

**Joe Longo**

**Chair**

Australian Securities and Investment Commission

16 December 2025

Dear Mr Longo,

We write to you on behalf of the Principles for Responsible Investment – which holds 5000+ signatories with USD 120 trillion assets under management.<sup>1</sup>

We welcome the recent publication by the IASB of [illustrative examples](#) (IEs) clarifying expectations on how entities should report on the effects of uncertainties in their financial statements under IFRS Accounting Standards, and in particular those which relate to climate.

For some time, there has been concern amongst investors that the effects of uncertainties, such as those related to climate, are potentially not being properly reported, and that financial statements are therefore not meeting the requirements of the IFRS Accounting Standards. We share the Australian Accounting Standards Board's (AASB's) [view](#) that the IASB IEs provide helpful guidance for companies in applying existing IFRS requirements, providing investors with material information they need to support decision-making.<sup>2</sup>

**We are therefore writing to better understand what actions ASIC, as the key regulatory body for companies in Australia, will take to support the IE's and ensure proper interpretation of the IFRS Accounting Standards.<sup>3</sup>**

**Climate matters can be financially material, but are often not appropriately reflected in the financial statements**

For some companies, climate-related risks—and steps taken to mitigate them and adapt to a lower-carbon economy—will be financially material and significant to how they prepare their financial statements. These may affect key accounting judgments, including but not limited to:

- Whether a carbon-intensive or climate-exposed asset is impaired.
- The estimated useful life over which an asset is depreciated.
- The estimation of the amount and timing of cash flows required to meet asset retirement obligations, among other considerations.

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<sup>1</sup> This letter was developed by PRI with input from IGCC and IIGCC.

<sup>2</sup> See the PRI [comment letter to the IASB](#) on the consultation regarding the IEs. This was also highlighted in comment letters from individual investors – and investment community organisations such as Ceres, the Institutional Investors Group on Climate Change (IIGCC), the International Corporate Governance Network (ICGN) and the Corporate Reporting Users' Forum (CRUF).

<sup>3</sup> We note that the illustrative examples are non-mandatory guidance that accompany IFRS Accounting Standards. Their purpose is to illustrate how the requirements in the Standards should be implemented by companies. Therefore, they should guide and aid reporting pursuant to the principles-based accounting requirements and enforcement thereof, but are not on their own a basis for enforcement.

For example, fossil fuel companies may need to fulfil asset retirement obligations earlier than previously anticipated due to transition-related policies, potentially increasing balance sheet provisions.<sup>4</sup>

Such considerations may negatively or positively affect the profitability and financial position reported in the financial statements of companies across a wide range of sectors that have climate or emissions-related exposure, depending on their circumstances. Ensuring that these have been properly accounted for by applying current IFRS Accounting Standards is, of course, essential for promoting sustainable growth, not an incremental regulatory burden.

Furthermore, in most jurisdictions, companies are obliged to ensure that the assumptions underlying their financial statements are consistent with other information they are presenting to their investors – particularly that contained elsewhere in their annual report. Investors are increasingly seeing companies referencing transition-related impacts in business strategies, yet even when such impacts are financially material, disclosure of material information on how they were addressed in the financial statements often remains absent.

In short, climate risks and uncertainties have increasingly significant accounting implications for a growing number of companies, both in terms of financial statement materiality and consistency with information across the annual report. As the IEs demonstrate, where material, investors need to understand how such considerations are reflected in the financial statements, to inform their investment and stewardship decisions.

### **The need for improved market practice is evident, including in Australia**

The importance of considering and disclosing information on the effects of climate-related risks in the financial statements has already been clarified by the AASB together with the Auditing and Assurance Standards Board (AUASB). The AASB/AUASB joint publication in 2019 [Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2](#) recognises that for some entities, applying these materials should result in climate-related risks and uncertainties – and how these were considered – being reflected in the financial statements.

In 2025 the AASB and Chartered Accountants Australia and New Zealand [found that](#) companies are increasingly disclosing the effects of climate risks on their financial statements, where financially material. However, there is strong evidence that the quality of this reporting is insufficient. For instance, a [study](#) by the Carbon Tracker Initiative found that less than 40% of 2022 year-end reports of [the world's largest emitting companies](#) provided any meaningful financial statement disclosure on such matters – even though the companies surveyed had been specifically identified by

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<sup>4</sup> See for example BNP Paribas AM, [The 856 billion clean-up bill: How decommissioning liabilities threaten corporate balance sheets](#) (June 2025) and Carbon Tracker Initiative, [Overlooked: Why oil and gas decommissioning liabilities pose overlooked financial stability risk](#) (December 2023).

investors as those most exposed to climate issues. There is little evidence of improvement since this study was undertaken.<sup>5</sup>

### **Our ask to ASIC**

Given that the accounting requirements are clear but company practice still needs improvement, regulators have a central role to play in raising awareness on the IEs (alongside standard-setters) and enforcing the application of existing IFRS Accounting Standards that the IEs relate to.

We commend the fact that some regulators are beginning to act,<sup>6</sup> and ASIC in particular for its guidance on sustainability-related financial disclosures outside the sustainability report (within [RG280](#)) and consideration of sustainability reporting within [REP 819](#) on its oversight of financial reporting and audit for 2024-25. However, more is needed to ensure that companies report on the effects of financially material climate matters on the financial statements applying IFRS Accounting Standards.

While we do not wish to raise issues of past compliance, we recommend that ASIC support the robust application of existing requirements in IFRS Accounting Standards, informed by the IEs, and with assistance from the AASB where needed on market education.

### **In this regard, we encourage ASIC to do the following in its “areas of focus” regarding the effects of uncertainties such as those related to climate in the financial statements:**

- Formally welcome the IEs and clarify that companies should consider the IEs and the requirements of the IFRS Accounting Standards they illustrate, in the context of their own circumstances, to determine the disclosures needed on how uncertainties, such as climate, were considered in the annual financial statements.<sup>7</sup>
- Clarify ASIC’s intention to engage with auditors to promote consideration of the IEs and consistent reporting across companies’ financial reports.
- Provide further guidance on how ASIC will monitor reports of companies most likely to be affected, how it will engage with companies where uncertainties, such as climate, appear material but are not addressed in the financials where required by IFRS Accounting Standards, and potential supervision measures where this does not succeed.

<sup>5</sup> CTI’s assessment of 2023 year end reporting showed only 2% of CA100+ focus companies made significant improvement, and its [latest assessment](#) also showed little to no year-on-year change. There are other studies confirming CTI’s conclusions, for example the 2024 [EY Global Climate Action Barometer](#) surveyed 1,400 companies across 51 countries found that only 36% of them had even referenced climate-related financial impact in their financial statements.

<sup>6</sup> For instance, the UK Financial Reporting Council (FRC) has established a cross-discipline group to address climate across its remit of financial statements, audit, governance and stewardship. The European Securities and Markets Authority (ESMA) has also repeatedly included climate in the financial statements in its top priorities for reviews of financial statements by its member regulators across the EU.

<sup>7</sup> We understand that while the IEs alone are not a basis for company disclosure judgments, they can aid with this. It will be up to companies to interpret accounting rules in light of their own circumstances, considering the IEs and IFRS Accounting Standards but also exercising a degree of judgment and being clear on assumptions/rationale in their disclosures.

We would also welcome other action which you may wish to take to ensure that the IEs are acknowledged by companies and auditors, and that they are committed to implementing the principles illustrated. We thank you for your time and consideration as this is a matter of concern to investors and we look forward to your response. Please do not hesitate to get in touch should you wish to discuss the matters raised in this letter and explore how we can support your efforts.

With kind regards,

***Nathan Fabian, Chief Sustainable Systems Officer, on behalf of the Principles for Responsible Investment (PRI)***

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