

IMPLEMENTATION OF CLIMATE-RELATED BUSINESS REPORTING

Mesrop Mesropyan

American University of Armenia, MSM

mesropyan.m17@gmail.com

Abstract: The International Standard on Climate-Related Disclosures IFRS- S2 is to require an entity to disclose risks and opportunities, that can reasonably be expected to affect the business cash flows, its availability of financing or the formation of the cost of capital in the short, medium and long term. The article examines the ways of information presented in the financial reports of organizations as a result of the prevention of climate change risks by business.

Keywords: IFRS-S1 international standard, financial statements, climate change risk disclosures, business value chain, cash flow management

JEL code: M40

Research aims: to present the possibilities of presenting financial results, arising from business activities aimed at preventing climate change risks in published accounting reports, according to Climate-Related Disclosures IFRS- S2 standard.

Research novelty: justified reporting the financial results of climate change risk prevention in the business chain of

organizations in such a way as to simultaneously provide scenario assessments and comparative analyzes.

Introduction

Business financial results have traditionally published according to international standards and pursued private interests. Business partners have assessed their partnership risks after examining the financial results of the organization's activities (Demir, M., Min, M. 2019).

However, the presentation of environmental risk assessment and prevention information as a result of business activities, which also contains financial results, is now emphasized (Adams, C.A. 2019). For this purpose, the IFRS-S2 international standard was put into effect, which outlines the directions in which organizations should present the risks of their activities related to climate change and the possibilities of their prevention (Esmaeilian B., Sarkis J., Lewis K. 2020).

Therefore, it is also important to comment on the financial results of the fulfillment of obligations undertaken by organizations aimed at preventing the risks of climate change as a result of business activities (Acsinte, S. and A. Verbeek 2015).

Research results

The structure of the international IFRS S2 standard of "Climate-related Disclosures" in financial statements is consistent with the IFRS-S1 standard and consists of "Management", "Strategy", "Risk Management", "Measurements and Targets" sections.

The purpose of financial disclosures related is to enable users

of financial statements to understand the governance processes, controls and procedures that an organization uses to monitor, manage and monitoring climate-related risks and opportunities.

Strategy

The purpose of climate-related financial disclosures on strategy is to enable users of financial statements to understand the organization's strategy for managing climate-related risks and opportunities. In particular, the organization should:

- a) describe climate-related risks and opportunities, that will affect the organization's vision,
- (b) explain the nature of each climate-related risk, and clarify whether the entity considers the risk to be a physical climate-related risk, or a climate-related transition risk;
- c) explain how the organization defines the «short-term», «medium-term» and «long-term» domains, and how they are used by the organization to make strategic decisions.

Business model and value chain

The organization shall disclose information, that enables stakeholders to understand current and expected climate-related risk impacts and opportunities on the applicable business model and value chain. At the same time, the standard proposes to apply a scenario analysis on the impact of the climate on the part of the organization with the existing risks, by which the business model will be subject to changes in the foreseeable future. In the professional literature, scenario analyzes of the prevention of climate change risks are presented, where the value promotion of business activities aimed at sustainable development is outlined.

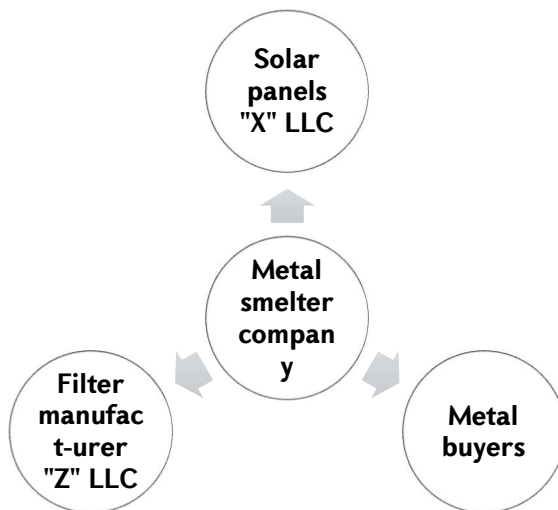


Figure 1. The value chain business model of metal foundry company

Source: Tsughuryan A., Grigoryan L. (2024)

Here, the fact that the financial consequences caused by actions to prevent climate change risks are not localized within the framework of one organization, but are represented by business value, is particularly important here (Acsinte, S. and A. Verbeek 2015). Each of the business stakeholders is interested in prevention of negative risks affecting the climate change, so the results of each of them are presented in the financial reports published by the organization.

Thus, "Metal" smelter OJSC publishes financial statements for the year 2023, in which it also presents information related to climate change in accordance with IFRS. S2 international standard requirements.

The metal smelter emits greenhouse gases as a result of technological processes, with an intensity of 60% at the moment.

However, moving its activities to the field of sustainable development, it is aimed to reduce greenhouse gas emissions as much as possible, bringing them to 0% intensity by 2030 (2023 - 60%, 2024 - 55%, 2025). - 40%, 2026 - 30%, 2027 - 25%, 2028 - 15%, 2029 - 10%, 2030 - 0%). Moreover, for every 1% of emission intensity, the smelter pays an environmental fine of 0.5 million annually. For this purpose, the metal smelter plans to buy exhaust gas filtering equipment from the "Z" construction plant with a cost of 360 million drams and a useful life of 6 years.

If "Z" LLC uses "green energy" obtained from solar panels during the production of filters, the smelter is obliged to pay 6% more when purchasing air filters. Moreover, if "Matal" OJSC takes full advantage of the useful life of the air conditioners and continues to use "green energy", then the purchase of new air conditioners for the second time (in 2030) will already be carried out at the expense of the state grant.

Buyers of the finished products of the metal-foundry are also on similar terms, and in their long-term purchase contracts, they specify 2% sales price increments, if "green energy" is used during metal casting and greenhouse gas emissions are reduced by at least 5%. compared to the previous year.

Taking into account all this, the metal smelter plans to include in the value chain of its business model "X" LLC, a manufacturer and servicer of solar panels (see Figure 1), to which it will supply metal pillars on preferential terms. "X" LLC also cooperates with "Z" hardware factory.

The financial results of "Matal" foundry OJSC for the year 2023 are briefly presented as follows:

- ✓ income from sale: 300 million AMD

- ✓ realization cost: AMD (200) million AMD
- ✓ taxable profit: 100 million AMD
- ✓ profit tax (18%) (18) million AMD
- ✓ environmental fines: (30) million AMD
- ✓ net profit: 52 million AMD

According to the requirement of IFRS-S2 standard, the smelter will include scenario interpretations of climate-related risks.

Scenario 1: When "green energy" is not used in the business value chain.

Scenario 2: When "green energy" is used in the business value chain.

In the case of the two listed scenarios, the formation of the financial results of the steel mill in the short-term, medium-term and long-term is presented in Table 1, as an identification of climate-related risks (Tsughuryan A., Grigoryan L. (2024).

"Starting from 2024, "Matal" company adopts the path of sustainable development, installing ventilation filters in metal casting technologies and using "green energy". Due to the amortization allocations for the operation of expensive air conditioners, the net profit of the company is sharply reduced (see Table 1), which may negatively affect the future investment intentions of the shareholders. But on the other hand, the "Matal" company considers its activity on climate change in the value chain of the business model. If "green energy" is used in the partnership framework, then after 6 years there will be an opportunity to receive a grant from the government to purchase air conditioning equipment, which will sharply increase the company's net profit.

Table 1. Scenarios of presentation financial results when using "green energy" (million AMD)

Indicators	2023	2024	2025	2026	2027	2028	2029	2030
First scenario								
Income	300	300	300	300	300	300	300	300
Cost of sales	(200)	(260)** *	(260)	(260)	(260)	(260)	(260)	(260)
Profit before tax	100	40	40	40	40	40	40	40
Tax profit (18%)	(18)	(7,2)	(7,2)	(7,2)	(7,2)	(7,2)	(7,2)	(7,2)
Eco fines	(30)* *	(27,5)	(20)	(15)	(12,5)	(7,5)	(5)	0
Net profit	52	5,3	12,8	17,8	20,3	25,3	27,8	32,8
Second scenario								
Income	300	306	306	306	306	306	306	306
Cost of sales	(200)	(263,6)	(263,6)	(263,6)	(263,6)	(263,6)	(263,6)	(200)
Profit before tax	100	42,4	42,4	42,4	42,4	42,4	42,4	106
Tax profit (18%)	(18)	(7,6)	(7,6)	(7,6)	(7,6)	(7,6)	(7,6)	(19)
Eco fines	(30)* *	(27,5)	(20)	(15)	(12,5)	(7,5)	(5)	0
Net profit	52	7,3	14,8	19,8	22,3	27,3	29,8	87

* $300 \times 1.02 = 306$, ** 60×0.5 , 55×0.5 , *** $200 + 360/6$, **** $200 + (360/6) \times 1.06$

Source: Tsughuryan A., Grigoryan L. (2024)

Conclusion

Accountability of the business activities of organizations should not only focus on changes in financial results and capital, but also take into account reporting on climate change. In this regard, it is important to present such a report that will contain financial information on the prevention of negative risks of climate change by organizations not only on a localized basis, but also with the entire value of business activities. Such information allows users of financial statements to assess an organization's ability to address the negative effects of climate change.

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**ԿԼԻՄԱՅԻ ՓՈՓՈԽՄԱՆ ՁԵՌՆԱՐԿԱՏԻՐԱԿԱՆ
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Մենրոպ Մենրոպյան

Հայաստանի ամերիկյան համալսարան, կառավարման
մագիստրոս

Բանալի բառեր - IFRS-S1 միջազգային ստանդարտ, ֆինանսական հաշվետվություններ, կլիմայի փոփոխման ռիսկերի բացահայտումներ, բիզնես արժեշղթա, դրամական հոսքերի կառավարում

«Կլիմային առնչվող» ֆինանսական հաշվետվությունների միջազգային S2-ի ստանդարտի նպատակն է կազմակերպությունից պահանջել բացահայտելու ռիսկեր և հնարավորություններ, որոնք ողջամտորեն կարելի է ակնկալել, որ կազդեն կազմակերպության դրամական հոսքերի, դրանց հասանելիության ֆինանսավորման կամ կապիտալի արժեքի ձևավորման վրա՝ կարճաժամկետ, միջնաժամկետ և երկարաժամկետ կտրվածքով:

Հոդվածում քննակվում են բիզնեսի կողմից կլիմայի փոփոխման ռիսկերի կանխարգելման արդյունքում կազմակերպությունների ֆինանսական հաշվետվություններում ներկայացվող տեղեկատվության ուղիները: Բիզնես արժեշղթայի մասնակիցներից յուրաքանչյուրը շահագրգռված է կլիմայի փոփոխման վրա ազդող բացասական ռիսկերի

կանխարգելումներով, ուստի նրանցից յուրաքանչյուրի գործունեության արդյունքներն անհրաժեշտ է ներկայացնել կազմակերպության կողմից հրատարակվող ֆինանսական հաշվետվություններով:

Հոգվածում հատկապես կարևորվում է այն փաստարկը, որ կլիմայի փոփոխության ռիսկերի կանխարգելմանն ուղղված գործողությունների արդյունքում առաջացած ֆինանսական հետևանքները տեղայնացված չլինեն միայն մեկ կազմակերպության շրջանակում, այլ ներկայացված լինեն գործարարության շուրջ ձևավորված արժեզրթայով:

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