



Accounting for Sustainability: Understanding and connecting sustainability and financial reporting

Introduction to series

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Introduction

In today's rapidly evolving business landscape, the intersection between sustainability and financial reporting has become increasingly important, in particular for climate-related matters. Sometimes there is a disconnect that prevents investors and stakeholders from obtaining a clear understanding of a company's financial performance and stability by knowing its true value, risks, and opportunities resulting from climate change.

Companies often showcase net zero pledges in their sustainability reports, yet the impact of these commitments is often unclear in their financial statements. Likewise, disclosures related to carbon credits or the evaluation of physical and transition risks are often inconsistent or incomplete, making it difficult to accurately assess a company's true exposure and resilience. This lack of clarity is especially concerning as increasingly frequent and severe climate-related events continue to disrupt supply chains and diminish asset values.

In light of these challenges, stakeholders from investors to regulators are increasingly demanding that companies not only acknowledge these challenges but also integrate them meaningfully into their business strategies and financial reporting. Bridging this divide is not just desirable but essential for driving transparency, accountability, and sustainable growth.

But what does this mean for financial reporting in practice? How should organisations accurately reflect the impact of physical climate risks and opportunities, account for their reported pledges, and properly record the purchase, holding, and eventual retirement of carbon credits within their financial statements? These questions are far from straightforward. They touch on critical accounting concepts, judgements and estimates that must now factor in the financial impact of transitioning to a low-carbon economy and exposure to climate-related risk.

In this series we unpack key sustainability topics and examine how climate-related matters influence financial reporting. Join us as we navigate the complexities of accounting for sustainability information by unpacking the obstacles and anticipating best practices to build a greener ledger.

Bridging IFRS Standards and Climate Change Impacts

Before diving into the various climate-related topics and their accounting treatment, it is essential to begin with the fundamentals by reviewing the relevant IFRS Accounting Standards and becoming familiar with their requirements.

Several IFRS Accounting Standards require or encourage the integration of climate-related factors in the recognition, measurement, presentation, and disclosure of financial information. The table below summarises key Standards potentially affected by climate-related considerations, along with examples of how these factors should be accounted for.

Standard	Effects of climate-related matters on financial statements ^{1,2}
IAS 1 Presentation of Financial Statements / IAS 8 Basis of Preparation of Financial Statements (amendments effective 1 January 2027)	<p>IAS 1/IAS 8 requires disclosure of material uncertainties relating to events or conditions which may cast significant doubt upon an entity's ability to continue as a going concern, or of significant judgements made in concluding there are no material uncertainties related to the going concern assumption. Such uncertainties may arise from climate-related factors.</p> <p>Example: The introduction of legislation directly affecting an entity's business model, or giving rise to increased compliance costs, may cast significant uncertainty upon the entity's ability to continue as a going concern. Alternatively, management may have applied significant judgement about the effectiveness of the entity's planned response in concluding that there is no material uncertainty.</p>
IAS 2 Inventories	<p>IAS 2 sets out the accounting rules for inventories, focusing on how to measure and recognize their cost as an asset until the related revenue is earned. It guides how to determine inventory cost, when to expense it, and when to write it down to net realizable value.</p> <p>Example: The net realisable value of inventories could be impacted by climate-related factors, when either selling prices decline or costs of completion increase. Changing consumer behaviour could cause a fall in demand for a product, raw material sourcing constraints could cause an increase in completion costs, a regulatory change could render inventories obsolete, or a significant weather event could cause physical damage to inventories. If such instances mean that the cost of inventory is no longer recoverable, IAS 2 Inventories requires that such inventories be written down to their net realisable value.</p>
IAS 12 Income Taxes	<p>IAS 12 Income Taxes prescribes the accounting treatment for current and deferred tax liabilities and assets, ensuring that the tax effects of transactions and events are recognized in the financial statements in the appropriate periods.</p> <p>Example: New levies or taxes may be introduced to encourage decarbonisation. Any levy liabilities should be recognised as the obligation is triggered under law (per IFRIC 21 Levies) and any income tax effects should be incorporated into normal IAS 12 accounting. Care should be taken when distinguishing between a levy and income tax and the application of IFRIC 21 or IAS 12 as this has proven to be a challenging area as new taxes/levies have been introduced in the past.</p>

¹ International Financial Reporting Standards. Deloitte Accounting Research Tool (DART). Retrieved 3 November 2025, from <https://dart.deloitte.com/iGAAP>

² International Accounting Standards. Deloitte Accounting Research Tool (DART). Retrieved 3 November 2025, from <https://dart.deloitte.com/iGAAP>

IAS 16 Property, Plant and Equipment / IFRS 16 Leases (as a lessee)	<p>IAS 16 and IFRS 16 sets out the accounting treatment for property, plant, and equipment. Key issues include changes in the recognition and useful life or residual value of assets.</p> <p>Examples:</p> <ul style="list-style-type: none"> When climate-related risks are significant, concerns over viability could mean that the criterion (in IAS 16:7 for property, plant and equipment) that costs are only recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the entity is not met. Climate-related risks may also affect the depreciation or amortisation of assets (property, plant and equipment) through a change in their useful lives or residual values. <p>Such factors should be incorporated into a review of an asset's useful life and residual value.</p>
IAS 19 Employee benefits	<p>Pension trustees are required to consider all material financial risks, including the exposure of pension assets to climate change risk.</p> <p>Example: Demographic assumptions and investment performance can vary significantly under different climate change scenarios, affecting the measurement of pension asset and liability balances at the balance sheet date.</p>
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	<p>IAS 20 Accounting for Government Grants and Disclosure of Government Assistance outlines how to recognize and measure government grants and the related disclosure requirements in financial statements.</p> <p>Example: Under IAS 20, a Swiss company that receives government grants or subsidies through the Swiss Climate and Innovation Act³ to develop low-carbon technologies must recognize these grants in its financial statements. Whether government grants which are intended to compensate entities for costs related to 'green' capital or operating expenditure are within the scope of IAS 20 and how such grants should be recognised in profit or loss on a systematic basis, will depend on the nature of the grants and the conditions attaching to them.</p>
IAS 36 Impairment of Assets	<p>IAS 36 Impairment of Assets requires entities to review their assets regularly and recognize an impairment loss if the carrying amount exceeds the recoverable amount, ensuring assets are not overstated on the balance sheet.</p> <p>Example: Climate-related issues can be an indicator of impairment. For example, a significant decline in demand for products that emit greenhouse gas emissions could indicate that a manufacturing plant may be impaired and need to be tested for impairment. New environmental regulations may also affect a company's activities significantly and could be a sign of impairment. Such factors could also affect the estimated cash flows used in determining the recoverable amount of an asset or group of assets.</p> <p>Additionally, for carbon-emitting industries that are subject to a cap-and-trade scheme, such as EU's Emissions Trading System, the future prices of CO₂ emission certificates could be a key parameter to estimate when determining the recoverable amount of an asset or a cash generating unit.</p>

³ "Klima- Und Innovationsgesetz: Abstimmung Am 18. Juni 2023." Admin.ch, 2023, www.bafu.admin.ch/bafu/de/home/themen/klima/dossiers/klimaschutzgesetz.html. Accessed 3 November 2025.

IAS 37 Provisions, Contingent Liabilities and Contingent Assets	<p>IAS 37 Provisions, Contingent Liabilities and Contingent Assets sets out the accounting requirements for recognizing and measuring provisions, as well as disclosing contingent liabilities and contingent assets, ensuring that potential future obligations and uncertainties are appropriately reflected in the financial statement.</p> <p>Example: Environmental and regulatory factors can influence how companies recognize, measure, and disclose liabilities under IAS 37. This includes levies or fines for failing to meet regulatory targets, contingent assets from a potential insurance recovery associated with repairing damage sustained to a manufacturing facility during a significant weather event⁴, contractual obligations, or product modifications required to comply with evolving Standards. As an example, a consumer goods company is operating in several countries with stricter environmental regulations. The company anticipates that it will need to invest in new product packaging solutions to meet regulatory requirements and will therefore evaluate whether this commitment creates a provision.</p>
IAS 38 Intangible Assets	<p>IAS 38 Intangible Assets provides guidance on the recognition, measurement, and amortization of intangible assets. Companies may acquire carbon credits to meet their net zero targets and classify these as IAS 38 Intangible assets when the relevant criteria are met.</p> <p>Example: A company buys carbon credits to offset its own greenhouse gas emissions. The company determines that the credits are in scope of IAS 38 (using the IAS 38:2 guidance) and classifies and accounts for the credits as intangible assets. In addition, adaption of an entity's business to address climate change issues could result in additional research and development activities, which may have to be recognized as intangible assets.⁵</p>
IFRS 2 Share-based Payment / IAS 19 Employee benefits	<p>IFRS 2/IAS 19 incentive schemes that depend on the achievement of specific climate-related targets, such as GHG emissions reduction goals, should be carefully evaluated.</p> <p>Example: A company introduces a long-term incentive plan for its senior management, where part of the award is conditional on achieving specific GHG emissions reduction targets over a three-year period. The plan grants share options that vest only if the company reduces its carbon emissions by 20% compared to the baseline year.</p>
IFRS 7 Financial Instruments: Disclosures	<p>IFRS 7 requires companies to share information about their financial instruments, including the risks involved and how they manage those risks. Climate-related issues can impact the risks arising from financial instruments.</p> <p>Example: Companies may need to disclose how they assess the risk of their trade accounts receivable when their customers have an increased exposure to climate-related risk. Where a significant climate-related event has occurred, the effect of this event on trade receivables at balance sheet date should be disclosed.</p>
IFRS 9 Financial Instruments	<p>IFRS 9 sets principles for reporting financial assets and liabilities. Climate-related issues can affect how financial instruments are accounted for in several ways. The IASB amendments to IFRS 9 and IFRS 7 provide guidance on accounting for contracts referencing nature-dependent electricity, such as renewable energy power purchase</p>

⁴ Appendix A1 Climate change. Deloitte Accounting Research Tool (DART). Retrieved 3 November 2025, from <https://dart.deloitte.com/iGAAP>

⁵ Appendix A1 Climate change. Deloitte Accounting Research Tool (DART). Retrieved 3 November 2025, from <https://dart.deloitte.com/iGAAP>

	<p>agreements (PPAs), where electricity supply varies due to uncontrollable natural conditions.</p> <p>Example: A manufacturing company enters into a solar electricity contract. The company must evaluate whether the electricity supplied is predominantly nature-dependent and in scope of the amendments. For such contracts, there may be judgment to determine whether these are accounted for as executory (own use) contracts or as financial instruments.⁶</p>
IFRS 13 Fair Value Measurement	<p>IFRS 13 explains how to measure the fair value of assets and liabilities. Climate-related issues can affect these values, for example, the market views on environmental regulation may change the value of an asset or liability. When fair values are based on estimates that cannot be directly observed, IFRS 13 requires using assumptions that market participants would make, including those about climate risks. Companies must disclose the inputs used in these measurements and explain how sensitive the values are to changes in these assumptions.</p> <p>Example: A manufacturing company owns a production plant located in a coastal area vulnerable to rising sea levels and increased frequency of severe storms due to climate change. The company needs to measure the fair value of this plant and disclose assumptions applied.</p>
IFRS 17 Insurance Contracts	<p>IFRS 17 covers how insurance contracts are accounted for. Climate-related issues can cause insured events, like business interruptions, property damage, illness, or death, to happen more often or sooner. This can affect the assumptions used to calculate insurance liabilities. Climate-related risks may also require companies to disclose how they manage these risks and how changes in risk factors might impact their insurance contracts.</p> <p>Example: A company holds a property and business interruption insurance policy with an insurer. The property is in an area increasingly prone to flooding and severe storms due to climate change. The insurer has updated its assumptions to reflect higher climate-related risks, such as more frequent floods. As a result, the insurer increases premiums to cover the higher expected claims.</p>

⁶ Deloitte Switzerland. (2025). Accounting for contracts referencing nature-dependent electricity: New IASB amendment. Retrieved 17 November 2025 from [Accounting for contracts referencing nature-dependent electricity: New IASB amendment](https://www2.deloitte.com/content/dam/deloitte/switzerland/Documents/accounting/2025/01/IASB-2025-01-01-0001.pdf) | Deloitte Switzerland

Stay Tuned

This article has set the stage by highlighting how climate-related factors impact financial reporting. In the next articles of this series, we will explore key issues at the intersection of financial and sustainability reporting. You will discover how you may account for carbon credits and offsets, explore the real impact of net-zero pledges in financial reports, and gain practical insights on accounting for climate risks under IFRS Accounting Standards. We will also tackle the challenge of stranded assets under IAS 36 and unpack the complexities of pollution and environmental liabilities under IAS 37. Join us as we navigate these critical issues while you prepare your green ledger.

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