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Submission to the TIG: Quantification of anticipated financial effects

Dear Madam or Sir

On behalf of the Deutsches Rechnungslegungs Standards Committee (DRSC) I am writing to share our view on the conceptual and practical challenges arising from the requirements in IFRS SDS on anticipated financial effects (AFE) for consideration by the Transition Implementation Group on IFRS S1 and IFRS S2 (TIG). We had already briefly touched on this issue in our comment letter of 19 June 2025 on the Exposure Draft *Amendments to Greenhouse Gas Emissions Disclosures*.

The DRSC supports the ISSB in developing sustainability disclosure standards to provide a global baseline, allowing individual jurisdictions to build their reporting requirements based on these standards. We also welcome the work of the TIG to foster consistent application of IFRS SDS.

The disclosure requirements on AFE from sustainability-related risks and opportunities have early on been subject to concerns. Relevant in this context are questions such as the distinction between future effects considered in the financial statements and those AFE to be disclosed according to IFRS SDS. Another question concerns the requirements defined for disclosing AFE according to IFRS SDS, such as the separability of sustainability-related aspects. In our view, the understanding of those questions will have consequences for preparers and their sustainability reporting.

We note that even following the release of accompanying educational material by the ISSB in August 2025 or the submission of EFRAG's technical advice on amended ESRS to the European Commission in December 2025, there is still insufficient clarity on these issues and entities in our constituency are struggling to apply the provisions on AFE. We have therefore expressed our view to EFRAG and the European Commission that, at the very least, the quantification of AFE should not be required until there is sufficient conceptual and methodological clarity.

The DRSC is currently working on an analysis of empirical evidence for AFE disclosures, to get a better understanding of the disclosures expected by the standard setters, and of the (variety of) disclosures provided by preparers. We will be happy to share our findings in future discussions.

We would like to refer you to the appendix. If you would like to discuss our submission further, please do not hesitate to contact me.

Yours sincerely

Georg Lanfermann

President

Appendix

Submission to the TIG:
Quantification of anticipated financial effects

1 Background

1 The main objective of the IFRS Sustainability Disclosure Standards (IFRS SDS), developed by the International Sustainability Standards Board (ISSB), is to provide investors with decision-useful, globally comparable sustainability-related information. The standards are designed to set a global baseline for reporting on sustainability issues that jurisdictions can use as a guide or as a basis for their own regulations. In June 2023 the ISSB issued its first two IFRS SDS, IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* and IFRS S2 *Climate-related Disclosures*. In December 2025 the ISSB published amendments to IFRS S2 in relation to Greenhouse Gas emissions disclosures.

2 In their capacity as a global baseline, IFRS SDS also have an impact on standard setting in the European Union (EU). Based on the Accounting Directive governing corporate reporting in the EU the European Commission (COM) in Juli 2023 adopted a delegated act containing the European Sustainability Reporting Standards (ESRS). According to the Accounting Directive the COM has mandated EFRAG to provide technical advice in preparing the ESRS.

3 The ISSB and EFRAG have conducted joint efforts to examine similarities and differences between ESRS and IFRS SDS. This project culminated in the “ESRS-ISSB Standards Interoperability Guidance” published in May 2024 by both bodies. The guidance illustrates the high level of alignment achieved between IFRS SDS and ESRS. It further outlines how entities can apply both sets of standards.

4 In February 2025, the COM published its first omnibus proposal on reducing red tape for undertakings. According to the COM’s mandate as of March 2025, EFRAG submitted its technical advice to the COM on 3 December of the same year. One of the objectives was to further align ESRS with IFRS, in this spirit EFRAG also suggests an alignment with regard to AFE.

5 Specifically on anticipated financial effects, in August 2025 the ISSB has released educational material to support entities in meeting the respective disclosure requirements of IFRS S1 and IFRS S2.

2 Current reporting requirements on anticipated financial effects in IFRS SDS

6 IFRS S1 requires an entity to disclose information to enable users of the reports to understand current and anticipated effects of sustainability-related risks and opportunities in the context of the entity's strategy (IFRS S1.29), the entity's business model and value chain (IFRS S1.32). Furthermore, in addition to this more general information about anticipated effects the standard requires an entity to disclose anticipated effects on its financial position, financial performance and cash flows, which is referred to as anticipated financial effects (IFRS S1.34, further referred to as "AFE"). More specifically, the information on AFE shall include qualitative and quantitative information (IFRS S1.35) based on all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort and using an approach that is commensurate with the skills, capabilities and resources that are available to the entity (IFRS S1.37).

7 Following this requirement paragraphs 38 and 39 IFRS S1 address explicit reliefs from the requirement to provide quantitative information on current and anticipated financial effects: An entity need not provide quantitative information about financial effects of a sustainability-related risk or opportunity if those effects are not separately identifiable, or if the level of measurement uncertainty is so high that the resulting information would not be useful. Quantification is also not required if the entity does not have the skills, capabilities or resources to provide that quantitative information (proportionality mechanism).

8 IFRS S2 specifies the aforementioned disclosure requirements for the climate change aspect but to our understanding does not contain additional requirements.

3 Conceptual and practical challenges

3.1 What are AFE in the context of sustainability related disclosures and do they differ from information provided in financial statements?

9 IFRS SDS do not contain an explicit definition of the term "anticipated financial effects", however, we understand IFRS S1.34 and .35 to suggest that the term is meant to capture effects on an entity's future financial position, financial performance and cash flows that have not yet been recognised in current financial statements but are anticipated to be recognised in future periods. However, reporting practice reveals that it is very challenging to identify what the subject matter of the disclosure is in the context of sustainability disclosures as opposed to information provided in the financial statements.

10 This is because IFRS Accounting Standards already require

(1) consideration of future financial effects – that might be understood as "anticipated" – for recognition and measurement which are mirrored in the information provided in line items of the financial statements,

(2) disclosing such effects as part of the notes (which are integral part of the financial statements) if these are key assumptions for measuring assets or liabilities presented in line items of the financial statements,

(3) disclosing effects on the information provided in line items of the financial statements in case of possible changes in the assumptions underlying the measurement.

11 For an entity to determine the amount for an asset or a liability recognised in the statement of financial position, IFRS Accounting Standards provide dedicated measurement guidance. For example, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* contains requirements for the recognition and measurement of provisions. According to para 10 of IAS 37 provisions are liabilities of uncertain timing or amount. Para 36 of this standard requires an entity to measure such uncertain liabilities based on the "best estimate" of the expenditure to settle the obligation at the end of the reporting period. In identifying the best estimate, future events must be taken into account if they may affect the expenditure to settle the obligation (IAS 37.48).

12 Another example is the information to be provided in financial statements on the impairment of asset as set out in IAS 36 *Impairment of Assets*. Assets or so-called cash generating units are tested for impairment by comparing their carrying amount with their recoverable amount. An asset is impaired when the asset's carrying amount exceeds its recoverable amount, whereby the latter is, in accordance with IAS 36.6, the higher of the fair value less costs of disposal and the value in use of the asset or cash-generating unit. The value in use is calculated on the basis of estimated future cash flows, expectations about possible variations in the amount or timing of those cash-flows and other aspects (para 30 of IAS 36). Para 134 of IAS 36 further requires disclosure of the key assumptions on which cashflow projections are based and many related aspects that also are considered anticipated financial effects. These disclosures are made in the notes which constitute an integral part of the financial statements. In addition, the standard also makes it clear that these assumptions must be consistent with the entity's internal financial planning.

13 Even comparatively straightforward accounting methods, such as the measurement of an asset at amortised cost, involve assumptions on future aspects, such as assumptions about the useful live of the asset to determine the amount of yearly amortisations and future carrying amounts. Changes in these assumptions lead to corresponding changes in the carrying amount and depreciation amounts.

14 IFRS accounting standards also require disclosure of information about current or future financial effects that could influence the carrying amount of assets or liabilities on the statement of financial position if certain assumptions relevant to the valuation measurement change. An example of this is the provision of IAS 36.134. According to point (f) of this para, the financial effect on the carrying amount has to be disclosed if a change in a key assumption for measuring the recoverable amount is reasonably possible.

15 Furthermore, IFRS S1.35 requires disclosure of quantitative and qualitative information about sustainability-related risks and opportunities for which there is a significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statement. The ISSB Educational material on AFE released by the ISSB in August 2025 highlights this requirement as an example of the connection to the financial statements. This seems plausible because IAS 1.125 – now IFRS 18.31A – contains a similar requirement for notes disclosures. However, this raises the question of whether or not IFRS Accounting Standards and IFRS SDS require the same or different information in this context.

16 To summarise, IFRS Accounting standards require consideration of future anticipated financial effects for the measurement of assets and liabilities which are recognised in the statement of financial position. They further require note disclosures about the assumptions concerning future events including reasonably possible changes in assumptions. This information also includes, logically, information about AFE. Future effects are inherent to the amounts recognised for assets and liabilities in “today’s” financial statements because those future effects determine the value of assets and liabilities as of today to a great extent – they mirror the expectation of future developments.

17 In this respect we note that the ISSB’s educational material on page 7 states that “Information in the notes to the financial statements might explain how sustainability-related risks and opportunities have affected an entity’s current financial position, financial performance and cash flows”. We wonder if this statement should be expanded because information in the notes also includes a considerable amount of information explaining the entity’s expectation about future developments and risks and opportunities and how those may affect the entity’s future financial position, financial performance and cash flows.

Considering the aforementioned observations, the following question arises on which we fail to derive a sufficiently clear answer in IFRS S1 as well as in the educational material:

- Does IFRS S1 require disclosure of AFE that go beyond (1) what is already disclosed in financial statements – including the notes – according to IFRS Accounting Standards and (2) what is already considered as input for recognition and measurement in the statement of financial position or statement of financial performance. The guidance on commitments on page 7 of the educational material does not seem fully conclusive as it refers to the statements of financial position, financial performance and cash flows but not to the notes which are integral part of the financial statements according to IFRS 18.10.
- In other words: Does an entity have to disclose anticipated financial effects that are not already to be disclosed in the financial statements, either separately (e.g. a provision for remediation of soil polluted by the entity) or included in other effects (e.g. an impairment of an asset

triggered by (1) a change consumer behaviour, and (2) increasing climate hazards limiting the operation of distribution facilities)?

- If the disclosures on AFE required by IFRS S1 do not go beyond the information provided in financial statements according to IFRS Accounting Standards, the disclosures required by IFRS S1 would consist of references to the financial statements. These will be helpful nevertheless to provide context for the sustainability statement. However, it raises the question whether this is the expectation of the IFRS SDS.

18 This question is even more prevalent in the EU: In accordance with EU legislation governing the entities' annual financial reporting in the EU, in the management report – as one specific element of corporate reporting governed by that legislation – entities provide disclosures to ensure a suitable understanding of the entity's likely future development, and the material opportunities and risks associated with this development.

19 According to German Accounting Standard 20 *Management reporting* (GAS 20), information on an entity's likely future development comprises, for example, disclosures on the continuation of significant investment projects as part of the disclosures on capital expenditures. In addition, if an entity considers capital expenditures as being a relevant financial key performance indicator for the management, that KPI is even required to be forecasted in the context of the disclosures on the entity's likely future developments. Furthermore, the information on material risks and opportunities associated with an entity's likely future development are typical information disclosed in the so-called risk report, a section in the management report addressing risks that the entity faces. The main source for the underlying information from which disclosures on the entity's likely future development are derived, are the entity's internal financial planning and the internal risk management which comprise both, quantitative and qualitative forward-looking elements. These disclosures also provide information on financial effects that the entity considers for the future, i.e. "anticipated" effects.

3.2 "Anticipated" in the context of the probability concept of IFRS Accounting Standards

20 The concept of probability – e.g., in relation to future cash inflows or outflows – is used in IFRS Accounting standards as a criterion for the recognition of assets and liabilities. As such the concept is an important element of information being decision useful, according to IFRS Foundation's Conceptual Framework for Financial Reporting.

21 For example, the fundamental characteristic "relevance" in the context of recognition criteria depends on future cash flows being probable (see para 5.12 of the Conceptual Framework). For the accounting of property, plant and equipment, para 7 of IAS 16 states that an item shall be

recognised as an asset, only if: “it is probable that future economic benefits associated with the item will flow to the entity”. Furthermore, the standard involves the concept of reliability as the second condition: “and the cost of the item can be measured reliably”. As another example, para 14 of IAS 37 states that a provision is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the [present] obligation; and when a reliable estimate can be made of its amount. It should be noted here that, first, the existence and value of assets and liabilities depend on future cash flows, and second, these cashflows should not be assumed arbitrarily, they must have (at least) the features “probable” and “reliable”.

22 The condition of existing probability of resource outflows is also relevant for the notes. As another example, IAS 37 distinguishes between provisions and contingent liabilities. Contingent liabilities are either possible obligations whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or present obligations for which either an outflow of resources is not possible, or the amount of that obligation cannot be measured with sufficient reliability. Contingent liabilities are, therefore, not recognised in the statement of financial position. However, if the condition “probability of an outflow of resources” is met, disclosures about contingent liabilities are required in the notes, for example, an estimate of their financial effects. These effects will typically occur in the future and can, therefore, deemed “anticipated”.

23 For sustainability related future financial effects to be disclosed IFRS S1 explicitly refers to the attribute “anticipated” in the section “Financial position, financial performance and cash flows” but does not contain a discussion on the probability of inflows or outflows occurring. Instead, the section “Sustainability-related risks and opportunities” of IFRS S1 introduces the concept *“reasonably expected”* as a prerequisite for disclosures on risks and opportunities. Even though the term “probability” is not mentioned in the guidance on AFE disclosures, it could be assumed that, nevertheless, “reasonably expected” is meant to constitute a probability criterion for disclosures on AFE but this is not clear from the standard.

24 As a result, the following questions arise:

- Whether and how do the concepts “anticipated” and “reasonably expected” of IFRS S1 interact with the concepts of “probability” and “reliability” as is the case with IFRS Accounting Standards, e.g., with IAS 36 and IAS 37?
- How can an entity demonstrate whether the criterion ”reasonably expected” is met or not:

  (a) by reference to the entity’s financial planning, or

  (b) by reference to the relevance of the information for the entity’s governing bodies, i.e. the management, or

  (c) by any other aspect?

3.3 The criterion of "separate identifiability"

25 IFRS S1 contains a proportionality mechanism designed to help entities in preparing AFE disclosures, taking into consideration both the nature of the information and resource availability and state of preparedness. These mechanisms shall support entities in the first years of application of ISSB Standards as they build capabilities over time. One element of this mechanism is the relief from providing quantitative AFE disclosures in case the effects are not separately identifiable, according to IFRS S1.38(a).

26 Although this simplification appears reasonable at first glance, as we understand the feedback received from entities, it would generally result in entities not providing quantitative information on AFE. Practice reveals that although financial effects can be quantified for short term forecasts, even in these cases it is hardly possible to separately identify those effects stemming from sustainability matters in general or even from individual sustainability aspects. This is because although entities also draw up their internal financial planning in a fully integrated and holistic manner, thereby drafting future statements of financial position, statements of financial performance and statements of cashflows, they do not allocate the planned financial effects to financial or sustainability aspects as this is not possible in the very most cases. Moreover, financial planning of entities reflects determining factors that can, but do not necessarily have to, include sustainability-related aspects.

27 In most cases, it is not possible to separate the effects associated with sustainability issues in practice. For example, planned investment projects are in most cases motivated by both sustainability aspects and other aspects, such as strategic and business decisions, mergers & acquisitions, price development etc. Another example, shrinking revenues in certain markets resulting from a change in consumer behaviour arise for a variety of reasons including increased consumer awareness of the entity's products' ecological footprint, higher production costs, increasing complexity of distribution channels, etc.

28 Therefore, in practice it is hardly possible to separate the sustainability related part of a future financial effect from other effects. As a result, entities will report qualitative AFE only.

29 In our view, providing decision-useful information about AFE requires the development of appropriate application practices, which are not yet sufficiently advanced at this stage. In particular, the separability of financial effects requires measurement methods that do not yet exist. Entities have reported back that they are already working intensively on the reporting requirements on AFE, including in preparation for the reporting in accordance with ESRS, but are facing tremendous challenges due to the lack of practices and methods and see themselves unable to quantify AFE under the existing framework.

3.4 The case of (too) high measurement uncertainty

30 According to IFRS S1, even a high measurement uncertainty should not prevent or exempt an entity from providing quantitative information on AFE. IFRS S1.77 requires an entity to "identify the amounts that it has disclosed that are subject to a high level of measurement uncertainty" and para 79 states that "Even a high level of measurement uncertainty would not necessarily prevent such an estimate from providing useful information." However, para 38 (b) exempts the entity to provide quantitative AFE disclosures if "the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful."

31 The Conceptual Framework for Financial Reporting contains similar guidance in paras 2.19 and 2.22. As a result, this raises two questions:

- Do the same concepts apply to sustainability disclosures in accordance with IFRS SDS as to financial statements in accordance with IFRS Accounting Standards?
- If the concepts are to be understood similarly, which information is required by IFRS SDS beyond references to the financial statements and details on information provided in the financial statements?

4 Analysis of the ISSBs educational material

32 Looking at the illustrations provided in the educational material in more detail and analysing the resulting practical questions we believe that there is a need for additional discussion and guidance for the practical application of the IFRS S1 and S2 requirements on AFE disclosure.

4.1 Illustration A

33 We agree with the assumption in the fact pattern that the entity might determine to have to provide information on the carrying amount and depreciation of the assets, which sustainability information would then cross-reference to.

34 However, practical experience shows that entities rarely assume to have investments plans for the next 20 years that live up to the level of reliability that IFRS S1/S2 seem to require. There is typically a high level of measurement uncertainty for such estimates and – in the absence of any other specifications - entities are very likely to regard the level of certainty as not sufficient, i.e. a level of uncertainty that is "so high that the resulting quantitative information would not be useful". As such information would consequently not be considered useful the entity would not be able to provide quantitative, but only qualitative information. In rare cases the measurement certainty might be at a sufficient level to disclose the information, if, for example, the entity has signed investment contracts. It needs to be noted, however, that IAS 16.74(c) already requires information of contractual commitments for the acquisition of PPE.

35 Furthermore, even strategic decisions made by the management regarding future investments over such a long timeframe might not result in the necessary measurement certainty. These considerations apply at least for long-term, but possibly also for medium-term quantitative information.

36 Furthermore, illustration A refers to the "*expectation*" that the entity will make these investments and implies that the expectation therefore fulfils the necessary probability level to trigger a disclosure requirement. As mentioned above, IFRS Accounting Standards have requirements regarding the statement of financial position ("probable") and the notes ("possible") or non-disclosure (e.g. only "remote"); the educational material refers to "reasonable expectations" which are necessary for disclosures. However, the current understanding of entities and other stakeholders is, that expectations can either result in probable, possible or less than remote outcomes for investments (or another level of probability). Therefore, entities need clarifications of the level of probability that meets the ISSB’s understanding of “reasonably expected” and triggers the disclosure requirement.

37 In addition, as mentioned in section 3.3 of this submission, entities have reported back that – unlike in the example A – investment decisions typically are not based on one factor (i.e. sustainability aspects such as the climate-related risk) but typically include a wide range of considerations. Therefore, it will in practice be very difficult to separate "sustainability related investments" from general investment decisions which are embedded in the business model and the strategy of the entity. As the criteria to separately identify these investments is not fulfilled, the disclosure – once more – would be qualitative, rather than quantitative. This is irrespective of the time horizon.

4.2 Illustration B

38 We agree that the entity can disclose information on the risk of increasing insurance premiums. For European entities subject to the Accounting Directive, this could be part of the risk report, if a material consideration of the management’s internal risk assessment. The sustainability information could include a reference to that risk report. However, as before this illustration raises the question of the level of measurement uncertainty of data that the entity determines just by extrapolating today's data to a time horizon of 10 years.

39 In addition, it might also be a relevant question how the entity adapts its strategy to this climate-related risk. It would be reasonable to expect that the entity performs impairment tests for these assets, considering the expectations for the future development and a possible change in its business strategy. This might involve establishing stores in different areas, the development of new markets, higher focus on existing stores in other regions, even a different product portfolio etc. Although these decisions would be influenced by the climate-related risk, they also involve various

other considerations (such as new market trends, product developments, redesign of distribution channel). The consequences of these decisions are, again, not likely to be attributable separately to climate-related risks and would therefore also result in qualitative information only. As it is currently not clear which aspects AFE should specifically address, the disclosures across entities in similar circumstances are likely to differ significantly (examples might be: “no disclosures” disclosures on development of insurance premium only, disclosures on revenue, operating results, cashflows expectations, or disclosures on adaption of the strategy and the financial effects involved, e.g. in relocations). Concluding, comparability across entities will be difficult to achieve.

40 To address a more specific example for the current lack of clarity: Even if an entity was to determine effects on future revenues and earnings there is currently no common understanding as to which developments to disclose. Is the entity expected to disclose the anticipated effects on revenues and earnings (decreases) due to moving stores to other areas or would instead be disclosures more relevant on anticipated effects on future revenues and earnings (increases) from opening new stores in other areas or opening new distribution channels or would a mixture of both be adequate? Currently, there seems to be no further guidance to ensure comparability of information across entities.

4.3 Illustration C

41 We agree with the conclusion of Illustration C that long term effects are too uncertain to provide decision-useful quantitative information to investors. We can also understand the analysis and conclusion regarding the short-term horizon. However, while a 3–6-year time horizon might result in information with a sufficient level of measurement uncertainty (note: the level of measurement uncertainty could also often be “too high” for decision-useful information), operating results are typically subject to more factors, including possible price increases for scarce agricultural products. In addition, changes in prices are also often subject to more than one factor (e.g. increased demand, which could result in possible higher prices for customers). The illustration is currently silent on how to determine that separably identifiable effect of CU 16-18m per year and about which anticipated financial effect to consider and which not. From the feedback we received such financial effects are not usually specifically assignable to just one factor. The criterion of separately identifiability would not be met and hence only qualitative information provided.

42 Furthermore, the focus on costs and the increase in price for this entity purchasing the product seems to exclude a number of other aspects such as price increases which the entity will pass on to the customer.

43 In addition, for European entities subject to the Accounting Directive, the risk of changes in prices, revenues, operating results due to these expected developments would be subject to the risk report as part of the management report.

44 Last, but not least, it seems reasonable to assume that entities in the situation described will attempt adopting its strategy or its product portfolio, at least, whereas the illustration assumes that the entity continues to produce and sell the rice in its current specifications, only. If, on the other hand, purchase contracts or commitments exist, the entity would have to measure these commitments and report about those accordingly.

45 As a result: the much more complex environment that entities operate could likely result in financial effects not being separately identifiable or not measurable at a level of sufficient certainty. This would result in qualitative information only.

4.4 Illustration D

46 We agree with the conclusion in the Illustration D that only qualitative information is disclosed under these circumstances and that the effects are not separately identifiable.

4.5 Illustration E

47 We understand the intention and conclusion of Illustration E. Nevertheless, we would like to note that entities have reported back that it will not be an option for them to refer to the applicability of a "proportionality mechanism" as the managements' expectation as well as the market's expectation will be to comply with all requirements.