



Financial Reporting Webinar Series: ESG Updates and Financial Reporting Implications

Friday, 16 July 2021



Potential impacts on financial statements



	Assets					Liabilities	Capital and financing	Disclosures	
	Asset lives	Impairment	Inventory	Fair value measurement	Financial instruments	Provisions & contingent liabilities	Capital and financing(including going concern)	Financial instrument disclosures	Accounting judgements & estimates
Have you made a net-zero commitment	✓	✓	✓			✓	✓	✓	✓
Do you have polluting assets?	✓	✓				✓			✓
Are you exposed to carbon-related regulation?	✓	✓				✓			✓
Do you have a carbon-related customer base or product base?	✓	✓	✓			✓		✓	✓
Are you required to purchase emissions credits?						✓			✓
Are your financial instruments exposed to climate-related risks?				✓	✓		✓	✓	✓



IFRS® Foundation Meeting investors' needs for sustainability-related information 16 July 2021

Teresa Ko
IFRS Foundation Trustee &
member of the Sustainability
Steering Committee

Public consultation on sustainability reporting (September 2020)

What we asked

- Is there demand for global sustainability standards?
- Should the IFRS Foundation play a role?
- Is the solution a sustainability-focused standard-setting board within the IFRS Foundation?



What we heard

- Growing and urgent demand for a single set of global standards
- Investors need better and globally comparable information on sustainability-related matters
- Prioritise climate risks
- Broad support for Foundation to play a role



Strategic decisions based on feedback received

1. Investor focused on enterprise value

2. Build on existing investor-focused frameworks

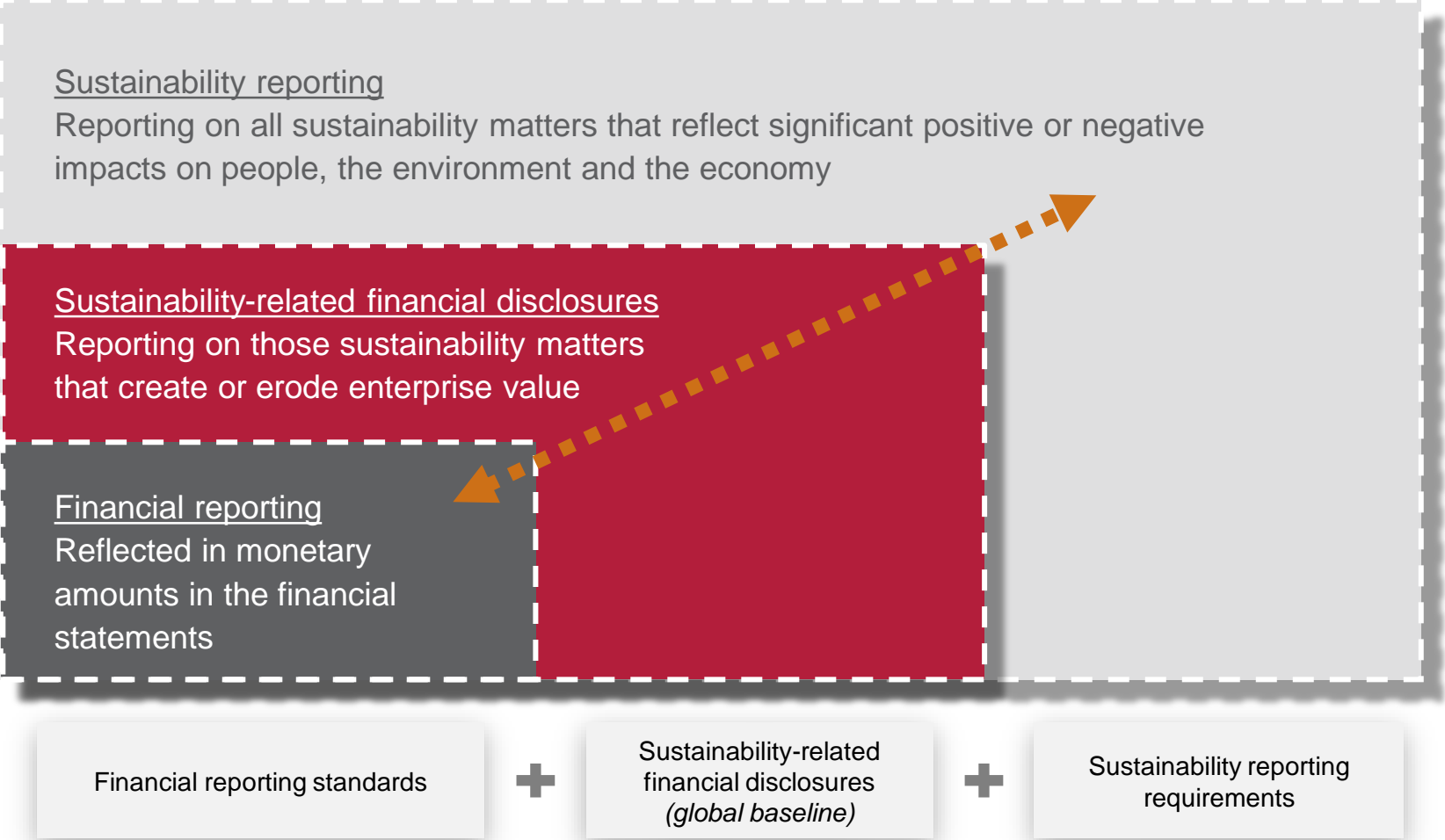
3. Global baseline and building block approach

4. Climate first, not climate only

Build on existing investor-focused frameworks



Global baseline and building blocks



Global Baseline: Endorsement by IOSCO for cross-border offerings and integration into national or regional standard-setting processes, which can occur through various models

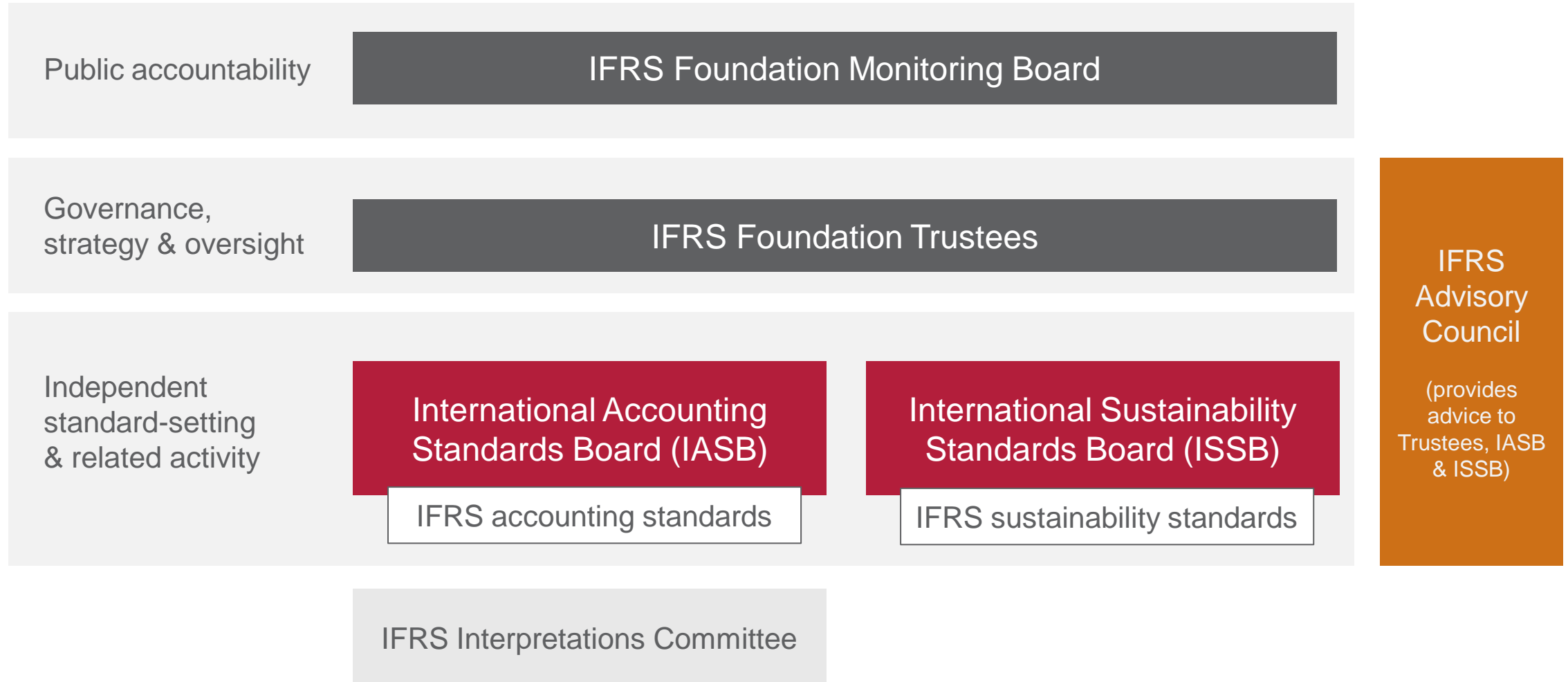
Preparatory working groups and committees

Who	What
Trustees' Steering Committee <i>(Chair: Lucrezia Reichlin)</i>	Strategic direction and project oversight
Multilateral Working Group <i>(Chair: Suresh Kana)</i>	Preparatory work on connection between global baseline of standards set by ISSB and jurisdictional requirements
Technical Readiness Working Group <i>(Chair: Michel Madelain)</i>	Comprising CDSB, IASB, SASB/IIRC, TCFD and WEF, with IOSCO and IPSASB as observers. Objective is to provide ISSB with 'running start'.
Eminent Persons Group <i>(Chair: Jean-Claude Trichet)</i>	Strategic advice and counsel to the Trustees

Eminent Persons Group membership

- Chair:
 - Jean-Claude Trichet, former President of the European Central Bank
- Members:
 - Sheila Bair, former Chair of the US Federal Deposit Insurance Corporation
 - Nandan Nilekani, Chair and co-founder of Infosys
 - Guillermo Ortiz, former Governor of Banco de Mexico; former Chair of the Bank of International Settlements
 - Min Zhu, former Deputy Managing Director of the International Monetary Fund

Proposed ISSB - organisational structure



Consultation on governance and constitutional changes

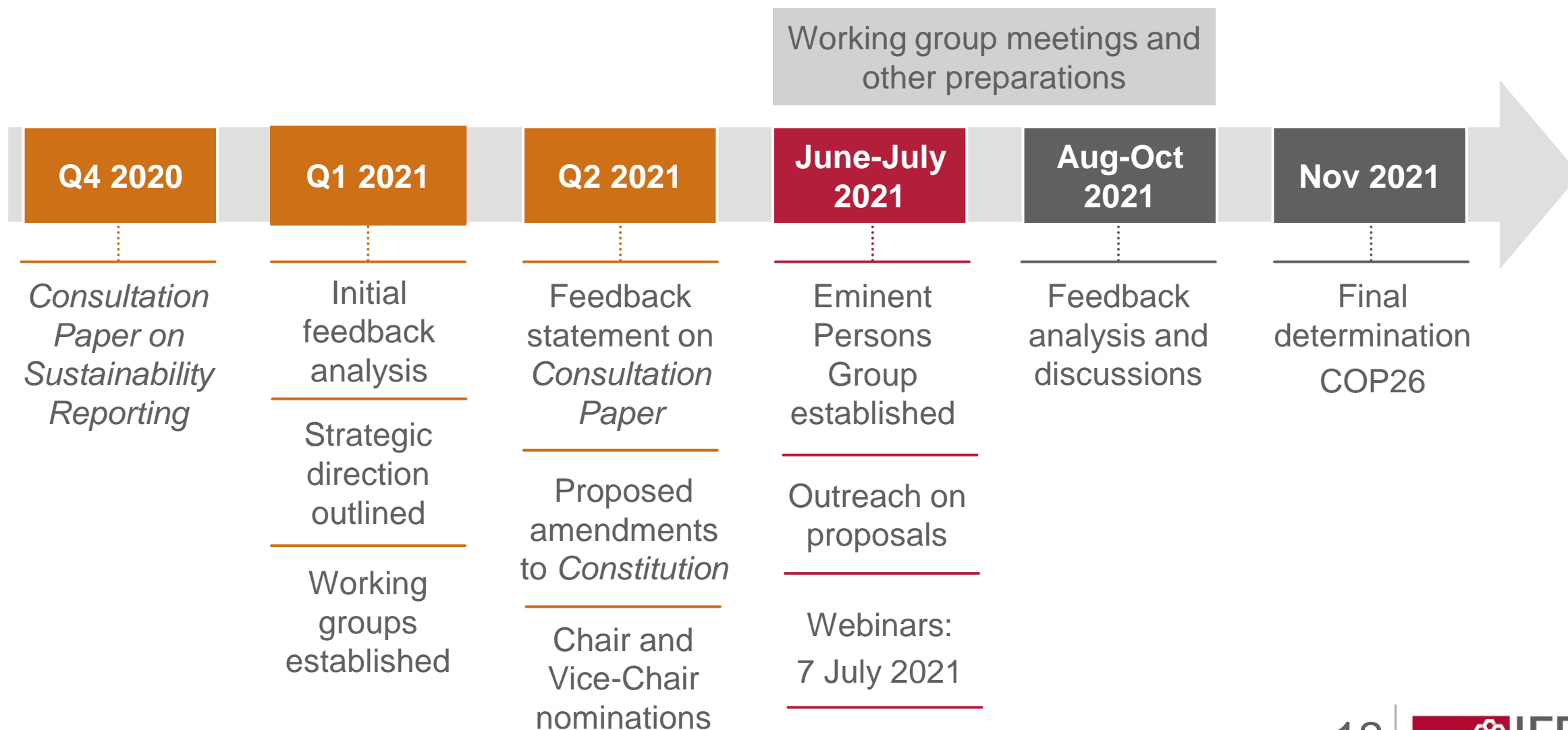


Proposed new ISSB

- 14 board members
- Majority full-time
- Qualifications: professional competence and relevant experience
- Diversity in expertise and geographical balance

Open for comment until 29 July 2021

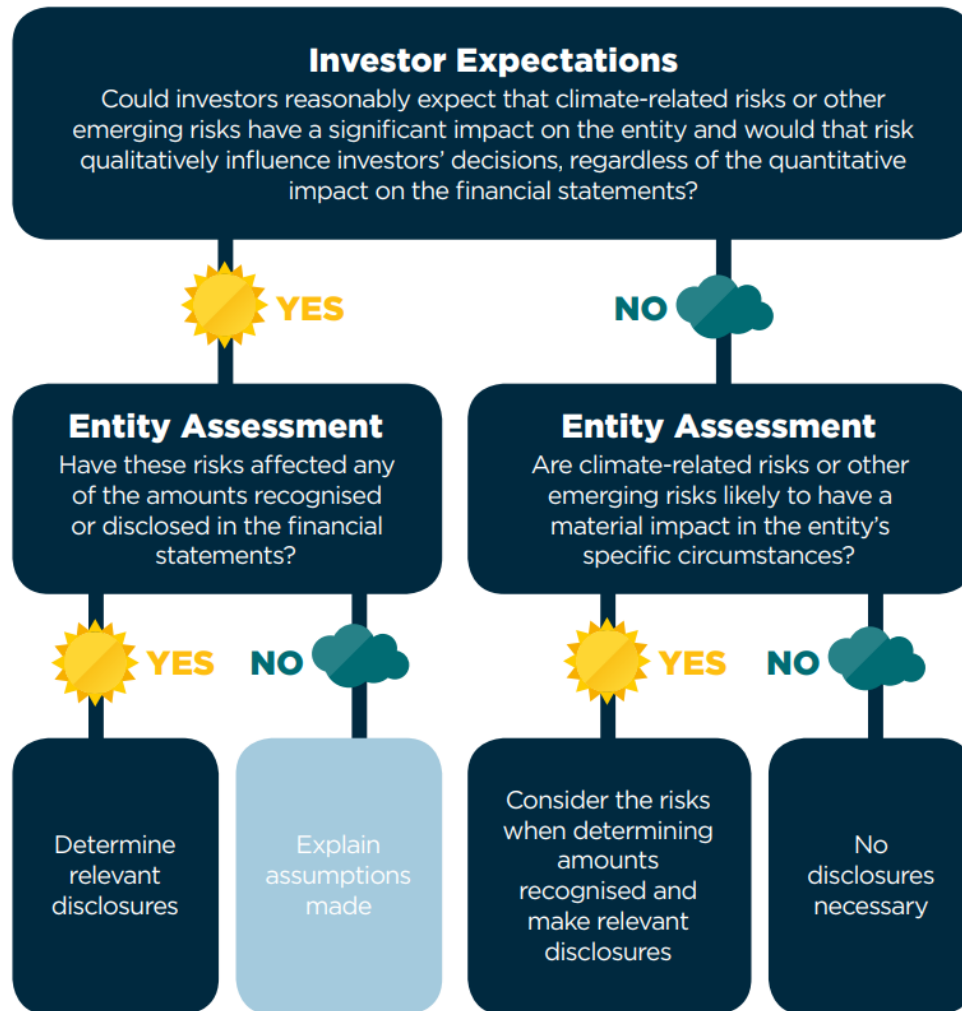
Road to COP26





THANK YOU

What disclosures are material to the financial statements?



Source: [AASB and AuASB Joint Bulletin Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2](#)

Example: scenario analysis and financial impact

6.2.3 Financial Impacts

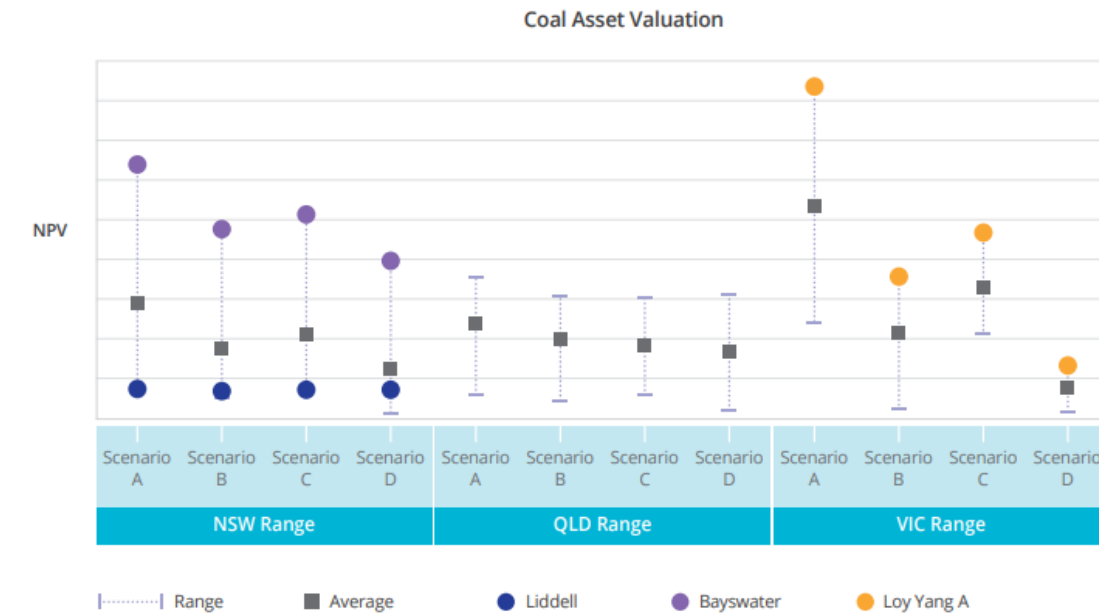
AGL has considered the financial implications of the outcomes of the modelled scenarios in 2050. It is anticipated that the aggregate value of AGL's electricity generation fleet would reduce under scenarios B, C and D.

Should the closure date for Loy Yang A Power Station required under Scenario D arise, this may result in a material reduction to AGL's estimated cash inflows.

While the scenarios discussed represent plausible, distinctive, consistent, relevant and challenging scenarios and are valuable indicative tools for risk and strategic purposes, they do not meet the requirements of value in use impairment testing in accordance with AASB 136 *Impairment of Assets* as the scenarios do not represent a reasonably possible change of a key assumption as at 30 June 2020. As such AGL's assets are not impaired under these scenarios in the context of AASB 136.

Figure 14 outlines the relative impact on the indicative lifetime values of the coal generation assets in the NEM under each scenario.

Figure 14: Impact on overall lifetime value of coal assets in the NEM, all scenarios



AGL anticipates that a rapid transition away from coal generation would place greater reliance on low-cost baseload generators. Accordingly, under all scenarios Bayswater Power Station would remain viable and therefore maintain significant value for AGL to 2035.

The relative values of the assets as outlined in Figure 14 would be dependent on the policy mechanisms which are implemented under each of scenarios B, C and D to achieve the respective carbon constraints. For the purposes of this scenario analysis AGL has intentionally remained policy agnostic utilising a carbon constraint which is manifest as an implied carbon price. However, the specific policy mechanisms that would be applied in order to achieve the modelled trajectories would be likely to materially vary the relative and absolute impacts shown in Figure 14.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Impact of climate change related risk

The recoverable value estimates used in the impairment of assets analysis considers climate change risk through the adjustment of cash inflows associated with the planned closure of AGL's Liddell Power Station. This recoverable value estimate demonstrates that the carrying value of AGL's Group Operations CGU is not impaired.

Management recognises that there is an increased pace of change in the energy industry and associated political landscape and will continue to work towards incorporating quantification of the financial impact of climate change and related policies within AGL's annual financial filings in accordance with Australian Securities and Investments Commission (ASIC), Australian Prudential Regulation Authority (APRA), and Australian Accounting Standards Board (AASB) recommendations.

Notwithstanding the above, any change to the planned closure dates of AGL's coal-fired generation plants as a result of climate

change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows. Similarly, any change to policy in relation to climate change may have a material impact on the National Electricity Market and may result in a material change to AGL's estimated cash inflows.

No impairment loss has been recognised for the Customer Markets, Wholesale Markets or the Group Operations CGUs for the year ended 30 June 2020 (2019: \$nil).

Source: Extracts from [AGL Pathways to 2050 FY 2020 TCFD Report](#) and [AGL FY 2020 Annual Report](#)

Resources



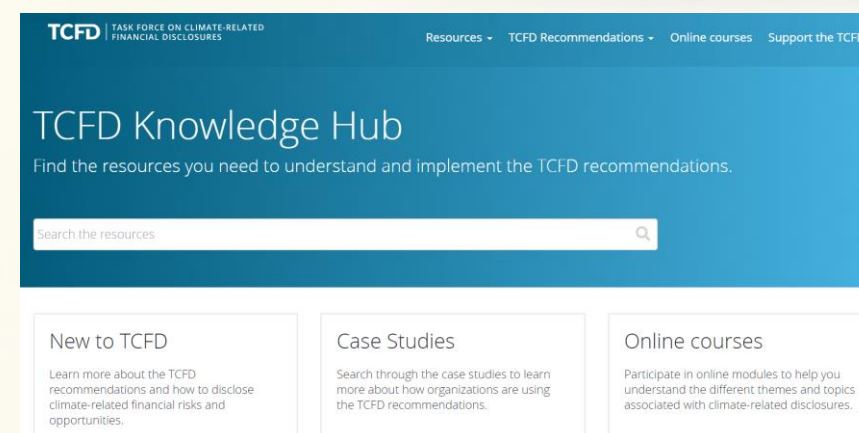
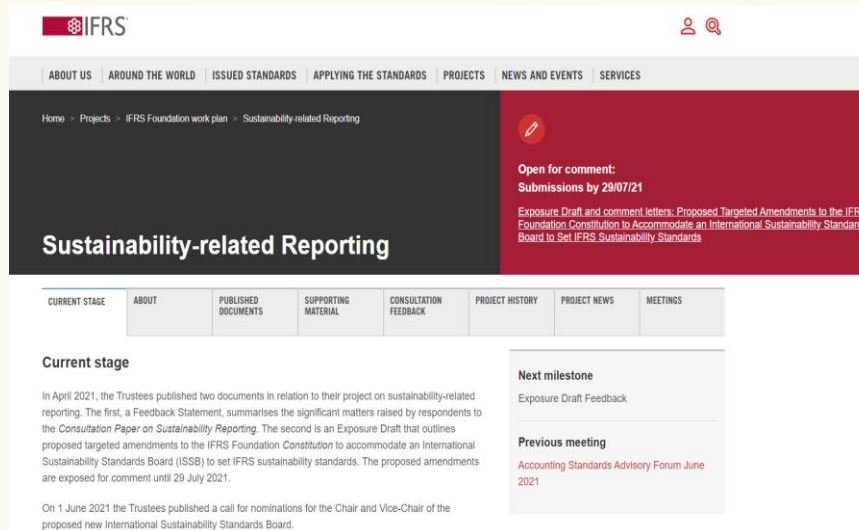
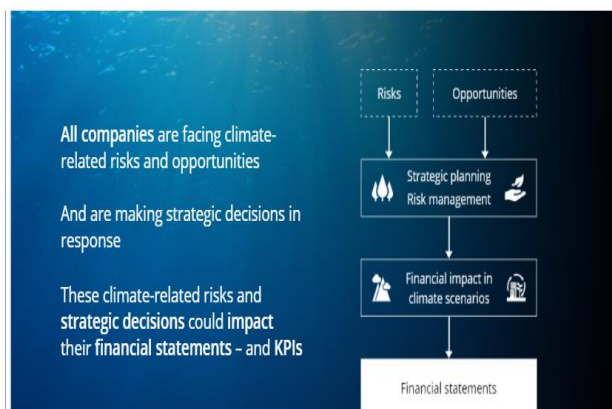
Climate-related risks have financial statement impacts

All companies are facing climate-related risks and opportunities. And are making strategic decisions in response.

These climate-related risks and strategic decisions could impact their financial statements – and KPIs.

Our climate change resource centre provides FAQs to help you identify the potential financial statement impacts for your business.

And the blogs and podcasts explore the issues further – including by sector.



Webinar dates and topics for 2021

- 29 January – Navigating potential accounting fraud
- 19 March – IASB project update - Business combinations under common control
- 14 May – Interim reporting update: What's on the horizon
- 16 July – ESG Updates and Financial Reporting Implications
- TBC September – TBD
- 15 October – TBD
- 19 November – TBD
- 17 December – Year-end reporting reminders



For more details and access to our webinar series:

<https://home.kpmg/cn/en/home/services/audit/ifrs-news/financial-reporting-webinar-series.html>

Speakers



Teresa Ko

IFRS Foundation Trustee &
member of the Sustainability
Steering Committee
IFRS Foundation

E teresa.ko@freshfields.com



Irene Chu

Head of New Economy
and Life Sciences
Hong Kong
KPMG China

E irere.chu@kpmg.com



Pat Woo

Partner
Head of Sustainable Finance
Hong Kong
KPMG China

E pat.woo@kpmg.com



Serene Seah-Tan

Partner
Department of Professional Practice
KPMG China

E serene.seah-tan@kpmg.com





kpmg.com/cn/socialmedia

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