

EFRAG

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Our ref: RJ-EFRAG 632 C
Direct dial: +31 (0)88 4960391
Date: Hoofddorp, November 15 2024
Re: DASB Comment on Draft Comment Letter on Exposure Draft ED/2024/6 ‘Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples’

Dear members of the EFRAG Technical Expert Group,

The Dutch Accounting Standards Board (DASB) appreciates the opportunity to provide a response to the EFRAG Draft Comment Letter on the Exposure Draft ED/2024/6 ‘Climate-related and Other Uncertainties in the Financial statements – Proposed illustrative examples’, issued by the IASB in July 2024.

The DASB welcomes the initiative to provide illustrative examples on how to apply the applicable disclosure requirements to relevant current topics such as climate change. We consider the illustrative examples as a key step to create awareness of the impact of these types of uncertainties on the financial statements.

In our view the illustrative examples provided by the IASB should fall within the current IFRS (disclosure) requirements. Therefore, the DASB agrees that the examples are included as illustrative examples accompanying the IFRS accounting standards.

Currently, our concern is that the illustrative examples are stretching the current requirements.. It would be therefore helpful to include further 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. Our concern is further fueled by the fact that many of the examples are referenced to ‘umbrella’ paragraphs such as IAS 1.31, whereas potential other paragraphs might be relevant to consider as well. In addition, we noted that some examples include a negative confirmation. In our view a negative confirmation should be applicable only in very rare circumstances.

Furthermore, we noted that EFRAG draft response letter also includes extensive considerations regarding sustainability reporting related topics and the connectivity between financial and sustainability reporting. The DASB recommends to make it clear that the examples are related to disclosures in the financial statements and that additional disclosures might be required in other reports (management commentary, sustainability reporting etc.).

In our view connectivity related topics should not be addressed in this Exposure Draft considering that many of these related topics are still under development and being crystallized in the coming periods. In our view a separate connectivity project would be a more appropriate forum to further develop these concepts together with the IASB; whereby the EFRAG upcoming Discussion Paper on this topic would play a key role.

We have included our detailed response to the Exposure Draft questions in Appendix 1 and have responded to your specific questions to constituents in Appendix 2.

If you have any questions, please do not hesitate to contact me.

Yours sincerely,

drs. G.M. van Santen RA
Chairman Dutch Accounting Standards Board

Appendix 1 : Responses to Exposure Draft questions
Appendix 2: Questions to Constituents

Appendix 1: Responses to Exposure Draft questions

Appendix 1 – IASB – Responses to 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.

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 general, the DASB welcomes the initiative to provide illustrative examples to improve the application of the current IFRS requirements to relevant current topics and improve the quality of disclosures.

In our view, the examples provided should fall within the current requirements and should not further stretch the current standards. The DASB sees currently the risk that the examples provided stretch the current standards (especially IAS 1.31). Therefore, we recommend to further clarify that the examples provided are not intended to further extend the requirements of the standards but to trigger preparers and auditors of financial statements to consider the existing requirements to current topics in the disclosures to the financial statements. To avoid these examples being generalized we would recommend to further clarify that the examples are based on a specific (limited) fact pattern and that management judgement remains an important factor in the considerations.

The DASB agrees that the illustrative examples are included as illustrative examples accompanying IFRS Accounting Standards and not in the standards itself. In our view adding the examples as accompanying guidance allows the IASB to provide more details on illustrative facts and circumstances in order to put the examples better into context, and aligns with the nature of the examples as educational material.

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.

In general, the DASB agrees with the approach of developing the examples with the additional considerations explained in question 1. Nevertheless, we would like to provide the following specific comments:

General remarks:

- *We noted that many examples refer to IAS 1.31 as the umbrella to provide additional disclosures. We would recommend to validate for each example whether other references are also relevant such as IAS 1.17c, IAS 1.122, IAS 1.125, IAS 1.129 and standard specific requirements. We currently see the risk that the scope of the requirements in the standards to which the examples are referenced to is unintentionally stretched. We believe that this should not be the case. However, if the IASB has another view, we would recommend to follow the formal way of amending the standards instead of enhancing the standards through the illustrative examples.*
- *We noted that some of the examples include an exact copy of the disclosure requirements as per the applicable standard (for example paragraph 3.6). This seems not to be consistent across the examples, we would recommend to consider to include only a reference to the relevant IFRS Accounting Standard instead of copying the exact wording of the disclosure requirement.*
- *In our view using a negative confirmation should be applicable only in very rare circumstances. We would advise to include more specific guidance to the situation where the transition plan does not have a material impact on the financial statements, but that further disclosures in for example the management commentary or sustainability report would be relevant.*
- *We would advise to include a disclaimer that the examples are illustrative and that the facts and circumstances described only include certain elements relevant to the assessment. Additionally we would like to note that management judgement is a crucial consideration outcome for the disclosure included in the examples.*
- *We noted that some wording in the examples is not consistent with the wording in IFRS Accounting Standards. For example:*
 - *1.8 and 2.8 'more likely' vs 'likely' (IAS 1.24); and*
 - *4.4 'assumptions' vs 'reasonable and supportable assumptions' (IAS 36.33)*

Example specific:

- *As indicated in BC45, the IASB might consider to group examples. In our view, example 1 and 2 could be combined to make clear in which circumstances you would expect additional disclosures and in which circumstances you do not expect additional disclosures.*
- *In example 4, a reference to IAS 36.132 could be added to 4.4 as this paragraph encourages entities to disclose assumptions used to determine the recoverable amount of assets.*
- *In our view, example 5 seems a very unrealistic (and uncommon) fact pattern; additionally it would in practice be very difficult to conclude that a government will not discuss a certain topic for the next two years and therefore we would advise to replace this example by a more common and relevant fact pattern. Furthermore, we would for example expect this example be referenced also to IAS 1.22 in line with IFRIC 23.A4.*
- *We understand the relevance of example 6 and we agree with the factors mentioned 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 and also about concentrations of climate-related risk as mentioned in section 6.4(d). However, predominantly the items in section 6.4 (b) (if they are meant to be quantitative) are too detailed and are not a good reflection of the way banks monitor and manage risk. We suggest 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 leave room to disclose quantitative information in the form of e.g. management overlays on climate risk.*
- *We would recommend to adjust the fact pattern of example 7 to a more ‘black or white’ scenario in order to make it more clear when such disclosure is relevant. This could be done by making more clear in the fact pattern that there is a realistic chance of a significant impact on cash flows.*
- *In our view the background of facts and circumstances in example 8 is difficult to read. We suggest to simplify the example. This could be done by replacing the illustrative business by a more simple example. For example an electricity producer which has both fossil-fuel based and renewable based electricity generation facilities.*
- *We noted that example 8 might trigger an inconsistency with IAS 16.37 where it is defined that a class of property, plant and equipment is a group of assets of a similar nature and use in an entity’s operation.*
- *BC32 is not clear in relation to example 1 and 2. Is it meant to clarify that if IFRS Sustainability Disclosure Standards are applied a cross-referencing to those disclosures is sufficient? Furthermore, it is unclear to us how this should be interpreted when other sustainability reporting standards are applied.*

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

No additional comments

Appendix 2 – EFRAG – Questions to constituents

Question 1

28 - Regarding paragraphs 24 and 25, are there any obstacles to immediately applying the guidance provided by the ED's illustrative examples? If so, please elaborate on these obstacles.

In general, in our view the examples should be considered as illustrative examples within the scope of the current disclosure requirements and should therefore not be received as 'new' requirements and this should also mean that a discussion about obstacles to immediately "apply" these examples should be irrelevant. As the examples have the nature of educational material and not of any revised requirements that need to be applied at a certain point in time.

The main consideration is that IFRS Accounting Standards have not been amended and no new requirements became effective. As the wording is analogue to the wording used for the effective dates of IFRIC Agenda Decisions, we do not expect that entities will take a long time to "apply" the illustrative examples (see our comment above in respect of "application"). We also refer to the statement of IFRIC in the feature 'Agenda decisions – time is of the essence'¹. In this feature, it is mentioned that 'sufficient time' depends on the particular facts and circumstances, as a rule of thumb it is considered a matter of months rather than years.

Question 2

73 Regarding Example 4, based on current practice, do preparers of financial statements interpret paragraph 125 of IAS 1 as capturing:

- (a) only assumptions about uncertainties that will be resolved within the next financial year, therefore, assumptions about uncertainties that will be resolved after the end of the next financial year are not in the scope of paragraph 125 of IAS 1;
 - (b) both uncertainties that will be resolved within and after the end of the next financial year;
- or
- (c) another interpretation? Please explain.

We have the impression that interpretation b is applied in practice. In our view, the reference to 'within the next financial year' does not relate to resolving the uncertainty itself, but to changes made to significant assumptions in respect of those uncertainties that have a significant risk of resulting in material adjustments to the carrying amounts of assets and liabilities in the next twelve months.

¹ <https://www.ifrs.org/news-and-events/news/2019/03/time-is-of-the-essence/>