering Past Coal Alliance, 'Canada' (Powering Past Coal Alliance).

⁹³ Decommissioning (closing down and cleaning up) existing oil and gas infrastructure is likely to cost trillions of dollars globally, and the energy transition away from fossil fuels will almost certainly bring these costs to bear sooner than originally projected.

⁹⁴ These are enshrined in the European Climate Law (Regulation (EU) 2021/1119). Key targets include achieving carbon neutrality by 2050 and a 55 per cent reduction in net greenhouse gas emissions by 2030 (compared to 1990 levels).

⁹⁵ Klimaatwet (Climate Act) (Netherlands, BWBR0042394). For Dutch and English versions, see https://climate-laws.org/document/climate-act_4bc4.

⁹⁶ Klimaatakkoord (National Climate Agreement) (Netherlands, 28 June 2019).

⁹⁷ Amendments in 2021 introduced a cap, limiting coal-fired power plants to operating at ≤35% of their maximum capacity between January 2022 and December 2024 (Wet verbod op kolen). This cap was lifted in June 2022 due to concerns about energy security.

⁹⁸ RWE and Uniper brought legal proceedings against the Dutch government, alleging that the Wet verbod op kolen bij elektriciteitsproductie violated their right to property under the European Convention on Human Rights ("ECHR") and seeking financial compensation. On 30 November 2022, the District Court of The Hague decided that energy companies RWE and Uniper could not claim financial compensation for mandatory phase-out of coal-fired electricity production. For a summary of the case see RWE and Uniper v the Netherlands (Ministry of Climate and Energy) (Sabin Center for Climate Change Law, Columbia Law School, 30 November 2022). For an official translation of the judgment, see RWE and Uniper v the Netherlands (Ministry of Climate and Energy) [2022] District Court of The Hague, Case No. C/09/608588 / HA ZA 21-245.

⁹⁹ RWE, 'Femshavencentrale: Hard coal and biomass fired power plant' (RWE Benelux, October 2025).

¹⁰⁰ IAS 37 requires a provision to be recognised if there is a present obligation from a past event, a probable outflow of resources, and a reliable estimate can be made. Obligations may be legally or constructively required.

¹⁰¹ This refers to decommissioning, restoration and similar liabilities.

¹⁰² Companies may also wish to consider that rehabilitation obligations typically arise as the environmental damage occurs (rather than when the site is closed) and annual reassessment is required to account for changes in cost estimates, discount rates and/or the timing of cash outflows. These changes can require the carrying amount of the asset to be adjusted (see also IFRIC 1).

¹⁰³ This is typically approached using an explicit forecast period for example for the next 3-5 years (e.g. future revenue, costs, etc.) and growth assumptions thereafter (i.e. over the life of the asset), but some companies use a longer forecast period, particularly where asset specific plans are maintained (i.e. life of mine plans or similar).

¹⁰⁴ Pablo T. Spiller and Alan G. Rozenberg, 'Expert Report: RWE AG and RWE Eemshaven Holding II B.V. v. Kingdom of the Netherlands', ICSID Case No. ARB/21/4 (5 September 2022) p 52.

¹⁰⁵ Spiller and Rozenberg (n ...) p 52.

¹⁰⁶ RWE AG, Annual Report 2013 (RWE AG, 2014) p 70; Uniper SE, Annual Report 2016 (Uniper SE, 2017) p 141.

¹⁰⁷ Spiller and Rozenberg p 8.

¹⁰⁸ See Illustrative Example 1, Materiality judgements applying paragraph 31 of IAS 1, Near-Final Draft of Illustrative Examples.

¹⁰⁹ The IASB's Illustrative Examples on disclosure may be helpful to consider. In addition to Illustrative Example 1 on material information, see Illustrative Example 6 addressing disaggregation of amounts, Illustrative Example 5 on provisions, and Illustrative Example 2 on impairment assumptions. See Near-Final Draft of Illustrative Examples.

¹¹⁰ IASB Illustrative Example 5 – Disclosure about decommissioning and restoration provisions illustrates disclosure considered to be necessary even where the balance sheet provision amount is quantitatively immaterial. For companies that do have quantitatively material provisions, analysis suggests that disclosure of information that might be considered material, such as the significant quantitative assumptions and how they were determined, is in stark contrast to the evidence of many companies providing very little information. See Near-Final Draft of Illustrative Examples.

¹¹¹ The IASB's Illustrative Example 3 addresses consideration of the requirements for this in IAS 1 paragraphs 125, 129, see Near-Final Draft of Illustrative Examples 11-13.



Case study #3

Financial provisioning for environmental rehabilitation

Case study 3

FINANCIAL ASSURANCE FOR ENVIRONMENTAL REHABILITATION

What is the Transition Law?

Several statutory schemes have now been introduced to ensure that mining and resource extraction companies are accountable for rehabilitating the environmental impacts of their operations. Financial assurance¹¹² is a key feature of these schemes and should be captured in the financial statements. Doing so makes clear the full costs associated with high-emitting, environmentally damaging activities, such as coal mining.

This Case Study focuses on the regulations introduced in Queensland (Australia). However, similar statutory schemes exist in other jurisdictions, including other Australian states,¹¹³ Canada¹¹⁴ and South Africa.¹¹⁵ In some countries, such as the United States, the failure to remediate environmental damage from defunct oil and gas wells has also been the subject of litigation.¹¹⁶

Example: Financial Provisioning Scheme in Queensland, Australia

Queensland's Financial Provisioning Scheme ("FP Scheme") is designed to manage the environmental and financial risks associated with activities such as mining and petroleum extraction. It does this by ensuring that those holding an "Environmental Authority" ("EA") for resource activities adequately fund the rehabilitation of the environment affected by their operations.

The FP Scheme was introduced in 2019¹¹⁷ in response to growing concern that resource related activities with significant rehabilitation and environmental risk were being abandoned, going into administration or their EAs transferred to shell companies.¹¹⁸ In time, the intent is that the funds generated by the FP Scheme will also support the rehabilitation of abandoned mines and fund research into mine rehabilitation.¹¹⁹

Key elements of the FP Scheme are set out below.

Operators must apply for an environmental authority

The Queensland State Government requires operators to obtain an EA before undertaking an environmentally relevant activity,¹²⁰ such as mining, geothermal activity, greenhouse gas storage and petroleum activities.¹²¹ This involves applying to the Department of Environment, Science and Innovation.

Operators must apply for a decision on the estimated rehabilitation cost

Operators must then seek a decision on the estimated rehabilitation cost ("ERC") of the activities covered in their EA.¹²²

Queensland's Department of Environment, Tourism, Science and Innovation¹²³ is responsible for determining the ERC.¹²⁴ Inter alia, the quantum is:

- Based on the potential cost if the operator defaults on their obligations and the government needs to undertake rehabilitation activities, prevent or minimise environmental harm, or rehabilitate and restore the environment impacted by the resource activity.¹²⁵

- Consistent with the EA conditions, rehabilitation requirements and accepted rehabilitation methodologies/standards.¹²⁶
- 100 per cent of total rehabilitation liability (but not residual risk).¹²⁷
- Based on the rehabilitation costs for the year in which the maximum liability is incurred within the nominated ERC period.¹²⁸
- Calculated using the most recent version of the Department's ERC Calculator and Department's Statutory Guideline.¹²⁹

The Scheme Manager will determine the financial provisioning required

The Scheme Manager¹³⁰ is responsible for financial provisioning on behalf of the State of Queensland.

The Scheme Manager will require holders of environmental authorities with an ERC of less than AUD \$10 million to provide a surety for the full amount.¹³¹ Different requirements apply where an election notice applies.¹³²

Where the ERC for an environmental authority is more than AUD \$10 million, the Scheme Manager will undertake a risk assessment to determine the nature of the financial provisioning required.¹³³ This assessment considers:

- The ERC decided by the Department of Environment, Tourism, Science and Innovation.
- The appropriate 'risk category' (very low, low, moderate, moderate-high or high) for the EA.¹³⁴
- Whether the entity holding the EA should:¹³⁵
 - Pay an annual contribution to the Financial Provisioning Scheme Fund ("**Scheme Fund**")¹³⁶ or
 - Provide a surety (in the form of a bank guarantee, insurance bond or cash payment) or
 - Provide both an annual contribution and a surety (in rare cases).

Operators must lodge their scheme assurance (either a contribution paid to the Scheme Fund or surety)¹³⁷ before commencing any activities under the EA.¹³⁸

Conclusion of resource activities

Once an operator has met its rehabilitation obligations and surrendered its EA, it can be released from the financial provisioning obligation and have any surety returned.

If the operator abandons a site or becomes insolvent, the pooled fund or surety is used to cover the costs of rehabilitating the site.

What are the potential accounting consequences?

Case Study 2 (Accelerated Asset Retirement Obligations) addresses decommissioning obligations, including 'numbers' issues relating to the amount on the balance sheet as a liability (or potentially off balance sheet as a contingent liability) and disclosure of information that may be considered material. This Case Study does not repeat these considerations, but they are also relevant for companies providing financial assurance for such obligations. This Case Study focuses only on financial assurance schemes, such as the FP Scheme in Queensland.

1 NUMBERS: Are there financial statement amounts that need to be adjusted?

Financial assurance schemes may differ in their nature and their terms, but will likely give rise to a number of accounting considerations. While not exhaustive, these issues are likely to require consideration of:

- The costs associated with financial assurances, such as annual contributions to a state fund and/or the costs of obtaining a letter of credit or insurance bond.
- Cash or investment fund deposits, including:
 - How the fund deposit is accounted for including how it is measured (e.g. whether an amortised cost or fair value approach applied) and significant assumptions made in estimating their value on the balance sheet.¹³⁹
 - How the cash flow statement will show the decrease in cash and cash equivalents made to fund the investment (assuming that most deposits or funds will not qualify as cash or cash equivalents).
 - The increase in financing cash flows and debt obligation on the balance sheet where the amount has been borrowed.
- More indirect implications may also require consideration, for example:
 - Has the increased cost of assurances been considered in impairment testing to the extent they represent a significant decrease in expected cash flows for the assets (PPE and/or intangible assets) that are tested for impairment?
 - Is there an implication for the discount rate used in testing tangible and intangible assets for impairment?

2 DISCLOSURE: Is material information missing from the footnotes to the financial statements?

Where such information is material, companies should disclose how the impacts of financial assurance requirements have been considered in preparing the financial statements.¹⁴⁰

In relation to the accounting areas considered above, those preparing the financial statements will also need to consider whether the following information would be material for those using the financial statements:¹⁴¹

- Accounting policy information and, in particular, information that relates to any investment fund set up for the purpose of funding rehabilitation or environmental obligations. For example, information on the nature of investments held and the accounting methodology applied (fair value or amortised cost) and why that methodology is appropriate.
- Disaggregated amounts in the financial statements (and where they are included if not clear from separate presentation on the face of the financial statements), including:
 - Amounts of assets segregated for the purpose of funding rehabilitation obligations (including reimbursement rights recognised as assets) and the amount of the related obligations included in provisions.
 - Amounts of income and expense associated with any segregated assets.
 - Costs associated with other financial assurances provided (i.e. contributions to the state fund).
 - Costs associated with non-compliance.
- Information on the separate assets, including the nature of any restrictions on their investment and use, and significant assumptions made in estimating their value on the balance sheet.
- Information on the terms of any debt financing obtained to fund the deposit of separate assets, and any contingent liabilities relating to obligations to make potential additional contributions.
- Information on how the costs of financial assurance have been considered in the company's estimates of future cash flows used for impairment testing.

Information should also be disclosed on assumptions made about the future that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In relation to the accounting topics above, this might include changes to assumptions used in estimating the value of separate assets, or changes in the expected cost of financial assurances considered in asset impairment testing. Disclosure would provide insight on the assumptions made, the sensitivity of the related balance sheet amount(s) and the reasons for that sensitivity.¹⁴²

While significant decommissioning obligations are likely to be concerning for investors, some forms of assurance could be significant positives to investors and lenders that seek to understand how a company is addressing the need to fund the activities necessary to meet their decommissioning obligations. Disclosure of information may be particularly material in such cases.

3

CONSISTENCY: Do the financial statements match the narrative and other reporting?

Consistency between information in the financial statements and in other sections of the annual report is not only a requirement of most jurisdictions, but a useful check on the adequacy of disclosure in the notes to the financial statements. The consistency of information about the risk associated with Transition Laws is particularly relevant to each of the Case Studies, as are the steps the company anticipates will be needed to mitigate those risks.

In relation to this Case Study, is it clear how information on the assurances provided has been considered consistently across the annual report? This includes:

- Visibility in the financial statements of any cash/fund investment set aside for the purpose of funding decommissioning obligations, and how this was funded, and the consideration of any reimbursement rights.

- How significant costs described outside the financial statements have been reflected in the financial statements, including impairment testing.

¹¹² The Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development defines a “financial assurance” as “the monetary sum that mining companies provide to governments or regulators to fund the mitigation and management of environmental and other liabilities related to a mine’s closure if the company fails to fulfil its obligation of fully closing the mine”, see Raina Hattingh, Rob Stevens and Matthew Bliss, Global Review: Financial Assurance Governance for the Post-Mining Transition (International Institute for Sustainable Development, August 2021) iv.

¹¹³ In Australia, all seven states—New South Wales, Western Australia, Queensland, South Australia, Victoria, the Northern Territory and Tasmania—have jurisdiction-specific mine closure legislation. While financial assurance estimates in each state generally aim to achieve a safe, stable and revegetated outcome that mitigates or manages long-term environmental risk, details vary – including the methods and mechanisms used to calculate the level of financial assurance.

¹¹⁴ As in Australia, individual territories and provinces in Canada are responsible for mine closures. In most cases, the legal regimes require a financial guarantee to be filed. In Ontario, for instance, the Minister must hold adequate and sufficient financial assurance to cover the costs of the rehabilitation work required under the closure plan for each mine hazard located on the site at that time. Financial assurance must be certified as adequate and sufficient to comply with the requirements in the Mining Act, R.S.O. 1990, c. M.14 (Ontario), Ontario Regulation 35/24: Rehabilitation of Lands and the Ontario Ministry of Mines, Mine Rehabilitation Code of Ontario, Version 2.1 (2 February 2024). Financial assurance can take several forms and must be submitted at least 45 days before the planned activity begins. For more information, see Ontario Ministry of Energy, Northern Development and Mines, ‘Mining Sequence’ (Ontario.ca); Adolfo Duranona (Baker McKenzie), ‘Mining Closure’ (Lexology, 29 June 2020).

¹¹⁵ For more information about South Africa’s approach to financial provisioning for environmental rehabilitation of mining, prospecting and exploration activities, see Department of Mineral Resources and Energy, ‘Financial Provisioning for Environmental Rehabilitation of Mining, Prospecting and Exploration’ (presentation by Adv Mmadikeledi Moloto, 8 November 2022).

¹¹⁶ See, in particular, National Environmental Management Act 107 of 1998 (South Africa) ss 24P–24PA. As an example in the U.S., compare to McCormick v HRM Resources, LLC, Case No 2024-cv-30302-CNS-CYC (D Colo, United States, 14 January 2025) Document 90, p 14 (declining to dismiss landowners’ case alleging fraudulent transfer of orphaned, unplugged oil and gas wells, citing, among other cognisable injuries, exposure to pollutants and lower property values).

¹¹⁷ The Mineral and Energy Resources (Financial Provisioning) Act 2018 (Queensland) No 30 was passed by the Queensland Parliament on 14 November 2018 and came into force on 1 April 2019. This Act replaced the previous financial assurance regime under the Environmental Protection Act 1994 (Queensland) No 62.

¹¹⁸ This started to become a problem in 2016.

¹¹⁹ Queensland Treasury, ‘Financial Provisioning Scheme’ (last updated 1 October 2025).

¹²⁰ An environmentally relevant activity (“ERA”) is an activity that has the potential to release contaminants into the environment that will or may cause environmental harm. They include a wide range of activities such as aquaculture, sewage treatment, cattle feed lotting, mining and coal seam gas extraction.

¹²¹ These are considered “resource” ERAs, however there are several other categories.

¹²² It is a condition of all EAs for a resource activity under section 297 of the Environmental Protection Act 1994 (Queensland) that the holder must not carry out, or allow the carrying out of, a resource activity if these requirements have not been complied with. EA holders cannot commence activities under their EA if those activities are not described in the current ERC decision. Carrying out activities under an EA without first lodging scheme assurance may result in compliance and enforcement action against the EA holder and those acting under the EA (see Environmental Protection Act 1994 (Queensland) No 62, ss 297 and 430).

¹²³ The Queensland Department of Environment, Tourism, Science and Innovation is currently the administering authority for the Environmental Protection Act 1994 (Queensland) No 62 and was formerly known as the Queensland Department of Environment, Science and Innovation.

¹²⁴ For more information about ERCs, see Queensland Department of Environment and Science, Estimated Rehabilitation Cost under the Environmental Protection Act 1994 (Statutory Guideline ESR/2018/4425, Queensland Government, last reviewed 16 September 2024).

¹²⁵ Environmental Protection Act 1994 (Queensland) No 62, s 300(1).

¹²⁶ Queensland Department of Environment and Science, Estimated Rehabilitation Cost p 5.

¹²⁷ Queensland Department of Environment and Science, Estimated Rehabilitation Cost p 10.

¹²⁸ Queensland Department of Environment and Science, Estimated Rehabilitation Cost p 10.

¹²⁹ Queensland Government, ‘Financial Assurance for Resource Activities’ (last updated 16 September 2025). This page contains links to the ERC calculator for mining, as well as the ERC calculator for petroleum and gas.

¹³⁰ The Scheme Manager is appointed by the Governor in Council under the Mineral and Energy Resources (Financial Provisioning) Act 2018 (Queensland) No 30, pt 2 div 1.

¹³¹ These requirements reflect amendments to the Mineral and Energy Resources (Financial Provisioning) Act 2018 that came into effect on 1 October 2025. These represent a marked change from the previous threshold, which required those holding environmental authorities with ERCs of more than AUD \$100,000 to undergo a risk assessment process involving a decision by the Scheme Manager as to the form that the financial assurance would take. These changes were introduced to mitigate the administrative burden caused by the \$100,000 threshold, which led to a high number of risk assessments. Detailed transitional provisions are in place for those that currently hold an environmental authority and an ERC of between AUD \$100,000 and AUD \$10 million. See Mineral and Energy Resources (Financial Provisioning) Act 2018 (Queensland) No 30, Part 7.

¹³² An election notice is given by the Scheme Manager if the holder meets the relevant requirements under the Mineral and Energy Resources (Financial Provisioning) Act 2018 and chooses to have the resource EA assessed for risk.

¹³³ Queensland Treasury, '[Financial Provisioning Scheme](#)' (last updated 1 October 2025).

¹³⁴ [Mineral and Energy Resources \(Financial Provisioning\) Act 2018](#) (Queensland) No 30, s 27. Whereas those with a risk category of very low, low, moderate or moderate-high can choose whether they provide a surety for the full ERC amount or remain in the annual risk assessment process, those with a high risk rating must provide a surety for the full ERC amount.

¹³⁵ Corrs Chambers Westgarth, [Queensland's New Financial Provisioning Scheme for Resources Projects](#) (November 2018).

¹³⁶ These amounts will be pooled and can be accessed to cover rehabilitation costs for failed projects, fund research into rehabilitation techniques and address legacy issues like abandoned mines. Annual payments will vary depending on the risk category that the EA has been allocated.

¹³⁷ The surety will be given under the [Mineral and Energy Resources \(Financial Provisioning\) Act 2018](#) (Queensland) No 30.

¹³⁸ [Environmental Protection Act 1994](#) (Queensland) No 62, s 297.

¹³⁹ See also IFRS Foundation, '[IFRIC 5: Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds](#)' (IFRS, 2025). This addresses the accounting and disclosure for interests in a fund (including rights to receive reimbursement) and obligations to make potential additional contributions.

¹⁴⁰ See Illustrative Example 1, Materiality judgements applying paragraph 31 of IAS 1 ([Near-Final Draft of Illustrative Examples](#)).

¹⁴¹ The IASB's Illustrative Examples on disclosure may be helpful to consider. In addition to IE1 on material information, see IE6 addressing disaggregation of amounts, IE4 on credit losses, and IE2 on impairment assumptions. (See [Near-Final Draft of Illustrative Examples](#)).

¹⁴² The IASB's Illustrative Example 3 addresses consideration of the requirements for this in IAS 1 paragraphs 125-129, see [Near-Final Draft of Illustrative Examples](#) 11-13.

Case study #4
Electric vehicle
regulations



Case study 4

ELECTRIC VEHICLE REGULATIONS

What is the Transition Law?

Transitioning from internal combustion engines ("ICE") to electric vehicles ("EV") is critical to decarbonising the transport sector. To drive this transition, multiple countries are implementing legislative instruments, such as:

- Sales mandates and targets that require, directly or indirectly, a certain percentage of manufacturers' new vehicle sales to be new zero-emission vehicles ("ZEVs").
- Emissions standards and fuel economy regulations that tighten existing emissions limits.
- Charging infrastructure regulations to ensure that sufficient public and private charging facilities are available and user-friendly.
- Incentives and subsidies that provide financial or non-financial benefits to encourage EV adoption.
- Manufacturing and supply chain regulations to stimulate domestic EV and battery manufacturing and create safety standards.

These legislative instruments impact different parties. Manufacturers are most directly affected by legislation regarding sales mandates and targets, emission standards and fuel economy requirements, as well as manufacturing and supply chain regulation. The changes impact the wider system, affecting resellers, leasing companies and others. Charging infrastructure laws create opportunities for businesses to provide new services and affect local planning and land use. Incentives and subsidies affect cashflow and costs for both consumers and companies.

For the purposes of this Case Study, this report will focus on the first category – sales mandates and targets – and their impact on manufacturers.

Example: The UK's Zero Emission Vehicle Mandate¹⁴³

The United Kingdom's Zero Emission Vehicle Mandate ("ZEV Mandate") entered into force in January 2024 and is legislated through the Vehicle Emissions Trading Schemes Order 2023.¹⁴⁴ The ZEV Mandate comprises two trading schemes: a ZEV mandate and a carbon dioxide ("CO₂") emissions standard.¹⁴⁵

1

ZEV Mandate

- Yearly minimum requirements are set for ZEV sales. These represent a percentage of overall sales and increase dramatically from 2024. More specifically, 80 per cent of new cars and 70 per cent of new vans sold in the UK must be ZEVs by 2030. This number will rise to 100 per cent in 2035.
- ZEV sales are converted into allowance certificates and manufacturers will be required to surrender allowances or credits at the end of each year in relation to the total number of vehicles that they have sold.

- Manufacturers can “bank” or “borrow” allowances from their own yearly allocations over certain permitted periods (three years) or “trade” allowance certificates with other manufacturers who have exceeded their targets.
- If a manufacturer wants to sell more non-ZEVs than the target, they will need to either get more allowances (by trading) or pay a ‘compliance payment’ of £15,000 per car and £18,000 per van. Manufacturers can get more allowances by buying them from another manufacturer or borrowing them from a future year. They can also convert over-performance on the CO₂ emissions allowance into ZEV allowances.

1 CO₂ emissions standard

- Establishes annual limits on the amount of CO₂ that can be emitted by non-ZEV fleets.
- If manufacturers fail to meet targets despite using the available mechanisms of trading emission allowances, they must pay £86 per gram of CO₂ above the manufacturer’s target multiplied by the number of non-ZEV vehicles sold.

Originally introduced in 2020, the ZEV Mandate was amended in 2023 to permit any petrol/diesel cars or vans, and not just hybrids, to be sold until 2035. It was subject to further consultation for a period in late 2024 – early 2025 and has been revised in 2025 as a result of the consultation. The updated ZEV Mandate will:

- Maintain the existing phase-out dates and headline trajectories for cars and vans.
- Extend the period to borrow and transfer certain allowances out to 2029 and 2030.
- Introduce an ability to allow for van to car transfer, at a certain van to car ratio.
- Exempt small and micro-volume manufacturers from the 2030 phase out.

What are the potential accounting consequences?

1 NUMBERS: Are there financial statement amounts that need to be adjusted?

Vehicle manufacturers selling vehicles into markets subject to EV mandates, such as the UK ZEV Mandate, will need to consider how these mandates affect their financial statements.

Potential implications include relatively direct elements associated with the accounting for certificates used in the scheme and requirements to surrender them or pay amounts for unmet targets, as well as the changes that are needed to existing manufacturing capabilities and supply chains to meet EV production and emissions targets. There will also be more indirect considerations (for example, changes to the estimated cash flows used in impairment testing).

Elements of the accounting considered in *Case Study 1 (Carbon Pricing Mechanisms)* and *Case Study 2 (Accelerated Asset Retirement Obligations)* may also be relevant to this Case Study.

While not exhaustive, those preparing the financial statements should consider how to account for:

- Allowance certificates.
- Obligation to surrender certificates or otherwise pay for missed EV targets, emissions and penalties.
- Changes in useful lives and residual values used to estimate depreciation.
- Impairment of assets: testing and updated estimates of future cash flows.

Allowance certificates

As *Case Study 1 (Carbon Pricing Mechanisms)* highlights, the way that companies account for certificates, such as those used in the UK ZEV mandate, can vary considerably. The UK ZEV mandate's flexible mechanisms – allowing companies to generate, purchase or sell, carry back (or forward) and convert CO₂ target over-achievement into ZEV allowances – necessitate careful consideration of how financial statements should reflect these transactions and their values.

- How are the certificates accounted for? Where they are recognised as assets on the balance sheet, are they treated as inventory, intangibles, or financial instruments?
- Why is the approach used appropriate to the circumstances?

Obligation to surrender certificates or pay for missed targets, excess emissions and penalties (IAS 37)

Various types of provisions will need consideration relating to when they are recognised on the balance sheet as liabilities, and how their amount is estimated, including for example:

- Provisions for Part I, the surrender of allowances and/or compliance payments: obtaining sufficient certificates by purchasing them, borrowing them from the future, or using the values converted from overperformance on Part II (CO₂ targets) or, alternatively, paying compliance payments.
- Provisions for Part II: payments for excess emissions.

Changes in useful lives and residual values used to estimate depreciation (IAS 16)

The deadline for phasing out ICE vehicles in the UK gives rise to accounting considerations including the following for the affected companies:

- How do the changes impact estimates of remaining lives / production for conversion to ZEV or earlier retirement of affected ICE manufacturing assets?
- If estimates are changed, how much will future depreciation expense increase for the changes? Is the change likely to be significant to future earnings?

- If estimates are changed, how much will future depreciation expense increase for the changes? Is the change likely to be significant to future earnings?

Impairment of assets (IAS 36)

The ZEV Mandate requires a phase out of new ICE vehicles sold, giving rise to a number of accounting considerations. These include:

- Have these developments been considered to be a “triggering event” and impairment testing performed for the value of ICE manufacturing and related assets held by the company?
- How were these regulatory changes incorporated when determining the recoverable amount? What specific assumptions and estimates were made (e.g. to reflect the reduced useful life of the assets and any likely restrictions on its operation following the announcement and other best estimates, changes for climate-related developments and risks)?
- Does an impairment need to be recognised to reduce the carrying amount on the balance sheet to the recoverable value?

2

DISCLOSURE: Is material information missing from the footnotes to the financial statements?

Where such information is material, companies should disclose how the impacts of the ZEV Mandate (or other requirements) have been considered in preparing the financial statements.¹⁴⁶

In relation to the accounting areas considered above, those preparing the financial statements will also need to consider whether the following information would be material for those seeking to understand the financial statements:¹⁴⁷

- **Accounting policy information.** Companies need to explain how particular items in the numbers section above are accounted for, especially where industry practice varies. For example, certificates may be classified as inventory, intangibles, or financial instruments – each classification having different approaches for when they are recognised on the balance sheet, their initial measurement amount and subsequent valuation requirements (e.g. mark to market, cost less impairment etc.).
- **Information on how the amounts in the financial statements were considered in light of the ZEV Mandate and the company’s steps to adopt it, including details about key assumptions and the estimates used.** This may include:
 - **Allowance certificates:** Amounts included in line items on the balance sheet, the number of ZEV allowance certificates purchased/held, the price used to value the certificates, and information on how that value was estimated (if other than cost).
 - **Provisions:** Amounts included in line items on the balance sheet, assumptions and estimates used in determining the provision amount such as the performance gap and the price/costs. Cost amounts in the period, or an indication that costs that might have been expected were not significant.

- **Depreciation:** The remaining useful lives of the ICE manufacturing assets and information on the significance of any changes in estimated future depreciation resulting from any reduction in expected production life and/or reduced residual value of those assets.
- **Impairment/asset valuation:** For impairment testing, assumptions made for the future cash flows associated with the ZEV Mandate including the cost of certificates (carbon price and volume of certificates), other costs for example those associated with changes to production facilities, and changes to vehicle sales.

Information on assumptions about the future

Information should also be disclosed on assumptions made about the future that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In relation to the accounting topics above, this might include changes to assumptions used in estimating the value of allowance certificates, assumptions underlying the provisions amount (the performance gap and price/cost of covering it), the recoverable value of assets estimated for impairment testing, or significant changes to depreciation assumptions. Disclosure would provide insight on the assumptions made, the sensitivity of the related balance sheet amount(s) and the reasons for that sensitivity.¹⁴⁸

3 CONSISTENCY: Do the financial statements match the narrative and other reporting?

Consistency between information in the financial statements and in other sections of the annual report is not only a requirement of most jurisdictions, but a useful check on the adequacy of disclosure in the notes to the financial statements. The consistency of information about the risk associated with Transition Laws is particularly relevant to each of the Case Studies, as are the steps the company anticipates will be needed to mitigate those risks.

In relation to this Case Study, is it clear how information on the ZEV Mandate and steps to change production processes to meet the ZEV and emissions targets have been considered consistently across the annual report:

- How the company's plans to convert production from ICE to ZEV over time is consistent with remaining asset lives for ICE-related assets.
- How impairment testing has taken account of the risks and obligations disclosed outside the financial statements on the ZEV mandate and the company's plans to comply.
- If incremental CapEx is significant, is this apparent in the financial statements?

¹³² The transition to EV vehicles is supported by additional legislation including the *UK Public Charge Point Regulations 2023, SI 2023/1168* which became enforceable in November 2023, with compliance deadlines for certain requirements (like contactless payment and 24/7 helplines) by November 2024. They set standards for 99% reliability for rapid charge points, require contactless payment, roaming, 24/7 helplines, transparent pricing (per kWh), and open data access for public charge points. Fiscal incentives including tax incentives, government investment in EV charging infrastructure and grant programs are also included in government budgets and are altered and amended from time to time.

¹⁴⁴ *Vehicle Emissions Trading Schemes Order 2023 (UK), SI 2023/1394*.

¹⁴⁵ The UK is not alone in approaching the transition to EV through trading schemes and emission standards requirements. In 2012, the California Air Resources Board ("**CARB**") adopted the Advanced Clean Cars ("**ACC**") programme for new cars sold between 2017 and 2025 which includes increasingly stringent ZEV mandates, corporate average emissions standards, and corporate average exhaust emission standards. China, a leader in EV sales and manufacturing achieved an EV sales level of 50% of new cars sold in China in 2024. China introduced its Zero Emission Vehicle credits trading scheme in 1990, which mandated the sales ratio of ZEVs and allowed enterprises to purchase credits to meet compliance. The EU and other countries including India and Australia are also introducing EV mandates and other legislation to support the transition to EVs.

¹⁴⁶ See Illustrative Example 1, materiality judgements applying paragraph 31 of IAS 1 (*Near-Final Draft of Illustrative Examples*).

¹⁴⁷ The IASB's Illustrative Examples on disclosure may be helpful to consider. In addition to IE1 on material information, see IE6 addressing disaggregation of amounts, IE4 on credit losses, and IE2 on impairment assumptions. (See *Near-Final Draft of Illustrative Examples*).

¹⁴⁸ The IASB's Illustrative Example 3 addresses consideration of the requirements for this in IAS 1 paragraphs 125-129, see *Near-Final Draft of Illustrative Examples* 11-13.

Case study #5
Insurance and
un-insurability

Case study 5

INSURANCE AND UN-INSURABILITY

What is the Transition Law?

Insurance is a key risk-sharing tool used in all industries and business transactions. Business insurance provides cover for a range of risks, including directors' and officers' liability and project-level construction all risk insurance ("CAR insurance").¹⁴⁹ Sometimes insurance is mandated by laws or regulations require insurance (e.g. professional indemnity insurance), while in others it is required by contract (e.g. CAR insurance).

Extreme weather – and growing awareness of the risks associated with extreme weather events – is impacting the availability, affordability and risk-sharing effectiveness of insurance.¹⁵⁰ According to the AON Global Construction Insurance and Surety Market Report 2025, global natural disasters in 2024 resulted in economic losses of at least US\$368 billion, 14 per cent higher than the long-term average.¹⁵¹ Coverage of natural catastrophe-related risks – and their impacts – varies by region, but the rising incidence of major losses is leading to higher rates and decreased insurance capacity in some regions, particularly in relation to property insurance (including construction).

This Case Study examines the reduced coverage for coal mines as an example of how insurance coverage is changing. It will also explore the risks that the evolving physical impacts of climate change pose to CAR insurance for both the construction and maintenance of projects, illustrating the key considerations for those preparing and using financial statements.

At present, the insurance market suggests that insurance is, or will be, available to provide financial protection from climate-related losses. As demonstrated below, insurance can become unaffordable or unavailable as regions and risk assessments are updated in light of increasing physical risk. Without insurance, commercial activities become unviable because they are perceived to be too risky by the companies involved, their lenders and/or investors.

Example 1: Reduction in coverage for coal mines insurance

The transition away from fossil fuels to clean energy sources has significant implications for fossil fuel industries, such as coal, where risks are rapidly crystallising.

Even in regions without policy intervention, market forces are affecting the insurance sector and, in turn, driving the energy transition. Data on the insurance of coal mines in the United States over the past decade shows how insurers' decisions to reduce coverage, decline to renew and/or increase premiums are impacting the viability of coal mines.

A recent research paper from the University of Zurich analyses how reduced availability of insurance coverage affects carbon-intensive projects. In the case of coal mines, the paper shows that affected mines are more likely to be abandoned and reduce in scale, particularly employment.¹⁵² Indeed, public filings reveal that coal mine operators identify the declining availability coverage of insurance as a material risk factor. These operators have also cautioned that the potential non-renewal of insurance policies could materially impact coal mining operations and their financial performance.¹⁵³ The impact of such market forces on coal mines could be amplified in jurisdictions that have introduced Transition Laws (see, for example, *Case Study 2 (Accelerated Asset Retirement Obligations)*, which examines the Dutch coal phase out).

Example 1: “Construction All Risk” insurance

Insurance is also a critical element of project development, including construction and engineering. Particularly in new project development, the potential impact of weather-related losses for employers, contracts and engineering consultants can be significant. As a result, insurance has become a contractual necessity; providing cover for potential losses that parties may not have the financial resources to bear on their own. Without adequate insurance in place, project developers may not be able access loans or other credit that they need to finance projects.

Three major suites of contracts govern project development, the new engineering contract (“**NEC**”) forms developed by the Institution of Civil Engineers, the ‘rainbow’ suite of documents developed by the International Federation of Consulting Engineers (“**FIDIC**”) and the Joint Contracts Tribunal (“**JCT**”).

These forms contractually require project developers to arrange CAR insurance. For example, FIDIC 2017 construction contracts require the contractor to take out a CAR policy to cover the replacement value of the works plus 15 per cent to cover additional costs such as demolition and professional fees, though these standard terms are negotiable. All three forms (NEC, FIDIC and JCT) state that the policy must be in the “joint names” of the contractor and the employer.¹⁵⁴

CAR typically covers:

- 1) Damage to insured property (e.g. arising from flood, adverse weather, fire, explosion, theft or vandalism), subject to certain standard exclusions like wear and tear.
- 2) Consequential financial losses caused by a delay in commencing the construction project, arising as a result of damage falling within the scope of item (1) above, subject to certain exclusions. Exclusions to this coverage are highly negotiated.
- 3) Third party liabilities: this covers liability for accidental damage to property owned by a third party or injury to a third party, not including the insured's employers who will be covered under a separate policy.

The cost of a CAR policy will depend on a combination of factors, usually including:

- The value of the construction works.
- The project’s location.
- Whether the works present a higher risk by being located at height or below ground.
- The extent of site security.
- The duration of the construction works.
- Whether the policy is annual or project specific.
- The contractor’s claims history.

For CAR insurance, insured amounts are generally based on replacement costs and represent the maximum for which the insurer is liable. While not in scope of this analysis, a related consideration for insurance coverage is the recognition of the need for a potential increase in the insured payout amount.

As extreme weather events become more frequent and more intense, coverage (where available) might be modified to operate on a “build back better” basis, so it pays for climate related adaptation following a loss,

rather than simply reinstatement “as was”.

As extreme weather events become more frequent and more intense, coverage (where available) might be modified to operate on a “build back better” basis, so it pays for climate related adaptation following a loss, rather than simply reinstatement “as was”.

While this Case Study focuses on projects that are in their development and operational phases, insurance cover at the other end of a project or asset’s life is also an area that could be explored in the future. Insurance for decommissioning for example, is a rapidly evolving area and approaches can vary considerably. Some brokers have produced “decommissioning all risks” insurance: a product designed to cover activities and risks associated with decommissioning¹⁵⁵ and complement other forms of insurance (e.g. an operator’s property and liability cover).¹⁵⁶ This is not the universal approach, however. For instance, smaller decommissioning projects can be insured under operational policies, which cover “minor works” such as dismantling projects up to a specified contract value.

What are the potential accounting consequences?

Insurance coverage is critical to much activity across the economy. This section focuses on developments that may increase premiums, decrease coverage and potentially make insurance unavailable for a company’s current assets (e.g. an existing coal-fired power station) and new construction projects (where CAR coverage is key). This makes a fairly direct link to assets that exist on the balance sheet of a company and accounting adjustments that may require consideration. Issues relating to insurance for decommissioning activities have not been considered in detail given the early stage of market development noted above.

Beyond these potential direct balance sheet impacts to existing PPE and construction in progress assets, any decline in insurance availability/cost/coverage issues can have far-reaching consequences throughout a company’s value chain.

The upshot is that otherwise viable projects may be abandoned when affordable insurance coverage becomes too costly or unavailable, as companies – or their financiers – conclude that the retained risk is too high.

1 NUMBERS: Are there financial statement amounts that need to be adjusted?

While not exhaustive, the following issues are likely to need consideration:

- Impairment of assets.
- Depreciation.
- Provisions.

Impairment of assets (IAS 36)

PPE is generally subject to impairment testing only when there is an indicator suggesting potential impairment or value deterioration. An impairment loss is recognised when an asset’s recoverable amount falls below its carrying value on the balance sheet.

As insurance becomes more costly or unavailable, companies may need to evaluate whether the values of operating assets or construction projects require impairment adjustments. Considerations could include:

- Have developments in the insurance market been identified as a “triggering event” requiring impairment testing for affected assets (including both operating assets and construction projects currently underway)? If so, has impairment testing been conducted to determine the recoverable amount of the affected assets?
- How were insurance coverage changes incorporated when determining the recoverable amounts? What assumptions and estimates were applied (e.g. to reflect increased operational risk and associated cost increases, self-insured expenses for previously covered risks, reduced asset useful lives, operational restrictions resulting from coverage limitations, and potential abandonment of construction projects without cost recovery¹⁵⁷)?
- Does an impairment need to be recognised to adjust the carrying amount on the balance sheet to reflect the recoverable value?

Depreciation (changes in useful lives and residual values) (IAS 16)

Companies must continuously assess the useful lives and residual values of their assets, with any revisions to previous assumptions applied prospectively to adjust the company’s future depreciation expense over the asset’s remaining productive life.

The growing number and severity of extreme weather events and the accompanying reduction in insurance may give rise to accounting considerations, such as:

- Should the estimated useful lives and production capacity be reduced to reflect the earlier retirement of the assets affected (i.e. coal-fired plants, facilities at risk of flooding etc.)?
- What is the anticipated increase in future depreciation expense resulting from these revised estimates? Will this change materially impact future earnings?

Provisions (IAS 37)

Changes to the cost and availability of insurance may also have implications for assets/projects that have decommissioning obligations associated with them. The following may require consideration:

- Do provisions for decommissioning obligations require re-estimation to bring forward the expected timing of activities to decommission the assets, corresponding to early retirement of operating assets or abandonment of new projects?
- Do estimates of decommissioning costs require re-estimation?
- Are there previously off balance sheet decommissioning obligations that need to be recognised on the balance sheet due to increased certainty on the timing of closure?
- Are the changes to decommissioning obligations all included in the cost of the associated assets (e.g. are higher costs increasing the assets’ balance sheet carrying amount subject to depreciation and/or impairment or are they written off as expenses)?

Where such information is material, companies should disclose how the impacts of the developing insurance market and coverage have been considered in preparing the financial statements.¹⁵⁸

In relation to the accounting areas considered above, additional questions on the need for disclosure may include whether the following information would be material for those seeking to understand the financial statements.¹⁵⁹

Impairment of assets (IAS 36)

- Identification of the assets subject to impairment testing, including PPE tested where there is an indication of potential impairment, and any intangibles subject to periodic testing, and the balance sheet amounts tested.
- How consideration of the increased insurance costs or insurance-related closures were considered and the assumptions and estimates used in estimating the recoverable value of assets tested, including cash flow assumptions for income and expenses (e.g. loss of coverage and the cost of risks assumed, changes to production levels and cost estimates, and the discount rate assumed).
- The impairment loss recognised, or the significance of available headroom (the excess of recoverable value over the balance sheet carrying amount) identified through testing.

Depreciation (changes in useful lives and residual values) (IAS 16)

- The remaining useful lives of the affected assets held by the company.
- Information on the significance of the change in estimate of future depreciation resulting from the reduction in expected production life.

Provisions (IAS 37)

Case Study 2 illustrates how accelerated asset retirement can affect provisions on the balance sheet. Similarly, Case Study 5 examines how the cost and availability of insurance could materially influence both the cost and timing of decommissioning activities for early closures or project abandonment. As a result, similar disclosure considerations apply. The insurance elements in Case Study 5 raise additional questions about the need for disclosure in relation to:

- How changes in insurance cost and availability have been considered in the estimated cost of meeting decommissioning obligations as of the balance sheet date and how estimates may change over the period of decommissioning (which could last decades).
- How the potential for a loss of insurance coverage during the decommissioning phase has been considered.

Information on assumptions about the future

Information should also be disclosed on assumptions made about the future that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In relation to the accounting topics above, this might include changes to assumed costs of insurance or cost of risk for reduced insurance coverage used in impairment testing, or changes to the cost or timing of decommissioning obligations used to determine the related provision amount. Disclosure would provide insight on the assumptions made, the sensitivity of the related balance sheet amount(s) and the reasons for that sensitivity.¹⁶⁰

3

CONSISTENCY: Do the financial statements match the narrative and other reporting?

Consistency between information in the financial statements and in other sections of the annual report is not only a requirement of most jurisdictions, but a useful check on the adequacy of disclosure in the notes to the financial statements. The consistency of information about the risk associated with Transition Laws is particularly relevant to each of the Case Studies, as are the steps the company anticipates will be needed to mitigate those risks.

In relation to this Case Study, companies should ensure that information about evolving insurance market conditions is consistently presented throughout the annual report by ensuring that the financial statements address:

- How increased insurance premiums, higher excess amounts and/or reduced coverage align with the company's business impact assessment and their risk disclosures outside the financial statements, as well as disclosure in the financial statements.
- Whether the increased self-insurance risk exposure is appropriately considered – and consistently reflected – across the annual report.

¹⁴⁹ The first CAR insurance is said to have been issued in 1929 to cover construction of the Lambeth Bridge over the Thames in London.

¹⁵⁰ A recent Financial Times article, for instance, details how “insurers are selling so-called catastrophe bonds at a record rate as they seek to offload the growing risk from climate change onto investors eager for high returns”. This trend draws attention to the significant payouts that insurance companies have needed to make in response to the impacts of extreme weather events and the rising costs as these become more commonplace. For more information, see Lee Harris and Ian Smith, ‘[Catastrophe bond sales hit record as insurers offload climate risks](#)’ Financial Times (15 July 2025).

¹⁵¹ Aon, [2025 Global Construction Insurance and Surety Market Report](#) (Aon, 2025).

¹⁵² Olimpia Carradori, Felix von Meyerinck and Zacharias Sautner, ‘[Insurers’ Carbon Underwriting Policies](#)’ (University of Zurich, 10 June 2025).

¹⁵³ See Carradori, von Meyerinck and Sautner (n _) for specific examples of disclosure (e.g. CONSOL Energy Inc., 2020; Arch Resources Inc., 2021; NACCO Industries, Inc, 2022; Alliance Resource Partners, 2023).

¹⁵⁴ The parties to the contract include the employer (the project owner), the engineering consultant, the engineer, contractors and suppliers. The policy can last for the duration of the project (if taken out on a project basis) or can be renewed on an annual basis. Project finance providers will usually expect their interest to be protected by being jointly named in the policy. Joint parties in a CAR policy do not have “joint and several” liability, but instead are combined for consistency into one contract with different parties having rights to different payouts.

¹⁵⁵ This includes risks such as property damage, third party liabilities and potential environmental pollution.

¹⁵⁶ Clifford Chance, [Energy Transition – How to Mitigate the Risk of Disputes in Decommissioning](#) (Clifford Chance, November 2023) 4.

¹⁵⁷ While this Case Study focuses on developments in the insurance market where insurance is a legal requirement, in cases where it is not a legal requirement and assets have significant physical risk associated with their operation, increased risk and cost up to and including the loss of available insurance (i.e. self-insurance) will also need to be factored into impairment testing. Such testing is based on the discounted value of risk adjusted best estimates of cash flows, either by adjusting the expected cash flows or the discount rate used, for risks including climate risk.

¹⁵⁸ See Illustrative Example 1, Materiality judgements applying paragraph 31 of IAS 1 ([Near-Final Draft of Illustrative Examples](#)).

¹⁵⁹ The IASB’s Illustrative Examples on disclosure may be helpful to consider. In addition to IE1 on material information, see IE6 addressing disaggregation of amounts, IE5 on provisions, and IE2 on impairment assumptions. (See [Near-Final Draft of Illustrative Examples](#)).

¹⁶⁰ The IASB’s Illustrative Example 3 addresses consideration of the requirements for this in IAS 1 paragraphs 125-129, see [Near-Final Draft of Illustrative Examples](#) 11-13.

Why comply?

Safeguarding your company, avoiding legal risks and reaping the benefits of the transition.

Consequences of non-compliance

Legal accountability: Who is responsible?

The IFRS Accounting Standards are frequently described as a common accounting language given their widespread acceptance and adoption around the world. In addition to imposing legal obligations to comply with these standards, there are frequently legal consequences for non-compliance – including the United Kingdom.¹⁶¹

Under English law, the IFRS Accounting Standards are embedded via the Companies Act 2006 (**“the Act”**), which imposes obligations on companies, their directors¹⁶² and professional advisers (e.g. accountants and auditors) to ensure that financial statement reporting is both accurate and comprehensive.

A core requirement of the Act is for accounts to give a ‘true and fair view’ of the company’s financial position. The Financial Reporting Council (**“FRC”**) has further clarified that reporting in accordance with accepted accounting standards is prima facie evidence of meeting this standard. As a result, adhering to the IFRS Accounting Standards while considering the impact of climate-related risks is not only prudent, but offers directors and companies a reliable pathway to mitigate liability.

Reputational consequences

Beyond legal consequences, failure to comply with financial statement reporting obligations carries significant reputational risk. Negative media coverage, erosion of investor confidence and the potential withdrawal of capital are just a few of the possible commercial consequences. Investors are increasingly attuned to financial transparency and accountability — non-compliance can mark a company as high-risk, affecting market valuation, access to finance at market rates (or at all) and long-term viability.

On the other hand, proactive and demonstrable compliance offers an opportunity for a company to distinguish itself from its peers. Enhanced transparency fosters investor trust and may attract long-term capital investment, particularly with the increasingly significant impact of sustainability in shaping investment portfolios.

Legal consequences for directors and companies

Negligence and negligent misstatement

Inaccurate financial disclosures could render a company liable for claims of negligent misstatement, although these claims usually only arise when such disclosures are relied upon in connection with specific transactions (e.g. investment prospectuses).¹⁶³

While such claims are typically brought against professional advisers – including accountants and auditors – there have been cases in the UK where companies were also included as defendants.¹⁶⁴

Fraudulent and negligent misrepresentation

False or misleading financial statements can expose a company to liability for misrepresentation.

In the UK, misrepresentation occurs when: (a) a defendant makes a statement that was at least substantially untrue; (b) the defendant intended the claimant to rely upon it; and (c) the statement induced the claimant to enter into the contract.¹⁶⁵

More specifically:

- **Fraudulent misrepresentation** occurs when a claimant can prove that the defendant makes a statement they know is untrue, do not believe to be true, or are reckless as to its truth.¹⁶⁶
- **Negligent misrepresentation** occurs when the defendant does not have reasonable grounds for believing that the statement was accurate.¹⁶⁷

Importantly, a director can be held **personally liable** for fraudulent misrepresentation committed on behalf of the company.¹⁶⁸

Disqualification and criminal liability

A director may be deemed to be 'unfit to be concerned in the management of a company' for failing to accurately account for climate-related matters in financial reporting, which can have significant long-term consequences for their reputations and careers.¹⁶⁹

In addition, in places like the UK, a company's annual accounts must always be signed by a director.¹⁷⁰ Where a director signs off on accounts that do not meet the statutory legal requirements, they will commit a **criminal offence** if:¹⁷¹

- The director(s) **knew** the accounts were non-compliant or were reckless as to compliance; and
- The director(s) **failed** to take reasonable steps to secure compliance or prevent approval of the accounts, which will be determined on a case-by-case basis.

Fiduciary duties

Company directors are fiduciaries. Such positions require a director to fulfil duties of loyalty and good faith and to act in the company's best interests. As codified in the UK Companies Act 2006,¹⁷² the fiduciary duties of directors include:¹⁷³

- Acting within one's powers.¹⁷⁴
- Promoting the success of the company for the benefit of its members and taking the interests of stakeholders into account.¹⁷⁵
- Exercising independent judgement.¹⁷⁶
- Avoiding conflicts of interest.¹⁷⁷
- Not accepting benefits from third parties.¹⁷⁸
- Declaring interests in transactions.¹⁷⁹

Although not fiduciary in nature, directors are also obligated to exercise reasonable care, skill and diligence at all times.¹⁸⁰

Failure to ensure accurate, complete and consistent financial reporting and disclosures can lead to a breach of these duties owed by directors, with consequences including:

- Personal liability.¹⁸¹
- Accounting for profits made through the breach.
- Disciplinary action from regulators.
- Disqualification.¹⁸²
- Criminal sanctions (in severe cases).¹⁸³

Unlawful dividends

Directors must ensure that dividends are only paid from distributable profits as defined under Part 23 of the Companies Act 2006. Where dividends are paid unlawfully (i.e. not from distributable profits), directors may face personal liability to restore the amount to the company under section 847 of the Act. Further, creditors may pursue clawback proceedings against shareholders who received unlawful dividends, particularly in insolvency situations.¹⁸⁴

With regard to financial reporting that ignores climate-related matters, inaccurate accounts that overstate the basis for distributable reserves can lead to unlawful dividend payments. Such reporting therefore exposes directors both to personal liability and potential claims from creditors.

Shareholders can also be held accountable, but unlike directors—who may be liable regardless—they are only liable if they have knowledge of, or reasonable grounds to believe, that a distribution is unlawful.¹⁸⁵

Consequences for auditors

While this chapter focuses primarily on company and director liability, it is important to note that auditors also face significant consequences for inadequate financial statement reporting. Under the UK Companies Act 2006 and professional standards, auditors owe duties of care to companies and may face negligence claims where they fail to identify material misstatements in financial accounts.

Directors facing liability claims may seek contribution or indemnity from auditors under the UK Civil Liability (Contribution) Act 1978, particularly where the auditor failed to identify climate-related risks that should have been disclosed. Auditors may also face professional disciplinary action from the FRC, including fines, reprimands, and exclusion from statutory audit work.¹⁸⁶

Turning risk into opportunity

While the consequences for inadequate and inaccurate financial statement reporting can be severe, the strategic opportunities of compliance are equally compelling. Accurate, complete and forward-looking disclosures that provide the required material information on climate-related risks and matters can position companies as resilient, transparent, compliant and future-focused in the face of an evolving regulatory environment.

This is not lost on investors. Investors are increasingly using high-quality disclosures to differentiate between companies. Those who proactively and comprehensively address IFRS Accounting Standards stand to gain in market perception, legal certainty and investment readiness. Compliance with IFRS Accounting Standards sits at the intersection of legal risk, fiduciary responsibility and reputational integrity, which should be treated as a strategic priority – not only to avoid liability, but also to demonstrate long-term value to stakeholders and investors.

¹⁶¹ While this chapter focuses largely on the consequences of non-compliance in the UK, they are not necessarily unique. For examples of the relevant provisions in other jurisdictions, please refer to the footnotes.

¹⁶² Companies Act 2006 (UK), s 172.

¹⁶³ Caparo Industries plc v Dickman [1990] 2 AC 605, 621.

¹⁶⁴ For example, Possfund Custodian Trustee Ltd and Another v Diamond and Others [1996] 1 WLR 1351.

¹⁶⁵ See also misrepresentation laws in Australia (Australian Consumer Law (Competition and Consumer Act 2010, Sch 2, ss 18, 29, and 236; Corporations Act 2001 (Cth), ss 1041E-H, 728)); Canada (Securities Acts of the various provinces, Criminal Code RSC 1985, c C-46 s 380); and New Zealand (Financial Markets Conduct Act 2013, ss 535-536; Fair Trading Act 1986, ss 9, 13).

¹⁶⁶ Derry v Peek (1889) 14 App Cas 337 (UK).

¹⁶⁷ Misrepresentation Act 1967 (UK), s 2(1).

¹⁶⁸ See also director signing requirements in Australia (Corporations Act 2001 (Cth), ss 295, 298), South Africa (Companies Act 71 of 2008, ss 30, 88); and Singapore (Companies Act 1967, s 201).

¹⁶⁹ Company Directors Disqualification Act 1986 (UK), s 12C(1)(a). This is also the case in other jurisdictions, including Australia (see Corporations Act 2001, s 206B).

¹⁷⁰ Companies Act 2006 (UK), s 414(1).

¹⁷¹ Companies Act 2006 (UK), s 414(4).

¹⁷² Companies Act 2006 (UK), Pt 10, Ch 2.

¹⁷³ While the details may vary, other jurisdictions have also codified the duties that apply to company directors. Examples include: Australia (Corporations Act 2001, ss 180 – 185); Canada (Canada Business Corporations Act (R.S.C., 1985, c. C-44), s 122); Japan (Companies Act (Act No. 86 of 2005), ss 355, 356, 357); South Africa (Companies Act No. 71 of 2008), s 76).

¹⁷⁴ Companies Act 2006 (UK), s 171.

¹⁷⁵ This includes the company's employees, the need to foster the company's business relationships with suppliers, customers and others, and the impact of the company's operations on the community and the environment. See Companies Act 2006 (UK), s 172.

¹⁷⁶ Companies Act 2006 (UK), s 173.

¹⁷⁷ Companies Act 2006 (UK), s 175.

¹⁷⁸ Companies Act 2006 (UK), s 176.

¹⁷⁹ Companies Act 2006 (UK), s 177.

¹⁸⁰ Companies Act 2006 (UK), s 174.

¹⁸¹ Companies Act 2006 (UK), ss 172, 174, 178, 414; Company Directors Disqualification Act 1986, ss 6, 8; Financial Services and Markets Act 2000, s 66; Regal (Hastings) Ltd v Gulliver [1967] 2 AC 134 (UK); Item Software (UK) Ltd v Fassihi [2004] EWCA Civ 1244 (UK); Re Sevenoaks Stationers (Retail) Ltd [1991] 164 (UK).

¹⁸² Under the Company Directors Disqualification Act 1986 (UK), the court may make a disqualification order which is civil in nature; however, breach of the order would attract criminal liability.

¹⁸³ Companies Act 2006 (UK), s 414; Fraud Act 2006 (UK) ss 2-4, 12.

¹⁸⁴ Companies Act 2006 (UK), s 847.

¹⁸⁵ Companies Act 2006 (UK), ss 171, 172, 174, 829-831, 847; Bairstow v Queens Moat Houses Plc [2001] EWCA Civ 712 (UK).

¹⁸⁶ Statutory Auditors and Third Country Auditors Regulations 2016 (UK), Pt 5; Financial Reporting Council's Audit Enforcement Procedure (UK).

Investor action

Financial statements provide critical information about a company's financial position and performance, in the context of the company's viability, the material risks it faces and how these are being addressed.

Ensuring that financial statements provide an appropriate picture of how climate-related matters (where likely to be material) affect a company's financial position and performance (or where there is no such effect, information to understand why that is the case) is not just a technical accounting issue. This information is critical for investors, better enabling asset owners to make informed decisions and fulfil their legal responsibilities.¹⁸⁷

In 2021, "A Legal Framework for Impact" was published. This legal analysis identified that investors are not only permitted, but in many cases required to consider pursuing sustainability impact goals in their investment decision making and to act accordingly where doing so can help achieve their financial goals. In practice, this means that:¹⁸⁸

- Investors must consider the systemic risks and opportunities that can affect the achievement of their clients' or beneficiaries' financial goals. This includes risks related to issues such as the biodiversity loss, inequality and climate change.
- Investors should endeavour to mitigate portfolio-level risks, including by pursuing sustainability impact goals where there are reasonable steps that they can take. These steps may include investing in businesses that produce positive sustainability impacts, engaging in active stewardship¹⁸⁹ and collaborative action,¹⁹⁰ as well as engaging with policy makers on an ongoing basis.
- Long-term investors who fail to consider how to manage sustainability outcomes or systemic risks may find they are failing to address factors that are highly relevant to their ability to protect the value of their beneficiaries' or clients' investments.¹⁹¹

Building on "A Legal Framework for Impact", a recent discussion paper explores the evolution of fiduciary duties in light of new scientific research and economic analysis. This paper finds that, in certain circumstances, fiduciary duties can impose specific obligations and require positive action.¹⁹² For instance, when calculating anticipated Return on Investment ("ROI") for individual investment decisions in new high-emission and emission intensive projects, fiduciaries should take into account negative spillover effects¹⁹³ on the fund, scheme or portfolio as a whole. To do that, they need proper information on the emissions associated with individual investments.

These findings provide for an updated approach for investors in light of the transition to net zero. This is illustrated in the five principles for climate action below.⁹⁴

**Even under current law, fiduciaries have not only a right,
but a duty to integrate climate risks into investment decisions**



AVOID NEW UNABATED FOSSIL FUEL DEVELOPMENT (PRIMARY MARKET)

Stay away from investments in new unabated (or not fully and effectively abated) high-emission projects and from giving new finance to companies engaged in such projects.



INCLUDE CLIMATE RISKS WHEN ASSESSING RETURN ON INVESTMENTS (SECONDARY MARKET)

Include stranded asset / transition risk, physical risks and litigation risk in ROI of secondary market investments associated with high emissions.



PURSUE VIABLE IMPACT INVESTMENT

Pursue climate impact investments in clean energy, and climate mitigation and adaptation, where the net ROI including positive externalities (positive spillover effects on other assets in the fund) meet investment criteria.



ACTIVE SUSTAINABILITY STEWARDSHIP (SECONDARY MARKET)

Follow an active stewardship policy, individually or jointly (sharing knowledge and resources with other investors), to encourage portfolio companies to transition to a sustainable business too.



SUSTAINABLE REGULATORY ADVOCACY

Advocate for effective worldwide climate action (i.e. targeting governments, regulators and market participants everywhere); vet trade associations to ensure that they do not engage in anti-sustainability lobbying.

Consistent application of these principles can level the playing field, reduce free riding and help to resolve the collective action problem that, in the absence of effective regulation, currently hampers effective and consistent climate action. Importantly, this does not require new regulation or legislation – the necessary principles of fiduciary duties are already in place in common law jurisdictions and comparable rules elsewhere.

Comprehensive financial and financial statement information is essential to unlocking this potential. Without a true picture of the climate-related risks an existing (or potential) investee company faces and how they are being addressed, an investor is less able to comply with their fiduciary duty of care both when allocating and managing capital – and when implementing their transition plans. A lack of accurate information may also lead to continued investment in emissions-intensive activities, diverting capital away from transition-related investments and jeopardising the ability to limit global temperature rise. This is likely to increase exposure to worsening climate impacts, with long-term implications for people, the planet and economies around the world.

For these reasons, it is particularly critical that companies consider the material financial impacts of climate-related risks and ensure that their financial statements provide the necessary transparency.

¹⁸⁷ See [Dolmans and Wildner](#).

¹⁸⁸ UN PRI, Generation Foundation and UNEP-FI, [A Legal Framework for Impact: Summary Report](#) (2024)

¹⁸⁹ The Legal Framework for Impact notes that: “Effective stewardship, with an explicit focus on delivering sustainability outcomes and impacts, can contribute to outcomes with real benefits for investors and for society. By pursuing sustainability outcomes and impacts through stewardship, investors can foster the kinds of change that are necessary to mitigate system level risks, thus protecting or even improving the long-term performance of economies and their investment portfolios”. See UN PRI, Generation Foundation and UNEP-FI, [A Legal Framework for Impact: Summary Report](#) (2024) 26.

¹⁹⁰ The Legal Framework for Impact comments that: “Collaborative engagement can enable investors to enhance their influence and legitimacy while allowing them to pool resources and reduce costs, which in turn facilitates participation by smaller and resource-constrained investors, which is advantageous in markets with highly fragmented ownership. Collaboration is particularly important in the case of stewardship that seeks to address systemic, market-wide risks. Complex market transformation is more likely to be achieved by an alliance of investors rather than a single institution, even a very large one, acting alone.” See UN PRI, Generation Foundation and UNEP-FI, [A Legal Framework for Impact: Summary Report](#) (2024) 26.

¹⁹¹ UN PRI, Generation Foundation and UNEP-FI, [A Legal Framework for Impact: Summary Report](#) (2024) 8. OR *ibid*.

¹⁹² For a detailed discussion, see [Dolmans and Wildner](#).

¹⁹³ Negative spillover effects are not limited to physical risks and litigation risks. We face a system crisis (of which physical risk is a major driver but not the only one) that will affect the economy and financial markets overall. It is a system-level risk.

¹⁹⁴ See [Dolmans and Wildner](#).

Conclusion

Transition Laws are driving climate action around the world

195 countries have signed the Paris Agreement, committing to limit global average temperature rise to well below 2°C and pursue efforts to limit it to 1.5°C above pre-industrial levels.

Many countries have already taken steps to implement the Paris Agreement by introducing Transition Laws that seek to reduce reliance on fossil fuels, electrify energy production, industry and transport, reduce emissions from agriculture and waste, build climate-resilience and adapt to the climate impacts that are already locked in. Transition Laws do this in a variety of ways, using approaches such as bans, taxes, restrictions and incentives tailored to the specific national circumstances.

Many Transition Laws also aim to capitalise on the economic opportunities generated by the transition¹⁹⁵ and the many co-benefits that can result.¹⁹⁶

The ICJ's recent finding that States have obligations to protect against climate change – including by regulating the activities of private actors – is also likely to have an impact, with some anticipating the introduction of more Transition Laws and more stringent requirements.¹⁹⁷ Like other climate-related risks, a growing wave of Transition Laws is likely to have consequences for companies.

Climate-related risks – including the impacts of Transition Laws – must be considered when preparing financial statements

Widely accepted and adopted across the world, the IFRS Accounting Standards require climate-related matters to be treated like any other material risks and circumstances.¹⁹⁸ The ever-increasing body of Transition Laws mean that professional service providers need to work together to protect their clients, including lawyers and financial service professionals.

This report seeks to assist those involved in the preparation of financial statements by examining Transition Laws and considering them from the perspective of ensuring that financial statement reporting is comprehensive. Through five Case Studies, we have drawn attention to the financial and business risks that Transition Laws can pose for businesses and the questions that affected companies must bear in mind when preparing financial statements, as well as the legal consequences of not doing so. More case studies will follow in future editions of this report. These will canvas a greater number of jurisdictions and a greater variety of legislative instruments.

For companies preparing financial statements, the first step in applying IFRS principles-based requirements is to understand how climate change – including the physical, transition and liability risks – are affecting your company and whether they could have a material financial impact now or in the future. This includes assessing relevant Transition Laws (including those that are proposed) and the business and financial risks that may result.

The next step is to ensure that the financial statements provide a true representation of how climate risk is affecting your financial position and performance today, in bringing in many forward-looking assumptions and best estimates that must be made in preparing financial statements in accordance with IFRS Accounting Standards.

As demonstrated in the five Case Studies, this will require those responsible for the financial statements to:

- **Look at the numbers.** Do any of the amounts in the financial statements (e.g. the values of assets or liabilities) need to be adjusted in light of the requirements in the Transition Laws or the company's response to them?

- **Look at the disclosures.** Is material information missing from the footnotes to the financial statements? Will those using the financial statements understand how climate change has been considered by the company? If not, are additional disclosures needed?
- **Look for consistency.** Does the information provided in the financial statements (including the numbers and the footnotes) match the narrative and other reporting on climate and Transition Laws across the company's annual report?

Comprehensive financial statements can have long-term benefits and reduce legal risk

An improved understanding of how climate change may affect a company's bottom line enables that company to prepare for the future. Pinpointing the specific risks and opportunities – and quantifying their impacts – allows a company to identify ways to mitigate those risks and navigate the changes in their operating environment. While this may require some changes (e.g. updating the company's operating model and strategy) and may involve some costs, these adjustments could lead to reputational benefits and promote the success of a company long-term.

As the impacts of climate change become more pronounced, information about how climate change is affecting companies' financial performance becomes increasingly important for investors.¹⁹⁹ The need for this information is so great that investors are taking active steps to obtain the data they need.²⁰⁰ Too often, however, the information companies report remains insufficient.²⁰¹

Inaccurate or incomplete information in the financial statements can have a range of consequences. For companies, it creates legal and reputational risk and may compromise their ability to secure investment in the future. For investors, it also has legal consequences – affecting the ability to manage risk across their portfolios, allocate capital, engage in effective stewardship, engage in policy advocacy and generally act in the best interests of their beneficiaries. For the transition, the consequences could be even more devastating. Financial statements that overstate the value of high-emissions assets and activities and/or understate the business and financial risks of climate change could, for instance, prolong investment in damaging activities, leading to continued emissions, further temperature rise and worsening impacts.

The move to ensure financial statements contain accurate and complete information about the financial impact of climate change could be termed a “quiet revolution”. However, the results will be anything but.

Comprehensive financial statements have the power to unlock investment in businesses and technologies that hasten the transition to net zero, improve access to clean energy and the benefits it can bring, create new economic and employment opportunities, improve air quality and create a more equitable society. Investing in these areas It can also help to halt temperature rise and improve resilience to those impacts that are already locked in.

¹⁹⁵ The transition creates new opportunities in a range of sectors, including energy, transport and waste, and can lead to the creation of new employment opportunities. Emerging economies, such as China and Africa, have also recognised the economic potential of the transition, seeing it as their primary economic opportunity.

¹⁹⁶ While the benefits vary depending on the focus and details of specific Transition Laws and climate policy, co-benefits can include new employment opportunities in emerging industries, cleaner air, health benefits, warmer and drier homes, and a healthier and more resilient environment.

¹⁹⁷ See, for example, the ICJ's comments on the duty to prevent significant harm to the environment and the standard of due diligence, which "entails not only the adoption of appropriate rules and measures, but also a certain level of vigilance in their enforcement and the exercise of administrative control" (see [ICJ Advisory Opinion](#) [132] – [139]). The ICJ advisory opinion is clear that States have obligations under international law to take appropriate steps to protect the climate system from greenhouse gas emissions, including by regulating private actors (see [ICJ Advisory Opinion](#) [94], [427]).

¹⁹⁸ "...[C]ompanies must consider climate-related matters in applying IFRS Accounting Standards when the effect of those matters is material in the context of the financial statements taken as a whole. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that primary users of financial statements (hereafter, investors) make on the basis of those financial statements, which provide financial information about a specific company. 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". See [Educational Materials: Effects of Climate-Related Matters on Financial Statements](#) 1.

¹⁹⁹ [Davidson](#) 2.

²⁰⁰ These steps include engagement, proxy voting, proposing resolutions and writing to audit companies. See [Davidson](#) 2.

²⁰¹ In 2024, Carbon Tracker reported that "In 2023, no company met all of the financial statement assessment criteria". See [Davidson](#) 15.

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Appendices

Appendix 1

Summary of key IFRS requirements

This appendix steps through the key requirements that are relevant to climate-related risks and opportunities, drawing on official guidance to provide more clarity on when – and how – companies should apply these requirements. Such guidance documents include:

- Educational Materials on the effects of climate-related matters on financial statements.¹
- Agenda Decision on the application of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).²
- Illustrative Examples to improve footnote disclosure relating to uncertainties in financial statements using climate-related examples.³

The topics/standards described below correspond to the list of standards that the IASB's Educational Materials identify as potentially requiring consideration of the effects of climate on the amounts included in the financial statements and accompanying footnote disclosure. Note that the list is not exhaustive; companies may identify other IFRS requirements that require consideration in relation to their own climate-related circumstances.

Where applicable, we also reference the six Illustrative Examples ("IEs") relating to requirements for disclosure of information in the footnotes. Each IE illustrates a requirement of IFRS Accounting Standards and how it would apply to a particular set of climate-related circumstances.

The IEs aim to help companies consider how three specific and three overarching disclosure requirements should be considered. These are:

- Specific: IE2 Disclosure of assumptions: specific requirements; IE4 Disclosure about credit risk, and IE5 Disclosure about decommissioning and restoration provisions.
- Overarching: IE1 Materiality judgements applying paragraph 31 of IAS 1; IE3 Disclosure of assumptions: general requirements; IE6 Disclosure of disaggregated information

In preparing their financial statements, a company will need to more broadly consider their own circumstances and application of all relevant IFRS requirements.

Presentation of financial statements (IAS 1 and IFRS 18)

IAS 1 requires companies to present their financial statements in a way that allows for an easy comparison with a company's previous reporting and with other entities' reports.⁴

The requirements contained in IAS 1 specifically relate to the overall presentation of financial statements, guidelines for their structure and minimum requirements for their content.⁵ Of particular note are the requirements that relate to:

Materiality, noting that information is considered material if "omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of these financial statements".⁶

In April 2024, the IASB issued IFRS 18⁷ to replace IAS 1. IFRS 18 becomes mandatory for 2027 calendar year-end reporting. While in many aspects IFRS 18 retains requirements of IAS 1 stated below, other aspects and new requirements are intended to improve the usefulness of information presented and disclosed in financial statements, including by introducing new requirements for more transparent and comparable information about companies' financial performance, for example on disaggregation of information, and a new specification of operating profit as a subtotal on the statement of profit or loss.

Fair presentation (IAS 1.15 – 17)

IAS 1.15 indicates that the financial statements should 'present fairly the financial position, financial performance and cash flows of an entity' and that 'Fair presentation requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the Conceptual Framework for Financial Reporting (Conceptual Framework). The application of IFRS Accounting Standards, with additional disclosure when necessary, is presumed to result in financial statements that achieve a fair presentation.

Paragraph 17 goes on to indicate three further aspects of a fair presentation:

- Selection and application of accounting policies in accordance with IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors);
- Presentation of information including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- Additional disclosures when compliance with the specific requirements in IFRS Accounting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Going concern (IAS 1.25 – 26)

When preparing financial statements, the company should assess an entity's ability to continue as a going concern (IAS 1.25 – 26). The following disclosures may apply:

- Disclosing material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern (IAS 1.25).

The Educational Materials note that this includes any relevant climate-related matters (including events or conditions). In some cases, management may conclude that no material uncertainties require disclosure. However, where that conclusion involved a significant judgement (for example, about the feasibility and effectiveness of any planned mitigation), the entity should disclose that judgement.

- To the extent the entity is not able to continue as a going concern, disclosing the basis on which the entity prepared its financial statements and the reason why the entity is not a going concern (IAS 1.25).
- Taking into account all available information regarding the future when assessing whether the going concern assumption is appropriate, using, as a minimum, a horizon of twelve months from the end of the reporting period (IAS 1.26).

Disaggregation of information (IAS 1.29 – 30)

Financial statements must be understandable and unambiguous. To improve the clarity of financial statements, entities are required to:

- Present items of a dissimilar nature or function separately, unless such items are immaterial (IAS 1.29); and
- Ensure that aggregating material items with different natures or functions does not reduce the understandability of financial statements (IAS 1.30).

IFRS 18.41 – 42 also sets out principles for aggregating and disaggregating information in financial statements. For example, the statements must disaggregate items based on divergent characteristics whenever the resulting information is material,⁸ such when the items do not share associated risk characteristics.⁹

Illustrative Example 6 – Disclosure of disaggregated information in the notes, explores the requirements for disaggregated information in the context of PP&E assets that differ significantly in GHG emissions intensity, and therefore in how long they may be used, how their residual values may be affected, and whether their value may be recoverable. The IE concludes that information would be disaggregated whenever that disaggregated information, for example the separate balance sheet carrying amounts of the respective assets, would provide material information.

Materiality and the need for additional disclosures (IAS 1.31)

In some cases, the company may need to provide additional disclosures to ensure that those using the company's financial statements understand its financial position and performance.

IAS 1.31 requires companies to consider:

- The information that the company is required to include in their financial statements, including the notes;
- Whether the information called for by a specific disclosure requirement of IFRS Accounting Standards is material. If the information is not material, that disclosure may not be required under IAS 1.31, even if the IFRS Accounting Standards list the disclosure as a minimum requirement; and
- The sufficiency of the disclosures (after complying with the specific disclosure requirements of IFRS Accounting Standards) and whether additional disclosures are needed to enable users of the financial statements to understand the impact of particular transactions, other events and conditions on the company's financial position and financial performance.

Illustrative Example 1 – Materiality judgements applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18] explores the consideration of additional disclosure to meet the requirements of paragraph 31, in the context of climate-related transition plans and policies. The consideration of this requirement for additional disclosure is addressed in two sets of circumstances, one resulting in the need for additional disclosure, and one not leading to additional disclosure.

Judgements in applying accounting policies (IAS 1.122)

Companies are required to disclose the judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. This information must be disclosed alongside the material accounting policy information or other notes, but excludes judgements that relate to estimations (see IAS 1.125).

An example provided in the Educational Materials notes that a company operating in an industry particularly affected by climate-related matters might test an asset for impairment (i.e. applying IAS 36) but recognise no impairment loss. IAS 1.122 would require that company to disclose any (sufficiently significant) judgements that management has made in arriving at that conclusion (for example, in identifying the asset's cash-generating unit ("**CGU**").

Assumptions and other major sources of estimation uncertainty (IAS 1.125 – 129)

The carrying amounts of many assets and liabilities are not measured at fair value based on a quoted price in an active market. In these cases, companies must determine appropriate carrying amounts, often by estimating the effects of uncertain future events on those assets and liabilities at the end of each reporting period (e.g., uncertainties as to obsolescence of certain assets, or provisions subject to the future outcome of litigation in progress). The complexity of these estimations will have a bearing on both:

- The number of assumptions and variables that may affect the future resolution of the uncertainties involved; and
- The potential for a consequential material adjustment to the carrying amounts of assets and liabilities.

Paragraphs 125-129 address the specific situation where there is a significant risk that the assumption will result in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. In this case, the assumptions that a company makes about the future – and other major sources of estimation uncertainty at the end of the reporting period – must be disclosed.

The company must present that disclosure in a manner that helps investors understand the judgements that management makes about the future. Types of disclosures might include:¹⁰

- The nature of the assumptions; and
- The sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation – and the reasons for this sensitivity.

In the context of climate change, IAS 1.125 – 129 may require disclosure of assumptions about climate-related matters, particularly where such matters create uncertainties that affect assumptions used to develop estimates (for example, estimates of future cash flows when testing an asset for impairment, or the best estimate of expenditure required to settle a decommissioning obligation).

Illustrative Example 3 – Disclosure of assumptions: general requirements considers these requirements in the context of climate-related assumptions made in relation to impairment testing of some non-current assets. The company concludes there is a significant risk of material adjustment in the next financial year and therefore determines the nature and extent of information to disclose regarding the assumptions and their sensitivity.

Inventories (IAS 2¹¹)

IAS 2 provides guidance on the accounting treatment for inventories – that is, assets that are:

- Held for sale in the ordinary course of business;
- In the process of production for such sale; or in the form of materials or supplies to be consumed in the production process or in the rendering of services.¹²

A primary issue in accounting for inventories is the proportion of the cost to be recognised as an asset and carried forward until the related revenues are recognised. Accordingly, IAS 2 provides guidance on the determination of cost (including cost formulas used to assign costs to inventories), and its subsequent recognition as an expense.¹³

For the measurement of inventories, IAS 2 sets out requirements relating to “net realisable value” (i.e., the estimated selling price of inventories in the ordinary course of business less the estimated cost of completion and the estimated cost necessary to make the sale¹⁴). Specifically, IAS 2 provides that, if the net realisable value of inventories is lower than their cost, inventories should be measured at net realisable value.¹⁵ This may occur, for example, where inventories are damaged, wholly or partially obsolete, or if their selling prices have declined.¹⁶ Usually, inventories are written down to net realisable value item by item, but, in some circumstances, it may be appropriate to group similar or related items.¹⁷ Estimates of net realisable value based on the most reliable evidence currently available of the amount that the company expects the inventories to realise.¹⁸

Climate-related matters may cause a company’s inventories to become obsolete, their selling prices to decline or their costs of completion to increase.¹⁹

Income taxes (IAS 12)

IAS 12 sets out how to account for income taxes, including both current and deferred tax liabilities and assets.²⁰ “Deferred tax assets” are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences,²¹ the carry forward of unused tax losses unused tax credits. IAS 12 generally requires companies to recognise deferred tax assets, but this is only possible to the extent that it is probable that future taxable profit will be available against which those amounts can be utilised.²²

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 previously recognised.

Property, plant and equipment (IAS 16²³) and intangible assets (IAS 38²⁴)

IAS 16 establishes principles for recognising PP&E as assets, measuring their carrying amounts and recognising and measuring their related depreciation charges.²⁵ IAS 38 provides the criteria for recognising and measuring intangible assets (i.e. non-physical assets such as software, patents, trademarks, copyrights and customer lists).²⁶ Both IAS 16 and IAS 38 contain disclosure requirements.

IAS 16 and IAS 38 specify requirements for the recognition of costs as assets (as an item of PP&E or as an intangible asset). IAS 38 also requires disclosure of the amount of research and development expenditure recognised as an expense during a reporting period.

Climate-related matters may prompt expenditure to change or adapt business activities and operations, including research and development.²⁷

IAS 16 and IAS 38 also require companies to:

- Review the estimated residual values and expected useful lives of assets at least annually;
- Reflect changes in the amount of depreciation or amortisation recognised in the current and subsequent periods; and
- Disclose the expected useful lives for each class of asset and the nature and amount of any change in estimated residual values or expected useful lives.

Climate-related matters may affect the estimated residual value and expected remaining useful lives of assets, for example due to obsolescence, legal restrictions or inaccessibility of the assets.²⁸

Impairment of assets (IAS 36)

IAS 36 ensures that assets are not carried at more than they are worth (i.e. their recoverable amount²⁹). If the carrying amount exceeds the recoverable amount, the asset is described as impaired, and IAS 36 requires the entity to recognise an impairment loss.³⁰

IAS 36 sets out requirements for estimating the applicable recoverable amounts, which are then used to assess impairment of goodwill and impairment of assets – such as PP&E, right-of-use assets and intangible assets.³¹ A company should assess whether there is any indication of impairment at the end of each reporting period.³² Indications that an asset is impaired may include:

- Significant changes with an adverse effect on the entity in the technological, market, economic or legal environment in which it operates, or in the market to which an asset is dedicated;
- Evidence of obsolescence or physical damage of an asset; or
- Significant changes with an adverse effect on the entity in the extent to which, or manner in which, the entity uses or expects to use an asset.³³

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 gas emissions could indicate that a manufacturing plant may be impaired, requiring the entity to test the asset for impairment. Goodwill and

other intangibles that are not subject to amortisation must be tested at least annually for impairment.

When estimating the recoverable amount using value in use, IAS 36 requires a company to estimate the future cash flows that it expects to derive from the asset, as well as possible variations in the amount or timing of those future cash flows.³⁴ Cash flow projections must be based on reasonable and supportable assumptions that represent the management's best estimate of the range of future economic conditions giving greater weight to external evidence.³⁵ This is typically approached using an explicit forecast period for example for the next 3-5 years (e.g. future revenue, costs, etc.) and growth assumptions thereafter (i.e. over the life of the asset), but some companies use a longer forecast period.

As the Educational Materials observe, these provisions require companies to consider whether climate-related matters affect those reasonable and supportable assumptions underpinning cash flow projections.

IAS 36 requires disclosure of certain information where an impairment loss has been recognised during the period, including the events and circumstances that led to it.³⁶ In specified circumstances, entities must also disclose key assumptions used to estimate the asset's recoverable amount, as well as information related to reasonably possible changes in those assumptions. For example, as the Educational Materials point out, the introduction of emission reduction legislation that increases manufacturing costs, may require disclosure.

Provisions, contingent liabilities and contingent assets (IAS 37) and levies (IFRIC 21)

A provision should be recognised when all three of the following criteria are met (IAS 37.14):

- A present obligation, as a result of a past event.
- Probable outflow of economic benefits.
- Reliable estimate.

Provisions are measured using the best estimate of the expenditure needed to settle the obligation (IAS 37.36 – 52), discounted where time value is significant. Provisions should be reviewed at each reporting date and adjusted to reflect the current best estimates (IAS 37.59).

IAS 37 requires companies to disclose:

- A brief description of the nature of any provision or contingent liability and, where practicable, an estimate of its financial effect and an indication of any uncertainties relating to the outflow of resources for settling the obligation (e.g. the amount or timing); and
- The major assumptions that the company has made about future events.

The company may need to include an explanation of how climate-related risks have been factored into the best estimate of the provision.³⁷

As the Educational Materials point out, climate-related matters may affect the recognition, measurement and disclosure of liabilities in financial statements in various ways. These matters may include:

- 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); and/or
- Restructuring or redesigning products or services to achieve climate-related targets.³⁸

The Interpretations Committee Agenda Decision also indicates how IAS 37 may apply to a company commitment to reduce its emissions and how to consider whether a provision should be recognised.³⁹

Illustrative Example 5 – Disclosure about decommissioning and restoration provisions explores the application of disclosure requirements under IAS 37 in the context of a quantitatively immaterial provision for plant decommissioning and site restoration obligations for some of the company's facilities. In the illustration, the company concludes that information on the obligations, their nature, expected timing, uncertainties and major assumptions made concerning future events, is material information and should therefore be disclosed.

Financial instruments: Disclosures (IFRS 7)

IFRS 7 requires companies to disclose:

- Information about financial instruments, including their significance for the company's financial position and performance; and
- The nature and extent of the risks that arise from their financial instruments (including credit risk, liquidity risk and market risk) and how these risks are managed.⁴⁰

Climate-related matters may expose a company to various risks in relation to financial instruments. For example, lenders may be required to provide information about the effect of climate-related matters on the measurement of expected credit losses or on concentrations of credit risk. Similarly, those holding equity investments may need to provide information about investments by industry or sector, identifying sectors exposed to climate-related risks, when disclosing concentrations of market risk.

Illustrative Example 4 – Disclosures about credit risk explore such disclosures in the context of loans to agricultural customers and to corporate real estate customers, both of which have significant credit risk implications stemming from the customers' climate risk exposure. The example illustrates how the lender considers the disclosure of information on the climate-related risk on its exposure to credit risk.

Financial instruments (IFRS 9)

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items. Its objective is to ensure that financial statements provide users with relevant and useful information that enables them to assess the amounts, timing and uncertainty of an entity's future cash flows.⁴¹

Climate-related matters can be relevant in a range of ways. For instance, loan contracts that include terms linking contractual cash flows to a company's achievement of climate-related targets are one example of how climate-related matters could affect the accounting treatment of financial instruments.⁴² A company's climate-related targets may affect how the loan is classified and measured, as the lender would need to consider those terms in assessing whether the contractual obligations have been met. For the borrower, those targets may affect whether any existing embedded derivatives need to be separated from the host contract.⁴³

IFRS 9 also contains requirements in relation to the impairment of financial assets, including the recognition of expected credit losses.⁴⁴ In recognising and measuring expected credit losses, IFRS 9 requires the use of all reasonable and supportable information that that can be accessed without undue cost or effort.⁴⁵

Similarly, climate-related matters may be relevant here. For example, climate-related matters may affect a lender's exposure to credit losses. Physical impacts (e.g. wildfires, floods) or policy and regulatory changes all have the ability to negatively affect a borrower's ability to meet their debt obligations to the lender. The impacts or changes may also cause assets to become inaccessible or uninsurable, affecting the value of collateral for lenders. As such, climate-related matters could affect the range of potential future economic scenarios, the lender's assessment of significant increases in credit risk, whether a financial asset is credit impaired and/or the measurement of expected credit losses.

Fair value measurement (IFRS 13)

IFRS 13 sets out a framework for measuring fair value⁴⁶ and requires companies to disclose the key assumptions used where assets are recognised at fair value.⁴⁷ When measuring the fair value of an asset or a liability, IFRS 13 requires entities to use the assumptions that market participants would use when pricing the asset or liability.⁴⁸ These may include the participants' views of potential climate-related legislation which could in turn affect their assessment of the fair value of a given asset or liability.⁴⁹

Climate-related matters may affect these disclosures. For instance, when the fair value of an asset is affected by climate-related risks – including new or proposed laws and regulations to manage such risks – the company may need to disclose how those risks have been factored into its calculations.⁵⁰ Companies in sectors particularly affected by climate-related risks would need to consider disclosing their assumptions regarding such risks, even if they cannot quantify any effects on their financial statements.⁵¹

Insurance contracts (IFRS 17⁵²)

IFRS 17 sets out how insurance companies should account for – and report on – their insurance contracts, specifically establishing principles for recognising, measuring, presenting and disclosing insurance contracts.⁵³

When measuring insurance contracts, IFRS 17 requires entities to include estimates of all relevant future cash flows. These estimates should incorporate all reasonable and supportable information available without undue cost or effort as well as reflect current assumptions about the future.⁵⁴

Climate-related matters may increase the frequency or magnitude of insured events (e.g. business interruption, property damage, illness and death) or may accelerate the timing of their occurrence. As a result, climate-related matters may affect the assumptions used to measure insurance contract liabilities applying IFRS 17.⁵⁵

In addition, IFRS 17:

- Imposes certain disclosure requirements so that users can best assess the effect that contracts within the scope of IFRS 17 have on the entity's financial position, financial performance and cash flows.⁵⁶
- Requires companies to disclose the significant judgements made in applying IFRS 17, as well as changes to those judgements.⁵⁷
- Requires disclosure of key risks that arise from insurance contracts (credit, liquidity and market risks); concentrations of risks; how an entity manages risks; and sensitivity analysis showing the effect of changes in risk variables.⁵⁸

Climate-related matters may impact the disclosures required to comply with these requirements.

- ¹ See Educational Materials: Effects of Climate-Related Matters on Financial Statements. This builds on existing guidance on material information to be disclosed in the financial statements (see Materiality Practice Statement).
- ² The agenda decision of the IASB's Interpretations Committee focused on how to apply IAS 37 requirements on the recognition of provisions in the context of a company's commitment to reduce their greenhouse gas emissions. See IASB Interpretations Committee, Agenda Decision: Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets) (April 2024).
- ³ The IASB is expected to publish a final set of Illustrative Examples in late 2025, to help companies, auditors, and regulators apply the existing requirements for disclosure of climate in the financial statements. In July 2025, a near-final version was published to support timely and informed application. See Near-Final Draft of Illustrative Examples. While the Illustrative Examples will be non-mandatory, the requirements of the standards they illustrate are mandatory. It is therefore expected that the IEs will be used by companies, auditors and regulators in making improvements to climate-related disclosure in the financial statements.
- ⁴ IAS 1.1.
- ⁵ See International Accounting Standards Board, IAS 1 Presentation of Financial Statements (IFRS Foundation, 2024).
- ⁶ IAS 1.7.
- ⁷ See International Accounting Standards Board, IFRS 18 Presentation and Disclosure in Financial Statements: Supporting Material (IFRS Foundation, 2024).
- ⁸ See Illustrative Example 8.4, Near-Final Draft of Illustrative Examples.
- ⁹ IFRS 18, B110.
- ¹⁰ IAS 1.129.
- ¹¹ See IAS 2.28 – 33.
- ¹² IAS 2.6.
- ¹³ IAS 2.1. See also International Accounting Standards Board, IAS 2 Inventories (IFRS Foundation, 2024).
- ¹⁴ IAS 2.6.
- ¹⁵ IAS 2.9.
- ¹⁶ IAS 2.28.
- ¹⁷ IAS 2.29.
- ¹⁸ IAS 2.30.
- ¹⁹ Educational Materials: Effects of Climate-Related Matters on Financial Statements 3.
- ²⁰ IAS 12.1. See also International Accounting Standards Board, IAS 12 Income Taxes (IFRS Foundation, 2024).
- ²¹ Deductible temporary differences are the differences between the carrying amount of an asset or liability in the statement of financial position and its tax base that will result in amounts that are deductible in determining taxable profit of future periods when the carrying amount of the asset or liability is recovered or settled.
- ²² IAS 2.24, 27 – 31, 34, 56.
- ²³ See IAS 16.7, 51, 73, 76.
- ²⁴ See IAS 38.9 – 64, 102, 104, 118, 121, 126.
- ²⁵ See International Accounting Standards Board, IAS 16 Property, Plant and Equipment (IFRS Foundation, 2024).
- ²⁶ See International Accounting Standards Board, IAS 38 Intangible Assets (IFRS Foundation, 2025).
- ²⁷ Educational Materials: Effects of Climate-Related Matters on Financial Statements 3.
- ²⁸ Educational Materials: Effects of Climate-Related Matters on Financial Statements 3.
- ²⁹ The "recoverable amount" is the amount to be recovered through the sale of an asset (fair value less costs of disposal) or its use (present value of the future cash flows).
- ³⁰ IAS 36.1. See also International Accounting Standards Board, IAS 36 Impairment of Assets (IFRS Foundation, 2024).
- ³¹ IAS 36.8 – 17.
- ³² IAS 36.9.
- ³³ IAS 36.12.
- ³⁴ IAS 36.30.

³⁵ IAS 36.33.

³⁶ IAS 36.130.

³⁷ Nick Anderson, IFRS® Standards and Climate-Related Disclosures (IFRS Foundation, November 2019) 6; Companies also must disclose sufficient information in the notes to enable users to understand the nature, timing and amount of contingent liabilities and contingent assets. IAS 37.1. See also International Accounting Standards Board, IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IFRS Foundation, 2025).

³⁸ Educational Materials: Effects of Climate-Related Matters on Financial Statements 4.

³⁹ See Agenda Decision: Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets) 1-3.

⁴⁰ IFRS 7.1. See also International Accounting Standards Board, IFRS 7 Financial Instruments: Disclosures (IFRS Foundation, 2025).

⁴¹ IFRS 9.1. See also International Accounting Standards Board, IFRS 9 Financial Instruments (IFRS Foundation, 2025).

⁴² Educational Materials: Effects of Climate-Related Matters on Financial Statements 5.

⁴³ See IFRS 9.4.3.

⁴⁴ IFRS 9. 5.5.

⁴⁵ IFRS 9. 5.5.9.

⁴⁶ “Fair value” is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

⁴⁷ Anderson 5.

⁴⁸ IFRS 13.22.

⁴⁹ Educational Materials: Effects of Climate-Related Matters on Financial Statements 5.

⁵⁰ Anderson 5.

⁵¹ Anderson 5.

⁵² See: IFRS 17.33, 40, 117, 121 – 128, Appendix A.

⁵³ IFRS 17.1. See also International Accounting Standards Board, IFRS 17 Insurance Contracts (IFRS Foundation, 2025).

⁵⁴ IFRS 17.33.

⁵⁵ Educational Materials: Effects of Climate-Related Matters on Financial Statements 5.

⁵⁶ IFRS 17.93.

⁵⁷ IFRS 17.117.

⁵⁸ IFRS 17.121 – 132.

Appendix 2

Use of IFRS Accounting Standards by jurisdiction

The following information is taken from the official [IFRS website](#), which provides detailed information about who uses IFRS Accounting Standards. For each jurisdiction, users can access an overview and a profile that provides details such as the relevant jurisdictional authority, the extent of IFRS application and more.

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
AFGHANISTAN	✓			
ALBANIA	✓			
ANGOLA	✓			
ANGUILLA	✓		✓	
ANTIGUA AND BARBUDA	✓		✓	
ARGENTINA	✓		✓	
ARMENIA	✓		✓	
AUSTRALIA	✓		✓	
AUSTRIA	✓		✓	
AZERBAIJAN	✓		✓	
BAHAMAS	✓		✓	
BAHRAIN	✓		✓	
BARBADOS	✓		✓	
BANGLADESH	✓		✓	
BELARUS	✓		✓	

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
BELGIUM	✓		✓	
BELIZE	✓			
BENIN	✓		✓	
BERMUDA		✓	✓	
BHUTAN	✓		✓	
BOLIVIA				✓
BOSNIA AND HERZEGOVINA	✓			
BOTSWANA	✓		✓	
BRAZIL	✓		✓	
BRUNEI DARUSSALAM	✓			
BULGARIA	✓		✓	
BURKINA FASO	✓		✓	
CAMBODIA	✓		✓	
CAMEROON	✓		✓	
CANADA	✓		✓	
CAYMAN ISLANDS		✓	✓	
CENTRAL AFRICAN REPUBLIC	✓		✓	
CHAD	✓		✓	
CHILE	✓		✓	

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
CHINA				✓
COLOMBIA	✓		✓	
COMOROS	✓		✓	
COSTA RICA	✓		✓	
CÔTE D'IVOIRE	✓		✓	
CROATIA	✓		✓	
CYPRUS	✓		✓	
CZECHIA	✓		✓	
DEMOCRATIC REPUBLIC OF CONGO	✓		✓	
DENMARK	✓		✓	
DOMINICA	✓		✓	
DOMINICAN REPUBLIC	✓		✓	
ECUADOR	✓		✓	
EGYPT			✓	✓
EL SALVADOR	✓		✓	
EQUATORIAL GUINEA	✓		✓	
ESTONIA	✓		✓	
ESWATINI	✓		✓	

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
ETHIOPIA	✓		✓	
EUROPEAN UNION	✓		✓	
FIJI	✓		✓	
FINLAND	✓		✓	
FRANCE	✓		✓	
GABON	✓		✓	
GAMBIA	✓			
GEORGIA	✓		✓	
GHANA	✓		✓	
GREECE	✓		✓	
GRENADA	✓		✓	
GUATEMALA		✓	✓	
GUINEA	✓		✓	
GUINEA-BISSAU	✓		✓	
GUYANA	✓		✓	
HONDURAS				✓
HONG KONG SAR	✓		✓	
HUNGARY	✓		✓	
ICELAND	✓		✓	
INDIA				✓

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
INDONESIA				
IRAN	✓			
IRAQ		✓	✓	
IRELAND	✓		✓	
ISRAEL	✓		✓	
ITALY	✓		✓	
JAMAICA	✓		✓	
JAPAN		✓	✓	
JORDAN	✓		✓	
KAZAKHSTAN	✓		✓	
KENYA	✓		✓	
KOSOVO	✓			
KUWAIT	✓			
KYRGYSTAN	✓			
LATVIA	✓		✓	
LESOTHO	✓			
LIBERIA	✓			
LIECHTENSTEIN	✓		✓	
LITHUANIA	✓			
LUXEMBOURG	✓		✓	
MACAO SAR				✓

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
MACEDONIA	✓		✓	
MADAGASCAR		✓		
MALAWI	✓		✓	
MALAYSIA	✓		✓	
MALDIVES	✓		✓	
MALI	✓		✓	
MALTA	✓		✓	
MAURITIUS	✓		✓	
MEXICO	✓		✓	
MOLDOVA	✓		✓	
MONGOLIA	✓		✓	
MONTENEGRO	✓		✓	
MONTSERRAT	✓		✓	
MOROCCO		✓	✓	
MYANMAR	✓			
NAMIBIA	✓		✓	
NEPAL	✓		✓	
NETHERLANDS	✓		✓	
NEW ZEALAND	✓		✓	
NICARAGUA		✓	✓	

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
NIGER	✓		✓	
NIGERIA	✓		✓	
NORWAY	✓		✓	
OMAN	✓			
PAKISTAN	✓		✓	
PALESTINE	✓		✓	
PANAMA	✓		✓	
PAPUA NEW GUINEA	✓		✓	
PARAGUAY		✓		
PERU	✓		✓	
PHILIPPINES	✓		✓	
POLAND	✓		✓	
PORTUGAL	✓		✓	
QATAR	✓			
REPUBLIC OF THE CONGO	✓		✓	
ROMANIA	✓		✓	
RUSSIA	✓		✓	
RWANDA	✓		✓	
SAUDI ARABIA	✓			
SENEGAL	✓		✓	

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
SERBIA	✓		✓	
SIERRA LEONE	✓		✓	
SINGAPORE	✓		✓	
SLOVAKIA	✓		✓	
SOLVENIA	✓		✓	
SOUTH AFRICA	✓		✓	
SOUTH KOREA	✓		✓	
SPAIN	✓		✓	
SRI LANKA	✓		✓	
ST KITTS AND NEVIS	✓		✓	
ST LUCIA	✓		✓	
ST VINCENT AND THE GRENADINES	✓		✓	
SURINAME		✓	✓	
SWEDEN	✓		✓	
SWITZERLAND		✓	✓	
SYRIA	✓			
CHINESE TAIPEI	✓		✓	
TANZANIA	✓		✓	
THAILAND	✓		✓	
TIMOR-LESTE		✓		

Jurisdiction	Compliance required for domestic, publicly listed companies	Compliance permitted, but not required for domestic, publicly listed companies	Compliance required or permitted for listings by foreign companies	National or regional system in place
TOGO	✓		✓	
TRINIDAD AND TOBAGO	✓		✓	
TÜRKIYE	✓		✓	
UGANDA	✓		✓	
UKRAINE	✓		✓	
UNITED ARAB EMIRATES	✓		✓	
UNITED KINGDOM	✓		✓	
UNITED STATES			✓	✓
URUGUAY	✓		✓	
UZBEKISTAN				
VENEZUELA	✓		✓	
VIET NAM				✓
YEMEN	✓			
ZAMBIA	✓		✓	
ZIMBABWE	✓		✓	

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