

[Draft] **Final** Comment Letter

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

[~~XX Month~~28 November 2024]

Dear Mr Barckow,

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

On behalf of 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 the European Economic Area.

Overall comments

~~EFRAG understands why, in order to address the perceived inadequacies and expectation gap on the reporting of climate-related risks in the financial statements that were identified during the 2023 IASB outreach, the IASB's initial focus is on developing illustrative examples to complement the earlier developed IASB educational material[‡]. Notwithstanding the inherent limitations of the ED's illustrative examples and any other illustrative example for that matter (e.g. they may be seen as either too simple, too broad or not reflecting the full complexity of the real world), EFRAG considers the ED's examples to be a useful complementary step towards improving to the earlier-~~

~~[‡]2019 IASB education article was published and updated in a 2023 IASB educational article – *Effects of climate-related matters in the financial statements*~~

~~developed educational material in helping to improve the quality of reporting, auditing, supervision and enforcement of climate-related and other long-term uncertainties in the financial statements. To a large extent, the ED's EFRAG also supports the IASB's reasons for including the examples as illustrative examples accompanying IFRS Accounting Standards (i.e., it allows for greater flexibility in content and format than if the examples cover topics where challenges were to be included 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.~~

~~the Standards). However, EFRAG considers that the ED, as it stands, does not fully address the issues at stake and suggests the following:~~

- ~~• *These illustrative examples should be seen as a pragmatic initial step:* EFRAG considers that the proposed illustrative examples in the ED should only be seen as ~~an~~ a pragmatic initial step in addressing stakeholders' expectations. ~~The feedback received by EFRAG so far is indicative. We acknowledge that the eight illustrative examples in the ED cover a range of stakeholders acknowledging disclosures related to general and supporting the role of examples as a helpful aid towards the application and enforcement of current specific IFRS Accounting Standards requirements covering the main challenging areas where climate-related and other uncertainties would be expected to be reflected in the financial statements.~~ At the same time, ~~several stakeholders expected examples that are closer to reality and better portray and incentivise the disclosure of key risks, and which would include fact patterns where the decision on whether or not to disclose information may not be as obvious as is the case with several of the ED's illustrative examples. Thus, EFRAG expects that following the consultation on the ED, the IASB would consider improving the initial set of proposed examples and, in our~~ in response to Question 2, we ~~point out where and how this could be done~~ provide improvement suggestions, including developing examples of applying recognition, measurement and presentation requirements, and the coverage of non-climate-related uncertainties.~~
- ~~• *Further actions are needed to meet project objectives from a financial reporting perspective:* Beyond this initial step, we suggest the IASB should consider developing ~~other~~ Standard setting activity and development of walkthrough examples and undertakings should occur: EFRAG suggests that the IASB should undertake standard-setting ~~activity~~ activities where justified ~~and, in our~~ (see response to Question 3, ~~we point~~~~

~~to where standard setting activity may be required. In particular, EFRAG suggests that the IASB should consider providing additional illustrative examples that go beyond climate-related uncertainties and to also provide~~) and consider developing walk-through² examples as educational material at a future date.

- Concerns about the project objectives/direction should be taken into account: EFRAG is aware that some stakeholders are concerned about possible unintended consequences arising from the illustrative examples including that they may lead to increased disclosures by entities in a manner that obscures other material information already disclosed. There is also a concern about users' double counting information that may be already disclosed outside the financial statements. Other stakeholders have expressed concern that the undefined coverage of uncertainties could create pressure for more examples, which in turn could lead to disclosure overload.
- That said, EFRAG notes that the IASB's development of illustrative examples and broadening of the scope to include uncertainties was called for by stakeholders during outreaches done by the IASB and EFRAG after the IASB project was initiated. Moreover, the examples are not creating or amending IFRS Accounting requirements.

Further actions are needed to address the root causes of expectation gaps

Greater focus on connectivity is needed: EFRAG acknowledges that strengthening connections between financial statements and other Annual Report (AR) sections is ~~amongst the actions under part of~~ the IASB's project objectives, ~~i.e., in addition to raising awareness and improving the application of IFRS Accounting Standards towards the reporting of climate related and other uncertainties. We are also cognisant that the IASB and ISSB staff worked jointly to develop ED's examples, and~~ Some of the examples take account of information in other sections of the Annual Report. ~~EFRAG notes that the Basis for Conclusions explains, and~~ reducing inconsistencies and avoidable duplication was among the considerations whilst developing the examples. However, as highlighted in the EFRAG project³ on connectivity, consistency is only one aspect of connectivity and there is also a need to consider ~~the concepts~~coherence and linkage techniques ~~that would~~

³~~EFRAG has an ongoing project on connectivity and a Discussion Paper with concepts and illustrations of connectivity will be published by EFRAG. In June 2024, EFRAG published an initial paper Connectivity considerations and boundaries of different annual report sections which lays out the conceptual foundations, categories and benefits of connectivity and analyses' reporting boundaries across different Annual Report sections.~~

~~establish the robust foundations~~ for the connection of information across different Annual Report sections ~~as well as for a clear delineation of the boundaries between the financial statements and other relevant sections of the Annual report.~~ Hence, as conveyed in ~~EFRAG's response~~ EFRAG's response to the ISSB's agenda consultation, EFRAG recommends that the IASB and ISSB jointly ~~and more formally~~ focus on addressing the connectivity of reported information including through jointly developing illustrative examples ~~covering sustainability reporting and financial statements information.~~ Moreover, to strengthen the conceptual underpinnings for the application of connectivity within financial statements, as done for ISSB Standards, ESRS and the 2021 Management Commentary Exposure Draft, we recommend that the IASB includes an overarching principle in IAS 1 (IFRS 18) addressing the concepts of connectivity of information within and outside the financial statements (i.e., including but not limited to sustainability reporting information).

~~Conceptual Framework level work~~ Further development of conceptual principles by the IASB and ISSB is needed in order to clarify and ensure the boundaries of different Annual Report sections: ~~Related~~ At the core, the expectation gaps being addressed by the ED often arise due to connectivity, a clear lack of clarity of boundaries of different AR sections and there are different roles to be fulfilled by the IASB and ISSB. Hence, going beyond the scope of the ED, the IASB and ISSB should further clarify the definition of boundaries of Annual Report sections. This would help to avoid unnecessary duplication, and it can also help to identify where there are information gaps. ~~To further clarify the boundaries of different Annual Report sections and strengthen the complementarity of the financial reporting and sustainability reporting pillars, we reiterate the recommendation made in our response to the ISSB Agenda Consultation for the development of a Sustainability Reporting Conceptual Framework, which among other things, could address questions related to the disclosure of uncertainties.~~

~~In addition, to strengthen~~ Outside the conceptual underpinnings for scope of the application of connectivity IASB (and the ED) but within financial statements, we recommend updating the Conceptual Framework for Financial Reporting to encompass⁴ connectivity.

~~Support for the suggested vehicle for illustrative examples:~~ EFRAG understands and supports scope of the IASB's reasons for including the examples as illustrative examples accompanying IFRS Accounting Standards, namely that incorporating illustrative examples into IFRS Accounting

⁴There is no explicit definition and inclusion of the notion of connectivity in IFRS Accounting Standards and the Conceptual Framework for Financial Reporting

~~Standards might require the examples to be simplified or shortened such that their level of detail is not disproportionate. Foundation's remit, EFRAG reiterates its recommendation made in the context of the Standards. Conversely, if the illustrative examples were to accompany the IFRS Accounting Standards, it would allow for greater flexibility in content and format than if the examples were to be included in the Standards.~~

~~Concerns about the project objectives/direction should be taken into account: EFRAG is aware that some stakeholders are concerned about some possible unintended consequences arising from the illustrative examples including that they may lead to increased disclosures by entities in a manner that obscures other material information already disclosed. These stakeholders have also pointed to the risk of users double counting information that may be already disclosed outside the financial statements.~~

~~On this concern, EFRAG is aware that the IASB's development of illustrative examples is underpinned by stakeholders' response to the 2021 IASB ISSB Agenda Consultation and findings from the subsequent outreach conducted validated the need for IASB actions including the development of illustrative examples.~~

~~Comments on the illustrative examples – Approach to developing illustrative examples~~

~~EFRAG welcomes the fact that the eight illustrative examples in the ED cover a range of disclosures Sustainability Reporting (SR) Conceptual Framework, which among other things, could address questions 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 response to Question 2, we have provided some general suggestions, including on possible additional examples of recognition and measurement requirements (e.g. determination of expected credit loss) and adding variants to some of the examples using their basic fact patterns. 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 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 we have included a question to constituents on whether standard setting activity is needed to clarify the requirements of IAS 1.125. We also suggest improvements to Example 5 (which has unrealistic fact patterns) and Example 8 (where we have suggested ways of better illustrating the disaggregation in the income statement while showing connectivity and without conflicting or adding to the IAS 16 *Property, Plant, and Equipment* disclosure requirements).~~

Other comments

~~EFRAG points to areas where future standard setting activity might be required, including IAS 36 *Impairment of Assets*, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IFRS 7 *Financial Instruments: Disclosures*. We suggest the deletion of all voluntary paragraphs in IFRS Accounting Standards. We note that, as done in Example 4, IAS 1 requirements should not be expected to be application of concepts applied to remedy inappropriately worded voluntary paragraphs within specific IFRS Accounting requirements, such as paragraph 132 of IAS 36 on the disclosure of assumptions in determining the recoverable amount of cash-generating units (i.e. when paragraphs related to material information are only encouraged within specific IFRS Accounting Standards). We call for a clearer articulation in paragraph BC 32 of the ED of the interaction between the proposed illustrative examples and disclosures under in both financial and sustainability reporting requirements, including ISSB Standards and ESRS. The current wording in this paragraph may lead to different and unintended interpretations. Finally, we also note that the IASB should clarify the difference between risks and uncertainties and whether/when these uncertainties fall within or outside the boundaries of the such as financial materiality and financial control and the migration of financial statements and this could be done within the suggested update to Conceptual Framework for Financial Reporting effects from SR to 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

EFRAG FRB Chairman

Appendix – EFRAG’s responses to the questions raised in the ED

ED 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

~~1— EFRAG acknowledges that, following the feedback to the outreach done by the IASB in Q2-Q3 2023 and following the IASB’s project decisions and follow-up actions thereafter including referring matters to the IFRS Interpretation Committee (i.e. for interpretations of IAS 36 and IAS 37 requirements), the IASB concluded that existing IFRS Accounting Standards are sufficient to reflect climate-related and other uncertainties in the financial statements. Therefore, EFRAG understands why, to address the perceived inadequacies and expectation gap on the reporting of climate risks in the financial statements that were identified during the aforementioned outreach, the IASB’s initial focus is on developing illustrative examples to complement the earlier developed IASB educational material. The ED’s 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 Accounting requirements whilst reporting climate-related and other uncertainties. In that sense, the examples in the ED are also useful because:~~

1 Based on the overall feedback received, EFRAG supports and considers that the examples in the ED are 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 or 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; ~~and~~

(b) they help in educating stakeholders and would therefore further assist in enhancing the quality, auditability, enforcement and supervision of reporting information on climate-related and other uncertainties in the financial statements;

~~(b)~~(c) 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. However, as noted below, more work is needed to enhance the connectivity in reporting.

2 ~~Limitations and behavioural impacts of stakeholder concerns on the ED's illustrative examples:~~ While supporting the ED's examples, EFRAG acknowledges ~~the~~their inherent limitations ~~of guidance in the form of illustrative examples, including that such examples.~~ Namely, they may be deemed ~~too broad~~generic, considered either too simple or too complex, ~~may and~~ not reflect real-world nuances, and may not be applied as intended. ~~Specifically,~~ On the latter point, illustrative examples 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 stakeholders have highlighted that these limitations also apply to the ED's illustrative examples.~~

3 Moreover, some stakeholders have observed that these examples may only result in good reporters improving their climate-related disclosures, but the impact on bad reporters may be minimal. ~~EFRAG is aware that~~ Some stakeholders are concerned about ~~some~~ possible unintended consequences arising from the illustrative examples including that they may lead to increased disclosures by entities in a manner that obscures other material

~~information already disclosed. These. Relatedly, some stakeholders caution against the unbounded coverage of examples of other uncertainties especially given the lack of clarity of what the IASB consider to be other uncertainties. In their view, the scope of the project may contribute to excessive disclosures. Finally, other stakeholders have also pointed to the risk of users double counting information that may be already disclosed outside the financial statements, especially if there were to be more examples of disclosures of other uncertainties.~~

- 4 On these concerns, EFRAG notes that the proposed illustrative examples are meant to support the application and enforcement of current IFRS Accounting requirements and not to amend these requirements. Moreover, the IASB's development of illustrative examples ~~is underpinned by occurred following stakeholders' response to feedback during the 2021 outreach done by the IASB Agenda Consultation with a call made for a and EFRAG⁵ after the project to address the perceived underreporting of climate-related risks in the financial statements. After the IASB was initiated the project in 2023, The feedback showed support (e.g., 61% of respondents to EFRAG outreach) for the development of illustrative examples was obtained during the research undertaken by the IASB to ascertain stakeholders' causes for concern and possible solutions. Similarly, stakeholders responding (61% of respondents) to EFRAG's outreach⁶ in 2023 were supportive of the IASB developing illustrative examples as this would to complement the already existing educational material in influencing reporting practices. In the initial feedback on the ED, some stakeholders have expressed the view that the examples will be a useful aid for preparers and contribute to the enforcement of IFRS accounting requirements in reporting climate-related and Stakeholders' feedback also supported the broadening of the IASB project to include other uncertainties in the financial statements.~~
- 5 *Proposed illustrative examples should only be seen as a pragmatic initial step: Overall, for various reasons*In this regard, EFRAG considers that the proposed illustrative examples in

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 and 61% of respondents supported the development of illustrative examples.

⁶ 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.

~~the ED should only be seen as an initial step and further steps are necessary. We suggestsuggests~~ the below.

- (a) *The initial set of examples need improvement* - ~~Initial feedback received by EFRAG so far is indicative of some stakeholders viewing the examples as a helpful addition to the body of current IFRS Accounting Standards. At the same time, several stakeholders expected~~EFRAG expects an improvement in the initial set of proposed examples (see our response to Question 2). Overall, we expect examples that are closer to reality and better portray and incentivise⁷ the disclosure of key risks, and ~~which would include fact patterns where the decision on whether or not to disclose information may not be as~~have less obvious as is the case with ~~outcomes than~~ several of the ED's illustrative examples. ~~Thus, EFRAG expects that following the consultation on the ED the IASB would~~ **consider improving the initial set of proposed examples** and, in our response to Question 2, we point out where and how this could be done.
- (b) *Performing standard-setting where justified* – ~~Where needed, the IASB should~~ **consider standard setting, where justified**. For example, we highlight interpretation issues in our response to Illustrative Example 4 and our response to Question 3 ~~highlights where standard-setting activity may be required~~See our response to Question 3.
- ~~(c) —Development of other examples—~~ We suggest that the IASB **develop other examples**, as mentioned in paragraphs 41 and 42 below. In addition, 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.
- ~~(c) —Development of non-climate examples—~~ See our response to Question 2 in paragraph 15.
- (d) *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

⁷ These stakeholders have pointed, for instance, to the usefulness of the examples in ESMA's enforcement decisions.

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 also consider providing walk-through examples as educational material at a future date to help preparers of financial statements.

~~(e) Moreover, the ED's illustrative examples implicitly present a hierarchy in the application of ED, the IASB structures a helpful analysis of climate-related and other uncertainties through the related specific and general IFRS accounting requirements. Accordingly, a decision tree presenting reasoning underlying the hierarchy treatment of considerations whilst applying the examples which takes into account different standards, especially the general requirements factors, such as users' expectations in terms of materiality and assumptions in paragraphs 31, 125 and 129 of IAS 1, would also be helpful.~~

~~6 The goal of improving connectivity is only partially attained by the ED's examples – there should be a fundamental focus on connectivity:~~

~~(e) As noted in paragraph BC 7 of the ED, strengthening connections across information within and outside the, the existence of a risk, whether there is an impact on the primary financial statements is among, the information required by a specific standard and the overarching principles in IAS 1. Therefore, a decision tree presenting these factors would also be helpful.~~

~~6 Implementation time frame for the proposed illustrative examples: Paragraph BC49 of the ED states that entities would be entitled to sufficient time to implement any changes to the information disclosed in their financial statements as a result of the issuance of the illustrative examples. EFRAG understands that the wording in BC 49 is analogous to the wording used for the effective dates of IFRIC Agenda Decisions whereby IFRS Accounting~~

Standards are only being clarified and not amended. ~~actions⁸ taken under~~Based on the IASB's project objectives, i.e., in addition ~~feedback~~, EFRAG is not aware of any obstacles for entities to ~~raising awareness and improving~~provide the application of relevant information immediately since there are no changes to existing IFRS Accounting Standards. We, therefore, suggest the deletion of paragraph BC49 of the ED in order to avoid any confusion as to why the publication of illustrative examples would require time for entities to apply them.

Whether illustrative examples should accompany IFRS Accounting Standards and other comments

7 ~~towards~~Support for the proposed vehicle for the illustrative examples: The majority of constituents supported illustrative examples accompanying IFRS Accounting Standards while many constituents did not agree with the proposed vehicle as the illustrative examples would not be endorsed in the EU and may not affect practice as intended. On balance, EFRAG supports the illustrative examples accompanying IFRS Accounting Standards because:

- (a) as articulated in the ED's Basis for Conclusions, this allows greater flexibility in content and format than if the examples were to be included in the Standards and the latter option might require the examples to be simplified or shortened such that their level of detail is not disproportionate in the context of the Standards;
- (b) this provides a robust resource for auditors, audit committees and regulators to support compliance with IFRS Accounting Standards instead of having them as either educational material or as a practice statement.

8 *Other suggested steps to enhance accessibility:* 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. ~~We are also cognisant in the financial statements,~~ EFRAG recommends that the IASB facilitates access to a central repository of illustrative examples and other educational material on climate and other uncertainties and to be updated as new reporting challenges related to these aspects may arise. As the illustrative examples intend to accompany different IFRS Accounting Standards, the IASB

⁸The other actions mentioned in BC 7 are a) improving the Application of IFRS Accounting Standards; and b) raising awareness of the requirements of IFRS Accounting Standards.

may also consider cross-referencing between those standards and the illustrative examples, and also between examples, if needed.

Further actions are needed to address the root causes of expectation gaps

9 A greater focus on connectivity: EFRAG acknowledges that the IASB and ISSB staff worked jointly to develop ED's examples, and some of the examples take account of information outside the financial statements. ~~In addition, paragraphs BC 19-27 of and the ED articulate how the examples can facilitate connected information between and outside the financial statements including by addressing aims to reduce inconsistencies and avoiding unnecessary⁹ duplication in the reported information across different Annual Report sections. However, as highlighted in the EFRAG project¹⁰ on connectivity, consistency is only one aspect coherence, and techniques of linkage of information are also essential aspects of connectivity and. There is also a need to consider the concepts and techniques that would establish a robust foundation for the connection of information across different Annual Report sections as well as~~ to provide a clear delineation of the boundaries between financial statements and other relevant Annual report sections. ~~A clear definition of boundaries would help to avoid unnecessary duplication, and it can also help to identify where there are information gaps. Therefore, as conveyed in EFRAG's response to the ISSB's Agenda Consultation, a formal focus on enhancing 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~~ to avoid unnecessary duplication and identify information gaps. Hence EFRAG suggests the following:

(a) IASB-ISSB collaboration in developing examples: As done for the presentation at the 2024 World Standard Setters Forum, the IASB and ISSB could collaborate in developing examples that illustrate the connectivity of their respective requirements 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.

⁹ ~~Some duplication may be necessary.~~

¹⁰ ~~EFRAG has an ongoing project on connectivity and a Discussion Paper with concepts and illustrations of connectivity will be published by EFRAG. In June 2024, EFRAG published an initial paper Connectivity considerations and boundaries of different annual report sections which lays out the conceptual foundations, categories and benefits of connectivity and analyses' reporting boundaries across different Annual Report sections.~~

cross-referencing while being cognisant of the constraints¹¹ of cross-referencing information from other reports to the financial statements). ~~Moreover, there~~

~~(b) Clarify the interaction of illustrative examples and sustainability reporting: Paragraph BC 32 explains the objectives and comments on the applicability of Examples 1 and 2 depending on whether ISSB Standards have been applied. EFRAG is aware that this paragraph has been interpreted¹² differently, which signals the need for a lack of a common clearer articulation of the interaction between the proposed illustrative examples and disclosures under sustainability reporting requirements including ISSB Standards and ESRS (i.e. IFRS accounting requirements should be SR-framework-for-agnostic). This will contribute to the connectivity of reported information across different sections of the Annual Report. Hence,~~

~~(a)(c) Connectivity requirements in IFRS accounting requirements: The IASB should consider developing connectivity requirements for financial statement information akin to those in place for ESRS and ISSB Standards, and the coherence guidance in the 2021 IFRS Practice Statement Exposure Draft Management Commentary. This could be done by including an overarching principle in IAS 1 (IFRS 18) addressing the concepts of connectivity of information within and outside the financial statements (i.e., including but not limited to sustainability reporting information).~~

~~7—Conceptual Framework level work and IASB-ISSB collaboration needed to ensure clear further clarify boundaries of different AR sections: To further clarify At the core, the expectation gaps being addressed by the ED often arise due to a lack of clarity of~~

¹¹ June 2024 EFRAG paper Connectivity considerations and boundaries of different annual report sections highlights that cross-referencing material information to financial statements is only explicitly allowed in rare cases (IFRS 7 hedge accounting and credit risk disclosures). Moreover, legal risk could arise from incorporating forward-looking information by reference, and due to the limited assurance of SR information there could be impediments to incorporating such information by cross-reference to the financial statements.

¹² One interpretation made was that the disclosures suggested by Examples 1 and 2 are only appropriate when IFRS Sustainability Disclosure Standards have not been applied. Implicit in such a view would be that information provided in sustainability disclosures ought not to be provided in the financial statements notwithstanding the expectation that financial statements ought to be self-sufficient in the context of their objectives. A different interpretation made was that the paragraph conveys an expectation whereby preparers will have to consider information disclosed under ISSB Standards whilst determining material information to be disclosed in the financial statements. It could be argued that it is not unreasonable to expect that enhanced sustainability reporting could result in increased consideration and reporting of entities' material risks and opportunities in the financial statements.

boundaries of different ~~Annual Reporting~~AR sections. Thus, to further clarify the boundaries and strengthen the complementarity of the FR and SR pillars, ~~we reiterate the there are different roles to be fulfilled by the IASB and ISSB going beyond the scope of the ED. Specifically, EFRAG reiterates its~~ recommendation ~~made in our response~~ to the ISSB Agenda Consultation for the development of ~~a Sustainability Reporting~~an SR Conceptual Framework, ~~which~~ by the ISSB. An SR conceptual framework could, among other things, ~~could address questions related to the disclosure of uncertainties.~~

810 ~~In addition, to strengthen the conceptual underpinnings for the application of connectivity within~~articulate the crystallisation and migration of financial statements, we recommend updating the Conceptual Framework for Financial Reporting to encompass¹³ connectivity, which ought~~effects from sustainability disclosures to address connection to information outside the financial statements including but not limited to sustainability reporting. It could also help differentiate the application of concepts that are common to both FR and SR such as financial materiality and financial control.~~

911 Finally, 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~~jointly prepared IASB-ISSB educational material on the boundaries of different IFRS general-purpose financial reports (i.e. financial statements, management commentary, ISSB sustainability-related financial disclosures). ~~Such educational material could also help narrow the expectation gap on what is reported in the financial statements.~~

~~10~~ ~~Implementation time frame for the proposed illustrative examples: EFRAG does not expect there to be any obstacles towards immediately applying the illustrative examples as they pertain to existing IFRS Accounting Standards. However, Paragraph BC49 of the ED states that entities would be entitled to sufficient time to implement any changes to the information disclosed in their financial statements as a result of the issuance of the illustrative examples. EFRAG understands that the wording in BC 49 is analogous to the wording used for the effective dates of IFRIC Agenda Decisions whereby IFRS Accounting Standards are only being clarified and not amended. Nonetheless, EFRAG is concerned that the wording in paragraph BC49 of the ED may give the impression that entities would take~~

¹³ There is no explicit definition and inclusion of the notion of connectivity in IFRS Accounting Standards and the Conceptual Framework for Financial Reporting

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Proposed illustrative examples*

a long time to provide information guided by the examples in the ED albeit no amendments are being made to IFRS Accounting Standards.

~~11 EFRAG expects that the entities will be able to provide the relevant information immediately since there are no changes to existing IFRS Accounting Standards. However, in order to understand the time needed to apply the guidance provided by the ED's illustrative examples, EFRAG has issued a question to constituents asking whether there are any obstacles to the immediate application of the ED's guidance.~~

~~*Whether illustrative examples should accompany IFRS Accounting Standards and other comments*~~

~~12 *Support for the proposed vehicle for the illustrative examples:* EFRAG acknowledges and supports the IASB's considerations in deciding the vehicle for the illustrative examples, 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 were to accompany the IFRS Accounting Standards, this would allow for greater flexibility in content and format than if the examples were to be included in the Standards.~~

~~13 *Other suggested 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.~~

Question to Constituents

~~14 Regarding paragraphs 24 and 25, are there any obstacles to immediately applying the guidance provided by the ED's illustrative examples? If so, please elaborate on these obstacles.~~

ED 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

~~15~~¹² EFRAG welcomes the fact 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~~ covering the main ~~challenging~~ 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 feedback¹⁴ to the 2023 EFRAG outreach and various thematic reviews¹⁵ of reporting practices, including the October 2023 ESMA report, the April 2024 ESRB report and the May 2024 EY report. In the comments below, we highlight other areas that could benefit from having illustrative examples.

13 EFRAG suggests that the IASB indicates that the proposed examples can be relevant for entities operating in other sectors (for instance, Examples 6 and 7).

~~16~~¹⁴ EFRAG suggests that the IASB consider adding examples as follows:

- (a) *Examples addressing recognition, measurement and ~~measurement~~presentation requirements:* In addition to the examples in the ED, which focus on illustrating disclosure requirements, EFRAG would consider it helpful to add examples related

¹⁴ EFRAG’s outreach findings summarised [September 2023 EFRAG Secretariat Briefing: Climate-related Risks in Financial Statements](#)

¹⁵ 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](#)

to recognition ~~and~~, measurement and presentation 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 *Financial Instruments* and into the determination of fair value under IFRS 13. Another recognition and measurement aspect that could benefit from an illustrative 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. Stakeholders support a focus on these areas.~~ It may also be useful to consider another example (besides Example 5) which reflects current practice, whereby an entity has deferred tax assets arising from tax losses and the entity considers uncertainties on the derecognition of those deferred tax assets.

- (b) *Examples that are variants of the basic fact patterns of some of the examples:* EFRAG considers it helpful to include variants in basic fact patterns, for example, relating to Examples 3, 4, 5 and 7. For example, in illustrative Example 5 variants may include what would happen if the entity used all the deficits before the law became enforceable. Also, as indicated ~~in paragraph below~~²², Example 2 may be used as a variant of Example 1.

~~(c) — Examples specifically for small and medium-sized enterprises (SMEs) would also be useful.~~

(c) Addressing small and medium-sized enterprises (SMEs): Some stakeholders have suggested examples of disclosures tailored for SMEs would also be useful. However, other stakeholders' view is that these examples ought to be generally applicable for all entities and examples that are specific to SMEs might not be generally applicable. To balance both needs, EFRAG recommends the IASB considers the applicability of the illustrative examples for SMEs taking account of the principles of IFRS for SMEs.

15 *Consider adding examples about other uncertainties:* Only one of the eight examples (Example 5) is not directly related to either environmental or climate-related uncertainties. ~~As noted in our responses to Questions 1 and 3, the additional illustrative examples should also reflect that the~~ and this may create a perception that the reporting challenges pertain to these particular uncertainties only. Based on the feedback and consistent with the scope

of the project ~~goes beyond~~, EFRAG recommends examples covering other uncertainties ~~besides those that are climate-related uncertainties~~. These could include sustainability-related uncertainties (e.g., related to own workforce that potentially affects income and expenses) and non-sustainability-related uncertainties. This recommendation is intended to foster the principle-based character of the IASB guidance provided through examples and it is not a suggestion for the development of examples that illustrate the reporting of all possible uncertainties.

~~1716~~ *Climate-related commitments disclosures*: EFRAG recommends an illustrative example focused on the expected disclosures under the fact patterns of the March 2024 IFRIC agenda decision. While we agree with the IFRIC agenda decision on the criteria for the recognition of provision and acknowledge the IAS 37 Exposure Draft *Provisions- Targeted Improvements* has an example related to the recognition of climate-related uncertainties exemplify the challenges of reflecting long-term uncertainties in the financial statements, ~~a disproportionate focus on commitments, there are unaddressed expectations¹⁶ related to disclosures of climate-related information in the illustrative examples may reinforce an erroneous perception that the matters addressed pertain to these particular uncertainties only commitments~~.

~~18~~ *Net-zero commitment disclosure*: EFRAG agrees with the March 2024 IFRS Interpretation Commitment Agenda Decision which, among other things, clarified that a past event was necessary before net zero commitments that are deemed to be constructive obligations can be recognised as provisions. We are also cognisant of 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 EFRAG’s connectivity project’s initial

¹⁶ 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 that 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.

~~paper, there could still be an expectation gap¹⁷ related to whether/what information related to net-zero 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 judgement applying paragraph 31 of IAS 1, an illustrative example pointedly focused on the March 2024 IFRIC agenda decision net-zero commitments fact patterns and on whether these disclosures, made in the financial statements, would be also useful.~~

~~19 — *Insufficient illustrations of illustrate connectivity across the examples:* As noted in our response to Question 1, more could be done by the IASB and ISSB to encourage the connectivity of reported information. EFRAG EFRAG notes that within the fact patterns in the ED's illustrative examples, there is only generic reference made to the information in other general purpose financial reports and the analysis of whether to disclose is are circumscribed to the application of IFRS accounting requirements.~~

~~2017 EFRAG considers with only generic reference being made to the information in other sections of the Annual Report. In response to Question 1, EFRAG recommends examples that, given the illustrate connectivity. We note that based on the IASB's primary remit of addressing IFRS accounting requirements as well as of providing and enhancing¹⁸ management commentary (MC) guidance that can contribute to connectivity across general purpose financial reports, the IASB has, there is latitude to illustrate the application of apply both IFRS accounting requirements and MC guidance to illustrate connectivity across the examples. EFRAG suggests that more specificity about the information that could be disclosed in sustainability reports and/or other sections of the management~~

¹⁷In 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 that 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.

¹⁸ Following the feedback to 2021 Exposure Draft, in June 2024 the IASB decided to finalise the update of the management commentary practice statement.

~~report/management commentary (e.g. on climate related transition risk) would help make the guidance within these examples less generic and more realistic and helpful for stakeholders.~~

2118 *Guidance on sources of assumptions and estimation inputs would be helpful:* 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 versus 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. EFRAG considers that the illustrative examples should make clear that the entity would need to take into account all facts and circumstances.

2219 *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 patterns. ~~The feedback EFRAG received shows 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 add 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. Overall, stakeholders have noted the need for a consistent approach across the examples to either have a general caveat or a systematic inclusion of a footnote to reflect that some and not all requirements within a standard are covered by the example.

2320 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 33¹⁹ and 34²⁰ of IFRS 7, which refer, respectively, to the general qualitative and quantitative disclosures about each type of risk arising from financial instruments.

¹⁹ 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'.

²⁰ 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

Specific comments on the illustrative examples

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

[2421](#) EFRAG supports the inclusion of illustrative examples related to the application of judgements made in the qualitative materiality assessment. Such examples are particularly useful in light of the challenges²¹ faced by stakeholders in determining if/when to apply the overarching IAS 1.31 requirements (paragraph 20 of IFRS 18 *Presentation and Disclosure in Financial Statements*; see the above comments on [net-zero climate-related commitments disclosures](#)). Therefore, these examples could help entities when 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.

[2522](#) 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 instances 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), make the example less useful as there are no expectation gaps at play. Considering this, EFRAG suggests that Example 2 be used as a variant of Example 1.

[2623](#) Similar to Example 5, it would be 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 because EFRAG expects that for many entities the transition plan would be deemed material. Such an example could replace Example 2, which as noted is less useful than Example 1.

[24](#) EFRAG recognises that, as is the case in Examples 1 and 2, a non-exposure statement (negative confirmation) is intended to bridge the gap between users' expectations for entities to depict certain information in the financial statements. These expectations may

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)'.

²¹ The 2024 EFRAG initial connectivity paper [Connectivity considerations and boundaries of different annual report sections](#) (grey areas of location: pages 55-57) and [April 2024 IFASS report](#) (Page 69) highlight 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 raised in [other commentary](#).

arise from the risks, opportunities, and entities actions reported in the rest of the Annual Report outside the financial statements.

2725 At the same time, EFRAG notes that some stakeholders ~~have indicated concerns about having a negative confirmation²² in the disclosures as illustrated by Examples 1 and 2, as they are concerned that negative confirmations might lead to obscuring obscure~~ material information ~~and/or imposing impose~~ additional challenges of having practices/routines in order to monitor and assess the completeness of the underlying assertion about there being no material information. ~~Moreover, questions were raised on the boundaries/limits of such negative confirmations. These stakeholders also question the boundaries/limits of such negative confirmations. Accordingly, they have suggested the IASB add additional commentary in the Examples on when such confirmations would (not) be necessary, thereby avoiding the suggestion that negative confirmations are a general requirement under IFRS. More generally, they have called for application guidance on qualitative materiality assessment including for material non-exposure statements.~~

2826 ~~Lastly~~In light of the above, EFRAG suggests that the examples 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 a qualitative materiality assessment that takes the expectations/needs of users into account. Moreover, paragraph 1.9 of the ED should be better articulated to illustrate in practice which type of information the IASB expects an entity to disclose.

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

2927 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 of a caveat to that effect, some stakeholders have indicated that reference to only some of the factors considered in the 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

²² ~~Negative confirmation takes place when an entity discloses that there is no effect of the climate-related risks in its financial position and financial performance.~~

impairment requirements towards climate-related information. Therefore, EFRAG suggests including the disclosure of key assumptions on the discount rate in this example as well as other areas stakeholders have conveyed would be useful such as the impact of future regulatory changes.

3028 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. Moreover, paragraph BC34(a) in the ED explains that the example illustrates disclosures about "potential future increases in the scope of these regulations". However, it is not clear whether that refers to the scope of existing regulations or expected new regulations.

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

3129 EFRAG supports this example as it relates to another potentially challenging area with regard to a) the 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 the applicable time horizon can result in the duplication of information between the financial statements and the anticipated²³ financial effects disclosed under ESRS and ISSB Standards requirements.

3230 ~~On the example~~However, 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'-year”*.

3331 ~~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~~Feedback to the ED reveals different interpretations of this paragraph. Some stakeholders agree with the interpretation in Example 4 but other

²³ 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 and cash flows in the short-, medium- and long-term.

stakeholders call for the clarification of the applicable time horizon for the uncertainties to be done through standard setting. This mixed feedback is in itself indicative of the need for standard setting clarifications. Overall, EFRAG considers 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.~~

~~34~~—In addition, ~~as addressed in our response to the ED Q3 below, in for~~ this example, the need to apply IAS 1 ~~arises could be~~ due to ~~the specific requirements~~ some of the guidance under IAS 36 not being applicable for disclosing the (i.e. paragraph 132²⁴ of IAS 36) not having been considered in the determination of whether to disclose material information within the example's fact pattern. This in part ~~As addressed in our response to Q3, this is due to one of the paragraphs of IAS 36 related to assumptions in the measurement~~ another aspect of the CGU being voluntary²⁵ (i.e. paragraph 132 of IAS 36).

~~35~~32 ~~Lastly, EFRAG notes there may be a drafting error in paragraph 4.6(d)²⁶ of the ED which refers to the sensitivity to changes of assumptions of 'CGU's carrying amount' instead of 'CGU's recoverable amount'~~ standard setting that could be considered.

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

~~36~~33 EFRAG supports including an example to address fact patterns that are not related to climate-related uncertainties. However, EFRAG also understands that this example was not developed based on real-world fact patterns and is seen as unrealistic and rare in practice.

~~37~~34 EFRAG supports the intent of the example. That is, it illustrates the conjunctive application of specific requirements (IAS 12 *Income Taxes*) and general requirements (paragraphs 31

²⁴ 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.'

²⁵ 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.'

²⁶ 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'.

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. However, EFRAG considers that the proposed fact pattern requires improvement and should reflect real-world fact patterns. As is, this example is rare and therefore might have limited application in practice.

[3835](#) EFRAG considers that it would be more realistic if the illustrative example referred not only to the utilisation of tax losses but to the utilisation of deductible 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)

[3936](#) The example related to disclosures of credit risk is useful because, as shown by various thematic reviews²⁷ of reporting practices, including the April 2024 ESRB²⁸, 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 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 and the disclosures in the financial statements.

[4037](#) 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 limitations of data availability and systems/methodological constraints, these requirements may

²⁷ EY, May 2024, [Connected Financial Reporting: Accounting for Climate Change](#).

²⁸ ESRB, April 2024, [Climate-related risks and accounting](#).

unintendedly 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.

~~41 Finally, while acknowledging that the illustrative examples do not cover all industries, EFRAG considers that an example similar to Example 6 tailored to insurance entities would be helpful.~~

38 EFRAG also suggests that the example would benefit from including quantitative information with respect to collateral (paragraph 6.4 (c) of the ED) (for example, the fair value of the collateral, the restrictions to its disposal and the quantification of those restrictions).

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

4239 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. EFRAG considers that the proposed disclosures applying paragraph 85 of IAS 37 would provide useful information on 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.

4340 Moreover, the focus on decommissioning and restoration provisions is apt as it is related to long-term uncertainties. However, some stakeholders have concerns about how entities measure such decommissioning provisions because these are usually incurred very far into the future. That is, these provisions, when discounted to their present value, results in the carrying amount being immaterial and therefore not recognised in the statement of financial position. As there is a risk that the entity may need to settle their obligations on decommissioning and restoration earlier than expected and considering the size of these costs, EFRAG suggests that the IASB consider whether disclosure about the undiscounted amounts of future costs would provide more useful information in this fact pattern. An undiscounted amount can be indicative of the potential risk.

41 In addition, EFRAG is of the view that the risk of early settlement noted above is indicative of recognition and measurement considerations that should be disentangled from the respective disclosure considerations in the example.

42 Furthermore, EFRAG suggests the IASB specify whether the uncertainty of timing, the materiality of the gross obligation and qualitative factors such as users' awareness of the entity's exposures are considered in the conclusion. It should be made clear whether the disclosures stem from applying paragraph 85 of IAS 37 or paragraph 125 of IAS 1.

Example 8 – Disclosure of disaggregated information (IFRS 18)

[4443](#) 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.

[4544](#) Though the example is useful as it conveys the risk associated with an entity's transition plan, some stakeholders are concerned that the disaggregation suggested by the example is inconsistent and more granular than the requirements of paragraph 73 of IAS 16 (i.e. it goes below the level of property, plant and equipment asset-PPE class). Furthermore, the ED indicates that the entity should disaggregate the information it discloses applying paragraph 73 of IAS 16 for classes of PPE with dissimilar risk characteristics whenever the resulting disaggregated information is material. Some stakeholders are concerned that an entity would have to provide a further disaggregation below the PPE class – i.e. a disaggregation between PPEs that have a low exposure to climate-related transition risks and those that have a higher degree of exposure - for all disclosures in paragraph 73 of IAS 16 (i.e. paragraph 73 (a) – (e)). This would have to be done for each PPE class, where material, ~~and~~. These stakeholders consider that providing ~~these disaggregated disclosures~~ disaggregated disclosures would be very costly.

[4645](#) Moreover, 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.

[4746](#) In addition, EFRAG suggests that the IASB 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.

[47](#) Furthermore, EFRAG suggests adding an explanation why IFRS 18 requirements in this instance only affect the disclosures but not the presentation in primary financial statements.

Question to Constituents

~~48~~ ~~Regarding Example 4, based on current practice, do preparers of financial statements interpret paragraph 125 of IAS 1 as capturing:~~

~~(a) only assumptions about uncertainties that will be resolved within the next financial year, therefore, assumptions about uncertainties that will be resolved~~

~~after the end of the next financial year are not in the scope of paragraph 125 of IAS 1;~~

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

~~another interpretation? Please explain. Do you have any other comments on the Exposure Draft?~~

ED Question 3 – Other comments

Do you have any other comments on the Exposure Draft?

[4948](#) *Enhancing IFRS Accounting requirements*: As noted earlier, future standard-setting activity may be necessary in relation to the following.

(a) *Specific IFRS Accounting Standards*: The IFRS Accounting Standards that stakeholders have indicated may require standard-setting activity include:

(i) IAS 36 (i.e. paragraphs 34, and 35 related to the value in use calculation and the applicable time horizon for climate-related fact patterns, and paragraph 134 related to required disclosure on goodwill of the CGU),

(ii) IAS 37 (i.e. attention has been drawn to the interpretation challenges related to the smoke-filter example) ~~and IFRS 7), disclosures might need to be updated to cater for macro-economic risks. Of note, as mentioned in our response to Question 2, the forthcoming Exposure Draft Provisions – Targeted Improvements will amend IAS 37 requirements. On the possible update of IFRS 7 requirements, EFRAG is aware that there is a pipeline IASB project on credit risk disclosures.~~

(iii) IAS 38 (i.e. the criteria for assessing whether internally generated assets qualify for recognition),

(iv) IFRS 7 (i.e., disclosures might need to be updated to cater for macro-economic risks.

(v) IFRS 9 (i.e., incorporating climate risks into the expected credit loss measurement)

(vi) IFRS 13 (i.e., clarify how to incorporate climate risks in the determination of fair value)x.

(vii) accounting for pollutant pricing mechanisms,

~~(b)~~ General IFRS Accounting requirements: As noted in EFRAG's response to Questions Example 4, there are mixed views on the applicable time horizon for uncertainties addressed under paragraph 125 of IAS 1 and 2, ~~some stakeholders expect~~ this is in itself indicative of the need for standard-setting activity, including in relation to IAS 1.125 requirements, and we have included a question for constituents to that effect. for this paragraph.

~~(b)(c)~~ Moreover, to ensure the reporting of all material information, ~~we acknowledge~~ EFRAG acknowledges that paragraph 31 of IAS 1 is an essential requirement within IFRS accounting literature, as it can be applied to ensure material information in the financial statements (including in the context of connectivity), that is not required by specific IFRS accounting requirements, to be disclosed by reporting entities. ~~We also acknowledge that there are limits to the extent to which specific IFRS Accounting Standards can encompass all material information.~~ At the same time, as noted in our response to Question 2 – Examples 1 and 2, ~~and notwithstanding the related illustrative examples (1, 2 and 5)~~, EFRAG is aware²⁹ that there are diverse interpretations of when paragraph 31 of IAS 1 is applicable and there is also a concern from some stakeholders about its stretched application. This has resulted in some stakeholders calling for related application guidance. Hence, ~~though EFRAG fully understands the need for paragraph 31 of IAS 1, we recommend~~ recommends that the IASB monitor the ~~extent to which the~~ application of this paragraph ~~to compensate for the remediable shortfalls in specific IFRS Accounting Standards~~ is indicative of the need for future standard-setting activity ~~on specific IFRS Accounting Standards.~~

~~5049 Problems arising from voluntary requirements in specific IFRS Accounting Standards~~ Standard setting related to IAS 36: 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 towards determining the recoverable amount of the CGU during the period). On this point, as noted in the preceding paragraph, IAS 1 should not be applied to compensate for remediable shortfalls within specific IFRS Accounting Standards, ~~and some~~

²⁹ [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 raised in [other commentary](#).

~~stakeholders have suggested the deletion of all paragraphs that are voluntary/encouraged within specific IFRS Accounting Standards. Moreover, if it is the IASB's view that this paragraph is not relevant to consider in a fact pattern similar to that in Example 4, we would strongly encourage the IASB to undertake narrow-scope standard-setting to remove paragraph 132 of IAS 36 or make it mandatory. Some stakeholders have called for the removal of all voluntary paragraphs but others disagree with this suggestion³⁰. Concurring with the latter view, EFRAG considers there needs to be a considered assessment of IASB's reasons for allowing voluntary guidance (i.e., when scoping out particular paragraphs from being requirements and leaving them for consideration) before deleting such guidance. A case-by-case analysis is needed and EFRAG has not done that.~~

~~51 — *Interaction of illustrative examples and sustainability reporting:* Paragraph BC 32 of the ED is included in the Basis for Conclusions section, explaining the objectives of Examples 1 and 2, and it comments on the applicability of Examples 1 and 2 depending on whether ISSB Standards have been applied. EFRAG is aware that this paragraph has led to different and perhaps unintended interpretations.~~

~~52 — One interpretation made was that the disclosures suggested by Examples 1 and 2 are only appropriate when IFRS Sustainability Disclosure Standards have not been applied. Implicit in such a view would be that information provided in sustainability disclosures ought not to be provided in the financial statements notwithstanding the expectation that financial statements ought to be self-sufficient in the context of their objectives. A different interpretation made was that the paragraph conveys an expectation whereby preparers will have to consider information disclosed under ISSB Standards whilst determining material information to be disclosed in the financial statements. It could be argued that it is not unreasonable to expect that enhanced sustainability reporting could result in increased consideration and reporting of entities' material risks and opportunities in the financial statements.~~

~~53 — Both these interpretations are indicative of the need for a clearer articulation of the interaction between the IFRS Accounting Standards' proposed illustrative examples and disclosures under sustainability reporting requirements including ISSB Standards and ESRS~~

³⁰ ~~Some stakeholders have conveyed that they consider voluntary guidance in IFRS Accounting Standards can foster higher-quality financial information, transparency and reliability, provided that they are being applied consistently.~~

~~(i.e. IFRS accounting requirements should be SR framework agnostic). This will contribute to the connectivity of reported information.~~

5450 *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, EFRAG recommends that the IASB address the following conceptual questions:

- (a) What is the distinction between risks and uncertainties? In addition, there should be examples illustrating other uncertainties; and
- (b) When do these uncertainties fall within or outside the boundaries of the financial statements?

51 *Editorial suggestions:* EFRAG has the following editorial suggestions:

- (a) Consider including only a reference to the relevant IFRS Accounting Standard instead of copying the exact disclosure requirements themselves.
- (b) Align the wording in the examples with the wording in IFRS Accounting Standards. For instance, paragraphs 1.8 and 2.8 of examples 1 and 2 of the ED use 'more likely' in contrast to 'likely' (IAS 1.24) and paragraph 4.4 of example 4 of the ED refers to 'assumptions' in contrast to 'reasonable and supportable assumptions' (IAS 36.33).
- (c) Examples 1 and 2: Align the terminology used in paragraph 1.3(c) of the ED ('the entity has no asset retirement obligations') with the terminology used in IAS 37 and IFRIC 5. In addition, to better connect paragraph 1.9 of the ED with paragraph 1.3 of the ED. Paragraph 1.9 only notes that the entity should explain why the transition plan has no effect on its financial position and financial performance without providing any additional guidance regarding what kind of information entities should disclose to explain that assessment.

Example 4: EFRAG notes that the word 'scenario' in paragraph 4.3 of the ED may be misunderstood if it is used only to describe ordinary estimation uncertainty for one parameter. There may also be a drafting error in paragraph 4.6(d)³¹ of the ED which refers to the sensitivity to changes of assumptions of 'CGU's carrying amount' instead of 'CGU's recoverable amount'.

³¹ 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'.