Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Climate-related and Other Uncertainties in the Financial Statements** Proposed illustrative examples	**Meeting:**	November 2024 (M210)
Topic:	**Summary of stakeholders' feedback, staff analysis and recommendations**	**Agenda Item:** **Date:**	3.1 22 October 2024
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Objective of this agenda item

1 The objective of this agenda item:

(a) To inform the Board about the feedback from stakeholders on the International Accounting Standards Board (IASB) ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements: *Proposed illustrative examples*.

(b) For the Board to consider the staff analysis of stakeholders' feedback and matters for inclusion in the comment letter.

Background

2 During the IASB's Third Agenda Consultation, respondents were concerned that information about the effects of climate-related risks in the financial statements was insufficient or appeared to be inconsistent with information entities provide outside the financial statements, particularly information reported in other general purpose financial reports.

3 Although this project originated from concerns regarding information about the effects of climate-related risks in the financial statements; during the project, the IASB decided to generalise the project's objective because:

(a) the principle-based nature of IFRS Accounting Standards means that any actions the IASB takes as part of the project would apply not only to uncertainties arising from climate-related risks but to uncertainties in general;

(b) generalising the project's objective ensures that various types of uncertainties, including those yet to emerge, are captured and treated consistently; and

(c) an entity might not always be able to identify the effects of climate-related uncertainties separately from those of other uncertainties.

4 The IASB noted that its actions on this project focused primarily on climate-related uncertainties to respond to the specific concerns raised by stakeholders. Of the eight examples, only Example 5 is not climate-related. A summary of each example is provided as part of Question 2.

5 The IASB's research confirmed that stakeholders are concerned that information about the effects of climate-related risks in the financial statements is sometimes insufficient or appears to be inconsistent with information provided outside the financial statements.

6 The IASB's research also showed that the requirements of the existing standards were sufficient and that there was no need for amendments. Therefore, in this project, the IASB explored targeted actions to improve the reporting of the effects of climate-related risks in the financial statements.

7 In July 2024, the IASB published ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements: *Proposed illustrative examples* . The comment period closes on 28 November 2024.

8 In August 2024, the AASB issued an Australian equivalent ED – ED331 Climate-related and Other Uncertainties in the Financial Statements: *Proposed illustrative examples* (ED331). The comment period closed on 4 October 2024.

Outreach activities

9 Staff conducted the following outreach activities to gather views from stakeholders:

(a) 2 September 2024 – AASB Disclosure Initiative Project Advisory Panel (DIPAP) meeting where nine members provided feedback to AASB staff on the ED;

(b) 16 September 2024 – AASB staff hosted a virtual roundtable to obtain the views of various stakeholders from both for-profit (FP) and not-for-profit (NFP) sectors. Approximately 120 participants joined the roundtables, representatives of nine organisations joined in the discussion, 28 participants[1] interacted via the Zoom Chat facility, and approximately 50 participants partook in the polling questions[2];

(c) Three individual outreach meetings with:

(i) a representative of a practitioner organisation providing services to the small to medium enterprises (SMEs) sector;

(ii) representatives of a public-sector organisation that also submitted a comment letter;

(iii) representatives of a consulting firm that also submitted a comment letter.

10 In addition, staff also considered comments from the following:

(a) ten comment letters submitted to the AASB;

(b) joint CA ANZ / CPA Australia high-level comments summarising their preliminary views as at 4 October 2024;

(c) views of other standard setters, such as EFRAG, NZASB and UKEB and other comments provided at International Forum of Accounting Standard Setters (IFASS).

[1] Some representatives who spoke during the roundtables also commented in the chat facilities.

[2] For more details on the polling question results, refer to Appendix A of this staff paper.

11 The proposal will be also discussed with the User Advisory Committee (UAC) at the meeting on 25 November 2024.

Feedback from Australian stakeholders, staff analysis and recommendations

12 There are three questions in the ED. Staff have considered all feedback received in providing their recommendations to the Board.

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.

<u>Summary of the proposals</u>

13 As the IASB concluded there was no need for amendments to the existing standards, it focused on:

(a) improving the application of the standards – the ED examples illustrate how applying existing requirements may result in disclosing information about the effects of climate-related risks;

(b) raising awareness of the relevant requirements; and

(c) strengthening connections between information provided in financial statements and in sustainability-related financial disclosures.

14 In considering how best to communicate the examples, the IASB considered whether to:

(a) publish the examples as educational materials;

(b) include them as illustrative examples (IEs) accompanying IFRS Accounting Standards; or

(c) include them in the Standards.

The IASB decided to propose including the examples as illustrative examples accompanying IFRS Accounting Standards.

15 The IASB also noted in paragraph BC45, that in addition to including the examples as illustrative examples accompanying IFRS Accounting Standards, the IASB considers grouping the examples and publishing them as a single document.

Stakeholder feedback

16 At our roundtable, 53 stakeholders responded to the question[3] on the overall usefulness of the examples. 70% of respondents found the examples helpful, and 26% were not sure.

17 The majority of our stakeholders agreed with the IASB's proposal to include the examples as illustrative examples accompanying IFRS Accounting Standards. At our roundtable, of 52 respondents to a polling question on the preferred vehicle for the examples, 60% agreed with the IEs accompanying the standards but also wanted the IASB to issue a separate package of examples.

18 During the DIPAP meeting, Staff received the following comments:

- One panel member commented that having illustrative examples is useful. Two members agreed with these examples accompanying IFRS Accounting Standards. One of them noted that if the examples were included within the Standards, they would become mandatory guidance, which may not be desired as significant judgement is required in many situations. The other member commented that IEs, which accompany the Standards, can be relatively easily amended or added.
- A panel member expressed that additional educational materials covering more scenarios would be helpful, e.g., similar to the detailed IEs accompanying IFRS 15 and 16, which helped with understanding and interpreting the standards. Another panel member also added the need for more educational materials covering what-if scenarios (e.g. for the public sector) to provide further guidance on judgement and sensitivity.
- One panel member observed that the IASB appears to be starting on the journey, so it is important that the IASB do it in such a way that they can add to the examples at a later point in time and grow on the examples.

19 During the roundtables, staff received the following comments from the public:

- Overall, the examples are helpful, and IEs accompanying the standard are the best vehicle, given that the examples are not binding. Some examples established a fact pattern that was too simplified. However, even if the examples are not perfect, they still provide helpful guidance.
- The intent is good, but more examples for different industries are needed (including NFP/public sector). The participant also asked for guidance on the level at which the preparers need to consider climate-related risks (e.g., do preparers need to consider climate-related risks for investments held?).
- IEs accompanying standards will assist users, preparers, and stakeholders until the standards are mature. The examples may assist investors in determining if management is considering the right information and may impact the investors' decisions.
- Issuing illustrative disclosures would be useful, but understanding how to disclose the information might be a challenge.
- Providing examples would help improve reporting. Guidance rather than requirements is preferred.

20 The participants at the individual meetings agreed that the examples are helpful. While not perfect, they are a step in the right direction and help with the application. They noted the examples might be more helpful to smaller firms with fewer resources.

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[3] For more details on the polling question results, refer to Appendix A of this staff paper.

21 Representatives of a public-sector organisation commented that publishing the examples in a single document (as proposed in the ED's paragraph BC45) rather than IEs accompanying the standards would be preferred as they would likely be read in combination. It would assist users when considering connectivity between financial statements and future climate-related financial disclosures. It would also assist in considering multiple climate-related events and their effect on financial statements. If the IASB decides to issue the IEs accompanying the standards, the single document should be still issued in addition to that.

22 One comment letter noted their preference to include these examples within the mandatory section of the Standard to make enforcement easier. In their view, even if the examples accompany the standards, it would be difficult for preparers to justify not following this guidance or providing the appropriate disclosure as intended by the IASB. The stakeholder explained that if the IASB wants to change behaviour, their recommendation is to have these examples inside the Standard, thus making them mandatory. Otherwise, if examples are only accompanying the Standards, they may not affect the current practice.

23 Whilst one comment agreed with illustrative examples to accompany the standards, the stakeholder recommended that the IASB reiterate the objectives of these examples to minimise disputes between specific and general requirements, particularly to address potential contention over the precedence of general requirements when specific disclosures are not mandated.

24 One comment letter welcomed the guidance as an important initial step in clarifying how financial statements should incorporate the impact of climate change but requested changes. The details will be discussed as part of Question 2 analysis later in this paper.

Staff analysis

25 In response to Question 1, a large majority of stakeholders provided their overall support of the IASB's project and the vehicle chosen. In general, stakeholders requested even more guidance and examples to be issued to cover a broader range of industries, sectors and/or roles. This feedback is considered as part of Question 2 later in the paper. Even though the examples could be improved, the stakeholders found the project as a step in the right direction by the IASB. There were a few opposing views arguing against the ED and its limited usefulness in practice.

26 Staff have considered whether IASB should provide examples of illustrative disclosures. Staff is of the view that the entity's disclosures will be specific to the entity's unique circumstances, and demonstration of interpretation of current requirements should be sufficient. Staff is also aware that some consulting firms prepare illustrative disclosures that can be used as guidance. There are already existing publications from the following sources that show examples of climate-related disclosures extracted from financial reports from various businesses (e.g. ESMA[4], October 2023 The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements). Staff consider that this and other similar publications could provide the assistance sought by preparers

27 Staff acknowledge that finding these examples may be challenging for some preparers and that they may benefit from the IASB referring to relevant sources.

28 In response to Question 1(b), the majority of stakeholders supported the IASB's proposal to issue the examples as illustrative examples accompanying IFRS Accounting Standards and also include them all in a single educational document (as per the ED's paragraph BC45).

29 Staff agree with the IASB proposal as illustrative examples accompanying the standards:

[4] Refer to Appendix B for some extract disclosures from the October 2023 ESMA report.

(a) Are easily accessible,

(b) Are useful for preparers, auditors and regulators, and

(c) allow for greater flexibility in contents and formats compared to including them in the standards themselves.

30 Staff is of the view that in addition to examples accompanying standards, a single publication would be helpful to preparers to serve as a "one-stop shop", particularly for:

(a) an entity's sustainability team (i.e. non-accounting staff) when they need to consider the effects of sustainability disclosures on the financial reporting. It would enhance the collaboration of sustainability and financial reporting teams; and

(b) examples that add the most value when read together. For example, some stakeholders have commented that reading Examples 3, 4 and 5 together demonstrated to some stakeholders the IFRS Accounting Standards' specific disclosure requirements and overarching disclosure requirements; and their differences.

The UKEB's draft comment letter[5] also supported the IASB's proposal in paragraph BC45 of the ED to issue such publication.

31 Staff also considered the suggestion of a stakeholder to include the examples within the standard. Staff is of the view that even if illustrative examples are not an integral part of the standard, they are used by preparers in applying the standard. Predominantly, audit entities use them when conducting audit activities. Therefore, staff would not expect a significant benefit from including the examples as an integral part of the standard. The objective of the examples is to improve reporting of climate-related and other uncertainties on the financials and to strengthen the connections between various financial reports. Staff consider the chosen vehicle to be suitable for achieving this objective.

<u>Staff recommendations</u>

32 Considering the feedback provided, staff recommend that the AASB supports the IASB proposal to issue the examples as they would help preparers to consider the effect of climate-related risks on the information reported in the financial statements. Further, staff suggest recommending that the IASB also publish an additional single document containing all examples (as per the ED's paragraph BC45). In this additional guidance, the IASB could refer to other relevant IFRS IC Agenda Decisions and regulators' reports which provide examples of illustrative disclosures that were considered during this project. This could further assist preparers and other users.

Question for Board members
Q1 Do Board members agree with the staff recommendations in paragraph 32? If not, what would Board members suggest?

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:

[5] Paragraph A10 of UKEB's draft comment letter (dated 25/09/2024), on the IASB's Exposure Draft IASB/ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples*

(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.

Summary of the proposals and stakeholders' feedback

33 The IASB prepared eight examples that demonstrate how to apply the principles and requirements of the current standards to climate uncertainties. The main areas illustrated by the examples are:

(a) Making materiality judgements (Examples 1–2)

(b) Disclosing information about assumptions and estimation uncertainty (Examples 3–7)

(c) Disaggregating information (Example 8)

Making materiality judgements (Examples 1–2)

34 Example 1 summary

> An entity has developed a climate-related transition plan and discloses information about this plan outside the financial statements. The manufacturer plans to reduce gas emissions over the next 10 years by investing in more energy-efficient technology and changing materials and manufacturing methods. The entity concluded that this plan has no impact on the value of assets and liabilities as the affected facilities are nearly fully depreciated and the recoverable amounts of relevant Cash Generating Units significantly exceed their carrying amounts.
>
> However, paragraph 31 of IAS 1 requires additional information when IFRS accounting standards requirements are not sufficient to enable users to understand the effect of transactions and events on an entity's financial performance. The entity determined that additional disclosures would provide material information because omitting this information could influence users' decisions. Therefore, the entity discloses that its transition plan has no effect on its financial position and explains why.

35 Example 1 illustrates how the entity should consider IFRS accounting standards' requirements so that it provides information in its financial statements that is connected to the information disclosed in other general-purpose financial reports. In this example, the consideration results in additional disclosures.

36 On the other hand, Example 2 illustrates a case where no additional disclosures are needed in the financial statements. Example 2 aims to address the risk of entities disclosing excessive disclosures after considering qualitative materiality factors.

37 Example 2 summary

> The entity is a service provider operating in an industry with limited exposure to climate risks. It discloses outside of financial statements that it has low levels of greenhouse gas emissions.
>
> The entity assesses that its greenhouse gas emissions policy has no effect on the value of assets and liabilities. When considering para 31 of IAS 1, the entity considers the disclosures in its financial report outside the financial statements and the industry in which it operates and concludes that additional disclosures about the effect of that policy would not provide material information.

38 Both examples aim to show the importance of considering both quantitative and qualitative factors in materiality assessments and how a company's specific circumstances influence these judgments.

Stakeholders feedback on Example 1 and 2

39 One DIPAP member agreed that Example 1 is useful as it demonstrates that while there is no impairment risk, disclosing this is, in fact, still material information. Another member agreed that it was useful to demonstrate both situations, where disclosures are and are not required.

40 Another panel member expressed the view in relation to Example 1 that currently, in practice, entities do not disclose matters that are not material, and expressed concern about whether this ED could result in disclosing information that is not relevant. The member was of the view that users with a reasonable knowledge of disclosure requirements would, in this case, understand without additional information that the asset is either fully depreciated or there is sufficient headroom. The panel member observed that the key challenge is to judge and decide what information users would reasonably expect to be disclosed. Another panel member agreed with the observation of judgement being the key challenge in practice.

41 This feedback was echoed by a stakeholder at the roundtable who explained that certain assumptions given in the background of Examples 1 and 2 are difficult to make in practice, such as the assumptions about users' expectations when considering the information for disclosure. The examples should elaborate on those given assumptions and provide more information about users and why the information needs to be disclosed. These considerations should be explained to better demonstrate why paragraph 31 of IAS 1 applies.

42 Two other stakeholders found both examples helpful:

(a) A representative from a banking organisation elaborated that readers/users may not fully understand the impacts of risks. Therefore, even when there are no impacts, explaining why may be important.

(b) Representatives from a public-sector organisation explained that examples 1 and 2 help distinguish when information is likely to be material for disclosure within financial statements versus not material.

43 At the IFASS conference, some stakeholders indicated that having Examples 1 and 2 not applicable to entities applying S1 and S2 (as stated in BC32[6]) is not helpful when demonstrating

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[6] BC32: "Examples 1 and 2 assume that the entity does not apply IFRS Sustainability Disclosure Standards. If those Standards were applied, the entity would be required to disclose in its sustainability-related financial disclosures information about the effects of climate-related financial disclosures information about the effects of climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period."

the connectivity of reporting. This was echoed by a stakeholder in the comment letter. The stakeholder also suggested to explain the outcome of that.

Staff analyses Example 1&2

44 Overall, staff received supportive comments that examples 1 and 2 are helpful, and the organisations are able to apply the examples in their own environment.

45 Staff considered the feedback that Example 1 does not reflect the current interpretation of paragraph 31 of IAS 1 in practice. Staff considered the scenario in Example 1 and noted the following:

(a) IAS 36 *Impairment of Assets* requires an entity to disclose additional information if the impairment is recognised. However, there are no disclosure requirements if the asset is not impaired (unless the asset includes goodwill or it is an intangible asset with indefinite useful life);

(b) paragraph 125 of IAS 1 requires an entity to disclose information about major sources of estimation uncertainty at the end of the reporting period that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year.

46 Staff conclude that based on the above any information about assets being impaired would be disclosed under IAS 36. If the asset was not impaired but there was a material risk of impairment in the next financial year, such information would be disclosed under paragraph 125 of IAS 1. Therefore, the staff is of the view that users with reasonable knowledge of the disclosure requirements may not expect that some of the entity’s assets might be impaired. Thus, the assumption of users’ expectations in Example 1 of the ED, as currently drafted, is not clear.

47 Staff agree with the feedback that the assumptions about users' expectations need to be elaborated. The fact pattern should better explain who the users are and why additional information should be disclosed.

48 Staff recommend using guidance from the Materiality Practice Statement when drafting the Example 1 scenario. The Practice Statement provides guidance on what the entity should consider when assessing decisions made by primary users and on assessing the materiality of the information. Linking the fact patterns with guidance on materiality and users' expectations could provide an additional explanation that would lead to the intended conclusion in the Example. Staff noted that the Example could refer to paragraph 51 of the Materiality Practice Statement, which states the following: “*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*.”

49 Staff recommend that the scenario in Example 1 is redrafted using the guidance from the Materiality Practice Statement to provide more considerations about users in the fact pattern to clarify how the entity assesses:

(a) the common information needs of primary users;

(b) how it assesses the materiality of the information in the context of financial statements;

(c) whether its primary users could reasonably be expected to be influenced by the information when making decisions about providing resources to the entity.

The detailed consideration of users' needs in the fact pattern would better demonstrate why additional information should be disclosed. If Example 1 is issued as currently drafted, it may result in entities disclosing immaterial information about various business risks.

50 Staff also suggest that IASB clarifies the wording of paragraph BC32 to explain that the examples are meant to be used by entities regardless of whether they are applying the IFRS sustainability standards.

Question for Board members
Q2 Do Board members agree with the staff recommendations in paragraphs 49 and 50? If not, what would Board members suggest?

Disclosing information about assumptions and estimation uncertainty (Examples 3–7)

51 Examples 3 to 7 focus on the disclosure of assumptions, which is important for users to understand how climate-related and other uncertainties are reflected in recognition and measurement of assets and liabilities.

52 Examples 3, 4, and 5 provide various scenarios in which an entity would apply the IASB Accounting Standard's specific requirements, general requirements, and overarching disclosure requirements, respectively.

Example 3

53 Example 3 illustrates how specific requirements in IAS 36 are applied when considering disclosing information about assumptions used in impairment testing.

> Example 3 summary
>
> The entity is a greenhouse gas emission producer required to acquire emission allowances in some jurisdictions. This requirement is expected to become widespread. One of its CGUs includes goodwill, and therefore, it is tested annually for impairment. The cash flow projections are based on the estimate of future economic conditions, including the costs of emission allowances. The CGU's amount is sensitive to emission allowance costs.
>
> The entity applies paragraph 134(d) of IAS 36, which requires additional disclosure if it is possible that a change in assumption would lead to the carrying amount exceeding the calculated recoverable amount. The entity discloses that the emission allowance cost is one of the key assumptions and also discloses its approach to determining the value (e.g. whether its assumption about costs of emission allowances is consistent with external sources of information and if not, how it differs).
>
> The entity also needs to apply paragraph 134(f) of IAS 36. If it is reasonably possible that a change in key assumptions could lead to impairment, the entity will disclose the excess of CGU recoverable amount over its carrying amount, the values assigned to key assumptions and the amount of change in the key assumption that would lead to CGU recoverable amount being equal to its carrying amount.
>
> This example illustrates the disclosure required when the cost of allowances is included in the measurement of the recoverable amount model.

Stakeholders' feedback on Example 3

54 One-panel member suggested including a scenario leading to an impairment loss, as it would be helpful to go through a case where an impairment loss is recognised as a result of climate effect.

55 Another panel member noted that the scenario is too simplified, and suggested including other considerations and the impact on measurement, e.g.:

(a) consideration of what the CGU is,

(b) scenario analysis illustrating different climate scenarios,

(c) the impact on discount rates,

(d) the challenges of establishing sustainable cash flow for a terminal value calculation.

The panel member noted that a number of issues, complexities and inter-relationships could be highlighted by amending the fact patterns. They thought it was a missed opportunity in this example.

56 Another panel member agreed with the above comment and noted that highlighting various considerations that could affect assumptions would be helpful, particularly for the public sector and NFP entities. The panel member commented that currently, entities use either the current replacement cost or fair value model, and thus, assessing the impact of greenhouse and impairment would be slightly different under the two methods.

57 However, another stakeholder commented that even though Example 3 provides a simplified scenario, it is useful in the context of Examples 4 and 5 because it highlights the requirements of various standards that should be considered. This view was supported by another representative from a public-sector organisation, who noted that whilst more details would be useful, they understand that the focus of the whole suite of examples is on disclosures rather than measurement. They explained that if this example was viewed in isolation, it could be helpful to illustrate the effects on the calculations.

58 One stakeholder recommended to reference IFRS IC Agenda Decision on Climate Related Commitments from April 14.

Staff analysis Example 3

59 Staff agrees that the selected fact pattern in Example 3 is relevant to demonstrate the effects of climate-related and other uncertainties.

60 However, staff also acknowledges stakeholders' feedback that the fact pattern is simplified and may not reflect the real situation in practice. Building more complexities into the example and illustrating the effect on measurement could help entities to consider the effect of relevant uncertainties more holistically. This would include consideration of the effect on scenario analyses, discount rates used in the impairment model and determining terminal values.

61 Staff also consider that Example 3 could have two variants illustrating the following:

(a) a scenario where the effect of climate does not result in impairment recognition;

(b) a scenario where the effect of climate results in the recognition of impairment loss.

62 Staff observed that EFRAG[7] also suggested illustrating the impact on recognition and measurement requirements (e.g. determining the value in use) and adding examples that are variants of the basic fact patterns of some of the examples, including Example 3.

63 The UKEB[8] draft submission letter recommends considering features such as the effects on expected cash flows (beyond a five-year period) and on asset terminal values.

64 Staff has also considered the feedback from representatives of the Not-For-Profit Sector. Staff note, that the impact on NFP will be considered later if the IASB decides to issue the illustrative examples.

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[7] Paragraph 41 of EFRAG' s Draft Comment Letter (dated 20/9/2024) on the IASB's Exposure Draft IASB/ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples*

[8] Paragraph A15 of UKEB's draft comment letter (dated 25/09/2024), on the IASB's Exposure Draft IASB/ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples*

65 Staff considered the feedback on cross-referencing the relevant IFRS IC Agenda Decision. Staff is of the view, that referencing other relevant guidance would better fit in the single document publication containing all IEs. Staff included recommendation to refer to other relevant guidance in the single document under Question 1.

66 Staff acknowledge that Example 3 is simplified and could be more helpful if real-life complexities in considerations are included. Therefore, staff recommend adding in the submission letter suggestion to include the following in Example 3:

(a) another scenario where the entity recognises an impairment loss as an effect of climate uncertainties;

(b) considerations of the effect on measurement, specifically the effect on value in use determination (including asset terminal value), discount rates and scenario analysis.

Question for Board members
Q3 Do Board members agree with the staff recommendations in paragraph 66? If not, what would Board members suggest?

<u>Example 4</u>

67 Example 4 demonstrates the application of general requirements in IAS 1.125 for disclosing information about assumptions even when specific disclosure requirements don't apply.

> Example 4 summary
>
> An entity is exposed to climate-related transition risks that might affect the recoverability of some of its non-current assets. The entity has no goodwill or intangible asset with indefinite useful life. There were indications of non-current assets impairment. Therefore, the entity performed an impairment test of the CGU containing those assets and as a result did not recognise any impairment loss. The assumptions in the impairment model included legal and regulatory developments, consumer demands, commodity prices and costs of emission allowances.
>
> Paragraph 125 of IAS 1 requires an entity to disclose information about the assumptions it makes about the future, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
>
> The entity concludes that the impairment model includes assumptions about uncertainties that will not be resolved within the next financial year, but that have a significant risk of resulting in a material adjustment if the entity revised those assumptions in the next financial year. This is because:
>
> - the CGU make up a large portion of total assets;
> - there is a high level of subjectivity involved;
> - the judgement includes estimates about future government actions;
> - there is also a high risk that new information next year may result in changes;
> - the carrying amount of the CGU is highly sensitive to the assumptions.
>
> Therefore, the entity discloses information about the assumptions in the model and details of the nature and carrying amount of the CGU's non-current assets.
>
> The entity also considers paragraph 129, which requires disclosing information in a manner that helps users of financial statements understand the judgements that management makes about the future.

68 The example also demonstrates that the requirements of paragraph 125 apply to uncertainties that may be resolved only after the end of the next financial year. Specifically, if there is a significant risk that a change in assumptions within the next financial year would result in a

material adjustment to the carrying amount of assets and liabilities. It also illustrates how an entity determines what information to disclose.

Stakeholders' feedback

69 A DIPAP member found Example 4 helpful as currently preparers may not consider requirements in IAS 1 on uncertainties relevant when assessing impairment.

70 Representatives from a public-sector organisation noted that Example 4 is helpful as it can be applied by analogy to other scenarios. As the organisation is currently implementing climate reporting, examples illustrating transition risks are timely. Example 4 helps to understand the connectivity of climate related actions on the values reported in the financial statements.

71 However, a stakeholder at the roundtable commented that Example 4 goes beyond the current application of IAS 1 in practice, as entities currently disclose minimal information if no impairment is posted. Another participant suggested that perhaps the IASB should consider amending disclosure requirements in IAS 36 to ensure they are sufficient.

Staff analysis Example 4

72 In general, most of the stakeholders supported the inclusion of Example 4.

73 In respect of feedback relating to over-extending the current application of IAS1.125, staff noted that similar feedback was provided on Example 1. However, in this example, the example explains why the entity considered that there is a significant risk of resulting in a material adjustment to the value of assets in the next year. The main factors are listed and explained in the example. Staff is of the view that the explanation is sufficient to demonstrate why additional information needs to be disclosed.

74 Staff consider the fact pattern to be helpful, mainly as it relates to impairment consideration of an asset, that does not include goodwill or is not an intangible asset with indefinite useful life and, therefore, less information is required to be disclosed by IAS 36.

75 Staff recommend supporting the inclusion of Example 4 as currently drafted.

Question for Board members

Q4 Do Board members agree with the staff recommendations in paragraph 75? If not, what would Board members suggest?

Example 5

76 Example 5 shows how companies might need to provide information about assumptions based on the overarching disclosure requirements in IAS 1.31, even when specific or general disclosure requirements don't apply.

Example 5 summary

The government announced a regulation that will restrict the entity's operations and profit in the future. The entity has deferred tax asset (DTA) for unused tax losses. Thus, this regulation could affect the ability to recover the DTA. The effective date of the regulation is uncertain, but not within the next two years.

In this example, the entity does not have a history of losses, therefore, the entity concludes that DTA can be recognised according to para 34 of IAS12 as taxable profit is probable in the near future. The entity expects to utilise the DTA before the regulation becomes effective. Therefore, there is no requirement to disclose additional information under IAS 12

The entity does not expect any change in the assumptions in the next year. Therefore, no requirement to disclose additional information under paragraph 125 of IAS 1 related to disclosing information about uncertainties and assumptions.

However, para 31 of IAS 1 requires disclosure of additional information when compliance with specific requirements is insufficient to enable users to understand the impact of events on an entity's financial performance. The entity assessed that omitting information about the effects of the regulation could influence users' decisions. They could expect a material write-down of the DTA. That is why the entity discloses the assumption that the DTA will be utilised before the regulation becomes effective and also the effect of this assumption, which is the amount of the relevant DTA.

Stakeholders' feedback

77 We received mixed views on Example 5, with some stakeholders supporting the choice of scenario and the fact that it is not climate-related, whilst others expressed concerns about various fact patterns.

78 One DIPAP member noted that the scenario was well chosen as, in practice, a potential impact of climate risk on tax balances might be often ignored. However, they also expressed concern about disclosing a forward-looking statement as the information relates to the future use of deferred tax assets (DTAs) and thus indirectly providing guidance on expected future profit. Nevertheless, the panel member agreed with the IASB's conclusion that the information is qualitatively material and could affect users' decisions.

79 Another panel member observed limitations of this example's scenario due to narrow fact patterns. The panel member noted that if there is a risk of not being profitable in the near future, the entity would have other concerns than just utilising tax losses. However, the panel member acknowledged the principle that the IASB is trying to illustrate.

80 Representatives of a banking organisation commented that while Example 5 better illustrates why additional information would be required under the requirements of IAS1.31 than Example 1; they were concerned about the reference to regulation in the scenario. This could lead to an expectation that management needs to consider all potentially upcoming legislation and regulations and disclose their future impact. This would be very challenging in practice. The stakeholder suggested that similar principles could be illustrated using assumptions that are not legislation-based, e.g. future uncertainties in market rates.

81 One comment letter noted that the IASB's interpretation of IAS 1 paragraph 31 in Example 5 extends the requirements beyond the current understanding in practice, and if finalised, it may affect how entities provide disclosures on a range of business risks and potentially lead to disclosing boilerplate information. The stakeholder is of the view that if the intention is to extend the requirements on disclosing uncertainties, then the IASB should be undertaking a separate standard-setting project.

82 Another comment letter suggested to add variation of example illustrating the write-down of the asset.

Staff analysis Example 5

83 Staff observes that the fact pattern of this case is very narrow and may only reflect reality in very rare circumstances. However, the staff understands that this example was developed to illustrate the applicability of paragraph 31 of IAS 1 when no specific requirements apply.

84 Staff also appreciate the inclusion of an example relating to the assessment of other uncertainties besides climate risk.

85 Staff also think that developing variations for each example may not be practical. In this case, staff is of the view that the consideration illustrated in the example could be applied to various situations, for example, even if the situation is such that the consideration result in write-down of the asset.

86 Upon reviewing Example 5, staff considered the requirement of IAS 12.34, which states that an entity can recognise the DTA to the extent it is probable that future taxable profit will be available. Given this requirement in IAS 12, investors with reasonable knowledge of the standards would understand that taxable profit is expected to be available to offset the unused tax losses. Therefore, it is unclear why knowledgeable users could expect that the regulation should result in a write-down of the DTA.

87 To address the concern above, staff recommend **clarifying the fact patterns and including the consideration of materiality** following the Materiality Practice Statement guidance (similar to the recommendation for Example 1).

88 Staff also considered the feedback that the example could indicate that management needs to consider and disclose the effect of all future regulations, which might be challenging. This concern could be addressed by **amending the fact patterns and better explaining** why the information about the effect of this particular regulation is qualitatively material.

89 Staff consider that the recommended changes would also address concerns about extending the requirements in paragraph 1 of IAS1 beyond the current understanding (summarised in paragraph 81 above).

Question for Board members

Q5 Do Board members agree with the staff recommendations in paragraphs 87 and 88? If not, what would Board members suggest?

Example 6

90 Example 6 shows how companies might disclose information about the effects of climate-related risks on credit risk exposures and credit risk management practices, and how this relates to the recognition and measurements of expected credit losses.

Example 6 summary
The entity is a financial institution that identified two loan portfolios that are likely to be exposed to climate-related risks. These are loans to agricultural customers and certain real estate customers.
The entity first considers the materiality of the information required to be disclosed by IFRS 7. Specifically, it considers the size of the two portfolios, the significance of the effect of climate risks on credit exposure and other factors, e.g. economic, regulatory and legal developments. In this case, the conclusion was that the information is material.
The information that the entity should consider for disclosure is as follows:

- Credit risk management practices related to climate risks and how they relate to the measurement of expected credit losses, e.g. how it determines a significant increase in credit risk (SICR) in those portfolios and if the losses are measured on a collective basis, the grouping of instruments.
- Explanation of how climate-related risks were incorporated in probabilities of default and loss given default in the credit loss model, how the forward-looking information about climate risks was incorporated in the credit risk model.
- Any changes the entity made during the reporting period to estimation techniques or significant assumptions due to climate risk and the reasons for those changes.
- Information about collateral held as security.
- Information about the concentration of the credit risk.

The information that the entity provides could include the following:

- Explanation of credit risk management practices and how they relate to the recognition of expected credit losses, e.g. how climate risk affects the determination of whether there was a significant increase in credit risk or how the climate-related risks affect the grouping of instruments if the expected credit losses are calculated on a collective basis.

- Another disclosure could be an explanation of how these risks were incorporated in the probabilities of default and loss given default, forward-looking information and whether there were any changes to estimation techniques or assumptions during the year to reflect the effect of climate-related risks.
- Another information considered for disclosure could be about collateral held and information about concentrations of climate-related risk.

Stakeholders' feedback

91 Representatives from two banking organisations indicated that this example is not very helpful. Whilst it may demonstrate the concepts, its usefulness is limited as, in practice, assessments in the credit risk models require lots of judgement. The challenge is in determining the assumptions and how to include climate in the expected credit loss (ECL) model. Another comment highlighted that the illustrative example is very theoretical and does not reflect real-world circumstances. However, the stakeholders were unsure whether the example could be improved to provide a better insight. The principles for ECL modelling are well understood and the remaining practical challenges are not expected to be resolved by illustrative examples. The stakeholder noted that in practice the disclosures about climate are limited as the impact is not considered material. Climate impact might be included in the management overlay of the ECL model rather than being an input into the model. They also noted that the IASB should not try to provide illustrative disclosures as those are already available from some consulting firms.

92 A representative from an insurance organisation indicated that the usefulness of this example to insurance companies is limited as they don't issue loan products and suggested adding an example specific to the insurance industry applying IFRS 17, given IFRS 17 bypasses the ECL model to a certain degree.

93 Stakeholders from a public sector organisation indicated that even though Example 6 features a financial institution, credit risk is common in other types of businesses and the example could be applied by analogy to other items in the financial statements in their sector.

94 Another stakeholder suggested that the example may need to be expanded to explain why climate-related risks may be material when considering credit risk, for example, the disclosure should be based on realistic assumptions and disclosed.

Staff analysis Example 6

95 Based on the feedback received, staff concluded that Example 6 may have limited potential to result in any change in practice. It is too simplified and unrealistic to be applied by financial institutions when calculating their ECL. Currently the ECL models in financial institutions are more complex and robust.

96 Therefore, staff recommends replacing an example illustrating the effect of climate risk on credit losses of a non-financial institution.

Question for Board members

Q6 Do Board members agree with the staff recommendations in paragraph 96? If not, what would Board members suggest?

97 Example 7

> Example 7 summary
>
> A petrochemical manufacturer has plant decommissioning and site restoration obligations but plans to operate the facilities for a long time. Therefore, due to discounting, the carrying amount of the provision is immaterial even though the costs of restoration are expected to be high. There is also a risk that some facilities may need to be closed earlier due to efforts to transition to a lower-carbon economy. The example is trying to illustrate that the information about the effects of climate risks on the recognition and measurement of the provision could be material, even if the discounted value of the provision is currently immaterial.
>
> Paragraph 85 of IAS 37 requires an entity to disclose a description of the nature of the obligation, the expected timing of outflows, an indication of uncertainties about the timing and amount of the outflows and disclose major assumptions when needed. Applying these requirements, the entity discloses the relevant information about its restoration and decommissioning obligations, the timing of the economic outflows to settle those obligations, the indication of uncertainties of those outflows, and assumptions about the future use of petrochemical facilities and when the facility is expected to be closed.

98 Example 7 highlights that even when the carrying amount of a provision is immaterial due to discounting, information about the underlying obligations can still be material, especially given the efforts to transition to a lower carbon economy.

Stakeholders' feedback and staff analysis

99 Stakeholders from a public sector organisation commented that this example might not result in a change in practice as the information highlighted is likely to be disclosed already, but it was still a good example to include in the ED to illustrate the requirements.

100 Staff did not receive any further feedback specific to Example 7. Therefore, staff suggest not to provide any comments specific to Example 7.

> **Question for Board members**
>
> Q7 Do Board members agree with the staff recommendations in paragraph 100? If not, what would Board members suggest?

Disaggregating information (Example 8)

> Example 8 summary
>
> The entity uses two types of PPE, one of which produces a high volume of emissions. An alternative type of PPE, which produces fewer emissions, is used on a smaller scale. These two assets represent a large part of the entity's total assets. Any future regulations relating to emission reduction would have a different impact on the expected life of the assets, their residual value, and recovery of carrying amounts.
>
> The entity operates in an industry with a high degree of exposure to climate-related transition risks.
>
> When preparing the disclosure note, the entity will apply principles for disaggregating information in IFRS 18 *Presentation and Disclosure in Financial Statements*. The entity determines that the two types of PPE have dissimilar risk characteristics and disaggregate the information in the notes between the two types of PPE.

101 Example 8 demonstrates how disaggregating information based on climate-related risk characteristics can provide material information to users of financial statements.

<u>Stakeholders' feedback and staff analysis</u>

102 Staff received limited comments on Example 8 but noted support from the DIPAP members.

103 Stakeholders from a public sector organisation noted that the level of disaggregation indicated in the example could result in management starting to consider the requirements of IFRS 18, especially entities with a large PPE portfolio with dissimilar risk exposures.

104 One comment letter suggested that the explanation on disaggregation is not clear. For example, there is no explanation why there is no need for the assets to be disaggregated by other risks. The stakeholder suggests that example should be clear as to what is mandated compared to what is voluntary provision of information.

105 Staff noted, that IFRS 18 provides guidance on aggregation and disaggregation and judgement needs to be applied. It does not state what grouping of information is mandatory or voluntary. The consideration of the guidance is specific to each entity. Example 8 only illustrates possible disaggregation to reflect the climate-related risk. However, it is not an exhaustive demonstration of grouping information to reflect all risks the entity is exposed to. The guidance in the example may be applied by analogy to other risks. Judgement is required whether disaggregating the information provides material information to users.

106 Staff recommends supporting the inclusion of Example 8 in the final suit of examples.

Question for Board members

Q8 Do Board members agree with the staff recommendations in paragraph 106? If not, what would Board members suggest?

<u>General feedback not specific to individual examples</u>

107 A stakeholder expressed a concern in the comment letter that the examples as they are currently drafted may become points of contention between preparers and auditors, as opposed to being useful. This is because the examples contain simple fact patterns with high level conclusions of whether additional disclosures are warranted. The stakeholder is of the view that:

(a) the examples would be more useful and achieve the ED's intended objectives if the fact patterns included other common industries rather than just manufacturing;

(b) the examples with complex fact patterns and detailed disclosures would be more effective;

(c) more specific examples would also assist auditors when considering the additional disclosures. The examples in their current general form may lead to differing and inconsistent interpretations by the entity and the auditors/regulators.

108 Another comment letter suggested further improvements to increase the connectivity between AASB S2 and the accounting disclosures, including:

(a) specific guidance or educational material addressing the intersection between AASB S2 requirements and the financial statement disclosures;

(b) more details to be provided on how key threshold judgments are exercised within the illustrative examples;

(c) additional illustrative examples covering a broad range of sectors; and

(d) further guidance, training and educational material tailored to the needs of the various roles involved in the financial reporting process, including directors.

109 Comment letters from two Superannuation entities requested that the AASB issues specific guidance for superannuation entities (relevant to AASB 1056 *Superannuation Entities)* due to the following unique features:

(a) AASB 1056 *Superannuation Entities* defines "primary users" differently from AASB S2 *Climate-related disclosures*' definition of "user". Entities requested clarification and examples of the likely areas of material disclosures in the financial statements for its primary users.

(b) One entity observed that none of the ED's eight examples is appropriate for asset owners with investments across all economic sectors. Due to the unique nature of pension and superannuation funds, which are both preparers and users of climate disclosures and heavily rely on external entities for climate-related information and data, the entity requests the development of industry-specific disclosure examples for asset owners.

(c) One entity explained that the ISSB reporting standards (IFRS S1 and IFRS S2) were designed for reporting by profit-oriented entities that issue debt or equity to fund operations. The entity requested additional illustrative examples and more guidance on the application in the context of the Australian reporting environment, in particular for reporting entities required to apply AASB S2 that do not issue debt and/or equity (e.g., NFP entities, public sector entities, and Registrable Superannuation Entities (RSEs) that apply AASB 1056 *Superannuation Entities*).

110 Both entities asked for clarification and provision of further guidance on the application of a materiality judgement in relation to Registrable Superannuation Entities (RSEs) and their administration and service companies. They are of the view that Example 2 would apply to their administration and service companies.

111 Some stakeholders suggested that the examples should cover a broader range of industries, for example, the insurance industry or asset managers.

112 Another stakeholder suggested in the comment letter to include scenario where assumptions used in climate-related scenario analysis and in general purpose financial statements may differ.

<u>Staff analysis</u>

113 Staff considered stakeholder comments on the examples covering a broader range of industries. Staff noted that the IASB tried to develop general examples so the principles illustrated could be applied by analogy by various types of entities. It is not feasible to aim for developing a suit of Examples, which would cover all main industries.

114 As noted in paragraph 26 above, ESMA has issued a report that includes disclosure extracts from the following industries/sectors:

- chemicals,
- electricity,
- industrial metal and mining,
- construction and materials,
- industrial transport,
- automobiles and parts,
- gas, water and multi-utilities,
- oil, gas and coal,
- telecommunication.

115 Staff is of the view that the disclosure extracts from these industries could provide useful examples of disclosure to consider when assessing climate-related disclosures.

116 However, staff acknowledge that the inclusion of an example from specific industries, such as insurance or asset managers, could be helpful.

117 Staff also considered the suggestion to include variation in assumptions. However, staff concluded that any specific situation, such as using various assumptions in different reports, needs to be assessed using all available facts and circumstances and therefore, it will be the role of the auditor to assess, whether such variation is justified.

118 Staff considered feedback from stakeholders from the public sector and RSEs and their request for sector-specific examples, emphasising that the users of their financial statements are very broad. Staff is of the view that the ED's Examples 1 and 2 can help NFP, public sector, and RSE entities as a starting point. However, if the IASB finalises the proposals, the AASB will separately consider the suitability of the examples for NFP private and public sector. Therefore, this feedback will be considered at a later stage.

119 Staff agree that some examples would benefit from greater details included in the fact patterns and from better explanations of key assessments. Staff included these recommendations in the analysis of individual examples above. Staff suggest recommending that IASB includes an example for insurance and asset management entities as the consideration of material information for users of financial statements might be different.

Question for Board members
Q8 Do Board members agree with the staff recommendations in paragraph 118? If not, what would Board members suggest?

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

120 Many stakeholders provided their overall support for the IASB's project, but viewed the ED's eight examples as a "good start". Some stakeholder highlighted the imbalance of examples in the ED with Example 5 being the only non-climate-related example; which was viewed by many to not meet the IASB's project objectives as stated in paragraph BC2 of the ED. If the IASB is to prioritise the focus on climate-related risks for now, the IASB should consider providing further guidance on other uncertainties at a later stage to address stakeholder concerns, particularly around emerging risks such as Biodiversity, Ecosystems or Human capital.

121 Other matters recommended by the stakeholders in the comment letters were as follows:

(a) IASB should monitor emerging reporting issues, particularly inconsistencies between climate information and financial statements. ;

(b) Clarify cross-referencing information in other reports as it is not clear whether IFRS Accounting Standards other than IFRS 7 *Financial Instruments: Disclosures* allow cross-referencing to other reports;

(c) the IEs should address uncertainty arising from varying sources of underlying data (e.g. conversion factors used in calculating greenhouse gas emissions);

(d) key judgements and background information (such as assumption whether industry is impacted by climate-related risk) should be better explained;

(e) issuing more guidance relevant to different roles, such as company directors.

122 At our roundtable, we ran a polling question[9] on whether participants think the ED's eight examples are sufficient to cover emerging risks, 88% of the participants answered no. However, staff is aware that issuing examples for each emerging risk is not feasible.

123 Staff considered other matter suggested in the comment letters:

(a) Monitoring inconsistencies – staff is of the view that IASB monitors consistency of requirements between sustainability and accounting standards and will continue doing that as new sustainability standards are developed. However, monitoring of inconsistencies in reporting the information is better suited to a regulator in each jurisdiction rather than to a standard setter.

(b) Cross-referencing – staff noted that IFRS Accounting Standards allow cross-referencing within financial report. There are four accounting standards (IFRS 7, IFRS 14 *Regulatory Deferral Accounts*, IAS 34 *Interim Financial Reporting* and IAS 19 *Employee Benefits*) which permit cross-referencing of certain information to other reports to avoid duplication of information. The requirements of those standards are specific to what information can be referenced. Therefore, these requirements cannot be applied by analogy. Staff is of the view that the IFRS Accounting Standards are clear in respect of what information can be cross-referenced to other reports and why.

(c) Other uncertainty illustration – staff is of the view that it is not feasible to develop examples that would address all possible risks. Staff noted that while most of the examples relate to consideration of climate risk, these examples are general and the considerations could be applied by analogy to other risks.

(d) Explanation of key judgments – staff considered this feedback mainly when analysing the interpretation of paragraph 31 of IAS 1. Staff recommended linking the scenario to the assessment of materiality from Practice Statement 1. Staff considers that explaining better the materiality assessment would address these concerns as the key judgements relate mainly to materiality of information.

(e) Guidance specific to various roles – staff is of the view that the role of an accounting standard-setter is to issue general guidance on how to interpret the requirements in the standards. Modifying the guidance and considerations for various management roles may not be feasible.

124 Staff noted that the IASB does not intend to develop similar examples when other sustainability standards are issued. However, considering the feedback from stakeholders, staff suggest that when developing illustrative examples for future sustainability standards, the IASB could consider including an example illustrating the connectivity to financial reporting.

Question for Board members

Q9 Do Board members agree with the staff recommendations in paragraph 124? If not, what would Board members suggest?

Next steps

125 The comment period to IASB ED/2024/6 closes on 28 November 2024. Staff suggest a comment letter reflecting the Board's decisions from this meeting will be finalised out-of-session by the Chair.

[9] For more details on the polling question results, refer to Appendix A of this staff paper.

126 The proposed timing is as follows:

Date	Deliverable
11 - 15 Nov 2024	Staff will draft the comment letter reflecting the Board's comments.
15 Nov 2024	Staff circulate a draft comment letter to the Chair for final comments.
15 – 20 Nov 2024	The Chair reviews the comment letter and provides comments.
20 – 25 Nov 2024	Staff update the comment letter.
25 Nov 2024	The comment letter is signed by the AASB Chair and submitted to the IASB.

Questions for Board members

Q10 Do Board members agree with the staff recommendation that the AASB submission is finalised out-of-session by the Chair?

Q11 Do Board members have any comments or concerns about the proposed timing of the finalisation of the AASB comment letter?

Appendix A

On 16 September 2024, AASB staff hosted a roundtable to obtain the views of various stakeholders from both FP and NFP sectors. During the roundtables, Staff ran three polling questions on ED 331, results of the responds are provided in the table below:

Question 1: Overall, do you think these examples are helpful?

	Percentage %	Number of participants responded
• Yes	70%	37
• No	4%	2
• Not sure	26%	14
	100%	**53**

Question 2: In considering how best to communicate the examples, the IASB considered whether to publish the examples as educational materials, include them as illustrative examples accompanying IFRS Accounting Standards, or include them in the Standards. The IASB decided to propose including the examples as illustrative examples accompanying IFRS Accounting Standards. What is your preferred vehicle for the examples?

	Percentage %	Number of participants responded
• Include the examples as illustrative examples accompanying IFRS Accounting Standards.	12%	6
• Include the examples in the Standards.	2%	1
• Publish the examples as educational materials.	27%	14
• In addition to including the examples as illustrative examples accompanying IFRS Accounting Standards, the IASB to group the examples and publish them as a single document (paragraph BC45).	60%	31
	100%	**52**

Question 3: The IASB decided to generalise the project's objective because:

a) **the principle-based nature of IFRS Accounting Standards means that any actions the IASB takes as part of the project would apply not only to uncertainties arising from climate-related risks but to uncertainties in general**

b) **generalising the project's objective ensures that various types of uncertainties, including those yet to emerge (for example, those arising from Biodiversity, Ecosystems or Human capital), are captured and are treated consistently**

Do you think that these eight examples are sufficient to cover other emerging risks?

	Percentage %	Number of participants responded
• Yes, these eight examples are sufficient	12%	6
• No, the IASB should keep issuing examples illustrating the impact of emerging risks on financial statements	88%	43
	100%	**49**

Appendix B

Selected disclosure extracts taken from the October 2023 ESMA report: The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements.

Extract 1 – Naturgy Energy Group SA

22. Naturgy Energy Group SA, a multi-utilities company, included a summary of climate-related objectives incorporated into the issuer's strategic plan and presented a rather structured set of disclosures of the main estimates and accounting judgements made in relation to such climate-related objectives as well as risks, by asset group.

EXAMPLE 2 – NATURGY ENERGY GROUP SA

Pages 39-42 — **ESMA emphasis added in *Orange***

k. Climate change and the Paris Agreement

(…)

The **main estimates and accounting judgements** made by Naturgy's management and directors when preparing the 2022 consolidated annual accounts related to the **expected effects of climate change and the energy transition** are described below.

1. Recoverability of non-financial assets

As described in Note 2.4.6., **the cash flow projections used** in the non-financial asset impairment tests are based on the best available forward-looking information and reflect the investment **plans in place in each CGU at the time for maintaining the CGUs' operating capacity**. These projections are in line with Naturgy's strategy that takes into consideration the objectives of the Paris Agreement and have therefore been prepared based **on the range of economic conditions that might exist in the foreseeable future in relation to climate change and the energy transition.** The projections have taken into account **the expected impact on wholesale and retail electricity market prices resulting from the entry into operation of new renewable generation facilities and developments in gas, oil and emission allowance prices, as well as expected demand.**

(…)

2. Group's main assets subject to climate change and energy transition risk:

Coal-fired power plants

As mentioned above, in 2022 and 2021 the **Group has not generated any coal-fired electricity due to the closure in the first half of 2020 of all Naturgy's coal-fired power plants**. These facilities are fully depreciated/provisioned at 31 December 2022. **Their decommissioning** commenced following the closure and is **expected to be completed by the end of the first quarter of 2025**.

Combined cycle gas power plants

Reference to the alignment of cash flow projections with the issuer's strategy, including the expected impact on electricity prices of renewables.

Extract 2 – Enel S.p.A.

23. With the aim of facilitating investor's access to information regarding material climate-related matters in financial statements, ESMA has also encouraged issuers to provide all information related to climate matters in one single note or to map out where the different notes address such matters. In one table, electricity company Enel S.p.A. summarises and references information that was included across the annual financial statements and which covers areas that are impacted or may be impacted by climate-related matters in the future.

EXAMPLE 3 – ENEL SPA

Pages 298; 326 — **ESMA emphasis added in *Orange***

2.1 Use of estimates and management judgment

(…)

With regard to the effects of climate change issues, the Group believes that **climate change represents an implicit element in the application of the methodologies and models used to perform estimates in the valuation and/or measurement of certain accounting items.** Furthermore, the Group has also taken account of the impact of climate change in the **significant judgments made by management.** In this regard, the main items included in the consolidated financial statements at December 31, 2022 affected by management's use of estimates and judgments refer to the impairment of non-financial assets and obligations connected with the energy transition, including those for decommissioning and site restoration of certain generation plants. **For further details on these items, see note 19 "Property, plant and equipment", note 24 "Goodwill", and note 40 "Provisions for risks and charges".**

(…)

5. Climate change disclosures

(…)

Short summary mentioning how climate change impacts the issuer's financial information.

Considering the risks related to climate change and the commitments established under the Paris Agreement, the Group has decided to achieve the carbon neutrality objectives in advance and reflect its impact on assets, liabilities, and profit or loss, highlighting its significant and foreseeable impacts as required under the Conceptual Framework of the international accounting standards. In this regard, in accordance with the provisions of the document published by the IFRS Foundation on November 20, 2020, **the Group provides explicit information in the notes to these consolidated financial statements regarding how climate change is reflected in our accounts.**
(...)

Mapping of different notes addressing climate change matters.

Topic	Note	Content
Estimates and judgments concerning climate change	Note 2.1 "Use of estimates and management judgment"	• Reference to management's use of estimates and judgments with regard to climate change (taking account of their materiality within financial reporting). • Focus on estimating expected cash flows from specific assets/CGUs (section: "Impairment of non-financial assets"). • Focus of the effects of the Group's commitments under the Paris Agreement and their impact on the estimation of the useful life of the assets involved (section "Determining the useful life of non-financial assets").
Sustainable investment	Note 19 "Property, plant and equipment" Note 23 "Intangible assets"	• Focus on assets involved in renewable generation, infrastructure connected with the development of the grid and investment in expanding the e-Mobility, e-City, e-Industries, and e-Home businesses. • Focus on the development of intellectual property for achieving strategic objectives such as decarbonization, electrification and the development of platform models.
Measurement of non-financial assets	Note 12.e "Depreciation, amortization and other impairment losses" Note 19 "Property, plant and equipment" Note 24 "Goodwill"	• Focus on the effects related to the commitments of the Group in line with the Paris Agreement with regard to the measurement of non-financial assets, with particular regard to the residual useful life of certain assets and impairment testing.
Provisions	Note 40 "Provisions for risks and charges"	• Focus on the impact of climate change on provisions for risks and charges, in particular generation plants, including those for decommissioning and restoration of sites, and provisions for restructuring plans linked to the energy transition (which include decarbonization and digitization).
Sustainable finance	Note 48.3 "Borrowings" Note 59 "Events after the reporting period"	Focus on: • issues of sustainability-linked bonds connected with the achievement of sustainability objectives in line with the SDGs issued by the United Nations; • green bonds used to finance specific sustainable Group projects and initiatives; • sustainable loans connected with the achievement of Sustainable Development Goals (SDGs).
Share-based payments	Note 53 "Share-based payments"	• Description of long-term incentive plans anchored to achievement of specific climate-related targets.
Environmental compliance	Note 12.f "Other operating expenses"	• Description of costs relating to environmental compliance required by national and international regulations, in particular for greenhouse gas emission quotas, green certificates and energy efficiency certificates.
	Note 40 "Provisions for risks and charges"	• Description of costs generated by not having sufficient environmental certificates to meet environmental compliance regulations.
	Note 2.2 "Significant accounting policies"	• Description of accounting treatment of environmental certificates (sections: "Environmental certificates" and "Inventories").

Extract 3 – Air Liquide SA

24. Air Liquide SA, a chemicals company, disclosed its commitments and strategy put in place in relation to climate objectives in its non-financial statement of its 2022 AFR. Where those commitments and strategy had or were expected to have in impact on financial information, Air Liquide included such information inside its financial statements.

EXAMPLE 4 – AIR LIQUIDE SA

Pages 40; 310-311

ESMA emphasis added in *Orange*

Financial Statements

31.4 Transition Risk – Greenhouse Gas Emissions

(…)

Air Liquide's actions to limit transition risk impacts include:

Scope 2 reduction:

- Related to the **424 large air gas production units or ASUs**, (scope 2 emissions) mainly by using renewable electricity: the deployment of the Group's actions in the 10 countries with the greatest potential will significantly reduce scope 2 emissions. Since 2018, Air Liquide has already signed **13 renewable energy supply contracts** for an estimated annual quantity of 1.724 GWh/y (in a full year after start-up of renewable production units). As the **ASUs are almost all electrified, they do not require any specific investment for the transition, because emission reduction will be managed through renewable energy purchase.**

- **Energy costs, including renewable energy costs do not represent any financial risk as they are 100% passed- through to the customer according to the terms of the 15 years or more contracts.**

Scope 1 reduction:

- Related to the **62 large hydrogen production units or SMRs**, (scope 1 emissions), by capturing CO_2. Air Liquide masters a complete portfolio of proprietary technologies for capturing CO_2. Thus, advanced Cryocap™ CO_2 capture technology equipment has been in industrial operation since 2015 on a hydrogen production unit in France. The Group **was recently selected for financing via European subventions for two carbon capture projects on SMRs. Thus, the decarbonization of the Group's 10 largest SMRs will reduce scope 1 emissions by more than 40%.** No dismantling of existing SMRs before the end of the contract is necessary to achieve the Group's climate objectives.

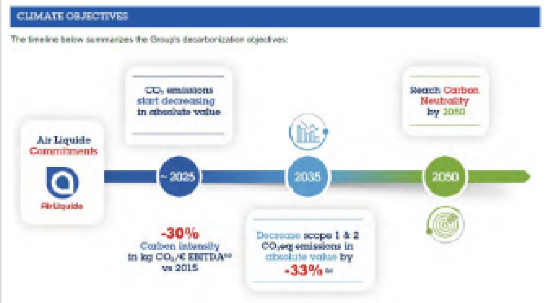
- The innovation capacity and technological know-how of Air Liquide's teams enable the Group to offer cleaner and more sustainable solutions to reduce its own emissions and those of its industrial customers. The Group focuses on technologies for climate solutions and energy transition. In 2022, Air Liquide had more than 350 patent families on hydrogen. **The Group's Innovation expenses amounted to 308 million euros in 2022, including more than 100 million dedicated to climate.**

- The demand for low-carbon industrial gas at a higher price is growing and makes it possible to remunerate the investment necessary for the decarbonization of Air Liquide's assets, in particular for the production of hydrogen, as well as any additional costs linked to the supply of renewable electricity. In addition, financing programs in the form of subsidies or tax credits are also implemented in Europe and more recently in the United States in order to support, during a transition period, the decarbonization of existing industrial assets and new units of production. Therefore, there is no indication of impairment for the related assets.

- **Costs related to CO_2 emissions (ex ETS scheme in Europe) are 100% passed-through to the customer according to the terms of the 15 years or more contracts.** The Group also applies this business model to the supply of low carbon industrial gas, therefore Air Liquide does not bear the risk associated with energy and CO_2 costs.

The potential impacts of transition risk have been analyzed in the context of the 2022 Group's Financial Statements closing, based on the above-mentioned facts and assumptions. **No significant impact has been identified, either on the useful life or on the value of the assets, on the client portfolio or on the cash flows generated by existing activities or on provisions for risks and charges.**

Non-financial Information



Assets and Climate Risks

The main Group assets that impact the CO_2 footprint are:

– **424 large Air Gas production Units**, oxygen and nitrogen in particular, which do not generate direct emissions but require electricity. The CO_2 emissions linked to this electricity are accounted for in Scope 2;

– **62 large hydrogen production units, which consume Natural Gas and emit CO_2 accounted for in Scope 1.**

- In the Large Industries business, each air gas or hydrogen production unit **is linked to a long-term customer contract, lasting 15 to 20 years. Assets are amortized over the duration of the contract, which limits the risk of impairment.**

- Solutions have already been implemented to decarbonize existing production units:

– for air gases (Scope 2 emissions) mainly by using low-carbon electricity: the deployment of actions in the 10 countries with the greatest potential will significantly reduce Scope 2 emissions. Since 2018, Air Liquide has already signed **13 renewable power purchase agreements for about 460 MW.** As these assets are more than 95% already electrified, they do not require any specific investment for the transition;

– for hydrogen production units or "SMR" (Scope 1 emissions), by capturing CO_2. (…) **The Group was recently selected for financing via European funds for two carbon capture projects on SMRs. The decarbonization of the Group's 10 largest SMRs will reduce Scope 1 emissions by more than 40%.** No dismantling of existing SMRs before the end of the contract is necessary to achieve the Group climate objectives (…)

- **Energy costs (electricity for air gases and natural gas for SMRs) and those related to CO_2 emissions (e.g. ETS scheme in Europe) are re-invoiced 100% to the customer** in the frame of a long-term contract. The Group also applies this business model to the supply of low-carbon gas, so Air Liquide does not bear the risk associated with energy and CO_2 costs. (…) **The sensitivity study shows that, depending on the geography and the context, a price starting from 80 to 150 euros per tonne of CO2 encourages the customer to decide toward the supply of low-carbon hydrogen.** This price can be explicit or integrated into regulatory obligations on the carbon footprint of end products.

(…)

The potential impacts of the risk related to the energy transition were analyzed as part of the closing of the Group's financial statements (see note 31 to the Consolidated financial statements – page 309) and no significant impact was identified, mainly for the reasons mentioned above. (…)

Financial impacts broken down by CO_2 emissions scope consistent with the disclosures of commitments presented in the non-financial statements as well as with explanations for (not) recognising any provision or financial impact.