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Submitted via website

Brussels, 15 November 2024

Subject: Exposure Draft — Climate-related and Other Uncertainties in the Financial Statements Accountancy Europe comment letter

Dear Mr. Barckow, Mr. Klinz,

We are pleased to respond to the International Accounting Standards Board (IASB or the Board) Exposure Draft (ED) *Climate-related and Other Uncertainties in the Financial Statements* and EFRAG's Draft Comment Letter (DCL) thereon.

Accountancy Europe welcomes these examples and consider them as a useful first step to enhance the reporting of climate impacts in financial statements and improve connectivity with sustainability reporting.

However, we emphasise the following two points merit further consideration by the IASB. We have provided other targeted feedback on the examples for the Board's consideration in our letter.

Vehicle chosen

Accountancy Europe is not convinced that "illustrative examples accompanying the IFRS Accounting Standards" would on their own, meet the intended objectives. To mitigate, we suggest a two-step approach:

- first, group the examples and publish them as a single document, in addition to publishing them as illustrative examples accompanying the IFRS Accounting Standards

- second, consider additional educational materials or an IFRS Practice Statement on the matter in which the IASB explains the overall approach and how these examples fit in the IFRS Accounting Standards and existing vehicles.

We also suggest that the IASB creates a webpage to consolidate all the materials related to climate as they are currently dispersed across different locations which is difficult to find and maintain.

Scope and content of the illustrative examples

Accountancy Europe believes that these illustrative examples should be more comprehensive, and thus expanded to:

- add examples touching on more IFRS Accounting Standards
- include cases where recognition and measurement could be impacted
- consider wider sustainability matters - beyond only climate
- better illustrate how the linkage between financial and sustainability reporting works and stimulate connective thinking.

To avoid delaying further the project, the above suggestions could be considered by the IASB as part of their next steps.

* * *

We kindly refer to the annexes to this letter (i.e. Annex 1 and Annex 2) for our detailed responses.

Please do not hesitate to contact Jona Basha (jona@accountancyeurope.eu) or Nael Braham (nael@accountancyeurope.eu) in case of any questions or remarks.

Sincerely,

Olivier Boutellis-Taft
Chief Executive

Mark Vaessen
President

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to 1 million professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond. Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX 1: IASB ED – QUESTIONS FOR RESPONDENTS

We are pleased to provide below our detailed responses to the questions.

Question 1 - Providing illustrative examples

The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why.

The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards.

Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.

(1) Accountancy Europe welcomes examples that help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. We believe that such examples are a positive first step that would improve reporting of the effects of material climate-related risks and other uncertainties in the financial statements, as well as enhance connectivity, particularly with the sustainability statements. Our letter provides additional suggestions that might be considered by the IASB as part of next steps to avoid further delaying this project.

(2) Regarding the vehicle chosen, we are not convinced that "illustrative examples accompanying the IFRS Accounting Standards" would meet the intended objectives. Whilst, as per our understanding, these examples would not be subject to endorsement in various jurisdictions including Europe, we recognise that in practice, the market usually accepts and applies the illustrative examples in IFRS Accounting Standards.

(3) On another note, the language used for these examples suggests the intention to use them as principles accompanied with a thought process on how to assess climate-related risks. This raises questions whether they are to be seen as equivalent to IFRS Practice Statements. We caution about any expectation gap this might create, as their disclosure scope is confusing and seemingly overlapping with existing requirements in IFRS Accounting Standards (see our comments to Example 4 in paragraphs 24 - 26 below).

(4) To mitigate the above, we suggest a two-step approach as noted in the following paragraphs.

(5) First, we suggest grouping the examples and publish them as a single document, in addition to publishing them as illustrative examples accompanying the IFRS Accounting Standards as noted in paragraph BC45 of the ED.

(6) The IASB could also consolidate all the resources on climate in a single location such as a dedicated page on the IASB website. This is because the messages conveyed by the IASB on climate-related guidance are currently dispersed across different locations: educational materials, IFRS Interpretations Committee (IFRIC) agenda decisions and the upcoming illustrative examples of this ED, which might be complex to follow and to maintain in the future.

(7) Second, we suggest considering additional educational materials or publishing an IFRS Practice Statement on the matter in which the IASB explains the overall approach and how these examples fit in the IFRS Accounting Standards and existing vehicles.

Question 2 —Approach to developing illustrative examples

Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements:

(a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and

(b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements.

Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB's overall considerations in developing the examples and the objective and rationale for each example.

Do you agree with the IASB's approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples?

Please explain why or why not. If you disagree, please explain what you would suggest instead and why.

(8) Accountancy Europe agrees with the approach in developing the examples: it is important to focus on the most relevant matters and minimise inconsistencies between financial statements and other reports.

(9) However, we believe that the IASB could have been more ambitious and could have included examples that illustrate climate-related and other uncertainties in the context of further IFRS Accounting Standards.

(10) We understand the IASB's assumption in providing examples focusing on disclosures is that the existing recognition and measurement requirements in IFRS Accounting Standards have been properly complied with. However, we believe that this approach overlooks the impact of climate-related and other uncertainties in other aspects of financial statements such as measurement and recognition. In addition, it suggests that the only areas to be considered are disclosures.

(11) We believe that illustrations with quantitative figures could particularly help further assess the impacts of climate-related risks on the financial statements. Therefore, we call for examples on how climate-related and other uncertainties impact aspects of financial statements other than disclosures. Specifically, we would appreciate examples addressing estimates, which result both in disclosures but also in recognition and measurement of financial statements items (for examples, please refer to paragraph 12 below).

(12) To address the above, we suggest the IASB builds on its July 2023 Educational Material: *Effects of climate-related matters on financial statements* and develops examples for the considerations and standards included there. We would have particularly appreciated focused examples on (the list below is not exhaustive):

a. IAS 1 *Presentation of Financial Statements* and IFRS 18 *Presentation and Disclosure in Financial Statements*, in terms of disclosures of assumptions and estimates in determining the carrying value of assets and liabilities, as well as for going concern

b. IAS 2 *Inventories*, for net realisable value considerations

c. IAS 12 *Income Taxes*, in calculating deferred taxes

d. IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets, particularly when it comes to considerations that affect the useful lives of assets which give rise both to disclosures and impact the financial statements quantitatively

e. IAS 36 *Impairment of Assets*, especially considerations for when climate-related risks or other uncertainties could be an indicator of impairment (e.g., how and if would replacement operations, such as lower-carbon alternatives, affect impairment, including goodwill)

f. IFRS 13 *Fair Value Measurement*, including the reporting considerations of cases where level 3 fair value, which are driven by entity-specific methods, consider climate-related risks and other uncertainties

g. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including building on and expanding with further considerations the fact pattern of the IFRIC agenda decision. For instance, the IASB could have considered the case of an entity with an announced net zero commitment (e.g., by 2050) as well as announced and budgeted investments in certain assets (e.g., by 2030) to reach these commitments: if the entity does not make the investments by the planned date, what would be the disclosure implications (e.g., in year 2031)?.

h. IFRS 9 *Financial Instruments* and / IFRS 7 *Financial Instruments: Disclosures*, including the cases where climate-related risks and other uncertainties affect considerations on expected credit losses

i. IFRS 15 *Revenue from Contracts with Customers*, including cases where certain climate-related risks and other uncertainties, or decisions taken as a result, may result in contract modifications

(13) On another note, we would have appreciated examples on the connection with sustainability disclosures and the impact on the financial statements of information disclosed in sustainability statements (e.g. transition plans, social commitments, etc). In addition to encouraging connected thinking, such examples would have addressed concerns about disclosure overload and duplications between the financial statements and the sustainability statements. The IASB could have considered the requirements in the standards of its sister board, the International Sustainability Standards Board (ISSB) when providing such examples.

(14) Moreover, we would have appreciated examples on more sustainability matters than climate. The IASB could have considered the disclosures of the European Sustainability Reporting Standards (ESRS) as they consist of standards that address more environmental, social and governance (ESG) topics. Examples could have addressed social topics (from ESRS: own workforce, affected communities, workers in the value chain) which could potentially have more of an effect on income and expenses.

(15) In addition to the above, we provide some targeted feedback on the examples provided in this ED as per the following paragraphs.

Example 1 - Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)

(16) Whilst we welcome this example on materiality judgements leading to additional disclosures, we wonder whether this example is appropriate to illustrate this topic, particularly because it suggests disclosures for situations (e.g., the transition plan) when there are no effects on the recognition or measurement of assets and liabilities and related income and expenses. This example could have a knock-on effect for disclosures on non-sustainability-related situations too in other IFRS Accounting Standards.

(17) To mitigate the above confusion, we suggest IASB differentiates with two examples, such as where a transition plan:

- does not have financial effects and would not result in further disclosures or impacts on the financial statement (i.e., amending the current example)
- has financial effects and as a result would impact the financial statements quantitatively or with additional disclosures. In this case, the example could be more helpful if it includes guidance on how the entity can fulfil its disclosures requirements with regards to different parts of the financial statements, including those arising from IAS 1 paragraph 125.

(18) In addition, as per paragraph BC32 of the ED, we noticed that this example assumes that the entity does not prepare sustainability statements under the IFRS Sustainability Disclosure Standards or the ESRS. Under both sets of standards, there would be additional disclosures on transition plans.

(19) It would have been useful for the IASB to provide another example of the additional disclosures under the IFRS Accounting Standards when there is additional information provided in the sustainability statements. This would have helped clarify the boundaries between financial and sustainability information. In addition, it would have helped illustrate cross-referencing from and to the financial statements for such cases. In this regard, we draw the attention that the directionality of cross-referencing matters as the assurance level in financial statements might be different from other information contained outside the financial statements (e.g. the sustainability statements prepared under the ESRS or the sustainability information under the IFRS

Sustainability Disclosure Standards). When using cross referencing, it is important that readers clearly understand the level of assurance associated with each piece of information.

Example 2 - Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)

(20) We suggest providing a better description of the rationale behind this example and clarifying the objective it is trying to achieve to minimise any unintended consequences (refer to paragraph 16 of our letter).

(21) We see this example as an attempt to bridge any potential knowledge gap between information that management possess but has not disclosed as it may not be material to the financial statements, and users' expectation in the absence of that information in the public domain. This example could address concerns about excessive disclosures in cases where qualitative factors do not result in additional disclosures.

(22) In addition, it would have been useful to understand the links with information disclosed in the sustainability statements for when the entity applies IFRS Sustainability Disclosure Standards or ESRS (see our comments in paragraphs 13 – 14).

Example 3 - Disclosure of assumptions: specific requirements (IAS 36)

(23) In addition to our comments in paragraph 12 (e) above, we believe that it would have been more useful if the example illustrated the thought process behind determining that its assumptions about future emission allowance costs are key assumptions (i.e., are among the assumptions to which the CGU's recoverable amount is most sensitive) as per paragraph 3.3 of the ED.

Example 4 - Disclosure of assumptions: general requirements (IAS 1/IAS 8)

(24) Accountancy Europe is concerned with this example as it could have unintended consequences in the broader application of other IFRS Accounting Standards. Specifically, paragraph 4.4 of this example suggests that disclosures, which were initially scoped out by IAS 36 *Impairment of Assets*, should be provided for using paragraphs 31 and 125 of IAS 1 *Presentation of Financial Statements* (IAS 1) (i.e., scoped back in by a more general standard).

(25) We suggest the IASB preserves the general principle according to which a disclosure that was scoped out by a specific IFRS Accounting Standard, cannot be scoped back in through a more general standard.

(26) If the IASB believes that IAS 36 should not exclude these disclosures, it might have been more efficient to explore surgical amendments to IAS 36 to bring them back in instead of this example. This is a more principle-based approach that allows for the normal materiality process to be applied.

Example 5 - Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)

(27) We believe this example, about IAS 12 *Income Taxes,* is not only unrealistic but also brings in additional debatable areas which prevents the ED from achieving its goals (e.g., can the new legislation impact other items in the financial statements and the respective considerations?). In our view, it is important that, the climate and other uncertainties impacts remain the key elements of the ED and that it is not blurred with other judgemental aspects so that it is easier to understand the conclusion.

(28) Notwithstanding our previous paragraph, we welcome the clarification brought by paragraph 5.7 and we believe it was a helpful illustration of how the 12-month rule in paragraph 125 of IAS 1 should be applied. We suggest isolating this paragraph and giving more visibility and explanation in a separate location in the ED due to its importance.

Example 6 - Disclosure about credit risk (IFRS 7)

(29) As per paragraph 12(h) of our letter, we suggest providing an example to address connectivity between financial and sustainability information and which would also minimise the risk of disclosure overload in the financial statements in regard to this standard.

(30) On the example per se, it could be enriched by addressing the consequences of climate-related transition risks, in addition to physical climate-related risks, on customers' lines of business. For this, the IASB could consider the example of an entity in the insurance sector or an industrial and commercial entity holding long-term receivables.

Example 7 - Disclosure about decommissioning and restoration provisions (IAS 37)

(31) In our view, the fact patterns of this example are insufficient and do not justify the additional disclosures because there were no significant doubts about the time estimate. This can be the case for instance when a government debate brings forward legislation from the currently required timing.

(32) The way this example was written may lead to entities explaining all discounted amounts where time had a significant impact on the measurement. This is even more the case as a lot of sustainability matters that are materialising over the medium- or long- term are considered, but not all may be deemed "material by nature" for financial reporting purposes.

Example 8—Disclosure of disaggregated information (IFRS 18)

(33) In principle we support this example. However, we suggest adding, into the example, a reference to the explanation provided in the financial statements as to why there was an aggregation or disaggregation of the figures. Furthermore, we suggest clarifying how the disaggregation of this example interacts with the disaggregation at class level required by paragraph 73 of IAS 16.

Question 3 —Other comments

Do you have any other comments on the Exposure Draft?

(34) In finalising this ED and further enriching it with as many examples as possible, we suggest the IASB builds on the existing and upcoming work of various organisations, including EFRAG's project *Connectivity Between Financial and Sustainability Reporting* and ESMA's report *The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements*.

ANNEX 2: EFRAG'S DRAFT COMMENT LETTER – QUESTIONS FOR RESPONDENT

Hereinafter, we are pleased to provide our detailed responses to the questions posed by EFRAG.

Question (Paragraph 28) – (IASB Question 1)

> *Regarding paragraphs 24 and 25, are there any obstacles to immediately applying the guidance provided by the ED's illustrative examples? If so, please elaborate on these obstacles.*

(35) We are not aware of any immediate obstacles to applying the illustrative examples. Please refer to paragraphs 1-7 of our letter for additional areas of improvement.

Question (Paragraph 73) – (IASB Question 2)

> *Regarding Example 4, based on current practice, do preparers of financial statements interpret paragraph 125 of IAS 1 as capturing:*
>
> *(a) only assumptions about uncertainties that will be resolved within the next financial year, therefore, assumptions about uncertainties that will be resolved after the end of the next financial year are not in the scope of paragraph 125 of IAS 1;*
>
> *(b) both uncertainties that will be resolved within and after the end of the next financial year; or*
>
> *(c) another interpretation?*
>
> *Please explain.*

(36) Accountancy Europe understands this is a question for preparers of financial statements and EFRAG should consider that feedback in finalising its DCL on this matter. However, we evidenced other matters in regard to this example as noted in paragraphs 24 - 26 and 28 of our letter.