

Climate-related financial impacts

2023 reporting (31 December 2022 – 30 September 2023 balance dates)

This report is prepared jointly by Chartered Accountants Australia and New Zealand, the University of Melbourne and the University of Queensland.

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Contents

Introduction	4
Executive summary	4
Our approach.....	4
Key findings	5
Analysis by financial statement area	7
Analysis by industry sector	9
Appendix 1: Trend analysis – financial statement area.....	10
Appendix 2: Trend analysis – industry sector.....	13
Appendix 3: Trend analysis – New Zealand balance dates	15
Authors	16

Introduction

This study investigates how the impacts of climate risk are being reflected in financial statements. We analyse the impacts overall and look at the financial statement areas most affected, as well as comparisons across industry sectors¹ among listed companies in Australia, New Zealand and internationally.² This is the third year we have analysed the financial impacts of climate on companies worldwide, and this report builds on our two previous publications into [2021 reporting](#) and [2022 reporting](#).³

The IFRS Accounting Standards do not refer explicitly to climate-related matters, however companies must consider climate-related matters in their financial statements when the effect of those matters is material information for investors. Climate change is a topic in which investors and other stakeholders are increasingly interested because of its potential impacts on companies' business models, cash flows, financial position and financial performance.

Executive summary

Companies are increasingly recognising the **financial impacts** of climate-related risks

Impairment of non-current assets is the biggest financial impact of climate-related risks

Climate-sensitive sectors are more likely to disclose the financial impacts of climate-related risks

Our approach

For 2023 reporting the total global sample size is 356 companies. We reviewed the largest:

- 200 companies listed on the Australian Stock Exchange (ASX). Most have a June balance date.
- 50 companies listed on the New Zealand Stock Exchange (NZX). There is a mix of balance dates.
- 10 companies in each of the 11 industry sectors from the rest of the world, excluding the US⁴, 4 had not yet reported so sample size of 106 (2022: 101). Most have a December balance date.

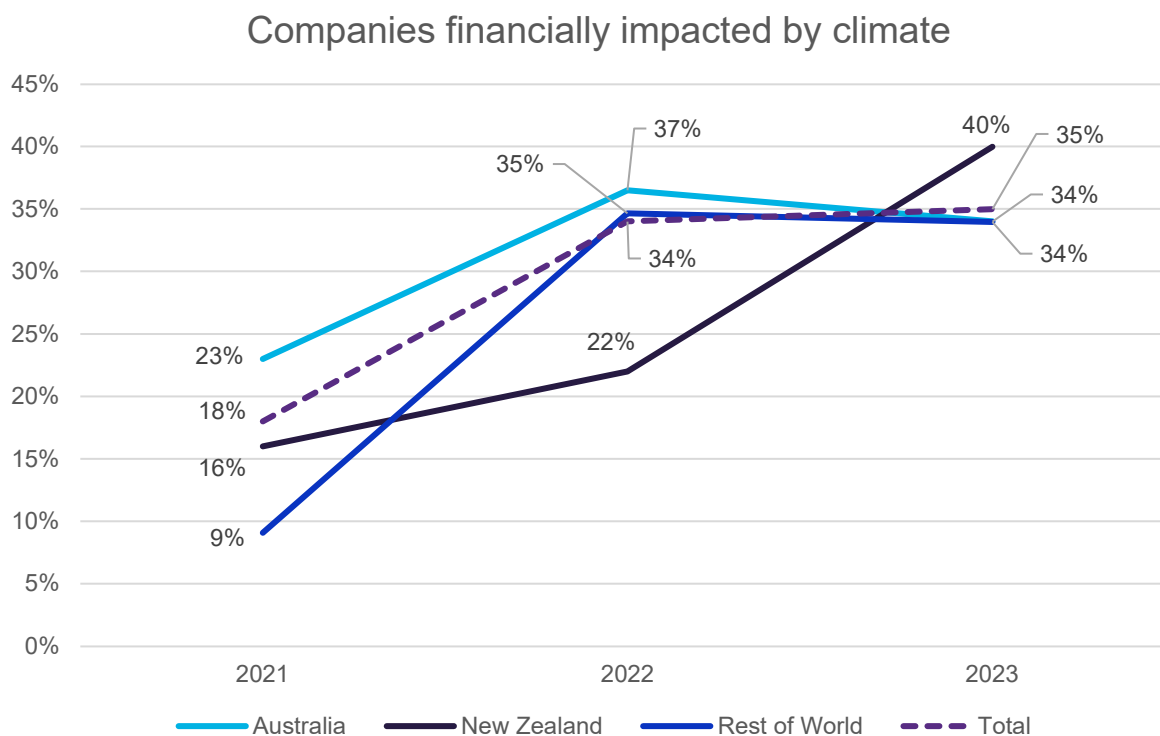
¹ We classify industries using the two-digit MSCI/S&P Global Industrial Classification Standard (GICS) codes.

² In this report reference to "financial statements" means: a statement of financial position; a statement of profit or loss and other comprehensive income; a statement of changes in equity; a statement of cash flows; and notes, comprising material accounting policy information and other explanatory information.

³ At the time of publishing, three New Zealand companies had not yet reported. They have been included in the comparatives in this report.

⁴ The US is excluded as it has not adopted IFRS Accounting Standards.

Key findings



Over a third of companies worldwide are now disclosing climate-related risks in their financial statements. Over the past two years we have seen a significant increase from the 2021 baseline in companies financially impacted by climate. The proportion of companies in the Australian and global sample making financial statement disclosures on climate increased substantially during the period from 2021 to 2022 and has since remained relatively stable at around a third of all companies. While lower in prior years, the proportion of New Zealand companies making climate disclosures in their financial statements has almost doubled in the past year.

The main area of the financial statements impacted by climate-related risks is impairment of non-current assets. This includes disclosures of the exposure to climate-related risks being an indicator of impairment, and how climate-related risks have been factored into the recoverable amount calculations (e.g., how they have affected the key assumptions on which cash flow projections have been based).

Other areas of financial statements impacted by climate-related risks include critical accounting estimates, financial risks, environmental restoration provisions and useful lives of non-current assets. Disclosures of climate-related risks classified under 'financial risks' have decreased from 22% in 2021 to 14% in 2023. This includes disclosures regarding how climate-related risk affects the expected credit losses of loans and investments, and of how the company manages its exposure to climate-related risks in relation to financial instruments.

The financial statement areas where there is the least disclosure of climate-related risks are commitments and contingencies, deferred tax assets, and the valuation of biological assets (note only a small proportion of companies have biological assets).

The reporting of climate-related risks in financial statements is most prevalent in the energy and utilities sectors, as would be expected. There has been a significant increase in disclosure by these two sectors during the period of our study. Disclosure of financial impacts of climate are also increasing across the consumer staples sector.

Reporting of climate-related risks in financial statements is least prevalent in the information technology (IT) and communication services sectors. Interestingly, none of the ten largest global tech companies mentioned climate-related risks in their financial statements.

We are yet to see companies separately quantifying the financial impacts of climate. Climate-related risks often form an integral part of the methodologies and models used to perform estimates in the valuation and/or measurement of certain items. Therefore, it is not currently possible to directly attribute any change in the valuation and/or measurement of a specific item to climate-related risks. However, the International Accounting Standards Board (IASB) has started a [project](#) to explore whether and how companies' can provide better information about climate-related risks in their financial statements.

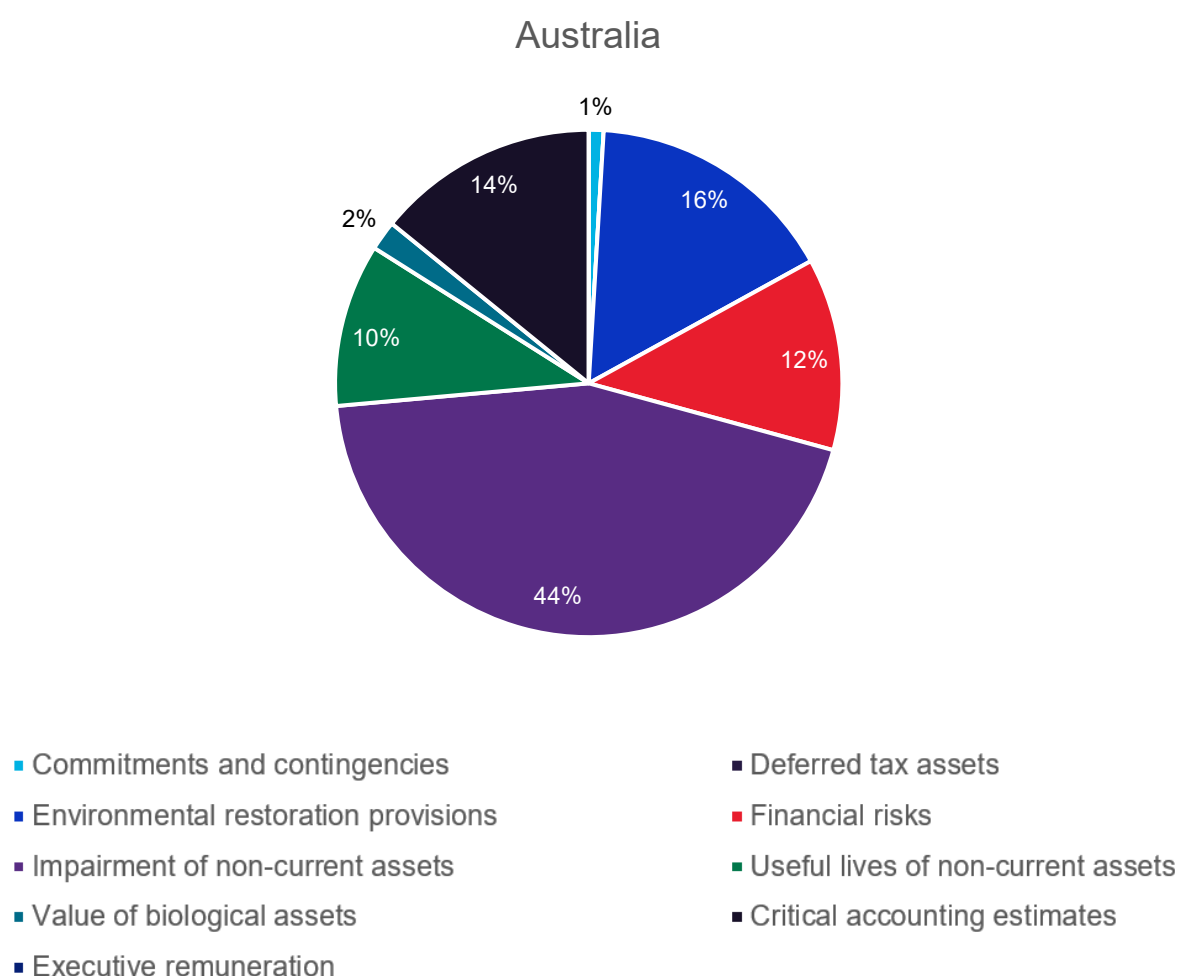
Analysis by financial statement area

This graph shows the portion of references to climate by financial statement area as a percentage of the total number of references to climate in 2023 financial statements. In our 2023 reporting sample of 356 companies globally (2022: 351, 2021: 360), there were 200 references to climate (2022: 184, 2021: 76) across 124 financial statements (2022: 119, 2021: 64).

Some companies discuss climate-related risks within the note of the specific item to which it relates. Others have a dedicated note on climate-related risks as part of their statement of accounting policies.⁵ International companies have a tendency towards the latter.

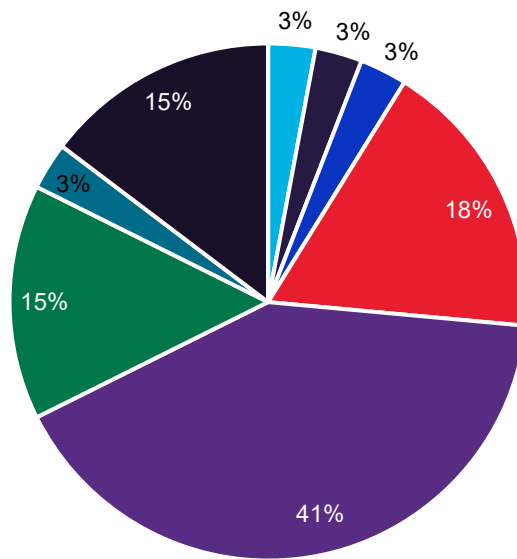
Seven companies explicitly state within their critical accounting estimates note that they have considered climate-related risks but that these do not have a material impact on the financial statements.

There was a new disclosure area this year – executive remuneration. One international company mentioned in its financial statements that it has linked executives' remuneration packages to improving climate performance.



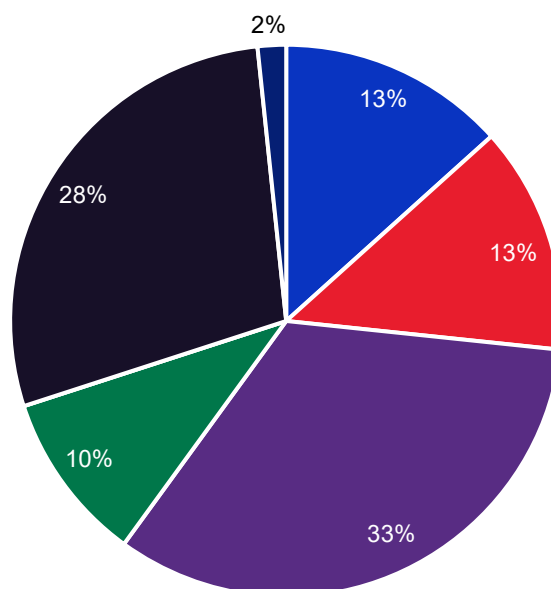
⁵ Critical accounting estimates includes disclosure in the statement of accounting policies.

New Zealand



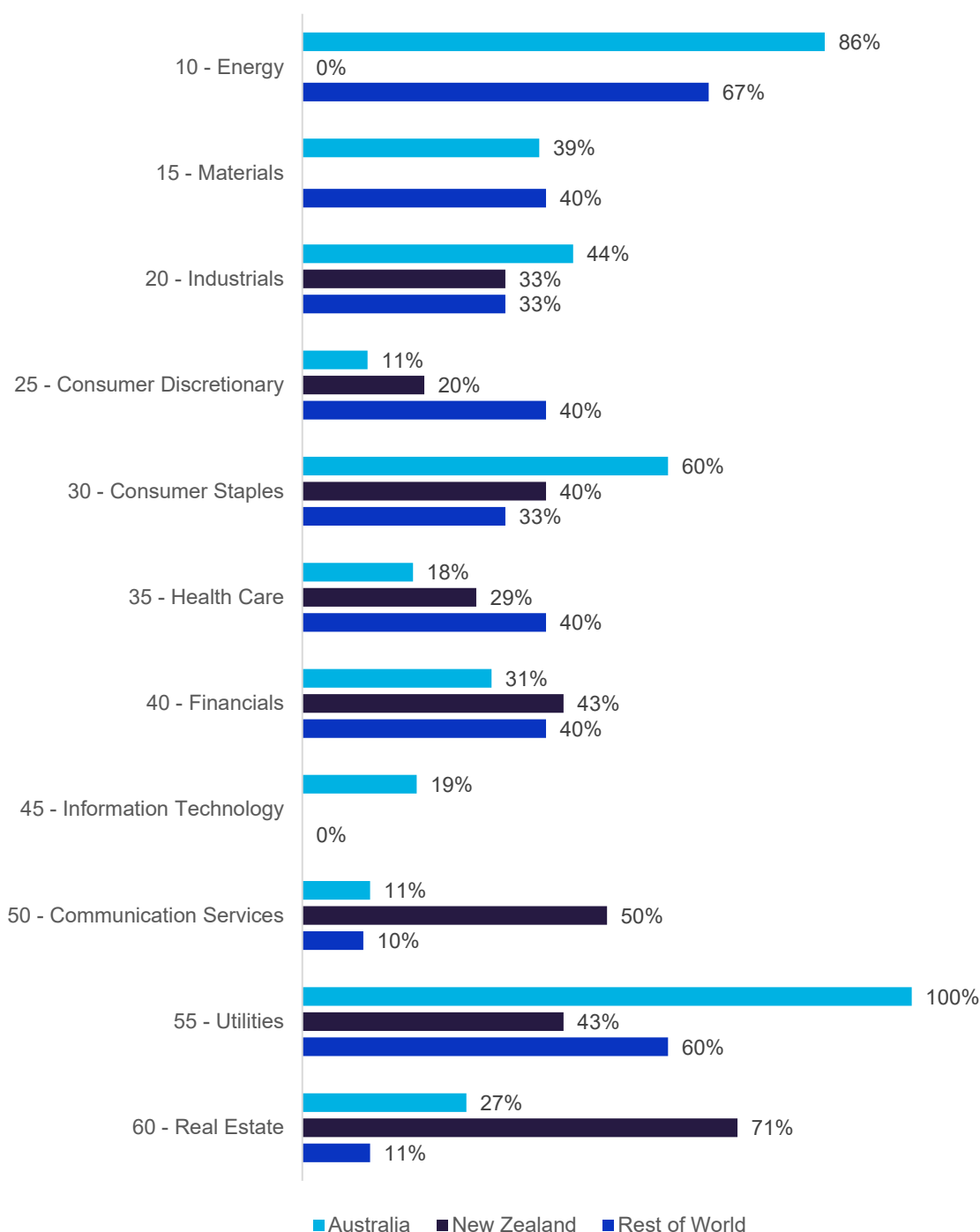
- Commitments and contingencies
- Deferred tax assets
- Environmental restoration provisions
- Financial risks
- Impairment of non-current assets
- Useful lives of non-current assets
- Value of biological assets
- Critical accounting estimates
- Executive remuneration

Rest of World



Analysis by industry sector

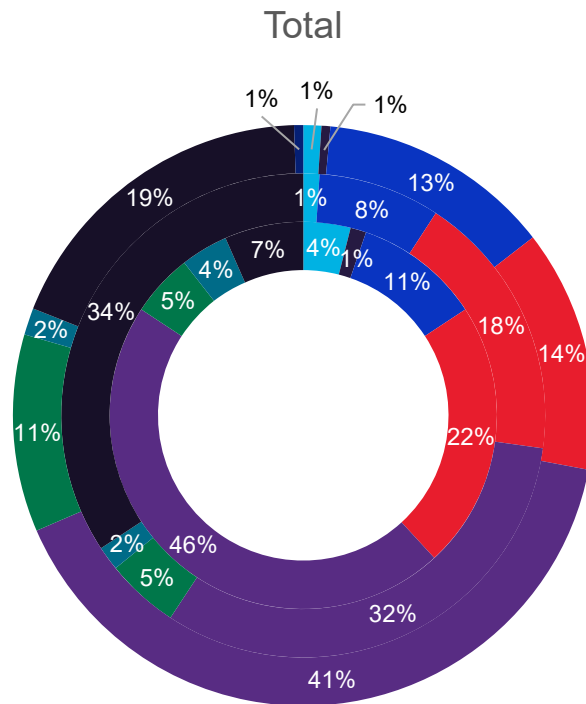
This graph shows the portion of companies reporting climate-related risks in their 2023 financial statements in each sector as a percentage of the total number of companies sampled in each sector.⁶



⁶ The materials sector includes the mining sub-sector. There were no companies in the materials or information technology sectors in the New Zealand sample.

Appendix 1: Trend analysis – financial statement area

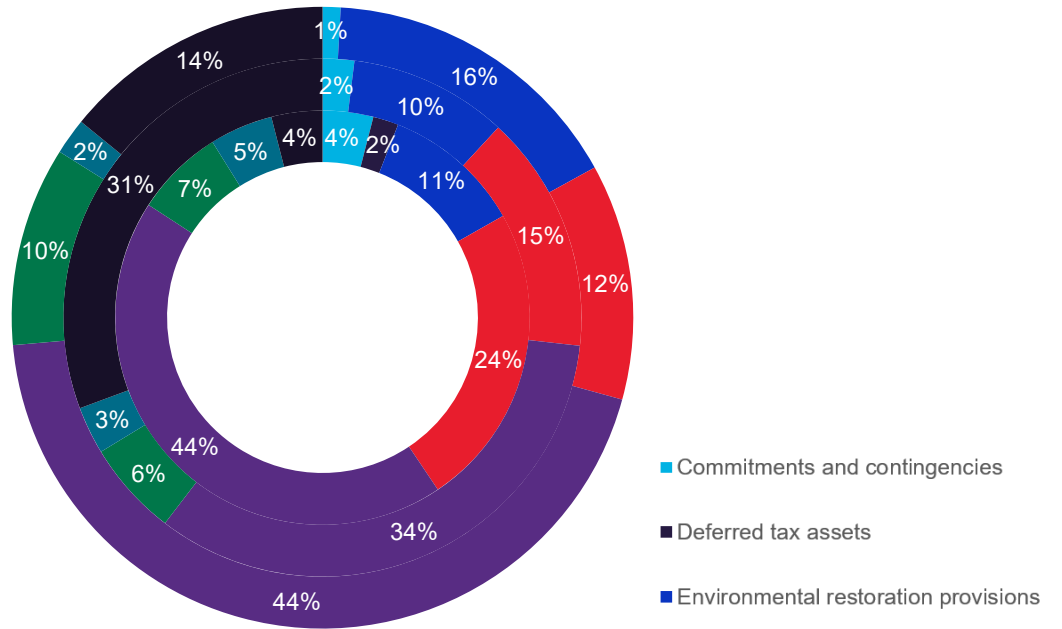
These graphs show the portion of references to climate by financial statement area⁷ as a percentage of the total number of references to climate in financial statements, in total and by country, over the last three years (2021 – inside, 2023 – outside).



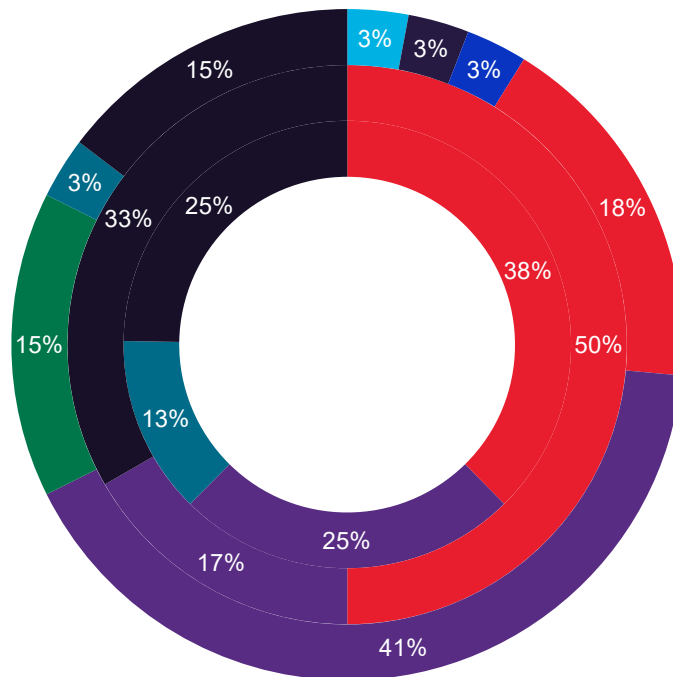
- Commitments and contingencies
- Environmental restoration provisions
- Impairment of non-current assets
- Value of biological assets
- Executive remuneration
- Deferred tax assets
- Financial risks
- Useful lives of non-current assets
- Critical accounting estimates

⁷ Critical accounting estimates includes disclosure in the statement of accounting policies.

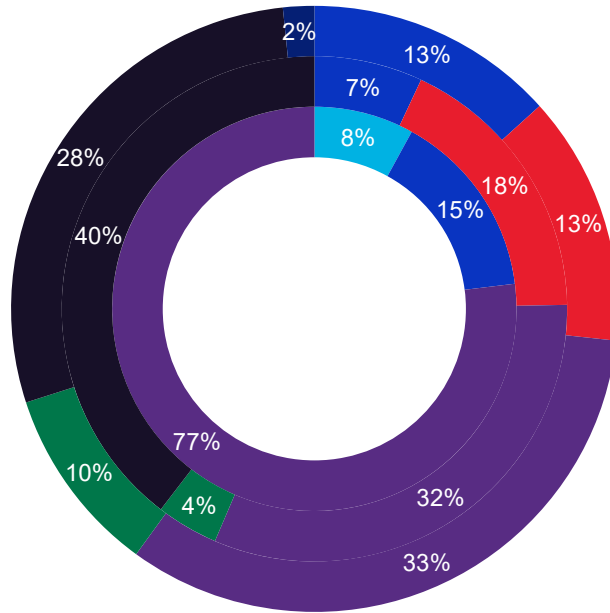
Australia



New Zealand



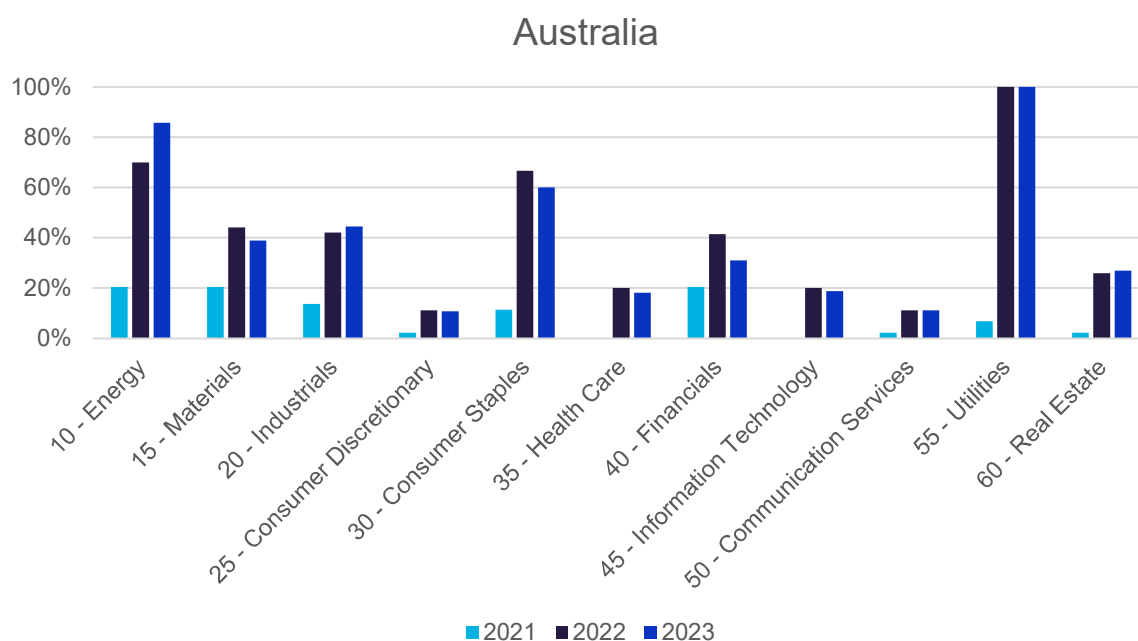
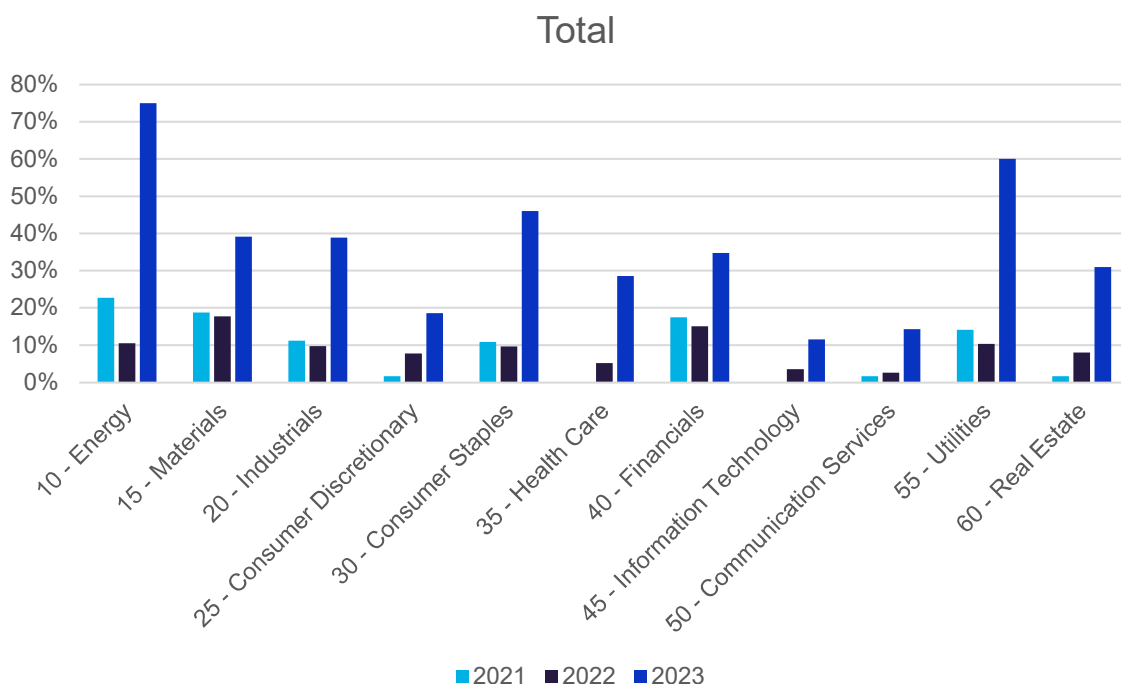
Rest of World



- Commitments and contingencies
- Environmental restoration provisions
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- Financial risks
- Useful lives of non-current assets
- Critical accounting estimates

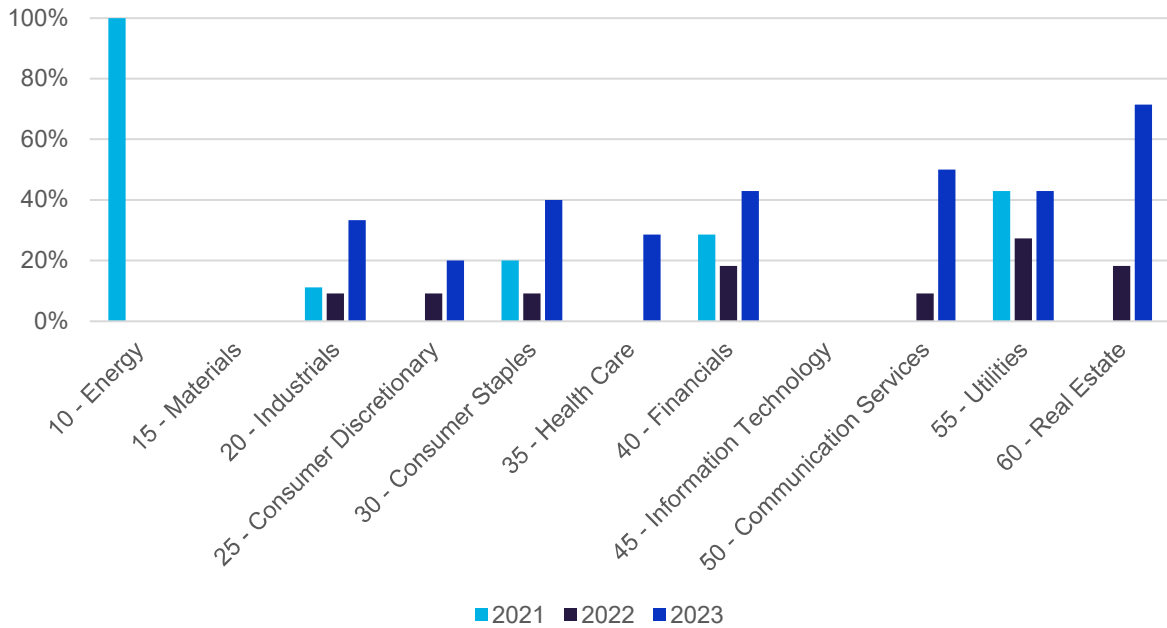
Appendix 2: Trend analysis – industry sector

These graphs show the portion of companies reporting climate-related risks in their financial statements in each sector as a percentage of the total number of companies sampled in each sector, in total and by country, over the last three years.



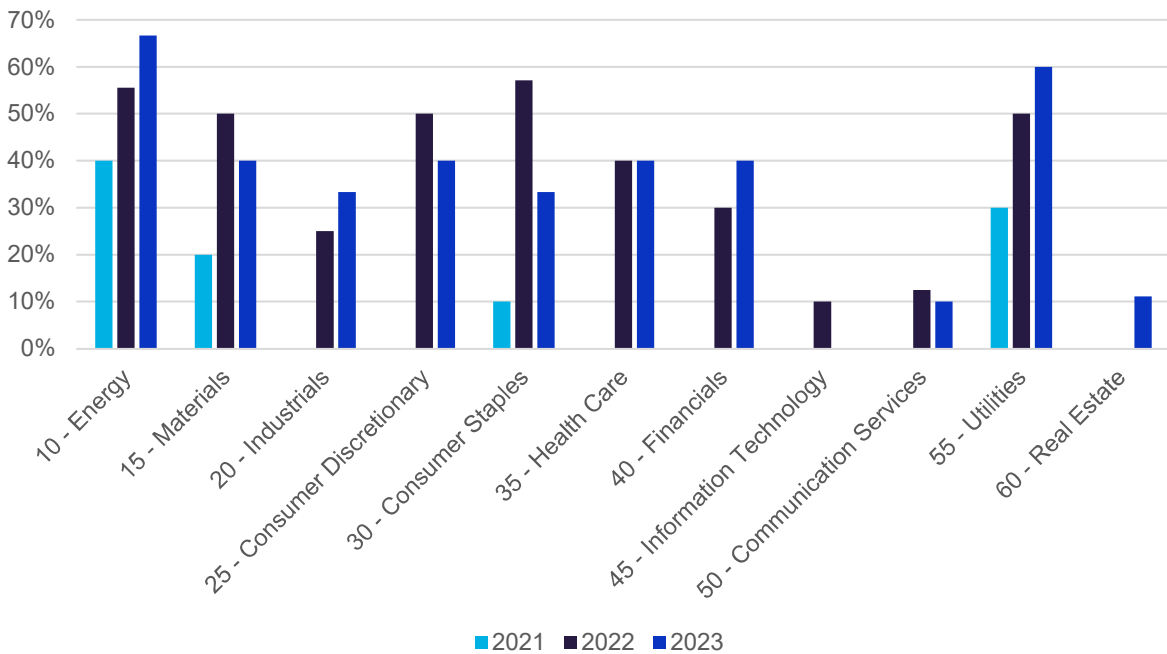
There were no companies in the information technology sector in Australia in 2021.

New Zealand



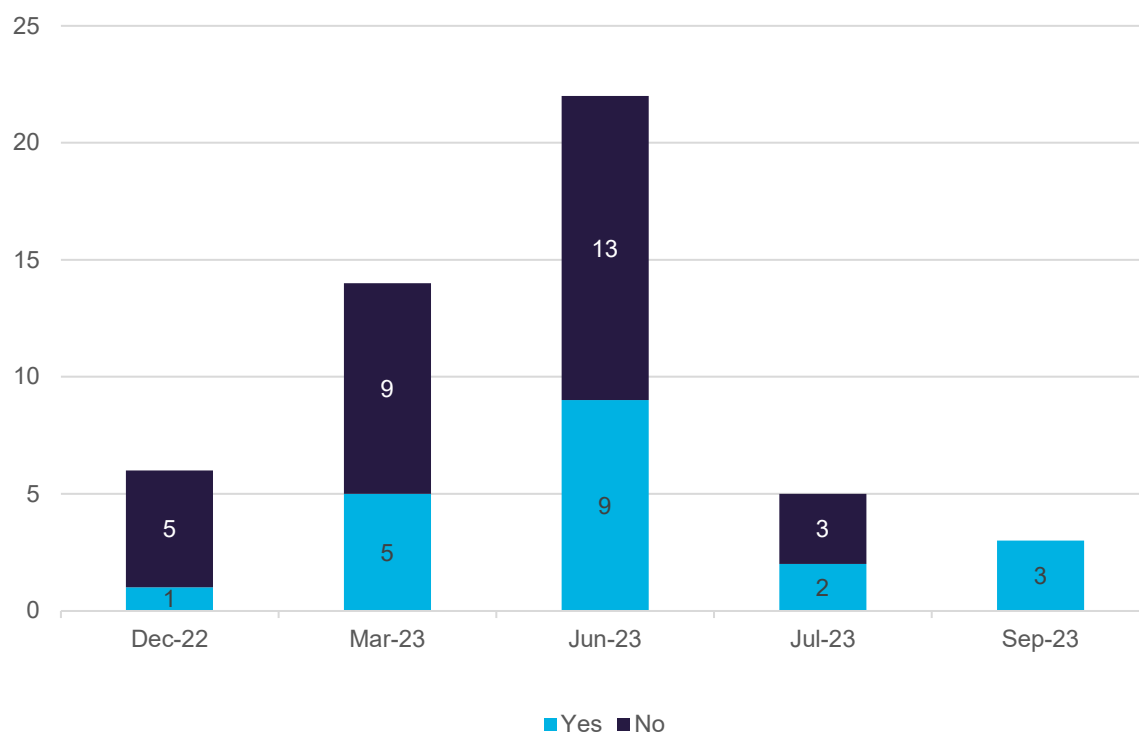
There were no companies in the energy sector in New Zealand in 2022. There were no companies in the materials sector in new Zealand in 2021, 2022 or 2023. There were no companies in the information technology sector in New Zealand in 2023.

Rest of World



Appendix 3: Trend analysis – New Zealand balance dates

The graph below shows the number of New Zealand companies that discussed the impact of climate-related risks in their financial statements by balance date.⁸ Not included in the results are the 18 companies that referred to the forthcoming Aotearoa New Zealand Climate Standards.



⁸ Jul-23 includes Hallenstein Glasson which has a year ended 1 August 2023.

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