

3 October 2024

Dr Keith Kendall
Chair
Australian Accounting Standards Board
PO Box 204
Collins St West
VIC 8007

Dear Keith,

*AASB Exposure Draft ED 331 Climate-related and Other Uncertainties
in the Financial Statements*

We are pleased to respond to the above Exposure Draft (the ED).

We support the International Accounting Standards Board (IASB)'s effort to improve the reporting of the effects of climate-related risks in the financial statements and to better connect information provided in the financial statements with other information that is provide outside the financial statements.

We agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. However, we believe that for the guidance to be more effective in achieving IASB's aim, and aid better implementation and enforcement, the guidance should be included as application guidance within the mandatory section of the standard. Entities will not be able to use "It is not mandatory." as a reason to not follow the guidance and provide the appropriate disclosure as intended by the IASB.

We also have concerns that the principles and requirements illustrated on the application of paragraph 31 of IAS 1 *Presentation of Financial Statements* is not how it has been applied in practice. If the proposals are finalised, it will have widespread implications and impact, beyond climate-related risks as the principles and requirement illustrated apply equally to other types of uncertainties. We have concerns that the guidance goes beyond the current understanding of the requirements of paragraph 31 of IAS 1 in practice and that such an extension of the requirements to make disclosures in respect of uncertainties should be a separate standard setting exercise.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observables helpful. If you would like to discuss any of them further, please contact Judith Leung at 0416 176 262 or by email at judith@basfordconsulting.com.

Yours sincerely
Basford Consulting Pty Ltd

A handwritten signature in black ink, appearing to read 'Wayne Basford', with a stylized flourish at the end.

Wayne Basford
Managing Director

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 agree that providing examples would improve the reporting of the effects of climate-related and other uncertainties in the financial statements. However, we believe that for the guidance to be more effective in achieving IASB's aim and more easily enforced, the guidance should be included as application guidance within the mandatory section of the standard i.e. included as application guidance within the appendix to the standards. We think that these examples are more similar in nature to explanation / application guidance and therefore are more appropriate to be included as application guidance as appendix to the relevant standard.

In addition, including these examples within the mandatory section of the standard will make enforcement easier. Preparers will not be able to use "It is not mandatory" as a reason not to follow the guidance and provide the appropriate disclosure as intended by the IASB.

Furthermore, if the IASB's intention is that the requirement illustrated should also apply equally to other types of uncertainties, we believe that such examples should include non-climate related uncertainties, such as sovereign risk, geopolitical uncertainties, the impacts of new technology such as artificial intelligence etc,

In addition, for the guidance to be more useful, we think examples illustrating what the entity actually discloses within each example in addition to explanation of what should be disclosed would be helpful.

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 IASB’s approach of focusing the examples on the requirements that are among the most relevant for reporting the effects of climate related and other uncertainties in financial statements.

We agree with the selection of requirements and fact patterns in the examples. However, we have concerns that the IASB’s interpretation of IAS 1 paragraph 31 as illustrated in Example Five extends the requirements beyond what is current done in practice, and if finalised, this will have a flow on impact on how entities provide disclosures on a range of business risks.

We believe that as the project is meant to deal with ‘other’ uncertainties, rather than solely climate related risks, examples should include examples of disclosures other than climate related risks, including other risks related to sustainability, including impacts on an entity’s supply chain and operations.

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

We have no further comments on the Exposure Draft.