EFFECTS OF CLIMATE ON FINANCIAL STATEMENTS

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FOREWORDS

This Memorandum contains our comments in respect of a significant understanding of the impact of climate change on companies' business operations, cash flows, financial position, and performance is becoming increasingly important to investors and other stakeholders following International Financial Reporting Standards (IFRS). Despite the lack of explicit references to climate-related matters in IFRS Accounting Standards, companies are required to consider these factors when their impact is significant in the context of the overall financial statements. Omitting or misrepresenting climate-related information could influence investors' decisions, making it essential for companies to disclose how they have factored these matters into their financial statements.

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Lahore.

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IAS 1 PRESENTATION OF FINANCIAL STATEMENTS Overall, IAS 1 sets out the overall requirements for the presentation of financial statements, ensuring comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. It provides guidelines on how information should be disclosed in the statements to ensure transparency and clarity for users of the financial statements.	*Disclosure of Estimation Uncertainty and Significant Judgements:* IAS 1 requires companies to disclose significant uncertainties and judgments in their financial statements. When assumptions about the future pose a risk of materially adjusting asset and liability values within the next year, these must be disclosed. This includes assumptions related to climate-related matters impacting estimates like impairment testing or decommissioning obligations. *Disclosure of Significant Judgements Apart from Estimations:* Additionally, companies must disclose significant judgements (excluding estimations) that have a profound impact on recognized amounts. For instance, if a company in a climate-affected sector decides against recognizing impairment despite conducting tests, they must disclose significant management judgements, such as those affecting identification of cash-generating units. *Assessment of Going Concern Basis:* IAS 1 also mandates that management assess whether the company can continue as a going concern. If climate-related factors create material uncertainties about the company's ability to continue, these must be disclosed. Even if management concludes there are no material uncertainties regarding the going concern assumption, disclosures about the significant judgements made in reaching that conclusion (like the effectiveness of planned mitigations) are required.	1. Paragraphs 25-26**:** These paragraphs typically cover the structure and content of a complete set of financial statements. They outline what constitutes a comprehensive set of financial statements and what each statement (such as the balance sheet, income statement, cash flow statement, and statement of changes in equity) should include. **2.** Paragraphs 122-124**:** These paragraphs usually focus on the requirements for the presentation of other comprehensive income (OCI). OCI includes items of income and expense (including reclassification adjustments) that are not recognized in profit or loss as required or permitted by other IFRS (International Financial Reporting Standards). These paragraphs often detail how OCI should be presented in the financial statements and what disclosures are necessary. **3**. Paragraphs 125-133**:** This section typically addresses the requirements for the presentation of financial statements, including the structure, content, and disclosures. It covers aspects such as the format of financial statements, the order of presentation of items, minimum line items to be presented on the face of the financial statements, and disclosures about accounting policies, among other things.

IAS 2 (INTERNATIONAL ACCOUNTING STANDARD 2) Deals specifically with the accounting treatment for inventories. Here's an overview of the paragraphs mentioned:	***Under IAS 2, if climate-related matters lead*** to scenarios where a company's inventories could become obsolete, experience declining selling prices, or face increased costs of completion, the standard mandates that these inventories be written down to their net realizable value if their cost is no longer recoverable. Estimates of net realizable value should be based on the most reliable evidence available at the time of estimation, indicating the expected amount the inventories are likely to realize. This requirement ensures that the financial statements accurately reflect the impact of climate-related risks on inventory valuations, aligning with the principle of prudence and ensuring transparency for stakeholders. ***IAS 2 aims to ensure that inventories are measured*** at a prudent and consistent basis across different entities, facilitating comparability of financial statements. This standard is crucial for entities involved in manufacturing, trading, or other activities that involve holding inventories.	1.Paragraphs 28-33**:** These paragraphs typically cover the measurement and valuation of inventories. Here are the key points usually addressed in this section: • Measurement Basis**:** IAS 2 requires inventories to be measured at the lower of cost and net realizable value (NRV). Cost includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition. • Cost Formulas**:** The standard allows entities to use various cost formulas to determine the cost of inventories, such as specific identification, first-in-first-out (FIFO), or weighted average cost. The choice of formula should reflect the flow of goods in the entity's specific circumstances. • Net Realizable Value: NRV is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. If the NRV of inventories is lower than their cost, the inventories should be written down to NRV, and the loss should be recognized as an expense in the period the write-down occurs. • Subsequent Recognition As An Expense**:** The standard also outlines when inventories should be recognized as an expense, typically when the related goods are sold or consumed. • Disclosure Requirements**:** IAS 2 requires disclosures about the accounting policies adopted for inventories, the carrying amount of inventories, and the amount of any write-down to NRV recognized as an expense.

IAS 12 (INTERNATIONAL ACCOUNTING STANDARD 12) (International Accounting Standard 12) Deals with the accounting treatment of income taxes. Here's an overview of the paragraphs mentioned: IAS 12 aims to ensure that the accounting treatment of income taxes is consistent and provides relevant information to users of financial statements about the impact of income taxes on an entity's financial performance and financial position. It addresses both current and deferred taxes, recognizing the differences between accounting profit and taxable profit, and their timing differences.	*Impact of Climate-Related Matters on Recognition of Deferred Tax Assets:* Climate-related matters can influence a company's estimation of future taxable profits, potentially affecting the recognition of deferred tax assets under IAS 12. *IAS 12 Requirements for Deferred Tax Assets:* According to IAS 12, companies recognize deferred tax assets for deductible temporary differences, unused tax losses, and credits to the extent that it is probable future taxable profits will be available against which these amounts can be utilized. *Potential Effects Due to Climate-Related Factors:* Climate-related factors may alter a company's forecast of future taxable profits, possibly resulting in the inability to recognize deferred tax assets or necessitating the derecognition of previously recognized deferred tax assets. This requirement ensures that companies transparently reflect how climate-related uncertainties impact their ability to recognize deferred tax assets, aligning with the principles of prudence and providing clarity to stakeholders.	1. Paragraph 24**:** This paragraph typically addresses the recognition of deferred tax assets. It outlines the conditions under which deferred tax assets can be recognized, which generally require the existence of future taxable profits against which the deferred tax asset can be utilized. 2. Paragraphs 27-31**:** These paragraphs usually cover the measurement of deferred tax assets and liabilities. Key aspects include: • Temporary Differences**:** Recognition and measurement of deferred tax assets and liabilities arise from temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax bases. • Measurement Basis**:** Deferred tax assets and liabilities are measured using the tax rates and laws that are expected to apply in the periods when the asset is realized, or the liability is settled. • Recognition Criteria**:** Deferred tax assets and liabilities are recognized in the financial statements if it is probable that future taxable profits will be available against which temporary differences can be utilized. 3. Paragraph 34**:** This paragraph typically addresses the recognition of current tax liabilities and assets. It outlines when current tax liabilities and assets should be recognized in financial statements, usually based on taxable profit for the period as determined by tax authorities. 4. Paragraph 56: This paragraph usually covers the presentation of income tax expenses in the income statement. It outlines how income tax expense should be presented, often requiring separation between tax relating to continuing operations and tax relating to discontinued operations or other comprehensive income.

IAS 16 (INTERNATIONAL ACCOUNTING STANDARD 16) DEALS WITH PROPERTY, PLANT, AND EQUIPMENT, WHILE IAS 38 (International Accounting Standard 38) deals with Intangible Assets. Here's an overview of the paragraphs mentioned for each standard: Both IAS 16 and IAS 38 aim to ensure that property, plant, equipment, and intangible assets are accounted for appropriately, reflecting their economic substance and providing users of financial statements with relevant and reliable information about an entity's assets, their recognition, measurement, presentation, and disclosure.	*Impact of Climate-Related Matters on Expenditure and Asset Recognition:* Climate-related factors can necessitate changes or adaptations in business activities and operations, including expenditures related to research and development. *IAS 16 and IAS 38 Requirements for Asset Recognition:* IAS 16 and IAS 38 outline requirements for recognizing costs as assets, either as property, plant, and equipment (IAS 16) or as intangible assets (IAS 38). Additionally, IAS 38 mandates disclosure of research and development expenditure recognized as an expense during a reporting period. *Review of Residual Values and Useful Lives:* Companies must annually review estimated residual values and expected useful lives of assets per IAS 16 and IAS 38. Changes resulting from climate-related matters, such as asset obsolescence, legal constraints, or asset inaccessibility, must be reflected in depreciation or amortization amounts for the current and subsequent periods. *Disclosure Requirements:* IAS 16 and IAS 38 also require companies to disclose the expected useful lives for each asset class and details regarding any changes in estimated residual values or expected useful lives, including those influenced by climate-related factors. These standards ensure transparency in financial reporting regarding the impact of climate-related considerations on asset recognition, depreciation, and amortization, thereby aiding stakeholders in understanding the financial implications of such matters.	**1.** Paragraph 7**:** This paragraph typically addresses the definition of property, plant, and equipment. It outlines the criteria that an item must meet to be classified as property, plant, and equipment rather than as inventory or intangible assets. 2. Paragraph 51**:** This paragraph usually covers the initial measurement of property, plant, and equipment. It discusses how assets should be initially recognized at cost, including all directly attributable costs necessary to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. 3. Paragraph 73: This paragraph typically addresses the subsequent measurement of property, plant, and equipment. It discusses the choice between the cost model (where assets are carried at cost less accumulated depreciation and any accumulated impairment losses) and the revaluation model (where assets are carried at revalued amounts less accumulated depreciation and any accumulated impairment losses). 4. Paragraph 76**:** This paragraph usually covers the derecognition of property, plant, and equipment. It outlines the circumstances under which an asset should be derecognized from the balance sheet, including disposal or retirement, and how any resulting gain or loss should be recognized in the income statement.

IAS 38 - INTANGIBLE ASSETS		1. Paragraphs 9-64: These paragraphs typically cover various aspects of intangible assets, including: • Recognition Criteria: When an intangible asset should be recognized in the financial statements based on its probable future economic benefits. • Measurement Basis: Initial measurement of intangible assets at cost, and subsequent measurement using either the cost model (less accumulated amortization and impairment losses) or the revaluation model (if fair value can be reliably determined). • Amortization: Systematic allocation of the asset's cost over its useful life, reflecting the pattern in which the asset's economic benefits are consumed or transferred to the entity. • Impairment: Recognition and measurement of impairment losses if the carrying amount of an intangible asset exceeds its recoverable amount. 2. Paragraph 102: This paragraph typically addresses the disclosure requirements for intangible assets. It outlines what information entities should disclose in their financial statements to provide users with a better understanding of the nature and financial effects of intangible assets held by the entity. 3. Paragraph 104: This paragraph usually covers the revaluation model for intangible assets. It discusses the conditions under which an entity can choose to measure intangible assets using the revaluation model and the subsequent treatment of revaluation surpluses and deficits. 4. Paragraphs 118, 121, 126: These paragraphs typically provide additional guidance on specific topics related to intangible assets, such as research and development costs (IAS 38.118), the treatment of computer software (IAS 38.121), and the treatment of intangible assets acquired in a business combination (IAS 38.126).

IAS 36 (INTERNATIONAL ACCOUNTING STANDARD 36) DEALS WITH THE IMPAIRMENT OF ASSETS. IAS 36 aims to ensure that assets are carried at no more than their recoverable amount, reflecting the economic benefits they are expected to generate. It requires entities to assess regularly whether there are any indications that assets may be impaired and to recognize impairment losses and reversals in a timely manner. The standard also emphasizes the importance of providing transparent and relevant information in the financial statements regarding impaired assets and the effects of impairment testing.	*Impairment Assessment under IAS 36:* IAS 36 specifies requirements for companies to estimate recoverable amounts to assess impairment of assets such as goodwill, property, plant and equipment, right-of-use assets, and intangible assets. Companies must assess whether there are indications of impairment at each reporting period. *Impact of Climate-Related Matters on Impairment Indications:* Climate-related factors can trigger indications that an asset (or a group of assets) is impaired. For instance, a decrease in demand for products emitting greenhouse gases may suggest impairment of a manufacturing plant, necessitating impairment testing. *Estimating Recoverable Amounts:* When estimating recoverable amounts using the value in use method, IAS 36 requires companies to reflect future cash flows expected from an asset, considering potential variations in their amount or timing. Companies must base cash flow projections on reasonable and supportable assumptions, which include evaluating whether climate-related matters affect these assumptions. *Exclusion of Restructuring Benefits:* IAS 36 specifies that future cash flows should be estimated for an asset in its current condition, excluding cash flows expected from future restructurings or enhancements to the asset's performance. *Disclosure Requirements:* IAS 36 mandates disclosure of events and circumstances leading to recognition of impairment losses, such as the enactment of emission-reduction legislation increasing manufacturing costs. Companies must also disclose key assumptions used to estimate the asset's recoverable amount and provide information on reasonably possible changes in these assumptions under specified circumstances. These requirements ensure transparency in financial reporting regarding the impact of climate-related factors on asset impairments, aiding stakeholders in understanding the financial implications of such matters.	**1.** Paragraphs 9-14**:** These paragraphs typically cover the scope of IAS 36 and its applicability to all assets other than those specifically excluded by other standards. It outlines the general principles for assessing whether there is any indication that an asset may be impaired and the requirements for conducting impairment tests. **2.** Paragraph 30: This paragraph usually addresses the recognition of an impairment loss. It discusses the conditions under which an impairment loss should be recognized, which typically occurs when the carrying amount of an asset exceeds its recoverable amount. 3. Paragraph 33: This paragraph typically covers the timing of impairment tests. It outlines when impairment tests should be performed, which generally includes an annual assessment and additional tests if there are indications of impairment between annual tests. 4. Paragraph 44: This paragraph usually addresses the determination of recoverable amount. It discusses how recoverable amount should be determined, which is the higher of an asset's fair value less costs to sell and its value in use. 5. Paragraph 130**:** This paragraph typically covers the disclosure requirements for impaired assets. It outlines what information entities should disclose in their financial statements regarding the carrying amounts of impaired assets, the recoverable amounts, and the amounts of impairment losses recognized. **6.** Paragraph 132: This paragraph usually covers the reversal of impairment losses. It discusses the conditions under which a previously recognized impairment loss can be reversed, which generally occurs if there has been a change in the estimates used to determine the asset's recoverable amount. **7.** Paragraphs 134-135: These paragraphs typically provide additional guidance on specific topics related to impairment of assets, such as the measurement of recoverable amount (IAS 36.134) and the disclosure of impairment losses (IAS 36.135).

IAS 37 (INTERNATIONAL ACCOUNTING STANDARD 37) DEALS WITH PROVISIONS, CONTINGENT LIABILITIES, AND CONTINGENT ASSETS, WHILE IFRIC 21 (INTERNATIONAL FINANCIAL REPORTING INTERPRETATIONS COMMITTEE 21) ADDRESSES LEVIES. HERE'S AN OVERVIEW OF THE PARAGRAPHS MENTIONED FOR EACH STANDARD:	*IAS 37 Requirements for Disclosure:* IAS 37 mandates disclosure of the nature of provisions or contingent liabilities and the uncertainties regarding the amount or timing of related outflows of economic benefits. When necessary for clarity, IAS 37 also requires disclosure of the major assumptions made about future events affecting the provision's amount. These requirements ensure transparency in financial reporting regarding how climate-related factors impact liabilities, providing stakeholders with insight into potential financial obligations stemming from environmental and regulatory changes.	1. Paragraphs 14-83**:** These paragraphs typically cover the requirements for recognizing and measuring provisions (liabilities of uncertain timing or amount), contingent liabilities (possible obligations arising from past events whose existence will be confirmed by future events), and contingent assets (possible assets arising from past events whose existence will be confirmed by future events). • Recognition: Conditions under which provisions should be recognized, including a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. • Measurement**:** Provisions should be measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, discounted if the effect is material. • Contingent Liabilities And Assets: Disclosure requirements for contingent liabilities and contingent assets, including the nature and potential financial effect of these items. 2**.** Paragraphs 85-86**:** These paragraphs typically cover the disclosure requirements for provisions, contingent liabilities, and contingent assets. They outline what information entities should disclose in their financial statements to provide users with an understanding of the nature and extent of provisions and contingencies.

IFRIC 21 - LEVIES	***IFRIC 21*** aims to provide consistent guidance on how levies should be accounted for under IFRS, ensuring that entities recognize and disclose liabilities for levies in accordance with the principles of IAS 37 and other relevant standards. These standards are important as they ensure that provisions, contingent liabilities, contingent assets, and levies are accounted for and disclosed appropriately in financial statements, providing transparency and clarity to users of financial information about an entity's potential future obligations and liabilities. *Impact of Climate-Related Matters on Liabilities:* Climate-related factors can influence how liabilities are recognized, measured, and disclosed in financial statements under IAS 37. Examples include: • ***Government Levies:*** Levies imposed for not meeting climate-related targets or to incentivize/discourage specific activities. • ***Environmental Remediation:*** Liabilities related to regulatory requirements for remediating environmental damage. • ***Onerous Contracts*:** Contracts that may become burdensome due to potential revenue loss or increased costs from climate-related legislative changes. • ***Restructurings*:** Liabilities arising from restructurings aimed at redesigning products or services to meet climate-related goals.	1. Paragraphs 8-14: These paragraphs typically provide guidance on the accounting treatment for levies imposed by governments, such as taxes, duties, and similar levies not based on income. Key aspects covered include: • Recognition: When an entity should recognize a liability for a levy imposed by a government. • MEASUREMENT: How the liability for the levy should be measured, which is typically at the best estimate of the expenditure required to settle the present obligation. • Disclosure: Requirements for disclosing information about levies in the financial statements, including the nature and timing of the levy.

IFRS 7 (INTERNATIONAL FINANCIAL REPORTING STANDARD 7)

Addresses the disclosure requirements for financial instruments. Here's an overview of the paragraphs mentioned:

IFRS 7 aims to enhance transparency in financial reporting by requiring entities to provide comprehensive disclosures about their exposure to risks arising from financial instruments and how they manage those risks. These disclosures enable users of financial statements to assess the nature and extent of an entity's exposure to financial risks and the strategies employed to manage those risks.

Effects of climate-related matters

Impact of Climate-Related Matters on Financial Instruments Disclosure:
Under IFRS 7, companies are required to disclose information about their financial instruments, including risks arising from these instruments and how the company manages those risks. Climate-related factors can introduce risks related to financial instruments.

Examples of Climate-Related Risks:

- **Credit Risk for Lenders:** Lenders may need to disclose the impact of climate-related matters on the measurement of expected credit losses. This includes assessing how climate factors affect the creditworthiness of borrowers.
- **Concentration of Credit Risk:** Disclosure may be necessary regarding concentrations of credit risk affected by climate-related factors. This includes identifying sectors or industries vulnerable to climate risks.
- **Equity Investments:** Holders of equity investments may need to disclose information about investments by industry or sector. This helps in identifying sectors exposed to climate-related risks, especially when disclosing concentrations of market risk.

IFRS 7 Disclosure Requirements:
IFRS 7 mandates comprehensive disclosure to provide transparency about the nature and extent of risks related to financial instruments, including those arising from climate-related matters. This ensures stakeholders are informed about potential financial impacts stemming from climate risks on the company's financial position and performance.

1. Paragraphs 31-42**:** These paragraphs typically cover specific disclosure requirements related to financial instruments. Key aspects may include:

- Nature And Extent Of Risks**:** Disclosures about the nature and extent of risks arising from financial instruments, including credit risk, liquidity risk, and market risk. This includes qualitative and quantitative information that enables users to evaluate the risks associated with an entity's financial instruments.
- Fair Value Measurements: Disclosure requirements related to the fair value of financial instruments, including the methods and assumptions used to determine fair values, and the classification of financial instruments into different categories for disclosure purposes.
- Hedge Accounting: Disclosure requirements for entities that apply hedge accounting, including information about the nature of hedging relationships and the effect of hedging activities on the financial statements.
- Capital Management: Disclosure requirements related to an entity's objectives, policies, and processes for managing capital, including information about capital structure and how it is managed to support the entity's objectives.

2. Paragraph B8**:** This paragraph usually provides guidance or illustrative examples to help entities understand and apply the disclosure requirements under IFRS 7. It may provide additional clarification on specific disclosure items or scenarios.

IFRS 9 (INTERNATIONAL FINANCIAL REPORTING STANDARD 9) ADDRESSES THE ACCOUNTING FOR FINANCIAL INSTRUMENTS. HERE'S AN OVERVIEW OF THE PARAGRAPHS MENTIONED:	***IFRS 9 aims to provide a principles-based approach to the classification, measurement, and impairment of financial instruments,*** enhancing the transparency and relevance of financial reporting for financial instruments. It addresses the shortcomings of its predecessor standard, IAS 39, by introducing a more forward-looking approach to impairment and aligning the classification and measurement requirements more closely with an entity's business model and the characteristics of the financial instruments. Climate-related matters can impact the accounting treatment of financial instruments in various ways, as outlined under IFRS standards: *Impact on Loan Contracts:* Loan contracts may include terms that tie contractual cash flows to a company's achievement of climate-related targets. These targets can affect how the loan is classified and measured. Lenders must assess whether such terms align with the requirement that contractual cash flows represent solely payments of principal and interest on the principal amount outstanding. For borrowers, these targets might trigger the need to evaluate if there are embedded derivatives that must be separated from the host contract. *Impact on Credit Risk and Expected Credit Losses:* Climate-related factors can increase a lender's exposure to credit losses. Events like wildfires, floods, or regulatory changes may impair a borrower's ability to repay debts. Additionally, assets may become inaccessible or uninsurable, affecting the collateral's value for lenders. Under IFRS 9, recognizing and measuring expected credit losses involves using all reasonable and supportable information available without undue cost or effort. Climate-related matters are relevant here as they can influence: • The range of potential future economic scenarios considered. • Assessments of significant increases in credit risk. • Determinations of whether a financial asset is credit-impaired. • The measurement of expected credit losses. These considerations ensure that financial statements reflect the impact of climate risks on the assessment and management of credit risk associated with financial instruments, thereby enhancing transparency and aiding stakeholders in understanding the financial implications of such risks.	**1.** Paragraph 4.1.1(b)**:** This paragraph typically outlines the classification criteria for financial assets under IFRS 9. Financial assets are classified into categories such as financial assets at amortized cost, financial assets at fair value through other comprehensive income (FVOCI), and financial assets at fair value through profit or loss (FVTPL). Paragraph 4.1.1(b) would specify one of the criteria used to determine the appropriate classification. **2.** Paragraph 4.1.2A(b)**:** This paragraph usually addresses the classification criteria for financial liabilities under IFRS 9. Financial liabilities are generally classified as at amortized cost or at fair value through profit or loss, depending on the entity's business model for managing the financial liabilities and the contractual cash flow characteristics of the financial liabilities. **3.** Paragraph 4.3.1**:** This paragraph typically covers the initial recognition and measurement of financial assets and financial liabilities. It outlines how financial assets and liabilities should be initially measured, which is generally at fair value plus, in the case of financial liabilities, transaction costs directly attributable to the issuance or acquisition of the financial liability. **4.** Paragraphs 5.5.1–5.5.20**:** These paragraphs typically cover the impairment of financial assets. Key aspects include: • Expected Credit Loss Model: IFRS 9 introduced an expected credit loss (ECL) model, where entities are required to recognize impairment based on expected credit losses rather than incurred losses. • Measurement Of ECL**:** Guidelines on how to measure expected credit losses, including factors such as historical loss experience, current conditions, and reasonable and supportable forecasts. **5.** Paragraph B4.1.7**:** This paragraph usually provides application guidance or illustrative examples related to the classification and measurement of financial assets and financial liabilities under IFRS 9. It may clarify specific scenarios or issues that entities commonly encounter when applying the standard.

IFRS 13 (INTERNATIONAL FINANCIAL REPORTING STANDARD 13) PROVIDES GUIDANCE ON FAIR VALUE MEASUREMENT. HERE'S AN OVERVIEW OF THE PARAGRAPHS MENTIONED	***IFRS 13 aims to provide a single, principles-based framework for measuring fair value across all IFRS standards that require or permit fair value measurements.*** It enhances consistency and comparability in financial reporting by establishing a common definition of fair value and providing guidance on how fair value should be measured when market inputs are observable or unobservable. This standard is crucial for entities that regularly measure and report fair values of their assets, liabilities, and financial instruments in their financial statements. Climate-related matters can impact the fair value measurement of assets and liabilities in financial statements in several ways: *Impact on Fair Value Measurement:* Market participants' perceptions of potential climate-related legislation can influence the fair value of assets or liabilities. Changes in regulatory environments or shifts in market sentiment regarding climate risks can alter expectations about future cash flows and risk premiums, thereby affecting fair value calculations. *Disclosure Requirements under IFRS 13:* IFRS 13 establishes guidelines for fair value measurement, particularly for assets and liabilities categorized within Level 3 of the fair value hierarchy. These measurements rely on unobservable inputs that are significant to their valuation. • **Use of Unobservable Inputs:** Unobservable inputs in Level 3 measurements should reflect the assumptions market participants would use when pricing assets or liabilities, including considerations of climate-related risks. • **Disclosure Requirements:** IFRS 13 mandates disclosure of the inputs utilized in these fair value measurements. For recurring fair value measurements, companies must provide a narrative description of the sensitivity of fair value to changes in unobservable inputs. This disclosure is crucial when alterations in these inputs could result in a significantly higher or lower fair value measurement. These requirements ensure transparency in financial reporting regarding the impact of climate-related factors on fair value measurements, enabling stakeholders to understand how climate risks affect the valuation of assets and liabilities within the financial statements.	**1.** Paragraph 22**:** This paragraph typically addresses the definition of an active market within the context of fair value measurement. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. **2.** Paragraphs 73-75**:** These paragraphs typically cover the fair value measurement of non-financial assets and liabilities. Key aspects may include: • Valuation Techniques**:** Guidance on the valuation techniques that may be used to measure fair value when observable market inputs are not available. • Level Of Inputs**:** Classification of fair value measurements into a three-level hierarchy (Level 1, Level 2, and Level 3) based on the inputs used in the valuation process. • Disclosure Requirements**:** Requirements for disclosing information about fair value measurements, including the methods and assumptions used, and the level of the fair value hierarchy into which the measurements fall. **3.** Paragraph 87**:** This paragraph typically addresses the disclosure requirements related to fair value measurements. It outlines what entities should disclose in their financial statements to provide users with an understanding of how fair values have been determined and the sensitivity of fair value measurements to changes in assumptions. **4.** Paragraph 93**:** This paragraph usually covers the application of fair value measurements to financial instruments. It may provide specific guidance on the measurement of fair value for financial instruments, including derivatives and other financial assets and liabilities.

IFRS 17 (INTERNATIONAL FINANCIAL REPORTING STANDARD 17) IS THE ACCOUNTING STANDARD FOR INSURANCE CONTRACTS. HERE'S AN OVERVIEW OF THE PARAGRAPHS AND SECTIONS MENTIONED	***IFRS 17 aims to improve transparency, comparability, and consistency in the accounting for insurance contracts.*** It introduces a comprehensive framework for the recognition, measurement, presentation, and disclosure of insurance contracts, addressing the shortcomings of previous practices under IFRS 4. The standard requires entities to provide more meaningful information about the profitability and financial position of their insurance contracts, enhancing the understanding of stakeholders and users of financial statements. Climate-related matters can significantly impact the measurement of insurance contract liabilities and related disclosures under IFRS 17: *Impact on Insurance Contract Liabilities:* Climate-related factors can increase the frequency or severity of insured events such as business interruptions, property damage, illness, or death. This can affect the assumptions used to estimate insurance contract liabilities under IFRS 17. For instance, changes in the frequency or severity of these events may necessitate adjustments to expected claims payments and reserves. *Disclosure Requirements under IFRS 17:* IFRS 17 requires comprehensive disclosures regarding insurance contracts, including: • **Significant Judgements:** Companies must disclose significant judgments made in applying IFRS 17. This includes judgments related to the estimation of insurance contract liabilities impacted by climate-related matters. • **Exposure to Risks:** Disclosure is required regarding a company's exposure to risks, including concentrations of risk and how these risks are managed. Climate-related risks, such as those affecting insured events, should be included in this disclosure. • **Sensitivity Analysis:** Companies must provide sensitivity analysis showing how changes in risk variables, including climate-related factors, affect insurance contract liabilities. This analysis helps stakeholders understand the potential impact of climate risks on the financial position and performance of the company. These requirements ensure transparency and provide stakeholders with insights into how climate-related matters influence the measurement and management of insurance contract liabilities, enhancing understanding of the financial implications associated with climate risks.	**1.** Paragraph 33**:** This paragraph typically addresses the recognition of insurance contract liabilities. It outlines the conditions under which an entity should recognize insurance contract liabilities on its balance sheet, including the existence of a contractual obligation to pay benefits and the transfer of significant insurance risk. **2.** Paragraph 40**:** This paragraph usually covers the recognition of revenue from insurance contracts. It discusses how an entity should recognize revenue over the coverage period, reflecting the transfer of services (insurance coverage) to the policyholder. **3.** Paragraphs 117 and 121-128**:** These paragraphs typically cover the measurement of insurance contract liabilities. Key aspects may include: • Risk Adjustment: Measurement of insurance contract liabilities to include a risk adjustment for uncertainty in cash flows and non-financial risks. • Discounting**:** Requirements for discounting future cash flows to present value when determining the carrying amount of insurance contract liabilities. • Contractual Service Margin (CSM): Allocation of insurance revenue to the period in which the service (insurance coverage) is provided, resulting in the recognition of a contractual service margin. **4.** Appendix A**:** The appendix typically provides additional guidance, examples, or implementation guidance related to specific aspects of IFRS 17, such as transition provisions, practical expedients, or application of the standard to certain types of insurance contracts.

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