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[Draft] Comment Letter

You can submit your comments on EFRAG's draft comment letter by using the 'Express your views' page on EFRAG's website, then open the relevant news item and click on the 'Comment publication' link at the end of the news item.

Comments should be submitted by 15 November 2024.

International Accounting Standards Board
7 Westferry Circus, Canary Wharf
London E14 4HD
United Kingdom

[XX Month 2024]

Dear Mr Barckow,

Re: Climate-related and Other Uncertainties in the Financial Statements -Proposed illustrative examples

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft *Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples* issued by the IASB on 31 July 2024 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS Accounting Standards in the European Union and European Economic Area.

Overall comments- Providing illustrative examples

EFRAG agrees with the IASB's focus on providing illustrative examples and educational material to address the need for improved reporting of climate-related and other uncertainties in the financial statements. Notwithstanding the inherent limitations of any illustrative example (e.g., they may be seen as either too simple or too complex), the illustrative examples in ED are useful because, to a large extent, they cover topics where challenges in reporting climate-related and other uncertainties may arise. As a result, these examples can help to bridge the expectations gap that may arise from the inconsistent reporting of climate-related information within and outside the financial statements; and, to some extent, they may help to strengthen the connectivity of reported information in the financial statements and sustainability reports/other general purpose financial reports.

Nonetheless, EFRAG considers that the illustrative examples in the ED should only be seen as an initial step in addressing stakeholders' expectations and that the door should be open for further steps, including developing other examples and undertaking standard setting activity where justified. Specifically, EFRAG suggests that the IASB should consider providing additional illustrative examples that go beyond climate-related risks and to also provide walk-through¹ examples as educational material at a future date, to help preparers of financial statements. Furthermore, EFRAG suggests that the IASB should monitor the developments on climate-related risks and other uncertainties over the next years in order to explore whether other aspects need to be considered.

Focus on connectivity: EFRAG acknowledges the steps taken by the IASB and ISSB, including their staff working jointly to develop the ED examples, and the examples take account of information in other general purpose financial reports. That said, as conveyed in [EFRAG's response](#) to the ISSB agenda consultation, EFRAG recommends that both the IASB and ISSB should further focus on the connectivity of reported information, including by developing examples that illustrate connectivity in the reporting of their respective requirements as well as between IFRS financial statements and other jurisdictional sustainability reporting requirements including ESRS (i.e., because IFRS Accounting Standards are SR-framework agnostic; and ISSB Standards are GAAP-agnostic).

¹ Walk-through examples are examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards instead of only focussing on particular requirements IFRS Accounting Standards.

Vehicle for illustrative examples: EFRAG would have preferred that the illustrative examples be in the main body of the Standards and therefore endorsed in the EU. At the same time, we take account of the IASB considerations namely that incorporating illustrative examples into IFRS Accounting Standards might require the examples to be simplified or shortened such that their level of detail is not disproportionate in the context of the Standards. Conversely, if the illustrative examples accompany the IFRS Accounting Standards, it allows for greater flexibility in content and format than if the examples were to be included in the Standards. We therefore understand why the IASB has decided to include these examples as illustrative examples accompanying IFRS Accounting Standards.

Comments on the illustrative examples- Approach to developing illustrative examples

EFRAG welcomes that the eight illustrative examples in the ED cover a range of disclosures related to general and specific IFRS Accounting Standards requirements. We agree that the topics addressed by these examples include the main areas where climate-related and other long-term uncertainties would be expected to be reflected in the financial statements but where challenges could be currently arising. At the same time, as further detailed in the Appendix, we have provided some general suggestions, including possible additional examples on recognition and measurement requirements (e.g. determination of expected credit loss). To avoid each of the examples being misconstrued as containing all the material information that should be considered for a particular Standard, we recommend that the IASB include a caveat indicating that each example focuses on a selection and not all of the key material information that is required to be disclosed by the related IFRS Accounting Standard.

We have also provided specific comments in relation to the examples in the ED. In our comments on Example 4 (IAS 1 *Presentation of Financial Statements*), we observe the multiple interpretations of the time horizon requirements of IAS 1.125, which is related to disclosures of sources of estimation uncertainty. We note that clarification of IFRS requirements should not be done through examples and present a question to constituents on whether standard setting activity is needed to clarify the requirements of IAS 1.125.

Other comments

EFRAG notes that, as seems to be the case in Example 4, IAS 1 requirements should not be expected to be applied to remedy inappropriately worded voluntary paragraphs within specific IFRS Accounting requirements (i.e. when paragraphs related to material information are only encouraged within specific IFRS Accounting Standards.). Finally, we also note that the IASB should clarify conceptual questions, including the difference between risks and uncertainties and

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whether/ when these uncertainties fall within or outside the boundaries of the financial statements.

EFRAG's detailed comments and responses to the questions in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Vincent Papa or Sapna Heeralall.

Yours sincerely,

Wolf Klinz

President of the EFRAG FRB

Question to EFRAG FR/SR TEG

1 Does EFRAG FR/SR TEG agree with the drafting of the cover letter?

Question to EFRAG FR TEG

2 Does EFRAG FR TEG agree to recommend the draft comment letter to be approved by the EFRAG FRB?

Appendix - EFRAG's responses to the questions raised in the ED

Question 1 - Providing illustrative examples

Notes to constituents – Summary of proposals in the ED

What types of uncertainties and fact patterns to illustrate?

- 3 *The ED indicates that stakeholders were mainly concerned about the reporting of the effects of climate-related uncertainties. The IASB therefore concluded that examples illustrating the application of IFRS Accounting Standards to climate-related uncertainties would be most helpful in responding to these concerns. However, the IASB noted that the principles and requirements illustrated apply equally to other types of uncertainties.*
- 4 *Climate-related uncertainties affect many industries, in various ways and to varying extents. Accordingly, the examples set out fact patterns at a sufficiently high level to be applicable to a variety of entities operating in various industries.*

Should the examples be stand-alone² or walk-through³?

- 5 *The IASB concluded that stand-alone examples would be more effective in helping to improve the reporting of the effects of climate-related and other uncertainties in the financial statements. These examples can more precisely target particular matters or requirements that give rise to stakeholder concerns.*
- 6 *The IASB also considered that walk-through examples would be helpful to some stakeholders. Walk-through examples would further illustrate the various ways in which climate-related uncertainties, for example, could affect an entity's financial statements, in a similar way to the IASB's educational material⁴.*
- 7 *However, in the IASB's view, walk-through examples would be less likely to significantly contribute to addressing the concerns identified in this project. Furthermore, because walk-through examples would illustrate the application of requirements across several IFRS Accounting Standards, it would be difficult to incorporate them into each applicable*

² These are examples with narrow fact patterns illustrating particular requirements in an IFRS Accounting Standard

³ These are examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards

⁴ [Effects of climate-related matters on financial statements](#) (republished in July 2023)

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Standard or to add them as illustrative examples to the accompanying guidance of each Standard. This would affect the vehicle considerations noted below.

How can the examples facilitate connected general purpose financial reporting?

8 *One of the objectives of the project is to respond to concerns that information about the effects of climate-related risks in the financial statements sometimes appears to be inconsistent with information entities provide outside their financial statements, particularly information reported in other general purpose financial reports. In responding to these concerns, the IASB decided to focus the examples on inconsistencies that might appear to exist between financial statements and other general purpose financial reports. The IASB concluded that this approach would help strengthen the connections between the information an entity provides in its financial statements and the information it provides in other parts of its general-purpose financial reports.*

Vehicle for the examples

9 *The IASB has considered whether to publish examples as educational material, include them as illustrative examples accompanying IFRS Accounting Standards, or include them in the Standards.*

10 *The IASB was of the view that publishing the examples as educational materials would make the examples available faster than the other vehicles and allow slightly more flexibility in the format and content of the examples.*

11 *However, some stakeholders have said that educational materials are not as easily accessible or enforceable as the other vehicle options and that some stakeholders might not become aware of them.*

12 *The IASB did not recommend publishing the examples as educational materials as a first step because the examples might change as a result of stakeholders' feedback on the exposure draft. In the IASB's view, publishing different versions of the examples at different times would be confusing.*

13 *The IASB further noted that incorporating the examples into the applicable IFRS Accounting Standards would make them the most accessible to stakeholders. The examples would be part of the requirements in IFRS Accounting Standards that are endorsed and translated by jurisdictions and placed next to the requirements to which they relate.*

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- 14 *Like illustrative examples, the IASB would benefit from consultation. This option would also increase the ease of enforcement because the content of examples included in IFRS Accounting Standards has the same status as the requirements themselves.*
- 15 *However, the IASB considered that incorporating illustrative examples into IFRS Accounting Standards might require the examples to be simplified or shortened such that their level of detail is not disproportionate in the context of the Standards.*
- 16 *As such, the IASB decided to propose including the examples as illustrative examples accompanying IFRS Accounting Standards as they:*
- (a) are easily accessible because they are included alongside other guidance accompanying the Standards;*
 - (b) are used by preparers in applying the Standards and are helpful to auditors and regulators in supporting their audit and enforcement activities; and*
 - (c) allow for greater flexibility in content and format than if the examples were to be included in the Standards.*

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.

Whether providing examples would help improve reporting in the financial statements

17 EFRAG agrees with the IASB's overall assessment that existing IFRS Accounting Standards are sufficient to reflect climate-related and other uncertainties in the financial statements and therefore the IASB's initial focus ought to be on developing illustrative examples and educational material. The ED examples, which largely cover the areas where there are challenges in reporting climate-related and other uncertainties in the financial statements, will complement the available IASB educational material in helping stakeholders better understand the specific application of the IFRS requirements whilst reporting climate-related and other uncertainties. These examples in the ED are also useful because:

- (a) They help to bridge the expectations gap that may arise from the inconsistent reporting of climate-related information within and outside the financial statements and contribute to stakeholders' perception of inadequate/too high-level reporting of climate-related effects in the financial statements. The expectation gaps and perceptions of inadequate reporting of climate-related information in the financial statements were highlighted in EFRAG's outreach to stakeholders in 2023.
- (b) To some extent, they may strengthen the connectivity between climate-related information in the financial statements and related information in sustainability reports/other general-purpose financial reports. As noted below, more work is needed to enhance the connectivity in reporting.

18 Nonetheless, EFRAG considers that the illustrative examples in the IASB's ED should only be seen as a useful initial step in addressing stakeholders' expectations and that the door should be open for further steps, including developing other examples and undertaking standard setting activity where justified. We note that in an outreach⁵ conducted by EFRAG in 2023, stakeholders' preferences for actions to be taken by the IASB were expressed in the following order: top priority would be amendments to IFRS Accounting Standards,

⁵ The outreach findings are summarised in the [September 2023 EFRAG Secretariat Briefing: Climate-related Risks in Financial Statements](#). Survey feedback during this EFRAG outreach showed there was limited awareness amongst stakeholders of the existence of the IASB educational material.

second would be the development of illustrative examples, and last would be the development of educational material as such material does not have authoritative stature.

- 19 EFRAG also acknowledges there are inherent limitations with guidance in the form of any illustrative example/s including that it/they may be deemed too broad, considered either too simple or too complex, and may not be applied as intended. Specifically, on the latter point, it/they may be erroneously applied towards inappropriate fact patterns or, conversely, may be deemed inapplicable unless related to the same fact patterns of the example. EFRAG notes that these limitations would arise for all examples within IFRS Accounting Standards, but this does not negate their usefulness as complementary guidance to the Standards' requirements.
- 20 *Need examples that go beyond climate-related matters:* Most of the illustrative examples in the ED (seven of the eight) relate to climate-related uncertainties. Hence, consistent with the project scope, EFRAG considers that additional illustrative examples related to non-climate-related uncertainties would be helpful for preparers of financial statements, for example, those related to the effects of social or governance risks.
- 21 *Consideration of walk-through examples:* Whilst agreeing with the usefulness of stand-alone examples as these can more precisely target matters related to specific standard requirements, EFRAG considers that some walk-through examples could also be useful to illustrate the application of qualitative materiality requirements (paragraph 31 of IAS 1) in conjunction with the specific requirements of different Standards. For example, this could be done for illustrative Example 6 - Disclosure about credit risk (IFRS 7) related to the application of disclosure requirements related to credit risk arising from financial instruments (i.e. paragraphs 35A–38 of IFRS 7). At the same time, EFRAG acknowledges that it would not be suitable to provide walk-through examples as illustrative examples accompanying Standards. Thus, EFRAG recommends that the IASB should consider also providing walk-through examples as educational material at a future date, to help preparers of financial statements.
- 22 *An update of examples will likely be necessary:* We suggest that the IASB should continuously monitor the developments on climate-related risks and other uncertainties over the next years in order to explore whether other aspects need to be considered, e.g., the need for standard-setting or to consider whether more detailed fact patterns could be provided in the future once some practice has developed.

- 23 *The goal of improving connectivity is only partially attained by the ED examples:* We acknowledge that the consideration of connectivity is foundational to ongoing IASB and ISSB standard-setting efforts and that the ISSB staff were involved in the development of the ED's illustrative examples. We also note that improving connectivity is an objective of the examples.
- 24 Nonetheless, as conveyed in [EFRAG's response](#) to the ISSB Agenda Consultation a fundamental focus on the connection between sustainability reporting disclosures and the financial statements by both the IASB and ISSB is needed to ensure the coherence and complementarity of information within and outside the financial statements. In this regard, there is a lot more to improving connectivity than only ensuring the correct application of existing IFRS Accounting requirements. For instance, the IASB and ISSB could collaborate in developing examples that illustrate the connectivity of their respective requirements and to jurisdictional SR reporting requirements including ESRS (i.e., because IFRS Accounting Standards are SR-framework agnostic; and ISSB Standards are GAAP-agnostic). These examples could incorporate the techniques of connectivity (e.g., cross-referencing). Moreover, stakeholders' feedback to the 2023 EFRAG outreach called for the development of connectivity requirements for financial statement information akin to those in place for ESRS and ISSB Standards. Along these lines, we note that EFRAG has an ongoing proactive project⁶ on connectivity entailing both concepts and practical illustrations of connectivity.

Whether illustrative examples should accompany IFRS Accounting Standards and other comments

- 25 *Vehicle for the illustrative examples:* EFRAG acknowledges that the IASB decided to include the examples as illustrative examples accompanying IFRS Accounting Standards because they are easily accessible; are helpful to preparers, auditors and regulators; and allow for greater flexibility compared to including the examples in the main body of the Standards.
- 26 At the same time, we note that illustrative examples that accompany but are not included within the Standards are not endorsed in the EU. Therefore, we would have preferred that the illustrative examples be included in the Standards for them to be endorsed and

⁶ In June 2024, EFRAG issued an initial paper⁶ on [Connectivity considerations and boundaries of different annual report sections](#) (A short version can be found [here](#).) which lays out the conceptual foundations, categories and benefits of connectivity and analyses reporting boundaries across different Annual Report sections.

therefore to become binding law in the EU and enable enforcement⁷. At the same time, we take account of the IASB considerations namely that incorporating illustrative examples into IFRS Accounting Standards might require the examples to be simplified or shortened such that their level of detail is not disproportionate in the context of the Standards. Conversely, if the illustrative examples accompany the IFRS Accounting Standards, it allows for greater flexibility in content and format than if the examples were to be included in the Standards. Therefore, EFRAG understands why the IASB decided to include the illustrative examples as accompanying IFRS Accounting Standards.

- 27 *Other steps:* Lastly, as the IASB is also exploring other ways to raise awareness of the requirements in IFRS Accounting Standards related to the reporting of climate-related and other uncertainties in the financial statements, EFRAG supports the suggestion made by some stakeholders for the IASB to facilitate access to a central repository of illustrative examples.
- 28 In addition, in light of the broadening interest in the content and boundaries of financial statements that is occurring in tandem with the rollout of mandatory sustainability reporting, we would encourage the ongoing development of educational material on the boundaries of different IFRS general-purpose financial reports (i.e., financial statements, management commentary, ISSB sustainability-related financial disclosures).

Question to EFRAG FR/SR TEG

- 29 Does EFRAG FR/SR TEG agree with the drafting of the response to Question 1: Providing illustrative examples?

Question 2—Approach to developing illustrative examples

Notes to constituents – Summary of proposals in the ED

- 30 *The ED proposes 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*

⁷ Enforceability and the role fulfilled by enforcers, is pivotal to the improved reporting of climate-related and other uncertainties in the financial statements. Of note is the usefulness and positive feedback gathered on the October 2023 [ESMA report *The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements*](#) which has 20+ illustrative examples.

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financial statements. The examples mostly focus on climate-related uncertainties, but the principles and requirements illustrated apply equally to other types of uncertainties.

- 31 *Examples 1–8 will be added to materials accompanying the IFRS Accounting Standards to which they relate.*
- 32 *IFRS 18 Presentation and Disclosure in Financial Statements is effective for annual reporting periods beginning on or after 1 January 2027. The rubrics after the title of each example describe the changes to the materials accompanying IFRS Accounting Standards for periods before and after an entity applies IFRS 18.*

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

- 33 *This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 Presentation of Financial Statements [paragraph 20 of IFRS 18 Presentation and Disclosure in Financial Statements]. In this example, these judgements lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.*

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

- 34 *This example illustrates how an entity makes materiality judgements in the context of financial statements in accordance with the requirement in paragraph 31 of IAS 1 Presentation of Financial Statements [paragraph 20 of IFRS 18 Presentation and Disclosure in Financial Statements]. In this example, these judgements do not lead to additional disclosures beyond those specifically required by IFRS Accounting Standards.*

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

- 35 *This example illustrates the requirements in paragraphs 134(d)(i)–(ii) and 134(f) of IAS 36 Impairment of Assets. In particular, it illustrates how an entity discloses information about the key assumptions it uses to determine the recoverable amount of assets.*

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

- 36 *This example illustrates the requirements in paragraphs 125 and 129 of IAS 1 Presentation of Financial Statements [paragraphs 31A and 31E of IAS 8 Basis of Preparation of Financial Statements]. In particular, it illustrates how an entity:*
- (a) *might be required to disclose information about assumptions it makes about the future even if the specific disclosure requirements in other IFRS Accounting Standards require no such disclosure;*
 - (b) *identifies the assumptions about which it is required to disclose information; and*

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- (c) *determines what information about these assumptions it is required to disclose.*

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

37 *This example illustrates the requirement in paragraph 31 of IAS 1 Presentation of Financial Statements [paragraph 20 of IFRS 18 Presentation and Disclosure in Financial Statements]. In particular, it illustrates how an entity might need to disclose information about assumptions it makes about the future even if other IFRS Accounting Standards do not require such disclosure.*

Example 6—Disclosure about credit risk (IFRS 7)

38 *This example illustrates requirements in paragraphs 35A–38 of IFRS 7 Financial Instruments: Disclosures. In particular, it illustrates how an entity might disclose:*

- (a) *information about the effects of particular risks on its credit risk exposures and credit risk management practices; and*
- (b) *information about how these practices relate to the recognition and measurement of expected credit losses.*

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

39 *This example illustrates the requirement in paragraph 85 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets. In particular, it illustrates how an entity might disclose information about plant decommissioning and site restoration obligations even if the carrying amount of the associated provision is immaterial.*

Example 8—Disclosure of disaggregated information (IFRS 18)

40 *This example illustrates the requirements in paragraphs 41–42 and B110 of IFRS 18 Presentation and Disclosure in Financial Statements. In particular, it illustrates how an entity might disaggregate the information it provides about a class of property, plant and equipment (PP&E) on the basis of dissimilar risk characteristics.*

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.

General comments on the illustrative examples

- 41 EFRAG welcomes that the eight illustrative examples in the ED cover a range of disclosures related to general and specific IFRS Accounting Standards requirements. We agree that the topics addressed by these examples include the main areas where climate-related and other long-term uncertainties would be expected to be reflected in the financial statements but where challenges could be currently arising. The areas addressed in the ED have also been highlighted in the feedback⁸ to the 2023 EFRAG outreach and various thematic reviews⁹ of reporting practices including the October 2023 ESMA report, April 2024 ESRB report and May 2024 EY report. In the comments below and in response to the specific examples we highlight other areas that could benefit from having illustrative examples.
- 42 *Consider adding examples addressing recognition and measurement requirements:* Furthermore, while the examples in the ED focus on illustrating disclosure requirements, EFRAG would consider it helpful to add examples related to recognition and measurement requirements. As suggested by the April 2024 ESRB report, these examples could, for instance, relate to how to incorporate climate-related risk into the expected credit loss (ECL) measurement under IFRS 9 and into the determination of fair value under IFRS 13. Another recognition and measurement aspect that could benefit from an illustrative

⁸ EFRAG outreach findings summarised [September 2023 EFRAG Secretariat Briefing: Climate-related Risks in Financial Statements](#)

⁹ ESMA, October 2023 [The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements](#) ; ESRB, April 2024, [Climate-related risks and accounting](#); EY, May 2024, [Connected Financial Reporting: Accounting for Climate Change](#)

example would be the determination of value-in-use whilst determining impairment under IAS 36 *Impairment of Assets*. As highlighted in the 2023 EFRAG outreach and EFRAG connectivity initial paper, the incorporation of climate-related risk into the impairment of non-financial assets can be sometimes challenging. For example, some stakeholders are unsure whether cash flow projections beyond five years can be incorporated into the value in use calculation.

- 43 *Consider adding examples about other uncertainties besides climate-related uncertainties:* Only one of the eight examples (Example 5) is not directly to climate-related uncertainties. As noted in our responses to Questions 1 and 3, the additional illustrative examples should also reflect that the scope of the project goes beyond climate-related uncertainties. While climate-related uncertainties exemplify the challenges of reflecting long-term uncertainties in the financial statements, a disproportionate focus on climate-related information in the illustrative examples may reinforce an erroneous perception that the matters addressed only pertain to these particular uncertainties.
- 44 *Net-zero commitment disclosure:* EFRAG agrees with the March 2024 IFRS Interpretation Committee Agenda Decision which, among other things, clarified the necessity of a past event before net-zero commitments that are deemed to be constructive obligations can be recognised as provisions. We are also cognisant and support that the forthcoming Exposure Draft *Provisions- Targeted Improvements* relating to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* will include an additional illustrative example related to reporting climate-related information (i.e., whether to recognise a provision for net-zero commitments). That said, as highlighted in the EFRAG connectivity project initial paper, there could still be an expectation gap¹⁰ related to if/what information related to net-zero

¹⁰ In response to the November 2023 IFRIC agenda decision, stakeholders made suggestions for enhancing disclosures on a) management's assumptions and b) information about capital expenditure projects required to fulfil climate-related commitments and capital already committed to purchasing assets to fulfil those commitments. Moreover, during the outreach done by EFRAG so far, users have indicated a disclosure of a time series of likely costs would be useful even if provisions are not recognised. It has also been expressed that it should be clear when items migrate from the sustainability statement/disclosures to the financial statements (i.e., what are the triggers for the recognition of provisions or contingent liabilities). Another suggestion has been that, if material for the purposes of the financial statements, information disclosed in the sustainability statement/disclosures could be included in the financial statements by cross-reference.

commitments (highlighted in the March 2024 IFRIC fact pattern) could be disclosed in the financial statements, and whether such disclosure could be premised on the application of paragraph 31 of IAS 1. Hence, while EFRAG welcomes Examples 1 and 2 on the qualitative materiality judgment applying paragraph 31 of IAS 1, an illustrative example pointedly focused on the March 2024 IFRIC agenda decision net-zero commitments fact patterns and whether these disclosures are made in the financial statements would be also useful.

- 45 *Sources of assumptions and estimation inputs:* Some of EFRAG's stakeholders have called for the IASB to provide additional guidance on sources of climate-related assumptions and inputs (e.g. externally observable information vs internal input and these could be related to GHG emission allowance prices amongst other factors). Such guidance could increase the consistency and reliability of reported information.
- 46 *Need for a caveat on the coverage of requirements:* In addition to the disclosure requirements mentioned in the proposed examples, EFRAG notes that other requirements in IFRS Accounting Standards might also provide useful material information in relation to the illustrated fact pattern. The feedback EFRAG has received has shown that stakeholders may not understand that to be the case. Therefore, to avoid each of the examples being misconstrued as containing all the material information that should be considered for a particular Standard, EFRAG suggests that the IASB should have a caveat at the beginning of each example. This caveat should make it clear that the purpose of the ED is to illustrate only some of the most relevant disclosure requirements in IFRS Accounting Standards that are applicable to the illustrated fact patterns and not all the material information that an entity would be required to disclose.
- 47 We note for instance that Example 6 in the ED only refers to the disclosure requirements in paragraphs 35A-38 of IFRS 7 *Financial Instruments: Disclosures* but not the requirements in paragraphs 33¹¹ and 34¹² of IFRS 7 which refer respectively to the general qualitative and quantitative disclosures about each type of risk arising from financial instruments.

¹¹ Paragraph 33 of IFRS 7 states: *For each type of risk arising from financial instruments, an entity shall disclose: (a) the exposures to risk and how they arise; (b) its objectives, policies and processes for managing the risk and the methods used to measure the risk; and (c) any changes in (a) or (b) from the previous period.*

¹² Paragraph 34 of IFRS 7 states: *For each type of risk arising from financial instruments, an entity shall disclose: (a) summary quantitative data about its exposure to that risk at the end of the reporting period [...]; (b) the disclosures required by paragraphs 35A–42, to the extent not provided in accordance with (a); and (c) concentrations of risk if not apparent from the disclosures made in accordance with (a) and (b).*

Specific comments on the illustrative examples

Examples 1-2 - Materiality judgements and the disclosure of additional information (IAS 1/IFRS 18)

- 48 EFRAG supports the inclusion of two illustrative examples related to the application of judgements made in the qualitative materiality assessment. These examples are particularly useful in light of the challenges¹³ faced by stakeholders in determining if/when to apply the overarching IAS 1.31 (paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*) requirements (see above comments on net-zero commitments disclosures). Therefore, these examples could help entities whilst they report on whether the financial effects of climate-related uncertainties would be quantitatively and/or qualitatively material. The examples can also lessen the expectation gap on what is deemed material information by users of financial statements.
- 49 That said, EFRAG considers Example 1 to be more useful than Example 2. Example 1 is useful as it shows that entities should explain why there is no disclosure when users would expect that to be the case. However, the fact patterns of example 2, which relates to where both a reasonably informed investor would not expect a disclosure and the entity deems the information immaterial (i.e., the entity has low emissions), makes the example less useful as there are no expectation gaps at play.
- 50 Examples 1 and 2 both have fact patterns where an entity does not have to disclose the effects of climate-related uncertainties on its financial statements. Similar to example 5, it would be also helpful to have an example, where an entity has to disclose information it deems material for investors even though investors would not have readily known that such information is material. Such an example could replace Example 2, which as noted is less useful than Example 1.
- 51 Lastly, EFRAG suggests the examples should include how a materiality assessment is (ought to be) done by entities applying the four-step process of the Materiality Practice Statement (i.e., identify, assess, organise and review) including having a qualitative materiality assessment that takes the expectations/needs of users into account.

¹³ The 2024 EFRAG connectivity initial paper [Connectivity considerations and boundaries of different annual report sections](#) (Grey areas of location- pages 55-57) and [April 2024 IFASS report](#) (Page 69) highlights the multiple views on the applicability of IAS 1.31 including stakeholders who have concerns about the stretched application of IAS 1.31. Similar concerns have been aired in [other commentary](#).

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

- 52 EFRAG supports this disclosure as it is related to the impairment of non-financial assets, which is one of the challenging areas in the reporting of climate-related and other uncertainties in the financial statements. That said, notwithstanding our understanding that the examples are meant to only capture some and not all requirements within a Standard and our suggestion for a caveat to that effect, some stakeholders have indicated that reference to only some of the factors considered in impairment test in this example and omitting other key factors (e.g., the discount rate applied) may signal that the highlighted factors ought to be accorded more prominence than the omitted factors. This may inadvertently end up confusing the understanding and current practice of applying the impairment requirements towards climate-related information. Therefore, EFRAG suggests including the disclosure of key assumptions on the discount rate in this example.
- 53 In addition, to increase the usefulness of the information on CGU's carrying amount and recoverable amount under paragraph 134(f) of IAS 36, the example should also illustrate how to determine the extent of a "reasonably possible change" in the key assumptions to be presented in the sensitivity analysis.

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

- 54 EFRAG supports this example as it relates to another potentially challenging area with regards to the a) interpretation of the time horizon covered for disclosures of sources of estimation uncertainty under IAS 1.125; and b) the extent to which the interpretation of applicable time horizon can result in the duplication of information between the financial statements and the anticipated¹⁴ financial effects disclosed under ESRS and ISSB Standards requirements.
- 55 On the example, EFRAG observes that confusion and multiple interpretations may result from the wording in paragraph 4.6 related to assumptions in the scope of IAS 1.125 "*These include 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 to the carrying amount of those assets if the entity were to revise those assumptions in the next financial year*".

¹⁴ Both ESRS and ISSB Standards describe anticipated financial effects as relating to the material effects of an entity's risks and opportunities on financial performance, financial position, cash flows in the short-, medium- and long term.

- 56 The feedback to EFRAG’s outreach in 2023 and subsequent discussion held indicate that some stakeholders consider that assumptions about uncertainties that will be resolved after the end of the next financial year are outside the scope of paragraph 125 of IAS 1. Some stakeholders have also noted that clarifications about current IFRS Accounting Standard requirements should be included in the main body of the standard and not made through Illustrative examples. Some stakeholders have expressed their expectation of standard setting to clarify the application of paragraph 125 of IAS 1. Therefore, EFRAG will seek constituents’ views to assess whether the IASB should provide additional clarification or specific standard-setting activity on the requirements in paragraph 125 of IAS 1.
- 57 In addition, as addressed in our response to the ED Q3 below, in this example, the need to apply IAS 1 arises due to the specific requirements of IAS 36 not being applicable for disclosing the material information within the fact pattern. This in part is due to one of the paragraphs of IAS 36 related to assumptions in the measurement of the CGU being voluntary¹⁵ (i.e. paragraph 132 of IAS 36).
- 58 Lastly, EFRAG notes there may be a drafting error in paragraph 4.6(d)¹⁶ of the ED which refers to the sensitivity to changes of assumptions of “CGU’s carrying amount” instead of “CGU’s recoverable amount”.

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

- 59 EFRAG supports this example as it primarily addresses fact patterns that are not related to climate-related uncertainties. It also is useful as it illustrates the conjunctive application of specific requirements (IAS 12) and general requirements (paragraphs 31 and 125 of IAS 1) and results in disclosure being made based on IAS 1.31 requirements (i.e. to help users the effect of timing of regulation on the carrying amount of the deferred tax asset) given the disclosures could not be included based on IAS 12 and paragraph 125 of IAS 1 requirements.
- 60 EFRAG considers that it would be more helpful and realistic if the illustrative example referred not only to the utilisation of tax losses but to the utilisation of deductible

¹⁵ IAS 36.32 states “An entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period.”

¹⁶ Paragraph 4.6(d) of the ED states: “the sensitivity of the CGU’s carrying amount to changes in the assumptions—the carrying amount of the CGU is highly sensitive to the assumptions. Relatively small changes in these assumptions could result in a reduction of the CGU’s recoverable amount and a material impairment loss”.

temporary differences as the recoverability of tax losses carried forward should not be assessed separately from the recoverability of other sources of deferred tax assets.

Example 6 – Disclosure about credit risk (IFRS 7)

- 61 The example related to disclosures of credit risk is useful because, as shown by various thematic reviews¹⁷ of reporting practices including the April 2024 ESRB¹⁸, financial institutions are at varied stages in their integration of climate-related risks into their risk frameworks. Moreover, though there may be multiple projects and scenarios available to estimate the size and impact of climate risk, there are limited projections of economic and financial effects. These situations arise due to the limited data availability, systems and methodological challenges faced by several financial institutions. Of note, the ESRB publication highlights that for banks expected credit loss models typically forecast three years ahead, which may be too short a horizon to cater for most climate-related risks. Hence, the disclosure of credit risk exposure and management is an aspect of reporting where there may be an expectation gap due to the disconnect between the signals conveyed in the sustainability disclosures versus the disclosures in the financial statements.
- 62 Overall, other than the general concerns raised above, so far EFRAG is not aware of any specific concerns that stakeholders may have about this example. That said, EFRAG notes that there is a risk that paragraph 6.4 of the ED – which refers to the application of the requirements of disclosure on credit risk exposure in paragraphs 35A–38 of IFRS 7 – might only result in boilerplate disclosures. This is because, given the earlier-noted current limitations of data availability and systems/methodological constraints, these requirements may unintentionally result in preparers only disclosing the broad processes underpinning the entity’s credit risk management practices related to climate-related risk rather than disclosing the quantitative effects.

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

- 63 EFRAG supports the inclusion of examples related to disclosure of provisions and contingent liabilities as this is a challenging area in the reporting of climate-related uncertainties. Moreover, the focus on decommissioning and restoration provisions is apt

¹⁷ EY, May 2024, [Connected Financial Reporting: Accounting for Climate Change](#)

¹⁸ ESRB, April 2024, [Climate-related risks and accounting](#)

as it is related to long-term uncertainties. However, some stakeholders have concerns about how entities measure such decommissioning provisions, i.e. resulting in the carrying amount of the provision being immaterial. EFRAG considers that the proposed disclosures applying paragraph 85 of IAS 37 would provide useful information on the decommissioning and site restoration costs, e.g., a description of the expected timing of the outflows and uncertainties about the amount and timing of these outflows.

64 In addition, EFRAG suggests that the IASB considers whether disclosure about the undiscounted amounts of future costs would provide more useful information in this fact pattern.

Example 8 – Disclosure of disaggregated information (IFRS 18)

65 EFRAG supports this example and its focus on applying the principles of aggregation and disaggregation under IFRS 18 to distinguish between assets that are highly vulnerable to climate-related transition risk and those that are not.

66 That said, to encourage connectivity, EFRAG suggests that it would be also useful to illustrate how the level of disaggregation in the financial statements could be linked (e.g. via cross referencing) with the related information in the sustainability disclosures.

67 In addition, EFRAG suggests that the IASB should add an example illustrating how an entity might disaggregate revenue (given its importance to users as a performance metric) on the basis of dissimilar risk characteristics applying IFRS 18, as well as by applying the disaggregation requirements in paragraphs 114-115 of IFRS 15.

Question to Constituents

68 Regarding Example 4, based on current practice, do preparers of financial statements interpret paragraph 125 of IAS 1 to capture:

(a) only assumptions about uncertainties that will be resolved within the next financial year. Therefore, assumptions about uncertainties that will be resolved after the end of the next financial year are **not** in scope of paragraph 125 of IAS 1;
or

(b) both uncertainties that will be resolved within and after the end of the next financial year; or

(c) another interpretation – please explain.

Question to EFRAG FR/SR TEG

69 Does EFRAG FR/SR TEG agree with the drafting of the response to Question 2: Approach to developing illustrative examples?

Question 3—Other comments

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

70 *Enhancing IFRS requirements:* EFRAG agrees with the IASB conclusion made following its outreach that IFRS Accounting Standards are overall sufficient to address the reporting of climate-related uncertainties in the financial statements. Nonetheless, as noted in EFRAG’s response to Question 2, some stakeholders expect standard setting related to IAS 1.125 requirements and we have included a question to constituents to that effect. Furthermore, as noted in our response to Question 2, there are challenges in the application of paragraph 31 of IAS 1 and this resulted in some stakeholders calling for related application guidance. EFRAG notes three of the examples (1, 2 and 5) help illustrate the application of paragraph 31 of IAS 1. Nonetheless, EFRAG recommends that the IASB should continue to monitor the extent to which the application of paragraph 31 of IAS 1 to make up for the lack of requirements in specific Standards is indicative of the need for standard-setting activity in the future.

71 *Problems arising from voluntary requirements in specific IFRS Accounting Standards:* As noted in our response to Q2 on Example 4, the need to apply IAS 1 may arise due to some of the IAS 36 paragraphs being encouraged rather than required (i.e., paragraph 132 of IAS 36 only encourages disclosures of assumptions used to determining the recoverable amount of the CGU during the period). On this point, EFRAG notes that the application of IAS 1 should only need to arise due to the lack of explicit disclosure requirements related to useful material information within specific IFRS Accounting Standards rather than due to poorly framed requirements within the specific Standards. Accordingly, the priority should be on enhancing specific Standards rather than expecting IAS 1 to be applied to remedy the deficiencies of these specific Standards. Of note, some stakeholders have suggested the deletion of all paragraphs that are voluntary/encouraged within specific IFRS Accounting Standards.

72 *Other uncertainties:* EFRAG supports the IASB’s decision to broaden the project’s scope beyond climate-related uncertainties to encompass all long-term uncertainties. That said,

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there are conceptual questions on uncertainties that EFRAG recommends the IASB addresses:

- (a) *What is the distinction between risks and uncertainties? And to include examples illustrating other uncertainties*
- (b) *When do these uncertainties fall within and outside the boundaries of the financial statements?*

Question to EFRAG FR/SR TEG

73 Does EFRAG FR/SR TEG agree with the drafting of the response to Question 3: Other comments?