

21 October 2024

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

Dear Dr Kendall

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

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) welcomes the opportunity to respond to ED 331 *Climate-related and Other Uncertainties in the Financial Statements* (ED 331). HoTARAC is an intergovernmental committee that advises Australian Heads of Treasuries on accounting and reporting issues. The Committee comprises senior accounting policy representatives from all Australian states and territories, and the Australian Government.

Overall HoTARAC is supportive of the International Accounting Standards Board's (IASB's) efforts to provide examples illustrating how an entity would apply the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements.

It is our view that these examples:

- will help to strengthen connections between an entity's general purpose financial reports;
- may assist auditors by reducing disclosure deficiencies;
- will support increased transparency and increase the quality of material disclosures within financial statements, in particular, where critical estimates have been used; and
- may reduce costs for preparers of financial statements due to the increased clarity that will result from the ability to refer to the examples.

However, whilst some examples are relevant to not-for-profit (NFP) and/or public sector entities, other examples are unlikely to be relevant or helpful.

On this basis, HoTARAC recommends that examples be developed illustrating fact patterns, conditions or events that are more relevant to the NFP sector, to support application of IFRS accounting standards to report the effects of climate related and other uncertainties in the financial statements of NFP entities.

If you have any queries regarding our comments, please contact Sean Osborn from NSW Treasury by email to [sean.osborn@treasury.nsw.gov.au](mailto:sean.osborn@treasury.nsw.gov.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andy Hobbs', with a long horizontal stroke extending to the left.

Andy Hobbs

Chair

Heads of Treasuries Accounting and Reporting Advisory Committee

**ENCLOSED:**

HoTARAC Comments to the AASB on ED 331 *Climate-related and Other Uncertainties in the Financial Statements*

**HoTARAC Comments to the AASB on ED 331 *Climate-related and Other Uncertainties in the Financial Statements***

**IASB Matters for Comment**

**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.

**(a)**

HoTARAC agrees that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements.

The proposed examples build on the previous joint publication *Climate-related and other emerging risks disclosures: assessing financial statement materiality using AASB/IASB Practice Statement 2* issued by the Australian Accounting Standards Board (AASB)/Auditing and Assurance Standards Board (AUASB).

The examples represent a good starting point that can be enhanced over time with additional information and examples.

A key benefit of these proposed examples is that they will assist in supporting connectivity between the financial statements and future climate-related financial disclosures under AASB S2 *Climate Related Disclosures*.

**(b)**

We note that illustrative examples and educational materials are both non-mandatory forms of guidance.

HoTARAC is of the view that the examples should be presented as educational materials in a standalone publication accompanying the Australian Accounting Standards (AAS), rather than accompanying individual AAS.

We are of the view publishing these examples in a single document will assist users when considering:

- connectivity between the financial statements and future climate-related financial disclosures.
- multiple climate-related events or conditions and the possible effect(s) on the financial statements. Whilst each of the proposed examples currently considers a discrete event or condition, publishing them in a single document means that they will be more likely to be read in combination, rather than in isolation.

If the standard setter decides that the examples should accompany individual Accounting Standards in the form of Illustrative Examples, we suggest that a document be published summarising the location of the individual Illustrative Examples for ease of use and reference.

## **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.

HoTARAC agrees with the principles-based approach undertaken by the IASB to develop the examples. Fact patterns are not prescriptive, but form a useful base line for entities to consider and adapt based on their industry and circumstances.

HoTARAC agrees that the examples proposed are relevant and capture in a simplified form, some common fact patterns relevant to preparers of financial statements of for-profit entities.

Whilst some examples could be relevant to not-for-profit (NFP) and/or public sector entities, we are of the view that a number of the examples are unlikely to be relevant or helpful.

Proposed examples 1 and 2 are useful for the public sector in demonstrating the application of materiality and are useful in distinguishing when information is likely to be material for disclosure within financial statements versus not material.

Proposed example 4 gives an example of impairment testing for property, plant and equipment (PPE) where an impairment indicator has arisen. This example is somewhat useful to the public sector, as it could be adapted for guidance where PPE is carried at fair value under a revaluation model applying AASB 116 *Property, Plant and Equipment*.

However, proposed example 3 on impairment testing of goodwill and/or indefinite life intangible assets and proposed example 5 on carry forward of deferred tax assets are less applicable to the NFP sector, although HoTARAC does support their publication.

HoTARAC recommends that future examples be developed illustrating fact patterns, conditions or events that are more relevant to the NFP sector, which would increase usefulness for public sector entities. HoTARAC suggests Example 6 be extended to include the disclosure of risks for a General Government Sector (GGS) portfolio department that holds an investment in a Government-controlled 'for profit' business. Should the risks be disclosed in the Government business enterprises' reports, the investing GGS portfolio department entity, the whole of government accounts or all three reporting entities?

### Question 3—Other comments

Do you have any other comments on the Exposure Draft?

Refer to our comments addressing question 2 above. Examples are generally private sector focused and it would be helpful to build on the proposed examples by adding to them in the future example(s) relevant to NFP and/or public sector entities.

### AASB Specific Matters for Comment

1. whether there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:
  - (a) not-for-profit entities; and
  - (b) public sector entities, including GAAP/GFS implications;

Refer to our answers above to questions 2 and 3.

2. whether the proposals would create any auditing or assurance challenges;

HoTARAC is of the opinion that the proposals are more likely to be of benefit to auditors, as opposed to creating auditing or assurance challenges. The examples would assist preparers in improving the quality of disclosure within financial statements, which may in turn assist auditors by reducing disclosure deficiencies.

3. whether, overall, the proposals would result in financial statements that would be useful to users;

HoTARAC considers that the proposals will result in financial statements that will be more useful to users. In particular, with the introduction of AASB S2 *Climate Related Disclosures*, the examples will assist in improving connectivity between financial statements and future climate-related financial disclosures, for example, in relation to disclosure of key assumptions that are connected.

4. whether the proposals are in the best interests of the Australian economy; and

HoTARAC have no comments.

5. unless already provided in response to specific matters for comment 1 – 4 above, the costs and benefits of the proposals relative to the current requirements, whether quantitative (financial or non-financial) or qualitative. In relation to quantitative financial costs, the AASB is particularly seeking to know the nature(s) and estimated amount(s) of any expected incremental costs, or cost savings, of the proposals relative to the existing requirements.

HoTARAC anticipates these examples would lead to minimal incremental costs in preparing financial statements and may even reduce costs for preparers based on having increased clarity with practical examples to refer to. We are not aware of any direct costs which would affect implementing this proposal.