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Dear Sir

Exposure Draft ED/2024/6: Climate-related and Other Uncertainties in the Financial Statements-
Proposed illustrative examples

We are pleased to comment on the above Exposure Draft (the ED). Following consultation with the BDO network¹, this letter summarises views of member firms that provided comments on the ED.

We support the IASB providing illustrative examples to IFRS Accounting Standards with the goal being to improve how climate risks and other uncertainties are reflected in the recognition, measurement and disclosure of items in the financial statements. We consider that these represent a good starting point, which enable the IASB to issue helpful guidance in a shorter period of time in comparison with standard setting.

However, we believe that illustrative examples are not by themselves sufficient to achieve the goals of the IASB. We have the following concerns:

- Although the illustrative examples are helpful, we believe they are insufficient to fully address the perceived gaps in applying the requirements of IFRS Accounting Standards. We believe that there is a need for targeted amendments to the requirements of IFRS Accounting Standards.
- There is a greater need for collaboration between the IASB and the ISSB, as BDO strongly advocates for consistency and improved disclosures on sustainability-related risks and opportunities. This will help strengthen the connections between sustainability reporting and financial statements.
- We acknowledge the approach of addressing 'Climate-related and Other Uncertainties in Financial Statements' because it recognises and acknowledges that there may be a number of uncertainties that affect entities other than climate, including new uncertainties that may arise in the future. However, we note that seven out of the eight illustrative examples, focus on climate related matters, which risks skewing the perceived focus to be predominantly on a single topic.

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We appreciate the actions previously taken by the IASB in providing educational materials and the IFRS Interpretations Committee's response to recent questions concerning how an entity accounts for climate-related commitments.

From a practical perspective, however, we are not convinced that illustrative examples alone will result in significant changes in how entities apply IFRS Accounting Standards. In our experience, entities are more likely to change their behaviour when prompted by regulatory enforcement or changes in mandatory requirements, rather than by illustrative examples, which may assist entities in interpreting and applying the requirements differently, but are less likely to result in change.

Therefore, we recommend that the IASB reconsider narrow, targeted standard setting to update the requirements of IFRS Accounting Standards including collaboration with the ISSB to ensure connectivity between financial reporting and sustainability reporting.

We also have a number of specific concerns regarding the illustrative examples, which we have described below.

Our responses to the questions in the ED, along with the reasons for our concerns, are set out in the attached Appendix.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting

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*

In our view, the proposed illustrative examples may assist financial statement preparers in improving how climate and other uncertainties are reflected in the financial statements. However, there are several areas where additional clarifications would be helpful.

We believe that the illustrative examples alone will not result in sufficiently improved reporting. The IASB, working with the ISSB, should focus on making specific, targeted amendments to IFRS Accounting Standards.

We have set out our specific concerns with several of the proposed illustrative examples below:

- a) Illustrative Example 1: This example implies that management is required to consider all risks that a user of financial statements might consider and include a negative confirmation in the financial statements stating that these risks are not material to the entity. For that reason, we have concerns about the practical implications of the example as drafted.

This also contradicts the requirement to focus disclosures on material information. If the negative confirmation implied by illustrative example 1 were to become common practice, disclosures could become excessively detailed and boilerplate with no clear ‘guard rails’ to set a boundary for reporting. If appropriately reworded, Illustrative Examples 1 and 2 might be better located in IFRS Practice Statement 2 *Making Materiality Judgements*, considering both illustrative examples demonstrate specific judgements about materiality.

- b) Illustrative Example 3: The ED in this example, focuses solely on disclosure requirements but does not address important application questions related to recognition and measurement. For instance, additional guidance or standard setting would be beneficial regarding how the estimation uncertainty illustrated in Example 3 should be taken into consideration when calculating the value in use of the cash-generating unit (CGU). This would help ensure consistent and accurate application of the requirements in practice.

Illustrative Example 4: This example demonstrates why narrow scope standard setting is needed, rather than relying on a broad, generic guidance such as IAS 1.125. IAS 1.125 provides a general disclosure requirement for financial statements, stating that an entity must disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. However, this requirement is broad, and it should not be relied on in place of developing specific appropriate disclosure requirements in IFRS Accounting Standards, such as IAS 36 *Impairment of Assets*.

- c) As an overall observation, we believe, undue reliance is being placed on IAS 1.31 and IAS 1.125 to require entities to make disclosures which should instead be specified explicitly as a result of amendments to the relevant IFRS Accounting Standards. IAS 1.31 should only be used by exception, as the relevant requirements in IFRS Accounting Standards should contain appropriate disclosure requirements for most circumstances, eliminating the need for on the application of IAS 1.31 in most circumstances.

Developing targeted , narrow scope amendments to the requirements of IFRS Accounting Standards would allow for:

- Clearer and more precise requirements;
- Reduced ambiguity and therefore lessen the scope for misinterpretation; and
- Consistent and comparable application.

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 support the IASB’s approach in developing the examples to addressing ‘Climate-related and Other Uncertainties in Financial Statements’. However, we note that of the eight illustrative examples proposed by the ED, seven focus primarily on climate-related matters. While climate-related uncertainties are significant, we believe that the IASB should also consider broadening the scope of these examples to include a wider range of uncertainties. This could include, for instance, economic, geopolitical, technological, or regulatory uncertainties, many of which could also have material implications for financial reporting.

Including a more diverse range of examples would better reflect the complex and dynamic nature of the uncertainties entities may face, which would enhance their applicability and relevance, making them more applicable to a broader set of entities and circumstances, while still maintaining the focus on climate-related matters where that focus is most relevant.

Question 3 — Other comments

Do you have any other comments on the Exposure Draft?

We do not have any other comments.