International Organization of Securities Commissions
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المنظمة الدولية لهيئات الأوراق المالية

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Our Ref: 2024/O/C1/IASB/PM/145

RE: Climate-related and Other Uncertainties in the Financial Statements – Proposed Illustrative Examples

Dear International Accounting Standards Board ("IASB" or "the Board") Members,

The International Organization of Securities Commissions ("IOSCO") Committee on Issuer Accounting, Audit and Disclosure ("Committee 1") thanks you for the opportunity to provide our comments on the Exposure Draft: *Climate-related and Other Uncertainties in the Financial Statements – Proposed Illustrative Examples.*

IOSCO is committed to promoting the integrity of the international markets through promotion of high-quality accounting standards, including rigorous application and enforcement. Members of Committee 1 ("members" or "we") seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect the general consensus among the members of Committee 1 and are not intended to include all comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

General Observations

Overall, we support the IASB's objective to improve the reporting of the effects of climate-related and other uncertainties in the financial statements and respond to stakeholder feedback, particularly from investors, that information about climate-related uncertainties in financial statements is sometimes insufficient or appears to be inconsistent with information provided outside the financial statements.

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The proposed illustrative examples, together with the other work the IASB has already undertaken on the broader topic of climate-related impacts on the financial statements,[1] are useful steps in support of this objective and provide a good basis for further important work on this topic.

Consistent with our feedback to the IASB's Request for Information – *Third Agenda Consultation* (2021) regarding collaboration, we appreciate that throughout its work on this project, the IASB has collaborated with members and technical staff of the International Sustainability Standards Board (ISSB), helping to strengthen the connections between the information an entity provides in its financial statements and the information it provides in other parts of its general purpose financial reports.[2]

To help ensure consistent application of the proposed illustrative examples, we believe greater specificity, clarity, and guidance is needed in several specific areas, which we outline below.

Lastly, we highlight our recommendation to develop illustrative examples, potentially after the issuance of these proposed illustrative examples, that a) result in numerical recognition and/or measurement consequences and b) comment upon the boundaries of financial statements.

Responses to the Board's Questions

Question 1— 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.

[1] See, e.g., Educational Material - *Effects of Climate-related Matters on Financial Statements* (July 2023) and Agenda Decision - *Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)* (2024).

[2] Committee 1 previously highlighted in various public communications the importance of connected information. See, e.g., IOSCO, Recommendations on Accounting for Goodwill (December 2023), which, among other items, included "Recommendation 3: Issuers should ensure the consistency between assumptions used in goodwill impairment tests and non-financial disclosures."

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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.

Response:

Consistent with our feedback to the IASB's Request for Information – *Third Agenda Consultation* (2021) regarding climate-related risks, we agree that one practical way to support consistent application of IFRS Accounting Standards on climate-related matters is through illustrative examples. Accordingly, we support the IASB's decision to develop the proposed illustrative examples to accompany IFRS Accounting Standards.

We support the approach to include the proposed illustrative examples as accompanying IFRS Accounting Standards to be included alongside the respective standards to which they relate (i.e., as an appendix that accompanies but is not part of the IFRS Accounting Standard). Such an approach would, among other things, support ease of access by preparers because they would be included alongside other related illustrative examples accompanying the specific IFRS Accounting Standard and would arguably be viewed by some as more influential compared to standalone educational material, albeit both are non-mandatory, because these would accompany an IFRS Accounting Standard.

Question 2 - 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.

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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.

Response:

Overall, we agree with the IASB's approach to developing the illustrative examples, including selection of requirements and fact patterns illustrated. We further support the IASB's decision to generalize the project's objective to cover climate-related *and* other uncertainties ensuring, among other things, that various types of uncertainties, including those yet to emerge, are captured and are treated consistently.

However, we observe that only one of the eight proposed illustrative examples addresses uncertainties other than climate, and accordingly question whether additional illustrative examples would be helpful to meet the IASB's decision to generalize the project's objective (e.g., examples dealing with economic, regulatory, technological, or societal uncertainties).

In addition, we observe that no proposed illustrative example includes specific recognition or measurement outcomes, such as recognition of an impairment loss or the reassessment of useful lives of long-lived assets affecting depreciation expense. Altering one or more of the proposed illustrative examples, such as Example 1 or 7, to result in a numerical impact on the financial statements may help to minimize the potential misperception that climate-related and other uncertainties can be addressed solely through disclosure considerations and reemphasize the content in the IFRS Educational Material - *Effects of Climate-related Matters on Financial Statements* (July 2023). Alternatively, developing a second set of illustrative examples, after the publication of these proposed illustrative examples, focusing on recognition and

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measurement would be particularly helpful and may more precisely target particular matters or requirements that give rise to stakeholder concerns.[3]

Some of the proposed illustrative examples rely on the overarching requirements in IAS 1 *Presentation of Financial Statements* (IAS 1) [IFRS 18 *Presentation and Disclosure in Financial Statements*] to achieve a disclosure outcome. Although enforcement of overarching requirements can pose some challenges compared to specific requirements, reference to such overarching requirements is nonetheless useful because it provides a foundational mechanism for motivating or soliciting material disclosure.

Lastly, considering the evolving interplay between information reported inside the financial statements versus outside the financial statements (e.g., management discussion and analysis or sustainability-related disclosures), we have observed an increase in questions regarding the boundaries of financial statements (i.e., what should be included inside the financial statements vs. outside the financial statements). Accordingly, we encourage the IASB to develop educational materials on such boundaries, which among other things, could help minimize uncertainty and narrow the expectations gap among stakeholders.

Specific to the proposed examples, we believe greater specificity, clarity, and guidance is needed in the following areas:

Example 1—Materiality judgements leading to additional disclosures

- Considering the context of Example 1, including an explicit fact or conclusion within the fact pattern that the entity has no provisions arising from its (future) plans to reduce greenhouse gas emissions, would be useful. Reference in some manner (e.g. footnote) to the IFRIC Agenda Decision - Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets) would be particularly helpful. Including such a fact or conclusion appears consistent with the other facts or conclusions on recognition and measurement included in paragraph 1.3.

- Paragraph 1.9 indicates the entity in this example discloses that its transition plan has no effect on its financial position and financial performance and explains why. We recommend the IASB modify

[3] Recognition and measurement implications when applying IFRS 9 *Financial Instruments*, IFRS 13 *Fair Value Measurement*, IAS 16 *Property, Plant, and Equipment*, IAS 36 *Impairment of Assets*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* are examples that would be particularly helpful to illustrate.

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paragraph 1.9 to include a reference to the definition of "material" in paragraph 7 of IAS 1 and state explicitly that the entity discloses that its transition plan has no effect on its financial position and financial performance and explains why 'in a way that ensures other material information is not obscured.' Among other things, this clarification could avoid the misunderstanding or misapplication of this illustrative example that could inappropriately elicit disclosures in a wide range of other fact patterns where such disclosure is not material.

- We also recommend paragraph 1.9 be expanded to further illustrate how an entity could disclose, depending on its entity-specific facts and circumstances, why its transition plan has no effect on its financial position and financial performance, for example, by including a cross-reference to the factors included in paragraph 1.3.

- To help stakeholders better appreciate the context of paragraph 1.6, specifically why a "lack of effect" could be material information, we believe it would be helpful to include additional content in BC30 consistent with paragraphs 49-51 of the IFRS Practice Statement 2 – Making Materiality Judgments. Specifically, reminding stakeholders "that the relevance of information to the primary users of an entity's financial statements can also be affected by the context in which the entity operates" and that "in some circumstances, if an entity is *not* exposed to a risk to which other entities in its industry are exposed, that fact could reasonably be expected to influence its primary users' decisions; that is, information about the *lack of exposure* to that particular risk could be material information" would be particularly helpful (emphasis added).[4] We believe such a reminder would reassure stakeholders that the proposed illustrative example is based on foundational and preexisting concepts.

- Paragraph 1.3(c) uses the term "asset retirement obligation." However, IFRS Accounting Standards uses the term "decommissioning costs" (e.g., paragraph 19 of IAS 37 and IFRIC 5). Therefore, we believe the IASB should modify paragraph 1.3(c) of Example 1 to be consistent with the term that is used in IFRS Accounting Standards to improve clarity.

[4] The Conceptual Framework for Financial Reporting provides the definition of material information, and IAS 1 underscores the concept by noting that "when making materiality judgements, an entity needs to take into account how information could reasonably be expected to influence the primary users of its financial statements." Making materiality judgements involves both quantitative and qualitative considerations. Paragraph 49 of the IFRS Practice Statement 2 – *Making Materiality Judgments* acknowledges that "an external qualitative factor is a characteristic of the context in which the entity's transaction, other event or condition occur that, if present, makes information more likely to influence the primary users' decisions."

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Example 3—Disclosure of assumptions: specific requirements

- Considering the context of Example 3 and the historical uncertainty of stakeholders regarding application of paragraph 33(b) of IAS 36 (i.e., the appropriateness of using cash flow projections based on financial budgets/forecasts over a period *longer* than five years), we recommend some form of content on this topic be included in this example. For example, a footnote to paragraph 3.4 could be included with commentary that incorporates some of the analysis from IASB Staff Agenda Paper 3 - Climate-related and Other Uncertainties in the Financial Statements: Impairment – Measurement of Value in Use (November 2023).

- Paragraph 3.4 indicates that the entity measures the value in use of the cash-generating unit ("CGU") when testing it for impairment. We note paragraph 74 of IAS 36 indicates that the recoverable amount of a CGU is the higher of the CGU's fair value less costs of disposal and its value in use. Therefore, we suggest the IASB modify paragraph 3.4 to provide the reason the entity is using value in use (i.e., value in use is higher than the CGU's fair value less costs of disposal) to improve clarity.

- Paragraph 3.4 indicates that in measuring the CGU's value in use, the entity includes future emission allowance costs. We understand that some emission allowance costs may meet the criteria for recognition of a provision under IAS 37, which could be different from the amount that is included in the estimates of future cash flows used in the value in use computation under IAS 36. We suggest the IASB either clarify the relationship between these two concepts in Example 3 to provide additional clarity or include a different example in which such a provision is recognised.

Example 4—Disclosure of assumptions: general requirements

- We understand that many investors find information about management's approach to determining the values assigned to each key assumption particularly useful, including whether those values reflect past experience or, if appropriate, are consistent with external sources of information, and, if not, how and why they differ from experience or external sources of information. Although we acknowledge that the noted disclosure in paragraph 4.7(a) is broad and requires judgement in its application, we nonetheless believe it would be helpful to explicitly reference the above factors within paragraph 4.7(a) or paragraph 4.9.

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- We also believe reference to IAS 1.127, in addition to IAS 1.125, would be helpful to ensure disclosure about sources of estimation uncertainty focuses on management's most difficult, subjective or complex judgments.

- To avoid uncertainty regarding the timeframe, we suggest "at the end of the reporting period" (or similar phraseology) be added to paragraph 4.7(b).

Example 5— Disclosure of assumptions: additional disclosures

- The entity in Example 5 has a deferred tax asset for the carryforward of unused tax losses. This appears to be inconsistent with paragraph 5.4, which indicates that the entity does not have a history of recent losses, and therefore the requirement in paragraph 35 of IAS 12 does not apply. We suggest that the IASB clarify how the entity came to generate a deferred tax asset for the carryforward of unused tax losses if it does not have a history of recent losses or simply state that the unused losses did not originate in the last few years.

- We also note that the entity in Example 5 operates in a jurisdiction whose government has announced regulation that would restrict the entity's ability to operate and generate profits in that jurisdiction in the future, but the example mentions only an impact to deferred tax assets under IAS 12. Given the example is expected to be included in IAS 1 and IFRS 18, we believe the example should, at a minimum, clarify that the impact to deferred tax assets is just *one* impact among others.

Example 6—Disclosure about credit risk

- Example 6 is framed within a financial institution context. At times, examples using financial institutions are overlooked by other entities (i.e., non-financial institutions) who mistakenly consider the content to be industry-specific. This issue arises particularly with examples using financial institutions. Although we appreciate that this example would be relevant to other entities that have material loans or accounts receivable with exposure to climate-related risks, to support consistent application, we believe it would be helpful in this specific example to explicitly state this fact or alternatively to broaden the context of the example from a financial institution to an entity that provides financing and/or loans to others.

- Paragraph 6.4 provides examples of information about the effects of climate-related risks on its exposure to credit risks that an entity may consider when applying the disclosure requirements in paragraphs 35A–38 of IFRS 7. We believe the IASB should consider, as an additional example of information, an explanation of the effect if there is a significant increase in credit risk that would result in the expected credit losses going from a time horizon of 12 months to lifetime in accordance with Section 5.5 of IFRS 9.

- Considering the multitude of uncertainties surrounding credit risk, it may be helpful to consider an additional example that addresses other uncertainties (e.g., technological or societal uncertainties), illustrating application of credit risk disclosures beyond climate-related uncertainties.

Example 7—Disclosure about decommissioning and restoration provisions

- Considering the context of Example 7, it would be helpful if the disclosure envisioned in paragraph 7.4(b) include information about the sensitivity of the provision's carrying amount to changes in the major assumptions (i.e., term, discount rate, costs) and the reasons for the sensitivity.

- Paragraph 7.3 indicates that there is a risk that the entity might be required to settle its plant decommissioning and site restoration obligations for its petrochemical facilities earlier than expected because of efforts to transition to a lower-carbon economy. We note paragraph 39 of IAS 37 indicates that uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances (e.g., estimating the obligation by weighting all possible outcomes by their associated probabilities). We suggest that the IASB include in paragraph 7.4 that an entity should also include disclosure of assumptions concerning possible outcomes used in determining the provision when necessary to provide adequate information in accordance with paragraph 85(b) of IAS 37.

Example 8—Disclosure of disaggregated information

- Example 8 implies that the disclosure of envisioned disaggregated information would only be applicable if an entity has adopted IFRS 18. We consider that such disaggregated information would be equally required under IAS 1 (e.g., IAS 1.29, IAS 1.77, IAS 1.97, as well as IAS 1.17(c), and IAS 1.31). We recommend reference to IAS 1 be included within this example.

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Question 3 - Do you have any other comments on the Exposure Draft?

Response:

We acknowledge that materials accompanying IFRS Accounting Standards, including illustrative examples, are not an integral part of those Standards and, as such, do not have an effective date or transition requirement. We appreciate the IASB's expectation set out in paragraph BC49 that, among other things, entities will "be entitled to sufficient time to implement any changes" and that the IASB expects "an entity would be expected to implement any change on a *timely basis*" (emphasis added).

Consistent with the views expressed in the article Agenda decisions – time is of the essence (March 20, 2019), we believe "timely basis," in this context, is a matter of months not years and accordingly expect any material changes arising from a final set of issued illustrative examples be appropriately reflected, to the extent feasible, in an entity's next financial statements (interim or annual).

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We appreciate your thoughtful consideration of the views provided in this letter.

If you have any questions or need additional information, please do not hesitate to contact Jonathan Wiggins, Chair of the Accounting Subcommittee of Committee 1 at +1 202-551-3694 or me. In case of any written communication, please mark a copy to me.

Yours sincerely,

Paul Munter

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