International Accounting Standards Board (IASB)
30 Columbus Building
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Canary Wharf
London E14 4HD
United Kingdom

28 November 2024

Dear Member of the Board,

Re: Exposure Draft "Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative Examples"

BusinessEurope is pleased to take this opportunity to comment on the Exposure Draft "Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative Examples" (the ED). We recognise that it is the IASB's intention to make clear the boundary between what information has its place in the Financial Statements and what should be included in other reports, and to strengthen the links between Financial Statements and other general purpose financial reports. In particular, we think that there should be clear linkage between the financial statements and the "sustainability" reports.

However, we have some concerns about the proposals in the ED. The IFRS Conceptual Framework and standards provide adequate guidance about how uncertainties should be accounted for and disclosed. The examples must not be seen as creating new requirements.

- We think that there is a clear risk that the information shown in the examples as the conclusion of the process of applying judgement will become *de facto* implicit requirements of the relevant standards. We think that in the examples the emphasis should be placed on the process and the facts that should be taken into account when assessing what disclosures should be made, and that it is preferable not to state the theoretical conclusions that might be made.
- We think that the conclusion arrived at in one of the examples that it is necessary to make an affirmation that a certain risk is absent will lead to a general expectation among certain users that statements of the absence of exposure will be required in all areas of IFRS. It would be better, in our view, to discuss the notion that in some circumstances a negative statement might be appropriate.

Our responses to the specific questions raised in the ED are included in the Appendix below. If you wish to discuss any of these comments further, please do not hesitate to contact us.

Yours sincerely,

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APPENDIX

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.

We think that the current body of IFRS, in particular the Conceptual Framework and IAS 1 paragraphs 31 and 125, amongst others, provides sufficient guidance about what the entity needs to consider when determining what to account for and what to disclose in relation to uncertainties, whether climate-related or other.

In our view, examples of disclosure can be useful when they illustrate how to present specific facts and figures which have already been determined to be relevant.

However, the proposed examples illustrate how an entity applies judgement to specific cases, which are necessarily simplified and probably too general in nature for the illustrated conclusions to be transposed to actual situations that entities are confronted with.

Nonetheless, the process of making the judgement about disclosure that is illustrated by the examples is generally very valid. It might be more useful to enhance the discussion of what the entity needs to consider when making a judgement, such as, for example, the objectives of the disclosures, the relevant requirements of IFRS standards and the valid expectations of users, and to omit the hypothetical conclusion that the entity is deemed to have made in the example. This would help preparers and users alike, without increasing the risk that the examples be seen as guidance.

Finally, Illustrative examples must not change the requirements of IFRS. We therefore agree that the final examples should not be included in the body of the standards as this could encourage a perception that climate-related risk is a special topic which requires systematic disclosure in the financial statements. It is appropriate therefore that they accompany the standards.

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.

We note that, with one exception, all the proposed examples result in the conclusion that more disclosure is required. This brings with it the risk that such disclosure is seen by users to be systematically required rather than the result of an individual entity's application of judgement to its own specific circumstances. As discussed above, this risk might be avoided if the examples illustrate only the process and not the process and the conclusion.

We are also concerned about the conclusion that a negative affirmation (statement of absence of effect) is required in one example. We do not think that IFRS requires negative affirmations and fear that this example could lead to a change in expectations and an undesirable proliferation of such statements in respect of all possible risks. In turn, this might well lead to an increased risk of litigation when judgements prove to be incorrect. In our view, preparers must take responsibility for their disclosures and auditors should ensure that all relevant risks have been properly considered. In the absence of a comment in the notes to the financial statements, users should be able to assume that the risk has been considered and judged to be not material to the understanding of the financial position of the entity.

In respect of the individual examples, we have particular doubts about Example 8. Paragraph 8.6 appears to create the new requirement that the reconciliation information currently required by paragraph IAS 16.73 should be analysed by nature of risk in addition to the usual presentation by class of similar nature and use required by IAS 16.37. Not only would this be complex to collect, but also it would lead to a complex "matrix" presentation. We think it would be preferable to strike out the specific reference to IAS 16 and to the class of PP&E and instead discuss the general requirements of IFRS 18 about the need to disaggregate information about elements with different characteristics. We think that a simpler disclosure would then be appropriate, such as, for example, a statement of the carrying amount of the assets affected by such a risk.

Question 3- Other comments

As stated above, we do not think that negative affirmations are a requirement of IFRS.

We are aware that certain users do expect to see these as a matter of course. We think that it would be helpful if the IASB would provide educational material in this area aimed particularly at users.