afme/
Finance for Europe

Andreas Barckow
Chair, International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

15 November 2024

Dear Mr.Barckow,

Exposure Draft - Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the Exposure Draft on Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples.

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors, and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society. AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.

We support the IASB efforts to provide illustrative examples to help an entity to identify when they should make disclosures relating to climate-related or other uncertainties, and the types of disclosures that should be made to comply with existing IASB accounting standards. We note some of the disclosures included in the illustrative examples are consistent with existing practice by some entities. However, we have concerns about the granular level of some of the disclosures noted in the illustrative examples. In our view these disclosures go beyond that which is required under existing accounting standards. Including this level of detail in the illustrative examples creates a risk it becomes the expectation that this level of detail is required, for an entity to be considered in compliance with the existing IASB accounting standards.

We trust that our comments are helpful, and we look forward to engaging further with the IASB on the Exposure Draft.

Yours sincerely,

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APPENDIX

JULY 2024 EXPOSURE DRAFT

CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS

Proposed 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.

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 are generally supportive of the proposed approach of using the existing standards together with illustrative examples.

We agree with the examples' proposed location (accompanying the IFRS Accounting Standards), which makes the examples more readily accessible. The location is also more appropriate than incorporating them directly into the Standards, to allow greater flexibility in the content and format.

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 agree with the overall approach.

We have concerns that illustrative example 1, 2 and 6 go beyond that which is required under existing IASB accounting standards. We have provided further details on our comments on these illustrative examples below.

Illustrative example 1

We have concerns that the illustrative example implies that the assessment of the events and items that have no impact on entities' financial statements becomes part of the materiality assessment. We do not consider this necessary as there will be many events and items discussed in general purpose financial reports outside the financial statements that may already provide this information. Whether the understanding of why certain events and items have no effect on financial statements could reasonably be expected to influence the decision usefulness of the financial statement will vary on a wide spectrum. We are concerned that discussing risks and uncertainties that had no impact on the financial statements will be onerous, add clutter in the financial statements, and also, introduce a 'new dimension' in the assessment of materiality.

Illustrative example 2

We have concerns that this illustrative example could suggest a detailed analysis is required of all risks, which an entity has a policy for managing, to determine whether the risk is not material and therefore does not require additional disclosures. We are of the view this goes beyond the intended requirements of paragraph 31 of IAS 1 [paragraph 20 of IFRS 18].

Illustrative example 6

We agree with the factors noted in section 6.3, which an entity may consider to determine whether the effects of climate-related risks on its exposure to credit risk on particular portfolios are material. We note some entities currently disclose which material portfolios are subject to climate-related risk and highlight concentrations of climate-related risk. This would be consistent with the disclosures suggested in section 6.4 (d).

We are of the view that some of the items noted in section 6.4 could be too granular, in particular those that, in a narrow reading of the example could be interpreted as a request for a quantitative disclosure of the impact of climate related risk on the recognition and measurement of expected credit losses. In our view these items go beyond that which is required by IFRS 7 35A-38, and beyond that which entities are currently using to manage and monitor such risks. For example, current expected credit loss models do not break down the impact of climate related issues compared to other risks, therefore entities would not be able to provide a detailed disclosure as suggested by 6.4 (a) and 6.4 (b). As the information is not currently being used by entities to monitor and manage risk, the disclosure of such information is unlikely to provide useful information to the users of the financial statements. Our concerns noted above would also apply to other uncertainties that arise in measuring the expected credit loss, such as political risks and corruption risks, which the IASB has noted the principles and requirements shown in these illustrative examples would apply equally to.

We would recommend a more balanced approach and that the granular items are replaced with examples aligning to how entities are currently assessing such risks. This could include qualitative information on how an entity incorporates climate related risk or other uncertainties into credit risk management practices and into their expected credit loss models. Quantitative disclosures could include items such as management overlays incorporated into expected credit loss models that specifically relate to climate related risks or other uncertainties.