



Press release

3 April 2024

ESRB publishes report on how climate-related risks are reflected in IFRS financial statements

The European Systemic Risk Board (ESRB) has today published a [report](#) examining how International Financial Reporting Standards (IFRS) accounting standards can reflect climate-related risks from a financial stability perspective. The report focuses on financial information and therefore does not discuss recently issued sustainability standards such as the [European Sustainability Reporting Standards](#) or [those issued by the International Sustainability Standards Board \(ISSB\)](#).

The report concludes that while IFRS generally enable entities to effectively reflect climate-related risks in their financial statements, minor amendments in the following areas would have positive implications for financial stability: (i) the application of the materiality principle under [IAS 1](#), (ii) the addition of climate factors to the list of indicators of impairment of non-financial assets under [IAS 36](#), (iii) how provisions and contingent liabilities should be recognised according to [IAS 37](#) in view of climate-related risks, and (iv) additional disclosure requirements, examples and guidance on how climate-related risks should be incorporated into the estimation of expected credit losses and the fair value of financial instruments. Work on the accounting treatment of pollutant pricing (i.e., carbon pricing) mechanisms should also be prioritised.

Effective implementation of IFRS is essential for accurately reflecting climate-related risks in financial statements, in which regard regulators, microprudential supervisors, accounting enforcers and auditors all have an important role to play. They should consider developing guidance on (i) disclosures by financial institutions, (ii) how climate-related risks can affect the expected credit loss estimates of banks, and (iii) how to compute cash flows from insurance contracts directly exposed to climate factors. Besides, auditors can already assess and challenge existing disclosures on climate-related risks in the financial statements.

The IFRS Foundation is currently working on a [project on climate-related and other uncertainties in the financial statements](#), to which today's report could contribute. The ESRB

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started its work on the topic in 2022, complementing ongoing work in the EU by [the European Commission](#) and the [European Securities and Markets Authority](#) (ESMA).

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