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(submitted via the IASB website)

22 November 2024

Dear Andreas,

AASB submission on IASB Exposure Draft/2024/6 Climate-related and Other Uncertainties in the Financial Statements

The Australian Accounting Standards Board (AASB) welcomes the opportunity to provide comments on the International Accounting Standards Board (IASB) Exposure Draft 2024/6. In formulating these comments, the views of our Australian stakeholders were sought and considered. This included:

(a) consultation with the AASB's Disclosure Initiative Project Advisory Panel, comprising subject matter experts across a range of stakeholder groups;

(b) AASB's virtual roundtable attended by various stakeholders from both for-profit (FP) and not-for-profit (NFP) sectors;

(c) targeted consultations with key stakeholders, such as professional bodies, auditors and preparers in Australia.

The AASB acknowledges the IASB's effort to improve the disclosure of information about the effects of climate-related risks in the financial statements by proposing to issue illustrative examples.

The AASB notes that illustrative examples could help some entities (particularly smaller entities) to improve their reporting of the effects of climate-related and other uncertainties in the financial statements but are concerned that the examples could become de facto rules. Therefore, the AASB recommends that the IASB clearly communicates the role of the illustrative examples.

In addition, the AASB also suggests the following improvements to individual examples:

(a) Example 1 – better explain the reasons why the disclosure of additional information might be required, such as the importance of the assets to the entity's operations;

(b) Example 2 – provide more details in the fact pattern on the effect of greenhouse gas emissions on the entity's measurement of assets and liabilities to enhance understanding of the conclusion that additional disclosures would not be required; and

(c) Example 3 – include the effect of the key assumptions on the value in use determination (including asset terminal value) and illustrate the cash flow uncertainty, as well as clarify the accounting implications of emission allowances.

Detailed recommendations and responses to the specific questions for respondents can be found in the Appendix to this letter. If you have any questions regarding this letter, please do not hesitate to contact me or Helena Simkova, Director (hsimkova@aasb.gov.au).

Yours sincerely,

Dr. Keith Kendall
Chair – AASB

APPENDIX

AASB responses to questions raised in the IASB Exposure Draft/2024/6 Climate-related and Other Uncertainties in the Financial Statements: *Proposed illustrative examples*

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.

The AASB broadly agrees with the IASB's proposal to provide 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 AASB notes that illustrative examples could help some preparers (particularly smaller entities) improve their reporting of the effects of climate-related and other uncertainties in the financial statements.

The AASB agrees with including the examples as illustrative examples accompanying IFRS Accounting Standards. However, the AASB recommends that the IASB clarifies the objectives of the project and clearly communicates the role of illustrative examples so that they are not misunderstood to represent de facto rules.

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.

The AASB considered stakeholders' feedback on the proposed illustrative examples and recommends some improvements to enhance understanding of the interpretation of the current requirements and the conclusions reached in certain examples.

(a) Example 1 – feedback indicated that the example does not sufficiently explain why disclosing additional information might be required. There were mixed views on whether the entities would reach a similar conclusion under the fact pattern described. Some stakeholders expressed concern that the example could result in entities disclosing boilerplate information relating to various business risks. To improve the understanding and prevent diversity in practice, we recommend that the IASB better explain the reasons why the disclosure of additional information might be required, such as the importance of the assets to the entity's operations (i.e. key asset).

(b) Example 2 – stakeholders raised similar concerns as with Example 1. To address those concerns, we suggest providing more details in the fact pattern about the effects of greenhouse gas emissions on the entity's measurement of assets and liabilities. It will improve understanding of the conclusion why disclosing additional information is not required in the described scenario.

The AASB suggests removing paragraph BC32 because the explanation provided in that paragraph is not relevant and might be confusing. This is because Examples 1 and 2 illustrate the current requirements of IAS 1 *Presentation of Financial Statement,* regardless of the sustainability framework an entity chooses to apply.

(c) Example 3 – stakeholders agreed that the selected scenario is relevant. However, they suggested the fact pattern is too simplified and does not illustrate the full complexity of impairment considerations in practice. Therefore, we suggest that Example 3 also illustrates:

(i) the effects of climate-related and other uncertainties on the measurement of assets' value, such as the effect of the key assumptions on the value in use determination (including asset terminal value); and

(ii) cash flow uncertainty.

The IASB should also clarify the accounting implications of emission allowances.

(d) Example 5 – some stakeholders commented that considering the current requirements in paragraph 134 of IAS 12 *Income Tax,* the example does not sufficiently explain why disclosure of additional information may be required. We recommend that the IASB:

(i) amends the fact pattern to state that the deferred tax asset is a material asset; and

(ii) better explains the reasons why information about the effect of this particular regulation is qualitatively material.

(e) Example 6 – the stakeholders from financial institutions indicated limited practicality of this example as the Expected Credit Loss models in financial institutions are more complex and the effects of climate-related risks may be reflected in the models in various ways. However, other stakeholders suggested that the example might be helpful when considering general credit losses. Therefore, we recommend broadening the fact pattern to apply to entities generally (i.e. not just financial institutions) when considering the entity's customers' operations that could be affected by climate-related risks and the entity's credit risk concentrations.

(f) Example 8 – we agree with the illustration of IFRS 18 *Presentation and Disclosure in Financial Statements* requirements. However, we suggest clarifying whether the same conclusion applies under the requirements of IAS 1 *Presentation of Financial Statements* as under IFRS 18.

The AASB supports the fact pattern and interpretations of current requirements illustrated in Example 4 and Example 7 as drafted.

Question 3—Other comments
Do you have any other comments on the ED?

We do not have any further comments.