



International Accounting Standards Board

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Comments on IASB/ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples

FAR, the Institute for the Accountancy Profession in Sweden, is responding to your invitation to comment on the Exposure Draft Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples.

Summary of FAR's comment letter response

In general, FAR supports the IASB's proposal of additional illustrative examples that provide examples discussing how entities can apply the requirements of IFRS® Accounting Standards to report the effects of climate-related and other uncertainties in their financial statements. FAR considers the examples to be a useful complementary step towards improving the reporting of climate-related and other long-term uncertainties in the financial statements.

For further details of our responses, please see Appendix 1.



Appendix 1

FAR's responses on the Questions addressed in the Exposure Draft

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.

FAR's response

FAR agrees that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. FAR welcomes the IASB's efforts to develop illustrative examples to clarify the application of the IFRS Accounting Standards' requirements.

FAR recommends including an introductory section to accompany the illustrative examples, providing guidance on how they should be interpreted, understood, and applied. This introduction should also clarify the relationship between the specific climate-related risks presented and other risks faced by companies, ensuring that none are overlooked, that is addressing how to balance climate-related risks in relation to other significant risks and uncertainties that the company encounter. This suggestion assumes that the examples will be published in a separate document (see point 1b below).

Question 1—Providing illustrative examples

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.

FAR's response

FAR supports the IASB's proposal to include illustrative examples 3 to 8 accompanying the relevant IFRS Accounting Standards. FAR believes that including the examples as illustrative examples accompanying the relevant standards instead of developing educational materials provides more weight and importance to the guidance and will have a higher chance of achieving improvements in the area of disclosures of climate related risks. However, the examples will be spread out in many different accounting standards, which may make it difficult for preparers to find all illustrative examples related to climate risk since there is no reference from each example to the other ones. It could therefore be useful to have the illustrative examples compiled in a single document, in addition to including them in various accounting standards, in order to make it easy to find all examples in one place.

However, FAR does not recommend including the examples 1 and 2 as illustrative examples accompanying the IFRS Accounting Standards. These two examples deal with materiality judgements. FAR acknowledges that the concept of materiality underpins all IFRS Accounting Standards as a principle, however, no accounting standard actually takes a judgement on materiality, that is, determines an outcome on whether something is material or not. Examples 1 and 2 make a judgement on materiality and conclude on whether something needs to be disclosed (Example 1) or not (Example 2). Judgements on materiality would appear to be better placed in the *IFRS Practice Statement 2: Making Materiality Judgements*.

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.

FAR's response

FAR agrees with the approach of developing examples and believes the examples from an overall perspective are easy to read and understand. The illustrative examples are useful and complement the earlier developed *IASB educational material*. FAR agrees that the topics in general cover the main areas where climate-related uncertainties would be expected to be reflected in the financial statements.

FAR believes that the fact pattern and the conclusions reached include limited details about fact and circumstances that lead to each conclusion. FAR also believes that the examples could be improved and include fact patterns where the conclusion on whether to disclose additional information may not be as obvious as in the case with several of the illustrative examples. For example, FAR believes that in practice it is common that entities rather are in a mix of the fact patterns illustrated in example 1 and 2, rather than either in example 1 or 2. FAR understands that IASB's intention is that an entity could use the provided examples as a base for entity specific judgements. However, FAR is of the opinion that it could be helpful to extend the illustrative examples and explain judgements made to conclude that a certain climate-related matter is material or not and the factors considered in determining the transition-risk as high or low.

FAR believes that the examples tend to be more focused on climate-related transition risk rather than climate-related physical risks. FAR believes that both these risks are relevant and encourages IASB to include examples that is more related to physical risks or in the basis for conclusions explain the reasons for focusing more on the climate-related transition risk. FAR notes that example 7 cover physical risks such as flood risk in the judgements related to credit risk and impairment. However, FAR deems that it could be useful to include examples of other physical risks, such as climate change that could result in damage of property, plant and equipment. FAR also deems that it would be relevant to include examples that address recognition and measurement requirements as well as examples for net-zero commitments which is a commitment that is very common in the financial statements. For example, it would be useful with an example based on the fact pattern in the *March 2024 IFRIC agenda decision about net-zero commitment*.

FAR understands that the illustrative examples illustrate that even if certain transactions, commitments or similar do not have any significant effects on the financial reporting the disclosures about them are material. FAR believes it is relevant to consider the risk that these examples will lead to financial reports that contain information overload and that entities will provide disclosures for “negative assurance” even if not material ones. FAR suggests that this could be addressed by the IASB for example by clarify its basis for conclusions.

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

FAR's response

The examples and basis for conclusion refer to terminology within sustainability that may not be clear to those who do not work with sustainability reporting. References are made, for instance, to IFRS Sustainability Standards. It is advisable to define these terms within the examples rather than solely referring to the IFRS Sustainability Standards, as it is not evident that companies adhering to IFRS Accounting Standards also follow the Sustainability Standards. It is crucial to clarify the relationship between accounting and sustainability standards, how they relate to each other, and the proposed illustrative examples.

Yours sincerely,



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Chairman Accounting Practices Committee