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Climate-related and Other Uncertainties in the Financial Statements

Analysis of the comment letters received and outreach conducted

Objective

- 1 This agenda paper presents a summary of the outreach and comment letters' feedback in response to EFRAG's draft comment letter (DCL) on the IASB Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements -Proposed illustrative examples* (ED) and/or the ED. This feedback has been incorporated into the draft final comment letter (FCL) presented for this session and the EFRAG Secretariat's recommendations for the adjustments that were needed for the draft FCL are in agenda paper 02-01.

Structure of the paper

- 2 The rest of the paper contains:
 - (a) Overview of outreach activities conducted;
 - (b) Overview of comment letter respondents;
 - (c) Appendix 1 - detailed analysis of responses to questions in EFRAG's draft comment letter;
 - (d) Appendix 2 - list of respondents; and
 - (e) Appendix 3 - Summary of outreach feedback.

Overview of outreach activities conducted

- 3 EFRAG got feedback on the DCL at the following:
 - (a) OIC-EY event on connectivity between financial and sustainability reporting on 14 October (oral update to be provided);
 - (b) Accountancy Europe members on 29 October;
 - (c) The EFRAG User Panel on 29 October;

Analysis of the comment letters received and outreach conducted

- (d) EFRAG IAWG on 13 November; and
 - (e) AFRAC-EFRAG-IASB hosted event on international developments in financial and non-financial reporting on 18 November (oral update to be provided).
- 4 An executive summary of the outreach feedback is provided in Agenda Paper 02-01 and a detailed summary of the outreach feedback is in Appendix 3 below.

Overview of comment letters received

- 5 At the time of writing, 13 comment letters have been received (nine final and four draft). The respondents were an academic, national standard setters, a regulator, a user organisation, preparer organisations and a professional organisation.
- 6 An executive summary of the comment letter respondents' feedback is in Agenda paper 02-01.

Appendix 1 - Detailed analysis of responses to questions in EFRAG's draft comment letter, EFRAG Secretariat recommendations and questions to EFRAG FR TEG

Question 1: Providing illustrative examples

Question 1—Providing illustrative examples

The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports.

Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why.

The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards.

Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.

Proposals in the ED

- 7 The IASB proposed that examples illustrating the application of IFRS Accounting Standards to climate-related uncertainties would be most helpful in responding to the concerns about the reporting of the effects of climate-related uncertainties.
- 8 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.

EFRAG's DCL position

- 9 In the DCL, EFRAG considered the ED's examples to be a pragmatic initial step, and further actions were needed to meet project objectives from a financial reporting perspective. In

Analysis of the comment letters received and outreach conducted

addition, EFRAG considered that there should be a greater focus on connectivity and recommends that the IASB and ISSB jointly and more formally focus on addressing the connectivity of reported information. EFRAG also recommended the development of a Sustainability Reporting Conceptual Framework and updating the Conceptual Framework for Financial Reporting to encompass connectivity.

- 10 Furthermore, EFRAG supported the ED's proposal to include the examples as illustrative examples accompanying IFRS Accounting Standards.

Summary of respondents' comments

Whether providing examples would help improve reporting in the financial statements

- 11 **All respondents supported/welcomed the illustrative examples as a first step** (and therefore supported EFRAG's DCL) for reasons mentioned in EFRAG's DCL and also for the following reasons:

- (a) Educating (including by complementing existing material) stakeholders/preparers at large, some of whom may be less familiar with the financial statements reporting framework, and in explaining what can and cannot be expected to be reported, which can help bridge the expectation gap;
- (b) To ensure completeness of the information provided, enhance quality of the information disclosed to the market and to avoid duplication;
- (c) The ED covers topics where challenges in reporting climate-related and other uncertainties may arise.

- 12 However, one respondent indicated that due to the lack of changes in the IFRS itself, the examples were likely to affirm current (good) practice and reaffirm poorer practice which have been viewed as in line with IFRS in the past. Therefore, significant improvements or changes in reporting on climate-related and other uncertainties in IFRS financial statements is not likely to occur.

- 13 One respondent was concerned that the examples might be applied in an overly simplistic manner, especially in cases where the fact patterns do not exactly match those in the examples.

- 14 *Suggestions made for improvement:*

- (a) The examples could be improved to make them closer to reality and to include fact patterns where the decision to disclose or not may not be as obvious as in the ED examples. (three respondents).

Analysis of the comment letters received and outreach conducted

- (b) The illustrative examples should be updated as new reporting challenges related to climate and other uncertainties may arise (three respondents).
- (c) A thorough review of the proposed Illustrative Examples was necessary in order to focus on the important aspects of reporting on climate-related and other uncertainties (e.g., boundaries between financial reporting and other reporting instruments¹; or the differentiation between effects on recognition and/or measurement on the one side contrary to effects on disclosures on the other side).
- (d) clarify that the examples were related to disclosures in the financial statements and that additional disclosures might be required in other reports (management commentary, sustainability reporting etc.) (one respondent).
- (e) inclusion of detailed walk-through examples to better support entities in their reporting obligations (one respondent).

15 *Comments on connectivity between financial and sustainability reporting:*

- (a) Overall, **ten respondents, as reflected in EFRAG's DCL, were supportive of connectivity in terms of strengthening the connection of information and having a focus on connectivity indicating that the IASB and ISSB should work together to focus on connectivity and/or illustrative examples on connectivity.** However, one respondent suggested that connectivity related topics should not be addressed in EFRAG's response to the ED considering that many of these related topics were still under development and being crystallized in the coming periods. In their view, a separate connectivity project would be a more appropriate forum to further develop the connectivity.
- (b) There were agreements with EFRAG's DCL that the illustrative examples would help strengthen the connectivity (five respondents); the IASB and ISSB should work together to focus on connectivity / to develop illustrative examples of connectivity (three respondents); it was a need to clarify the boundaries of both sets of information within and outside the financial statements (two respondents).

¹ It seemed that the IASB was aiming at highlighting how risk related disclosures should be subsumed under IFRS (for example by referencing to IAS 1.31 in Example 1 and 2). This blurred the currently existing line between the financial statements (with limited information on risks due to, among others, the restrictive present obligation criterion) and other reporting instruments (mandated) in addition to financial statements. It was encouraged to consider the boundaries between the financial statements and other (mandated) reports in the context of their respective distinct objectives.

Analysis of the comment letters received and outreach conducted

- (c) Concepts such as connectivity, consistency and coherence between information included in the financial statements with information elsewhere in the annual financial report should be explicitly referred to in IFRS Accounting Standards and not be implicitly captured in paragraph 31 of IAS 1 (one respondent);
 - (d) *Connectivity requirements:* One respondent considered that EFRAG DCL's suggestion for connectivity requirements within IFRS Accounting would be difficult for the IASB to take up because the ISSB Standards currently did not require a specific placement of sustainability reporting information. However, aligned with the EFRAG DCL, another respondent suggested the IASB may consider including an overarching principle specifically addressing the concepts of consistency, coherence and, in particular, of connectivity in IAS 1 (IFRS 18) and monitor if further changes to the standards are necessary. Similarly, another respondent IASB should propose an approach for implementing connectivity between accounting standards and sustainability standards.
 - (e) *There were mixed views regarding Conceptual Framework level work for sustainability reporting (paragraphs 21 – 23 of EFRAG's DCL):*
 - (i) A Conceptual Framework for sustainability reporting would be valuable (two respondents). Adjustments to the IFRS Conceptual Framework are necessary to establish a solid foundation for connectivity (one respondent);
 - (ii) However, one respondent was in the contrary and indicated that they did not believe that the careful description of the boundaries of the respective reporting instruments required an additional Conceptual Framework for Sustainability Reporting purposes.
- 16 *Implementation time frame for the proposed illustrative examples:* One respondent would like to clarify the effective date to implement additional guidance based on the examples. Another respondent suggested to delete paragraph BC49 of the ED as it may create confusion as to why the publication of examples would require time for entities to apply them or the underlying principles. Another respondent indicated that there was no need for specific transition rules or an effective date as the examples illustrate the application of current requirements.
- 17 *Other comments:*
- (a) *Development of other examples (paragraph 19 (c) of the EFRAG DCL) -* One respondent was not sure whether examples relating to the effects of social or governance risks would necessarily contribute to clarifying the questions around

Analysis of the comment letters received and outreach conducted

long-term uncertainties and risks. They considered that the IASB should focus on the general questions around long-term uncertainties and risks, as suggested by the project.

- (b) *Consideration of walk-through examples (paragraph 19 (d) of the EFRAG DCL):*
 - (i) One respondent was not convinced that walk-through examples would provide more or better insights into the issues at hand. Additional educational material might be helpful, but in their view the IASB should rather focus on developing Illustrative Examples that fit the current structure and that could be included in the respective IFRS.
 - (ii) One respondent agreed with the IASB in having stand-alone examples, but some examples were not as precise and specific (for example, Example 1 does not address the specific disclosures the entity would make to satisfy the requirements in paragraph 31 of IAS 1). This respondent would like to see a concrete disclosure text that fulfils the expectation.
- (c) *Decision tree (paragraph 19(e)² of the EFRAG DCL)* – Two respondents recognised the necessity to have a decision tree (as reflected in EFRAG’s DCL) to present a hierarchy of considerations when applying various Standards, with one of the two suggesting a specific decision tree, while one respondent was not convinced that a “decision tree” would be necessary to present the hierarchy of the considerations.

Whether illustrative examples should accompany IFRS Accounting Standards

18 **Six respondents supported illustrative examples accompanying IFRS Accounting Standards (and therefore, EFRAG’s DCL),** for the reasons provided in the ED and the following reasons:

- (a) Provides a practical connection between the principles of the standard and its concrete application (one respondent);
- (b) better than inclusion in the Standards because it offers a timelier delivery of guidance material on how to apply the Standard;

² Paragraph 19(e) states “Moreover, the ED’s illustrative examples implicitly present a hierarchy in the application of the related specific and general IFRS accounting requirements. Accordingly, a decision tree presenting the hierarchy of considerations whilst applying different standards, especially the general requirements of materiality and assumptions in paragraphs 31, 125 and 129 of IAS 1, would also be helpful.”

Analysis of the comment letters received and outreach conducted

- (c) the illustrative examples benefit from consultation and input from external stakeholders (one respondent);
 - (d) Helps maintain clear boundaries between reporting formats (one respondent).
- 19 **However, five respondents did not agree with or questioned** having the illustrative examples accompanying the IFRS Accounting Standards because:
- (a) the illustrative examples would not be endorsed in the EU, there was a risk that the effect of the proposed Illustrative Examples might not affect practice as warranted and would not automatically be translated into different languages (three respondents).
 - (b) they questioned that if under-reporting did indeed exist, how could the standards be considered sufficient, and how would the non-binding guidance—which did not amend those requirements—address the issue (one respondent).
- 20 **Two of these respondents suggested to include the examples in the IFRS Accounting Standards**, e.g., in an Appendix, so they would be endorsed by EU and would have an effective date. One of these respondents suggested that the IASB could also consolidate all the resources on climate in a single location such as a dedicated page on the IASB website and also suggested considering additional educational materials or publishing an IFRS Practice Statement on the matter in which the IASB explains the overall approach and how these examples fit in the IFRS Accounting Standards and existing vehicles. Another respondent, however, did not prefer guidance in the form of a practice statement.
- 21 **Three respondents agreed with the IASB to publish the illustrative examples in the form of a single document** (as per EFRAG’s DCL) in order to enable stakeholders to have an overview of the project and identify the connections between the examples.
- 22 One respondent considered that the non-binding guidance was paradoxical as despite widespread perceptions of under-reporting on climate-related and other uncertainties in financial statements, the IASB concluded that existing IFRS standards are sufficient.
- Question to constituents: Regarding paragraphs 24 and 25 of EFRAG’s draft comment letter, are there any obstacles to immediately applying the guidance provided by the ED’s illustrative examples? If so, please elaborate on these obstacles
- 23 Four respondents answered the question. Three respondents did not consider/ were not aware of any immediate obstacles to applying the illustrative examples. One respondent

Analysis of the comment letters received and outreach conducted

agreed with EFRAG³ to clarify paragraph BC49 of the ED to eliminate any subjective interpretation.

Question 2: Approach to developing illustrative examples

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.

Proposals in the ED

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

³ Paragraph 24 of EFRAG’s DCL states “... 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 BC49 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 a long time to provide information guided by the examples in the ED albeit no amendments are being made to IFRS Accounting Standards.”

EFRAG's tentative position

- 25 In its draft comment letter, EFRAG welcomed the eight illustrative examples in the ED covering a range of disclosures related to general and specific IFRS Accounting Standards requirements. EFRAG agreed that 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. Furthermore, EFRAG made some general suggestions, including on providing possible additional examples of recognition and measurement requirements and adding variants to some of the examples using their basic fact patterns.
- 26 Additionally, EFRAG also provided specific comments in relation to the examples in the ED. In particular, on:
- (a) Example 4 – EFRAG observed multiple interpretations of the time horizon requirements of IAS 1.125 relating to disclosures of sources of estimation uncertainty. EFRAG considered that clarification of IFRS requirements should not be done through examples. The EFRAG DCL includes a question to constituents on whether standard setting activity is needed to clarify the requirements of IAS 1.125.
 - (b) Example 5 – EFRAG suggested improvements to this example which is based on an unrealistic fact pattern.
 - (c) Example 8 – EFRAG 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.

Summary of respondents' comments

General comments on the illustrative examples

- 27 **All respondents generally agreed with the position expressed in the EFRAG DCL and supported the IASB approach** to develop examples illustrating how an entity applies specific requirements in IFRS Accounting Standards related to reporting of climate-related and other long-term uncertainties in the financial statements. Respondents found that the approach is based on a reasoning that considers users' expectations in terms of information, the existence of a risk, whether there is an impact on the primary financial statements, the information required by a specific standard and the overarching principles in IAS 1, by parallelly articulating paragraphs 125 and 129 of IAS 1 on the one hand, and paragraph 31 of IAS 1 on the other.
- 28 Furthermore, respondents made the following detailed comments/ suggestion in relation to the IASB's approach to developing illustrative examples:

29 *Adding additional examples* – the comments made by respondent are laid out below:

- (a) *Examples addressing recognition, measurement and presentation requirements* – **many respondents noted that the ED’s examples focused excessively on disclosures.** Respondents considers that **climate matters could impact recognition, measurement and presentation** of assets, liabilities, revenue, expenses and cash flows. However, none of the proposed examples illustrated how preparers should consider IFRS requirements to (de)recognise, (re)measure or present material items in the financial statements. Additionally, none of the proposed examples established a connection between the recognition or (re)measurement of assets, liabilities, expenses or costs in the primary financial statements on one hand, and the information included in the sustainability statement, management report or other sections in the annual financial report on the other. Furthermore, some respondents suggested that the IASB should develop additional examples illustrating the application of other IFRS Accounting Standards, dealing with measurement, recognition and presentation and that are not addressed in the ED such as:
- (i) examples in terms of disclosures of assumptions and estimates in determining the carrying value of assets and liabilities, as well as for going concern (IAS 1 *Presentation of Financial Statements* and IFRS 18 *Presentation and Disclosure in Financial Statements*);
 - (ii) examples for net realisable value considerations (IAS 2 *Inventories*);
 - (iii) examples for calculating deferred taxes (IAS 12 *Income Taxes*);
 - (iv) examples on useful lives of assets which give rise both to disclosures and impact the financial statements quantitatively (IAS 16 *Property, Plant and Equipment*);
 - (v) examples for when climate-related risks or other uncertainties could be an indicator of impairment (IAS 36 *Impairment of Assets*);
 - (vi) examples on net zero commitments (IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) - the example could focus on the assessment that an entity performs leading to the conclusion that it had a constructive obligation which required a liability to be recognised in the financial statements under IAS 37 which derived from the commitments made and disclosed in the sustainability section of the annual report;

Analysis of the comment letters received and outreach conducted

- (vii) examples focusing on the interplay of climate-related uncertainties and the determination of fair value of assets or liabilities in accordance with IFRS 13 *Fair Value Measurement*;
 - (viii) an example illustrating how climate matters may be considered when determining expected credit losses (IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures*);
 - (ix) examples for cases where certain climate-related risks and other uncertainties, or decisions taken as a result, may result in contract modifications (IFRS 15 *Revenue from Contracts with Customers*);
 - (x) an example illustrating how transition plans may affect the recognition or remeasurement of assets, liabilities or income and expenses.
- (b) Adapting as an illustrative example the March 2024 IFRS IC Agenda Decision on net zero commitment would be useful to avoid misinterpretations, either as part of the present illustrative examples project, or as part of the targeted amendments to IAS 37 project (one respondent).
- (c) *Examples that are variants of the basic fact patterns of some of the examples – three respondents supported EFRAG’s DCL that the examples could be grouped together or structured in the form of variations* (such as example 2 can be seen as a variant of example 1). The development of variations would make it possible to enhance the interest of certain fact patterns. Some of the examples’ conclusions could be expanded (such as example 1,2, 3 and 7) to fill the expectation gap between preparers and users by guiding the identification of the relevant information to disclose.
- (d) *Examples specifically for small and medium-sized enterprises (SMEs) – one respondent did not concur with EFRAG’s request in its DCL that a specific example for SME would be useful because there was no evidence that the underlying issues addressed in the ED’s illustrative examples would be different for SMEs and would therefore necessitate separate examples for SMEs to illustrate those differences.*
- (e) *Fact patterns of the examples – five respondents suggested targeted improvements to some of the proposed examples’ fact patterns.* Comments included:
- (i) It would be also helpful to include clarifications that the examples are based on (very) specific facts and circumstances and the application of management judgement; and thereby preventing the risk of generalization of these examples (two respondents);

Analysis of the comment letters received and outreach conducted

- (ii) the examples could be improved by making the fact patterns closer to reality and include fact patterns where the decision to disclose or not may not be as obvious as in the ED examples (two respondents);
 - (iii) to expand the fact patterns of the examples to consider wider sustainability matters (beyond climate-related matters) also related to various IFRS Accounting Standards. To better illustrate how the linkage between financial and sustainability reporting works and stimulate connective thinking.
 - (iv) the fact patterns could include context elements relating to risk profiles and business sectors to help understand the examples, however, cautioned that this contextualisation be sufficiently precise to avoid systematic association with a profile that would impose or exempt from certain disclosure requirements, solely on the basis of their business sector (one respondent);
 - (v) Some of the proposed examples could benefit from targeted improvements to encapsulate additional information that entities should consider when assessing how to consider the impacts of climate-related and other uncertainties in their financial statements (one respondent);
 - (vi) some of the examples' conclusions could be expanded (such as examples 1,2, 3 and 7) to fill in the expectation gap between preparers and users by guiding the identification of the relevant information to disclose (one respondent).
- (f) *Technical content in the examples* – three respondents commented on the technical content of the ED's examples, in particular:
- (i) One respondent was concerned that the illustrative examples are stretching the current IFRS requirements to which the examples are referenced to and suggested that the IASB should follow the formal way of amending the standards instead of enhancing the standards through the illustrative examples;
 - (ii) One respondent suggests cross-referencing between standards and examples, and also between the examples, as these examples will be included in different standards. The respondent also suggested that the IASB to incorporate the Basis for Conclusions on the ED into the Basis for Conclusions on the related standards.

30 *Consider adding examples about other uncertainties* – Two respondents commented that the IASB should include more examples and address also other long-term uncertainties which impact other aspects of financial statements than disclosure of assumptions directly

Analysis of the comment letters received and outreach conducted

related to climate-related uncertainties (such as examples addressing social topics from ESRS: own workforce, affected communities, workers in the value chain which could potentially have more of an effect on income and expenses). However, one respondent considered that adding more examples to cover “other uncertainties” might create confusion to the objectives of climate-related risk examples and suggested that EFRAG should consider proposing to limit the scope of the examples to these focused on specific uncertainties that climate risk can create.

- 31 *Insufficient illustrations of connectivity across the examples* – Consistent with EFRAG’s DCL Three respondents considered that further examples may be necessary to enhance the consistent application of the concepts related to connectivity, consistency and coherence between financial statements and information disclosed elsewhere in the annual report, for example, in sustainability information.
- 32 *Need for a caveat on the coverage of requirements* – Mixed views were expressed. Four respondents explicitly agreed with EFRAG’s DCL that there was a need for a consistent approach across the examples, by either having 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 and, therefore, not all the material information that an entity would be required to disclose would be captured in the example. One respondent disagreed with including a caveat in the examples because it was inherent in the very nature of examples and IFRS preparers and users were aware of the advantages as well as the limitations of examples. Also, including a caveat for these examples would raise a question whether the currently existing IFRS illustrative examples intended to claim completeness (which was not and could not be intended by the IASB).

Specific comments on the illustrative examples

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

- 33 **All respondents agreed with EFRAG’s view in its DCL and supported the inclusion of illustrative examples** related to the application of judgements made in the qualitative materiality assessment. Three respondents also agreed that example 1 and example 2 could be grouped together in the context of a single example structured in the form of variations.
- 34 Six respondents commented on *negative confirmation* in the disclosures under Examples 1 and 2 – **five respondents cautioned that negative confirmation should be applicable only in very rare circumstances rather than a general requirement under IFRS**. They advised to include more specific guidance to the situation where the transition plan does not have a

Analysis of the comment letters received and outreach conducted

material impact on the financial statements and suggested more generally for the IASB to add additional commentary on when such confirmations would (not) be necessary. Conversely, one respondent strongly agreed with the rationale included in paragraphs 1.5 to 1.7 of Example 1 of the ED, as sometimes entities may need to include negative statements in the financial statements to bridge the gap between users' expectations and entities assessments in relation to certain events.

35 Seven respondents suggested the following improvements to Examples 1-2:

- (a) The examples 1-2 could be better articulated to clarify the connectivity approach between accounting and sustainability standards. To better explain the fact pattern by expanding on how the assumption that the entity does not apply IFRS Sustainability Disclosure Standards (paragraph BC32 of the ED) impacts the example, and it was also unclear what would be the implication when other sustainability reporting standards are applied (six respondents);
- (b) To clarify the risk of assigning an entity to a disclosure profile based solely on its business sector and a more precise contextualisation and a better articulation of the reasoning leading to the conclusion would make it possible to avoid this risk (one respondent);
- (c) To enrich the conclusion with examples of disclosures, e.g., related to useful lives of items of property, plant and equipment, impairment tests and their underlying assumptions, provisions, or deferred tax assets;
- (d) the fact pattern of example 2 could be enriched by a variant in which the exposure to sustainability-related risks would arise indirectly, for example through the entity's supply chain in a specific jurisdiction or by a variant addressing concerns about excessive disclosures in cases where qualitative factors do not result in additional disclosures;
- (e) to reconsider the fact pattern of Example 1 – one respondent considered that Example 1 depicted an unrealistic fact pattern. It was highly unlikely that an entity operating in a capital-intensive industry, and exposed to climate-related transition risks had a transition plan for the next 10 years which would affect the financial position and financial performance of the entity.

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

36 **Seven respondents agreed with EFRAG's position in its DCL about the practical usefulness of Example 3** and made the following comments/suggestions for improvement:

Analysis of the comment letters received and outreach conducted

- (a) Four respondents suggested that the fact pattern of Example 3 could be enriched to include other factors such as: whether the considered risk has been factored into the value-in-use calculation through the cash flows or through the discount rate, or to illustrate how uncertainties affect the extent of reasonably possible changes in future regulations affect the assumptions. Additionally, paragraph 3.6, which illustrates the application of paragraph 134(f) of IAS 36, refers only to the future price of greenhouse gas emission allowances, and should also mention the regulations scope assumption, which appears to be a key assumption of the test according to paragraph 3.2;
- (b) One respondent suggested including quantitative information in the fact pattern of Example 3 rather than just reiterating the language of the standard;
- (c) One respondent suggested to create a reference in Example 3 to IAS 1.31 as the example illustrated other circumstances in which IAS 1.31 should be considered.

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

37 Nine respondents supported Example 4 and agreed with EFRAG's DCL that it covered another potentially challenging area when applying IFRS Accounting Standards.

38 However, one respondent disagreed with the usefulness of Example 4 in its current form. The respondent considered that the guidance in para 4.6 of the ED does not add to a further clarification of requirements, but rather increases the complexity of disclosures. Users might end up with less clarity about the financial position of the reporting entity, as the number of potential outcomes of future developments will increase and the assessment of their likelihood may come close to speculation.

39 Respondents made the following comments/suggestions to improve the example:

- (a) Three respondents suggested Example 4 to include a reference to paragraph 132 of IAS 36. If the entity had provided the disclosures encouraged by this paragraph, additional disclosures under IAS 1.125-129 might not have been necessary. Although IAS 36.132 only encourages disclosure in IFRS Accounting Standards, its existence should not be overlooked in the example;
- (b) One respondent suggested to expand paragraph 4.7 of the ED to illustrate the types of information to be disclosed, for instance the assumptions relevant to the considered fact pattern, or whether multiple test scenarios are applied, or whether the assumptions of sensitivity analyses are disclosed on a stand-alone or a combined basis (one respondent);

Analysis of the comment letters received and outreach conducted

- (c) One respondent suggested to enhance the fact pattern of Example 4 by considering the expectation that when sensitivity analyses have been provided for multiple scenarios, determining the recoverable amount can be complex. In addition, the example could further illustrate which specific elements or information would be disclosed by the entity to meet the objective set out in paragraph 129 of IAS 1 (two respondents)

40 *Possible standard setting:* one respondent suggested the IASB to amend IAS 1 to clarify that an entity should provide disclosures about uncertainties that will be resolved after the end of the next financial year, if there is a significant risk that a change in those assumptions within the next financial year, would result in a material adjustment to the carrying amount of assets or liabilities.

Question to Constituents on Example 4

41 In its DCL, EFRAG has raised a question to constituents in relation to preparer's interpretation of paragraph 125 of IAS 1. Eight respondents commented on the question to constituents. The following comments were made:

- (a) Five respondents noted that the assumptions addressed in IAS 1.125 include assumptions beyond one year. However, IAS 1.125 explicitly refers to impacts of those (possibly longer-term) assumptions that will materialise only during the next reporting period;
- (b) Six respondents have indicated that there were doubts about the correct application of paragraph 125 of IAS 1 in practice. Four respondents suggested that the IASB should clarify the application of paragraph 125 of IAS 1 and the clarification should be done through a standard-setting activity and not through examples.

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

42 Five respondents provided feedback on this example and they either considered **the fact pattern unrealistic and uncommon in practice or useful but narrow as reflected in EFRAG's DCL**. They suggested focusing on more realistic and common relatable examples. Two of the respondents suggested improvements including:

- (a) eliminating the complexity around the regulation and referring only to material uncertainty and magnitude around the future profitability of the entity, which directly impact the recognition of the deferred tax asset;
- (b) clarifying whether the entity must consider through its judgements, if and when the regulation would become enforceable;

Analysis of the comment letters received and outreach conducted

- (c) a variation of the example was also suggested. Specifically, presenting uncertainties leading to other consequences, for example the situation where all of the carry-forward tax losses would not have been consumed when the regulation becomes enforceable.

43 One respondent expected this example to be referenced also to IAS 1.22⁴ in line with IFRIC 23.A4⁵.

Example 6 – Disclosure about credit risk (IFRS 7)

44 Seven respondents provided feedback on this example and there was general support for the example. One respondent however noted that in practice, the quality of disclosures provided in contexts similar to those in example 6 largely depended on the robustness of the models used to assess expected credit losses, therefore may not be easy to obtain.

45 One respondent disagreed with EFRAG's DCL suggestion for an example similar to example 6 tailored for insurance entities. The respondent argued that both short- and long-term climate-related and other uncertainties are already an integral part of regulatory reporting and the focus should be more on a principle-based approach.

46 Respondents provided the following suggestions to improve the example:

- (a) Two respondents suggested to have sectoral variations to the fact pattern such as, a corporate entity holding long-term receivables and considering customers' lines of business.
- (b) Two respondents suggested to make a reference to transition risks which impact the real estate sector, for instance, in order not to solely focus on physical risks.

⁴ IAS.22 states "*Paragraph 21 applies, for example, when an entity departed in a prior period from a requirement in an IFRS for the measurement of assets or liabilities and that departure affects the measurement of changes in assets and liabilities recognised in the current period's financial statements.*"

IAS 1.21 states "*When an entity has departed from a requirement of an IFRS in a prior period, and that departure affects the amounts recognised in the financial statements for the current period, it shall make the disclosures set out in paragraph 20(c) and (d).*"

⁵ IFRIC 23.A4 states "*When there is uncertainty over income tax treatments, an entity shall determine whether to disclose:*

(a) judgements made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraph 122 of IAS 1 Presentation of Financial Statements; and

(b) information about the assumptions and estimates made in determining taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates applying paragraphs 125–129 of IAS 1. "

Analysis of the comment letters received and outreach conducted

- (c) One respondent suggested specifying the inclusion of quantitative information with respect to collateral (for example, the fair value of the collateral, the restrictions to its disposal and quantification of those restrictions).
- (d) Another respondent considered the disclosures in paragraph 6.4 of the ED too detailed and not a good reflection of the way banks monitor and manage risk. They suggested to include qualitative disclosures on how an entity incorporates climate related risk into credit risk management practices and into their expected credit loss models and to disclose quantitative information in the form of e.g. management overlays on climate risk.
- (e) Another respondent suggested for the IASB to include references to paragraphs 33 and 34 of IFRS 7 and illustrate the interplay between IAS 1 and IFRS 7 requirements in the example.

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

47 Six respondents provided comments on this example. A majority of them explicitly supported including the example for the following reasons:

- (a) Decommissioning and restoration provisions are typically of a long-term nature and associated with high uncertainty, in line with EFRAG's DCL position;
- (b) Its coverage of an environmental matter beyond climate; and
- (c) It illustrates a fact pattern where the materiality of the gross obligation underlying the measurement of a discounted provision is material and requires a disclosure in the notes, although the discounted amount of the provision is immaterial.

48 However, one respondent considered that the additional disclosures are not justified because there are no significant doubts about the time estimate. As such, the example may lead to entities explaining all discounted amounts where time had a significant impact on the measurement, especially in light of sustainability matters materialising over the medium- or long-term.

49 Respondents suggested the following improvements to the example:

Analysis of the comment letters received and outreach conducted

- (a) complement the disclosures required by paragraph 85 of IAS 37⁶ by sensitivity analyses regarding the main assumptions used, thereby interacting with paragraph 129 of IAS 1⁷ (e.g., for the discount rate used to discount the liabilities);
- (b) include in the entity's disclosures the undiscounted outflows that will be required to settle the obligation, in line with EFRAG's DCL position;
- (c) Some changes of fact patterns: Two respondents suggested adjusting the fact pattern to a less ambiguous one where there is a realistic chance of significant impact on cash flows, thereby clarifying why the disclosures provided are relevant. Two other respondents suggested the development of variations of the example to illustrate the disclosures to be provided for a material provision and a contingent liability.
- (d) One respondent suggested redrafting the example to clearly distinguish between aspects in the fact pattern that relate to recognition and measurement versus disclosures. One respondent considered it unclear whether the factors considered in the conclusion include the uncertainty of timing, and/or the materiality of the gross

⁶ IAS 37.85: "An entity shall disclose the following for each class of provision:

(a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;

(b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement."

⁷ IAS 1.129: "An entity presents the disclosures in paragraph 125 in a manner that helps users of financial statements to understand the judgements that management makes about the future and about other sources of estimation uncertainty. The nature and extent of the information provided vary according to the nature of the assumption and other circumstances. Examples of the types of disclosures an entity makes are:

(a) the nature of the assumption or other estimation uncertainty;

(b) the sensitivity of carrying amounts to the methods, assumptions and estimates underlying their calculation, including the reasons for the sensitivity;

(c) the expected resolution of an uncertainty and the range of reasonably possible outcomes within the next financial year in respect of the carrying amounts of the assets and liabilities affected; and

(d) an explanation of changes made to past assumptions concerning those assets and liabilities, if the uncertainty remains unresolved."

Analysis of the comment letters received and outreach conducted

obligation, and/or qualitative factors such as users' awareness of the entity's exposure. This respondent suggested that 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)

50 Seven respondents commented on this example. Most (Five respondents) supported including the example for the following reasons:

- (a) it added an additional consideration that an entity might need to disaggregate information regarding tangible assets (one respondent);
- (b) aligned with EFRAG's DCL, two respondents indicated that it provided useful guidance on how to disaggregate similar items with dissimilar climate-related transition risks;
- (c) it had the potential to provide helpful guidance on how to apply the aggregation and disaggregation requirements in IFRS 18 in conjunction with specific disclosure requirements in other IFRS Accounting Standards (one respondent);
- (d) aligned with EFRAG's DCL, one respondent highlighted the need for clarification of the approach to connectivity between accounting and sustainability standards.

51 Two respondents also raised the following concerns:

- (a) the example recommended disaggregating information at a level of granularity below the assets class, which is not required by paragraph B111 of the IFRS 18.
- (b) the application of the example relied only on the application of IFRS 18 and did not discuss the requirements in IAS 16 for identifying classes of assets and hence did not discuss the interdependency and connection between IFRS 18 and other IFRS Accounting Standards that paragraph B111 of IFRS 18 describes.

52 One respondent suggested the example could be further simplified by including a more specific entity like an electricity producer.

53 Respondents suggested the following improvements to the example:

- (a) Four respondents suggested clarifying how the disaggregation of this example interacts with the disaggregation at class level required by paragraph 73 of IAS 16. In particular, one respondent questioned the conclusion that both assets in the example constituted one single asset class despite the significantly different vulnerabilities to climate-related transition risks.

Analysis of the comment letters received and outreach conducted

- (b) Two respondents suggested to develop a variation of this example addressing the disaggregation of revenue as an entity might change it as result of changes in the business model due to investments into new business lines or into new types of revenue streams linked to climate-related matters.
- (c) One respondent suggested to add an explanation as to why, in the example, IFRS 18 affected only the disclosures in the notes and not the presentation of the statement of financial position. This respondent noted that the IASB should consider this example against the aggregation requirements in IAS 1.30A⁸.
- (d) Another respondent suggested adding a reference to the explanation provided in the financial statements as to why there was an aggregation or disaggregation of the figures.

Question 3: Other comments

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

EFRAG's tentative position

- 54 In its draft comment letter, EFRAG highlighted that future standard-setting activity may be necessary in relation to both specific IFRS Accounting Standards and general IFRS Accounting Requirements. EFRAG also noted problems arising from voluntary requirements in specific IFRS Accounting Standards.
- 55 In addition, EFRAG called for a clearer articulation between the IFRS Accounting Standards' proposed illustrative examples and disclosures under sustainability reporting requirements including ISSB Standards and ESRS and recommended the IASB clarify conceptual questions surrounding other uncertainties (i.e. what is the distinction between risks and uncertainties and when do these uncertainties fall within or outside the boundaries of the financial statements).

Summary of respondents' comments

- 56 10 respondents provided feedback on Question 3.

⁸ IAS 1.30A: "When applying this and other IFRSs an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which include the notes. An entity shall not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions."

Future standard-setting activities

- 57 *Specific IFRS Accounting Standards:* Many respondents agreed with EFRAG's position in the DCL that future standard-setting may be needed and provided specific such references in IFRS Accounting Standards:
- (a) One respondent considered whether IAS 12 would benefit from a disclosure objective that could address the lack of specific requirements in Example 5;
 - (b) Two respondents suggested standard-setting activity with respect to IAS 36, as also expressed in EFRAG's DCL. One of them specifically noted 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);
 - (c) Two respondents suggested standard-setting activity with respect to IAS 37, as also expressed in EFRAG's DCL. One of them specifically noted the interpretation challenges related to the smoke-filter example;
 - (d) One respondent suggested the IASB revise the criteria in IAS 38 for assessing whether internally generated assets qualify for recognition;
 - (e) One respondent suggested the IASB clarify how to incorporate climate risks into the expected credit loss measurement under IFRS 9;
 - (f) One respondent suggested the IASB clarify how to incorporate climate risks into the determination of fair value under IFRS 13; and
 - (g) Two respondents suggested the IASB undertake a standard-setting project on accounting for pollutant pricing mechanisms;
- 58 One respondent considered that no gaps in IFRS Accounting Standards were identified in relation to the fact patterns included in the ED but the respondent highlighted gaps in accounting for pollutant pricing mechanism. Another respondent observed that following the IFRIC consultations regarding the interpretations of IAS 36 and IAS 37, the IASB concluded that the existing IFRS Standards adequately address climate-related and other uncertainties in financial statements.
- 59 *Standard setting related to IAS 36:* One respondent called for the IASB to clarify whether paragraph 132 of IAS 36 is useful and appropriate in its current form. This respondent recommended that if this paragraph was not relevant to consider in a fact pattern similar to that in Example 4, the IASB should undertake narrow-scope standard-setting to remove paragraph 132 of IAS 36 or make it mandatory.

Analysis of the comment letters received and outreach conducted

60 Two respondents suggested aligning the voluntary disclosures in paragraph 132 with the required disclosures in paragraph 134 of IAS 36, thereby requiring an entity to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period even for assets that do not require annual impairment testing. One of those respondents expressed the concern that Example 4 suggests that disclosures that were initially scoped out of IAS 36 would be scoped back in applying paragraph 31 and 125 of IAS 1.

61 *General IFRS Accounting Requirements and additional standard-setting considerations:* Many respondents had comments on general IFRS Accounting Requirements (i.e., paragraphs 31 and 125 of IAS 1) including:

- (a) One respondent considered that disclosures of mid- and long-term impacts beyond the next year should therefore be explicitly required in IFRS Accounting Standards.
- (b) Two respondents supported the overarching principle under IAS 1.31. A catch-all requirement to fill gaps is beneficial and consistent with the approach under EFRAG's ESRS. Another respondent also expressed strong support for the overarching requirements given that it is not possible that IFRS Accounting Standards to anticipate and address all events and transactions that may arise, in line with EFRAG's DCL position.
- (c) To monitor application questions regarding recognition and measurement and potentially add additional projects to its standard-setting agenda in the future (one respondent).
- (d) One respondent recommended the IASB to connect this project with other ongoing projects, especially *Provisions – Targeted Improvements (IAS 37)* and *Management Commentary*.

Voluntary guidance

62 Mixed views were expressed on the voluntary guidance paragraphs (e.g., paragraph 132 of IAS 36). One respondent did not support voluntary guidance paragraphs in IFRS Accounting Standards. However, another respondent favoured retaining voluntary guidance paragraphs as these contribute to higher-quality financial information, fostering transparency and reliability in the financial statements, provided that they are being applied consistently.

Interaction of illustrative examples and sustainability reporting (BC32):

63 Five respondents considered that BC32 of the ED should be further clarified, in line with EFRAG's DCL position. Views raised included that financial statements information ought

Analysis of the comment letters received and outreach conducted

to be self-sufficient and not reliant on sustainability disclosures to cover information that is material for the financial statements and/or BC32 could be interpreted as stating that information disclosed under IFRS Sustainability Disclosure Standards require connection to the information in the financial statements.

Editorial suggestions

- 64 Respondents made the following editorial suggestions:
- (a) Consider including only a reference to the relevant IFRS Accounting Standard instead of copying the exact disclosure requirements themselves (one respondent).
 - (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) (one respondent).
 - (c) Examples 1 and 2: Two respondents suggested the IASB 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.
 - (d) Example 4: Two respondents expressed concerns that the use of the word ‘scenario’ may be misunderstood if it is used only to describe ordinary estimation uncertainty for one parameter.

Other considerations

- 65 One respondent suggested the IASB build on existing and upcoming work of various organisations including EFRAG and ESMA⁹.

⁹ Specifically referring to EFRAG’s project on [Connectivity between Financial Reporting and Sustainability Reporting](#) and ESMA’s report [The Heat is On: Disclosures of Climate-Related Matters in the Financial Statements](#)

Appendix 2: List of respondents

	Name of organisation	Jurisdiction	Type of respondent
CL01	LMU	Germany	Academic
CL02	ANC	France	National Standard Setter
CL03	ICAC	Spain	National Standard Setter
CL04	GDV	Germany	Preparer organisation
CL05	DASB	Netherlands	National Standard Setter
CL06	European Savings and Retail Banking Group	Europe	Preparer organisation
CL07	Accountancy Europe	Europe	Professional organisation
CL08	OIC	Italy	National Standard Setter
CL09	DRSC	Germany	National Standard Setter
Draft Letter 01		Europe	
Draft Letter 02		Austria	
Draft Letter 03		Norway	
Draft Letter 04		Europe	

Appendix 3: Summary of outreach activities conducted

- 1 Oral feedback will be provided for the AFRAC and OIC discussions.

Accountancy Europe

- 2 Regarding Example 4, there were some concerns that disclosures that were initially scoped out of IAS 36 would be scoped back in applying paragraph 31 and 125 of IAS 1. It was considered more efficient to suggest some standard setting, e.g., exploring amendments in IAS 36 rather than bringing these disclosures back via IAS 1.
- 3 On Example 7, there were no significant changes to the time estimate. This raises a concern that for every provision that is a long way out in the future and therefore is small in quantitative terms when discounting to present value, there would be a need for additional disclosures on the time horizon. There are already disclosures in IAS 37 about estimation uncertainties.
- 4 One member was not concerned about repetition of disclosures in different reports. If an aspect was material in the double materiality assessment that it would be expected to have this information in the risk management report.
- 5 There was no full thought process from the IASB in terms of the recognition and measurement requirements in IFRS being sufficient and therefore focus was only on disclosures.
- 6 There was a suggestion to consider publishing an IFRS Practice Statement on the matter which would explain the approach that the IASB considers that an entity could take when looking at their risks, i.e. being more principle-based.

EFRAG User Panel:

- 7 A few members agreed with EFRAG's draft comment letter and indicated that the illustrative examples were informative, but they were only an initial step. A member expressed scepticism about the project objectives and considered the IASB initiative and its responses to some stakeholder concerns to be a low priority.
- 8 Some members questioned the scope of the project and what 'other uncertainties' entailed indicating that the term was too broad and addressing uncertainties may require too many examples. It was noted that users are familiar with addressing uncertainties. One member considered that reporting on climate-related risks was a new aspect and that increased climate reporting in sustainability reporting gave impetus to consider the reporting of such information in the financial statements. Therefore, it was the member's view that the focus should be on climate risks only rather than encompassing other uncertainties. However,

Analysis of the comment letters received and outreach conducted

another member disagreed with a focus on only climate risks and indicated that social and governance-related risks also needed to be considered.

- 9 A few members noted that EFRAG was requesting for more illustrative examples and questioned where to draw the line on the number of examples. One of the members preferred not to have too many disclosures and the focus should be on whether the information is material.
- 10 One member agreed with the EFRAG comment letter's criticism of Example 5. Another member considered it useful to have illustrative examples for both asset managers and insurance entities including on governance-related risks.

EFRAG IAWG:

- 11 Some members did not consider that there should be a suggestion for an illustrative example specifically for the insurance industry. It would be difficult to have an illustrative example for insurance given the different types of insurance (e.g., life, non-life) and these members considered insurance entities to be less homogenous than banks. The other illustrative examples in the ED could also apply to insurance entities thus, they need to be principle-based.
- 12 One preparer member was in favour of the ED and indicated that information should be disclosed if material and favoured avoiding repetition from the sustainability reports. Another member considered it better to focus on best practice in the insurers' financial statements and also not to have boilerplate disclosures.
- 13 A few members underscored the importance of connectivity.
- 14 A few members indicated that users may raise questions on how insurers have considered the climate risks when looking at future cash flows in IFRS 17 and would like to see information on the effects of climate risk on insurance liabilities in the financial statements.