

When numbers matter

Anticipated financial effects requirements in AASB S2

AASB S2 *Climate-related Disclosures* (AASB S2) require entities to disclose quantitative and qualitative information about the anticipated financial effects of climate-related risks and opportunities, subject to certain mechanisms and reliefs in the standard.

In preparing disclosures about anticipated financial effects, entities should keep the following points in mind:

- The requirements relating to the anticipated financial effects of climate-related risks and opportunities are designed to produce information that complements information provided in the related financial statements, identifying and explaining the connections between climate-related risks and opportunities and the information reported in those financial statements. These requirements respond to investors' information needs
- Quantification in this area is an emerging practice, and approaches are expected to mature over time as entities apply the requirements
- A variety of internal and external information sources may be relevant and useful in determining the anticipated financial effects of climate-related risks and opportunities. Certain information is always considered to be available without undue cost or effort
- In common with financial reporting, estimation is a necessary part of climate-related financial disclosures
- To assist entities in applying the requirements relating to anticipated financial effects, AASB S2 includes proportionate approaches for preparing information and relief mechanisms that may be used in specified circumstances
- If an entity makes use of the relief from providing quantitative information, qualitative information is still required.

"The most effective disclosures move beyond describing uncertainty to explain how management is quantifying the expected financial effects of climate impacts and why that information matters to investors"

Moana Overton
Accounting and Corporate Reporting Lead Partner

Background



Investors are interested in how climate-related risks and opportunities may affect the financial position, financial performance and cash flows of a business in which they have invested or may invest. The requirements in AASB S2 to disclose information about the anticipated financial effects of climate-related risks and opportunities respond to this need. These requirements are designed to produce information that complements information provided in the related financial statements by identifying and explaining the connections between climate-related risks and opportunities and information reported in the financial statements.

What do Australian Sustainability Reporting Standards require?

AASB S2 requires an entity to disclose information about the anticipated effects of climate-related risks and opportunities on its financial position, financial performance and cash flows over the short, medium and long term, taking into consideration how those risks and opportunities are reflected in the entity's financial planning (anticipated financial effects). Disclosures about anticipated financial effects should include **qualitative and quantitative** information about how the entity expects its financial position, financial performance and cash flows to change over the short, medium and long term, given its strategy for managing climate-related risks and opportunities.

- For anticipated financial effects on **financial position**, the information disclosed takes into consideration investment and disposal plans (including plans not yet contractually committed to) and planned sources of funding to implement the entity's strategy
- For anticipated financial effects on **financial performance and cash flows**, the information disclosed may include, for example, expected changes in revenue from lower-carbon products and services, costs arising from physical damage to assets and expenses associated with adaptation or mitigation plans.

When providing quantitative information, an entity may disclose either a **single amount or a range**.

Observation
Given the forward-looking nature of anticipated financial effects, preparing these disclosures inherently involves estimation. Information relating to the long term is likely to involve greater estimation and uncertainty than information relating to the short term.

An entity is not required to provide point estimates: it may disclose a range. A range may be more useful than a single amount when it better reflects the nature of the available information and the degree of estimation uncertainty. Quantitative information is often expressed as a monetary amount, but may also take the form of percentages, ratios or multiples.

Connections



The anticipated financial effects disclosure requirements respond to investors' need to understand the connections between an entity's climate-related risks and opportunities and its financial statements. In the context of climate-related risks and opportunities, an entity should present information about their anticipated financial effects in a manner that connects that information with other disclosures, including:

- Other climate-related risks and opportunities
- Other information required by AASB S2, such as information about the entity's strategy and decision-making, transition plan, and climate-related metrics
- The related financial statements.

To present information in a connected manner, an entity may, for example, provide all the information required for a given climate-related risk or opportunity in one place. This approach can provide a holistic narrative about that risk or opportunity, rather than structuring the disclosures according to the order of the requirements in AASB S2.

AASB S2 specifically requires an entity to disclose information about any climate-related risks and opportunities for which there is a significant risk that the carrying amounts of assets and liabilities reported in the related financial statements will be materially adjusted within the next annual reporting period. This is similar to the requirements in Australian Accounting Standards to provide: '…information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.' This illustrates how information in the financial statements and anticipated financial effects may be related.

If information in the notes to the related financial statements is relevant to the anticipated financial effects disclosure requirements, an entity need not report that information in its climate-related financial disclosures. Instead, the entity may cross-reference to the related financial statements, subject to the specific requirements set out in Appendix D of AASB S2.[1]

Observation

Anticipated financial effects disclosures are intended to complement the related financial statements. Accordingly, entities should consider whether the data and assumptions used in preparing climate-related financial disclosures are consistent, to the extent possible, with those used in preparing the related financial statements and other financial planning processes. Where differences exist, entities should consider explaining those differences to help users understand the relationship between the climate-related financial disclosures and the financial statements.

[1] Paragraph [D]B45 of AASB S2 states that material information can be included in an entity's climate-related financial disclosures by cross-reference, provided that the cross-referenced information is available on the same terms and at the same time as the climate-related financial disclosures; and the complete set of climate-related financial disclosures is not made less understandable by including information by cross-reference.

Sources of information about anticipated financial effects



An entity is not limited to using particular types of data or inputs when preparing information about anticipated financial effects. Information may be derived from internal and external sources. Internal data sources may include the entity's risk management processes or other reports and statistics. External data sources may include public databases, industry and peer group experience and external ratings.

In identifying reasonable and supportable information, entities consider all information that is reasonably available to them, including information they already have. In addition, entities:

- Need only use information that is available at the reporting date, including historical, current or forward-looking information (such as forecasts of future conditions)
- Cannot disregard information that is known or publicly available
- Need an appropriate basis for using the information.

Sources that may be useful in determining anticipated financial effects and are always considered available to an entity without undue cost or effort, include information used:

- In preparing financial statements
- In operating the business model
- In setting strategy
- In managing risks and opportunities.[2]

Another useful source of information may be climate-related events that have affected the entity during the reporting period, such as floods, bushfires, heatwaves, cyclones or other extreme weather events. Information about costs incurred as a result of such events may provide a reasonable basis for developing estimates or ranges of anticipated financial effects of climate-related risks and opportunities.

Examples include:

- Insurance cost increases
- Asset damage or business interruption costs from severe weather events
- Changes in energy costs and mix
- Carbon compliance costs
- Remediation and recovery expenditure.

Because information about anticipated financial effects takes an entity's financial planning into account, investment and strategic plans for responding to climate-related risks and opportunities may also be useful sources of information about anticipated financial effects. These plans may provide relevant insights and data points to support quantification of anticipated financial effects. Although some entities may choose to establish separate models specifically for climate-related risks and opportunities, useful, reasonable and supportable information does not need to be derived from standalone plans. For example, many entities incorporate climate-related considerations into entity-wide budgets and financial decision-making. Notably, plans do not necessarily need to be committed plans to be considered relevant inputs when preparing information about anticipated financial effects.

[2] AASB S2 Appendix D paragraph [D]B9 includes a list of information that is considered to be available to the entity without undue cost or effort.



When considering how climate-related considerations are included in financial planning, the following may be relevant sources of information:

- Planned adaptation or resilience expenditure
- Decarbonisation programmes
- Infrastructure upgrades or fleet replacement programmes
- Energy efficiency investments
- Forecast purchases of carbon credits or other compliance instruments
- Investment in and disposal of assets in climate-exposed asset classes.

When these expenditures have been approved, budgeted or included in strategic or operational plans, quantitative information may provide decision-useful insight into anticipated financial effects. The extent to which climate-related matters are integrated into financial planning may influence the nature and depth of the disclosures. For example, if an entity has developed a robust response to climate-related risks and opportunities as part of its financial planning, more and higher-quality information about anticipated financial effects is likely to be available to inform the disclosures.

Observation

The outputs of scenario analysis may provide a source of information for assessing anticipated financial effects by informing the inputs and assumptions used in quantitative estimates. Scenario analysis helps highlight how events and conditions may evolve under different plausible futures and over different time horizons.

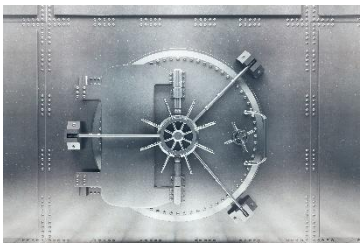
For example, if management has identified a range of outcomes under multiple scenarios, the entity could consider the following questions when identifying information relevant to estimating anticipated financial effects:

- Do the scenario outputs provide a basis for identifying a range of potential financial consequences that management can use as a starting point for developing its expectations?
- Are any outcomes common across the scenarios?
- Do any variables or assumptions exhibit lower variability or sensitivity across the scenarios?
- Do management's assumptions about adaptation or mitigation strategies narrow the range of outcomes?
- Could the entity disclose sensitivities or directional estimates?

Observation

AASB S2 Appendix D:77 requires an entity to disclose information to enable users of general purpose financial reports to understand the most significant uncertainties affecting the amounts reported in its climate-related financial disclosures. Given that estimation and measurement uncertainty are inherently part of disclosures about anticipated financial effects, an entity may determine that it is required to provide information pursuant to AASB S2 D:77, including the sources of measurement uncertainty, and the assumptions, approximations and judgements it has made in measuring its anticipated financial effects. To support this, entities should ensure that they have a reasonable basis of preparation and an appropriate level of governance over these disclosures.

Mechanisms and reliefs



Determining the anticipated financial effects of climate-related risks and opportunities is inherently complex. Practice in this area is still emerging, and the assessment may involve a high degree of estimation and measurement uncertainty. It may also be difficult to isolate the anticipated financial effects attributable specifically to climate-related factors when multiple factors affect a business's prospects in a particular area. To assist preparers in providing this information, the AASB has incorporated a range of proportionality mechanisms and reliefs into the standards.

Proportionality mechanisms

AASB S2 contains **proportionality mechanisms** that are available to an entity when providing information about anticipated financial effects:

- **Undue cost or effort**—the use of all reasonable and supportable information available to the entity at the reporting date without undue cost or effort
- **Skills, capabilities and resources**—the use of an approach commensurate with the skills, capabilities and resources available to the entity.

The 'undue cost or effort' proportionality mechanism is intended to assist an entity by not requiring it to conduct an exhaustive search to identify and collect information. However, the entity is responsible for ensuring that it has used all reasonable and supportable information available at the reporting date without undue cost or effort. As noted above, information used in preparing an entity's financial statements, operating its business model, setting its strategy and managing risks and opportunities is always considered available without undue cost or effort.

The 'skills, capabilities, and resources' proportionality mechanism ensures that the requirements applying to an entity are proportionate to its circumstances and helps the entity determine the methodology to use in preparing qualitative and quantitative information.

Observation

The proportionality mechanisms affect the extent and complexity of the information-gathering and preparation effort expected of an entity; they do not remove the disclosure requirement. They are available to ensure that an entity's approach, including the cost and effort involved in preparing disclosures about anticipated financial effects, is proportional to its circumstances.

Use of historical information

Historical information may be relevant to identifying climate-related risks and opportunities and may also inform the assessment of anticipated financial effects of climate-related risks and opportunities.

The Australian Securities and Investments Commission (ASIC) has highlighted the relevance of historical information. In a report **REP 839** setting out its observations of sustainability reports lodged for 31 December 2025, ASIC noted that entities should be mindful that 'reasonable and supportable' information includes information about 'past events, current conditions and forecast future conditions'. In particular, ASIC identified instances in which assets or operations of reporting entities had previously been disclosed as financially affected by extreme weather events in prior financial years, based on earlier financial reports or information announced to the Australian Securities Exchange. However, those entities had not disclosed information about similar risks affecting their prospects over the short, medium or long term, or about any related risk mitigation activities.

Observation

In its Basis for Conclusions on IFRS S1 *General Requirements for Disclosure of Sustainability-related Financial Information* (IFRS S1), the ISSB noted that an entity cannot avoid providing quantitative information about anticipated financial effects if it does not currently have the skills or capabilities to do so but has the resources available to obtain or develop them. The 'skills, capabilities and resources' proportionality mechanism was included in IFRS Sustainability Disclosure Standards - and by extension in Appendix D of AASB S2 - to enable entities to develop their skills and capabilities and improve their disclosures over time. As with any new standard, application is expected to improve over time as best practices develop and an entity enhances the skills of its personnel, builds its capabilities and invests in additional resources. Nevertheless, the requirements are not optional, and an entity must satisfy them, including in the first year of application.

When determining an approach commensurate with its skills, capabilities and resources, an entity may consider the magnitude and extent of its exposure to a particular risk or opportunity and the expected level of investor interest. For example, the greater the potential anticipated financial effects of a risk to which an entity is exposed, the more likely it is that the entity will have more mature skills, capabilities and resources for assessing and managing that risk and will therefore use a more refined or advanced approach to preparing information.

Specific relief for quantitative information



In addition, AASB S2 provide specific relief from providing a **quantitative disclosure** about anticipated financial effects of a climate-related risk or opportunity in defined circumstances:

- If the effects are **not separately identifiable**
- If the level of **measurement uncertainty** involved in estimating those effects is so high that the resulting quantitative information would not be useful to users, or
- If the entity does not have the **skills, capabilities or resources** to do so.

In these cases, **additional disclosures** are required. An entity should explain why it has not disclosed quantitative information, provide qualitative information about the anticipated financial effects, identify the financial statements line items, totals and subtotals that are likely to be or have already been affected, and provide quantitative information about the combined anticipated financial effects unless that information would not be useful.

'Separately identifiable' relief

When anticipated financial effects are not separately identifiable from other effects, the standards provide relief from disaggregating that information. In this circumstance, the entity should instead provide investors with the available quantitative information about the combined effects of that climate-related risk or opportunity with other climate-related risks or opportunities and other factors, together with clear qualitative disclosure about the nature of the climate-related effects and the line items, totals or subtotals likely to be affected.

For example, climate adaptation costs may be embedded within a broader operating expenditure programme, such as a factory refit that includes additional cooling or resilience upgrades in response to hotter operating conditions. The entity may conclude that it is only able to disclose the anticipated cost of the broader refit and then explain qualitatively the climate-related element included in that total.

'Measurement uncertainty' relief

Although quantifying anticipated financial effects inherently involves measurement uncertainty, this relief recognises that the level of uncertainty may be so high that quantitative information would not be useful to users.

In this context, it is important to recognise that measurement uncertainty is a common feature of financial reporting, which routinely incorporates uncertain estimates, assumptions and ranges. For example, impairment models, deferred tax recoverability assessments and fair value measurement models all incorporate uncertain assumptions about the future. Such information may nevertheless be useful to investors.

Observation

Anticipated financial effects are intended to communicate how management expects climate-related risks and opportunities to affect the entity financially, taking into account its strategy, planned responses and financial decision-making. Although uncertainty is an inherent feature of climate-related financial analysis, the general uncertainty associated with forward-looking information in this area does not, in itself, justify omitting quantitative information and providing only qualitative information. Even when a high degree of uncertainty exists, quantitative information may still be useful in informing investors about anticipated financial effects.

Accordingly, when applying the measurement uncertainty relief, an entity should be able to demonstrate why any quantitative estimate, range or sensitivity analysis would not provide useful information to users. This assessment should be based on the entity's specific facts and circumstances rather than on a generic statement about uncertainty.

Australian early insights

As outlined in our previous **Deloitte clarity**, in many Group 1 first wave reports in Australia, the challenge was often not an inability to model climate impacts, but organisational appetite to translate climate analysis into financial consequences. Buy-in from those charged with governance may be as significant as modelling capability in achieving high-quality anticipated financial effects disclosures.

In our view, disclosures were more decision-useful when they clearly connected scenario analysis, resilience assessment, climate risk assessment, financial modelling and strategic planning into a coherent narrative regarding financial effects.

Qualitative-only disclosure

An entity applying one of the specific reliefs from providing quantitative information should nevertheless disclose qualitative information about anticipated financial effects. The entity should explain how it expects its financial position, financial performance and cash flows to change over the short, medium and long term, given its strategy to manage climate-related risks and opportunities. The only exemptions from providing qualitative information about anticipated financial effects are those described below.

Observation

A common misconception is that quantitative disclosure is optional in the first year(s) of reporting while an entity's reporting processes matures. However, the reliefs from disclosing quantitative information are available only in the specific circumstances described above.

When an entity concludes that it is only able to provide qualitative information about anticipated financial effects of a climate-related risk or opportunity, it must justify its use of the relief in the disclosure. In obtaining assurance, the assurance provider would expect the conclusion to be supported by evidence, documentation, and governance oversight.

Australian early insights

Consistent with the findings in our earlier **Deloitte Clarity** publication, ASIC's review in **REP 839** found that more than a third of entities sampled disclosed only qualitative information about current and anticipated financial effects, with measurement uncertainty commonly cited. ASIC emphasised that entities should carefully consider whether reliable quantitative information can be provided - particularly for board-approved mitigation or adaptation actions and plans - and, where it cannot, explain why, identify the affected financial statement line items, totals and subtotals, and clearly connect the sustainability and financial report disclosures. ASIC also highlighted ranges and sensitivity analysis as potentially useful approaches where point estimates are uncertain.

We expect that this will be an ongoing area of focus for the regulator in future ongoing surveillance.

Exemptions

AASB S2 provides exemptions from disclosing information that would otherwise be required by in the following circumstances:

- **Prohibition by law or regulation** – An entity is not required to disclose information if law or regulation prohibits it from doing so
- **Commercially sensitive information about opportunities** – An entity is not required to disclose information about a climate-related opportunity if that information is commercially sensitive (as described in AASB S2 Appendix D).

The exemption for information prohibited from disclosure by law or regulation applies to all requirements in the AASB S2, including the requirements to disclose qualitative and quantitative information about the anticipated financial effects of climate-related risks and opportunities. By contrast, the exemption for commercially sensitive information applies only to information about climate-related *opportunities*. It therefore does not apply to information about the anticipated financial effects of climate-related risks.

Summary of mechanisms and reliefs

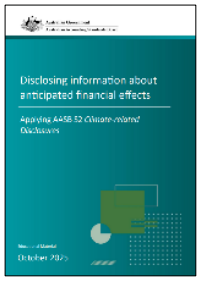
The following table illustrates the proportionality mechanisms, reliefs, and exemptions described above:

Mechanisms available to the entity

Mechanism	Type	Applies to	
		QUANTITATIVE information about anticipated financial effects	**QUALITATIVE** information about anticipated financial effects
Undue cost or effort	Proportionality mechanism	●*	●
Skills, capabilities and resources	Proportionality mechanism	●	●
Separately identifiable	Relief	●	●
Measurement uncertainty	Relief	●	●
Skills, capabilities or resources	Relief	●*	●
Prohibition by law or regulation	Exemption	●	●
Commercially sensitive information	Exemption	●**	●**

***** If an entity has the skills, capabilities *and* resources to provide quantitative information about the anticipated financial effects of a climate-related risk or opportunity, it should provide that information using a commensurate approach. This proportionality mechanism affects the extent and complexity of the process used to prepare the quantitative and qualitative information. By contrast, if an entity lacks any one of those elements—for example, if it has the skills and capabilities but not the resources—it need not provide quantitative information about those anticipated financial effects. In that case, the "skills, capabilities or resources" wording provides relief from disclosing quantitative information, rather than serving as a mechanism for determining the approach used to prepare that information. This relief does not apply, however, if the entity lacks the necessary skills or capabilities but has the resources to obtain or develop them.

****** This exemption applies only to information about climate-related opportunities and therefore does not apply to information about the anticipated financial effects of climate-related risks.



The AASB published detailed educational material in November 2025 in light of stakeholders' feedback that guidance on how to apply the relevant requirements would support entities' application.

Disclosing information about anticipated financial effects applying AASB S2 *Climate-related Disclosures*

Conclusion

The anticipated financial effects requirements in AASB S2 respond to investors' interest in quantified information about climate-related risks and opportunities to inform their decisions. Quantification in this area is an emerging practice and is likely to require extensive estimation because of measurement uncertainty. AASB S2 provide a range of mechanisms to support entities in taking a proportionate approach to preparing and providing these disclosures. These include the ability, in specific circumstances, to provide qualitative disclosure when an entity is unable to quantify the anticipated financial effects of a climate-related risk or opportunity. Although this practice may be new to many entities, existing processes, documents and plans may provide useful sources of information, including assumptions and estimates used in financial and management reporting. Entities may already integrate climate-related considerations into their corporate strategic, investment and operational plans. To the extent that these considerations are embedded across the entity, they may support high-quality disclosure, given the requirement to provide information that takes into consideration how climate-related risks and opportunities are included in the entity's financial planning.

The following questions may assist an entity in preparing information about anticipated financial effects:

- What quantitative information is currently available in budgets, forecasts, strategy papers and investment decisions?
- What evidence supports a conclusion that quantitative information would not be useful to investors?
- Has the entity considered disclosing ranges, sensitivity analyses or planned expenditure?
- Has the entity specifically identified the financial statement line items, totals and subtotals that are likely to be affected?
- Is the conclusion supported by documented analysis and appropriate governance oversight?

Looking ahead - Australian market insights publication

Quantification of anticipated financial effects has been one of the most discussed topics by investors, stakeholder groups, regulators and assurance providers during the first year of Group 1 mandatory sustainability reporting in Australia.

Our forthcoming publication will provide fresh insights into this, and other observations from the June 2026 Group 1 reporting season, highlighting existing market practice, areas of progress and opportunities to strengthen climate-related disclosures. Look out for its release shortly.

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