

27 September 2024

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Dear Sir/Madam,

RE: AASB ED 331 Climate-related and Other Uncertainties in the Financial Statements

Aware Super welcomes the opportunity to provide feedback on the invitation to comment from the Australian Accounting Standards Board (AASB) on the proposed AASB Exposure Draft, ED 331 *Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples* (ED 331).

We support AASB's proposal to adopt the same Exposure Draft as proposed by the International Accounting Standards Board (IASB) to maintain alignment of the reporting and disclosure requirements in AASB Accounting Standards to the International Financial Reporting Standards (IFRS).

However, we note that the International Sustainability Standards Board (ISSB) reporting standards (IFRS S1 and IFRS S2) to which the equivalent Australian Sustainability Reporting Standards (ASRS Standards) were based, were designed for reporting by profit-oriented entities that issue debt or equity to fund operations.

Therefore, we recommend that AASB to provide additional illustrative examples and more guidance of the application in the context of the Australian reporting environment, in particular for reporting entities that will be required to apply ASRS Standards (ASRS 1 and ASRS 2) that do not issue debt and/or equity, and which include not-for-profit entities, public sector entities, and Registrable Superannuation Entities (RSEs) that apply AASB 1056 *Superannuation Entities*.

The following recommendations are proposed in consideration of reporting by RSEs:

1. to clarify the alignment between financial statements and sustainability reports for RSEs, given the differences in the definition of 'primary users'¹ of financial reports provided by AASB 1056 *Superannuation Entities* as compared to the definition of 'users'² of sustainability reporting under ASRS 2 *Climate-related disclosures*.

1. AASB 1056.BC12, users of financial statements of superannuation entities are: (a) current and potential members and beneficiaries; (b) parties that act on behalf of members and beneficiaries, such as financial analysts, advisors, and unions; and (c) employer-sponsors.
2. ASRS 2 identified users as in the *Conceptual Framework for Financial Reporting* in respect of for-profit entities, CF 1.2 as: "... existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity. Those decisions involve decisions about: (a) buying, selling, or holding equity and debt instruments; or (b) providing or settling loans and other forms of credit; or (c) exercising rights to vote on, or otherwise influence management's actions that affect the use of the entity's economic resources."

2. to clarify the application of a materiality judgement in relation to an RSE (the Fund), as well as for Service Entities of an RSE, which may be separate reporting entities that provide administration, payroll, and human resource functions to an RSE. In particular, elaborating on Example 2 – *Materiality judgements not leading to additional disclosure*, for entities where reporting on climate-related risks would not significantly influence the decision making of users of an RSE or Service Entities financial statements.

Should you require further information, please do not hesitate to contact Ming-en Wu, Senior Manager, Group Reporting - Financial and Regulatory reporting (email: ming-en.wu@ware.com.au) and/or James Osborn, Chief Financial Officer (email: james.osborn@aware.com.au).

Yours faithfully,

James Osborn
Chief Financial Officer

About Aware Super

We're Aware Super – Chant West's Super Fund and Pension Fund of the Year* for 2024. We're here to help you grow your savings, whether retirement is 2 or 20 years away. As one of Australia's largest profit-for-members funds, we always remember whose money it is and whose future we're looking after. Along with super returns of 8.97% p.a.** (over ten years, for our High Growth option), and expert super advice and guidance for right now, it's what makes us super helpful.

* Zenith CW Pty Ltd ABN 20 639 121 403 AFSL 226872/AFS Rep No. 1280401 Chant West Awards issued 22 May 2024 are solely statements of opinion and not a recommendation in relation to making any investment decisions. Awards are current for 12 months and subject to change at any time. Awards for previous years are for historical purposes only. Full details on Chant West Awards at <https://www.chantwest.com.au/fund-awards/about-the-awards/>

**SuperRatings Fund Crediting Rate Survey, March 2024. Based on SR50 Growth (77-90) Index. Returns are after investment fees and costs, transaction costs, tax on investment income and any implicit admin fees. Past performance is not an indicator of future performance.

I write to you in response to the Exposure Draft 331 ("the ED") on Climate-related and Other Uncertainties in the Financial Statements; Proposed Illustrative Examples

First, I congratulate the AASB; the standard is timely and contains many well-explained, practical examples. However a couple of things I thought would be worth raising:

Uncertainty re Data Sources

Something that was not addressed specifically in the ED was uncertainties that may arise from the varying sources of underlying data, for example conversion factors used in calculating greenhouse gas emissions. Take, for example, an entity that operates in a remote area of Queensland, Australia, that is looking for a reliable conversion factor to calculate the greenhouse gas emissions from their activities. Being in a remote area, there may not be any data available about average conversion factors that are truly applicable to the activities conducted in that area. Other data available may not take into account factors such as the extreme heat and humidity in that region, which could impact how assets are used. In that situation, the entity faces a decision; perhaps they could use data from another region in Australia, or from overseas, or data that is several years old. This does not imply that the entity is acting improperly, only that limited data presents a challenge.

It raises the question as to what extent such an entity should disclose the difficulties they had in obtaining relevant data?

There may also be situations where it is appropriate to change the source of data used (for example, if domestic data becomes available when previously only international data was used).

Or is it a case that so long as the calculation is performed within the broader guidelines of the GHG's, no further disclosure is necessary?

Assurance Impacts

It is evident the climate-related disclosures inherently contain far more uncertainty than "traditional" financial reports, which will pose challenges for auditors trying to achieve the required level of assurance.

Im sure there will be correspondence with the Australian Auditing Standards Board as they consider how assurance practitioners will provide their assurance over Climate-Related Disclosures, and in particular how they translate the guidance in this ED into their assessments of what is true and fair.

While the uncertainty is challenging, the ED seems to imply that the documentation of the decision-making process for what to include in the Climate-Related disclosures is key.

Auditors and those charged with governance would likely appreciate examples and/or case studies of how decision-making about the appropriateness of climate-related disclosures can best be documented.

Other Information

Something that is acknowledged in the ED is the concern about inconsistencies between information presented in the annual report and other sources of information. Under ISA720, auditors have certain obligations to review the financial information for inconsistencies with other information presented by the entity. Again, this will ultimately fall to the AuASB, but it would be interesting to know the AASB's view on how any inconsistencies in information should impact the annual report.

Austin Gibbs

CA Member 53288

September 2024

OFFICIAL

4 October 2024

Dr Andreas Barckow
 Chairman
 International Accounting Standards Board
 Columbus Building
 7 Westferry Circus
 Canary Wharf
 London E14 4HD
 United Kingdom

By email: commentletters@ifrs.org

Dear Andreas

**ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements
 (Proposed illustrative examples)**

On behalf of the Australasian Council of Auditors-General (ACAG/we/our), thank you for the opportunity to comment on ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements (Proposed illustrative examples). ACAG is an association established over 60 years ago. It facilitates the sharing of information and intelligence between Auditors-General in a time of increasing complexity and rapid change. ACAG members are the Auditors-General of all Australian States and Territories, as well as the Australian, New Zealand, Fiji and Papua New Guinea Auditors-General. The views expressed in this submission represent those of all Australian members of ACAG only, unless specifically identified.

The attachment to this letter addresses the Board's questions for respondents within the ED.

Overarching feedback

- ACAG agrees with the IASB's proposal to 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. Examples illustrating the disclosures would make this more valuable.
- ACAG agrees with the IASB's proposal to include the examples as accompanying IFRS Accounting Standards, rather than publishing them as educational materials or incorporating them directly into the Standards. This approach is consistent with previous practices. However, we are uncertain whether the non-mandatory nature of these examples will be effective in resolving disclosure disputes.
- illustrative examples may lead to disagreements between auditors and preparers, especially when preparers are unwilling to disclose certain information. We recommend that the IASB reiterate the expectations and objectives of these examples to minimise disputes between specific and general requirements, particularly to address potential contention over the precedence of general requirements when specific disclosures are not mandated. Clear guidance from the IASB could help reconcile these differences.
- ACAG broadly agrees with the approach taken by the IASB (to developing the examples, selection of requirements and fact patterns illustrated, and the technical content of the examples). However, there is insufficient consideration of different accounting policy choices available to entities. This may limit relevance or result in divergent practices.

Once again, thank you for the opportunity to comment on this important change. I hope you will find ACAG's comments helpful as you move to progress the new standards.

Yours sincerely

A handwritten signature in dark ink, appearing to read 'M. Harris', with a horizontal line drawn underneath it.

Michael Harris
Chair
ACAG Financial Reporting and Accounting Committee

Questions for respondents

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.

ACAG supports the inclusion of illustrative examples to clarify the application of the Standard's requirements. These examples can help eliminate ambiguity around how climate-related matters should be considered and reported, thereby promoting consistency across services and various reports, and ensuring compliance with disclosure requirements.

However, ACAG suggests that the examples could be further enhanced by including specific example disclosures that demonstrate the appropriate level of information to be presented in financial statements. It would also be valuable if some of these examples were tailored to addressing where different accounting policy choices are permitted within the accounting standards. For example, different applications of the market approach and cost approach to fair value measurement.

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.

ACAG agrees with the proposal of illustrative examples accompanying the IFRS Accounting Standards instead of publishing them as educational materials or including them in the standard itself.

This approach aligns with current practices and facilitates easier updates and amendments to examples as requirements develop without needing lengthy exposure and approval times. Having the examples only in educational materials may increase the difficulty for preparers of financial statements finding this useful and relevant information to help with their application of the standard.

There is a risk that non-technical professionals, who typically rely on what is included in the individual standards and their appendices, may be unaware of the existence of these illustrative examples.

Even though the regulators have highlighted the requirements of IAS 1 paragraph 125 and failures by companies to comply with the paragraph, we are sceptical whether the non-mandatory nature of these examples will assist in disclosure disputes. We expect difficulty in auditors being able to require disclosure if they think that disclosure should be made, but the client preparer refuses to make the disclosure.

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

ACAG broadly agrees that the illustrative examples are a valuable starting point and cover key areas where climate-related risks and opportunities are likely to impact amounts reported in the financial statements, particularly in relation to judgements and estimates.

However, ACAG recommends that these examples be continuously refined and updated with additional guidance as reporting practices evolve and new challenges in reporting emerge, especially as more jurisdictions and entities establish and publicise their climate commitments.

Question 3 – Other Comments

Do you have any other comments on the exposure draft?

Based on its observations of the illustrative examples, ACAG offers the following recommendations.

Common themes

- Governments are frequently the provider of capital intensive and emission intensive services such as energy generation, transport infrastructure and healthcare related services (prevention such as water and waste water treatment through to hospital care).

The examples do not consider the information needs of users of government general purpose financial reports where the audience may be broader and have more diverse interests than a corporate investor.

It would be beneficial for the IASB to monitor emerging reporting issues, particularly inconsistencies between climate information and financial statements.

- The illustrative examples suggest that the IFRS Sustainability Disclosure Standards permit entities to include information by cross-referencing to other reports. In contrast, IFRS Accounting Standards generally do not allow cross-referencing to other reports unless specifically permitted by a particular standard, such as IFRS 7.

To better understand the application of cross-referencing within the standards, would the IASB clarify the following:

- Is the allowance for cross-referencing in IFRS 7 an isolated situation, applicable only due to its specific provisions OR
- Does IFRS 7 establish a general principle that permits cross-referencing across other IFRS Accounting Standards?

- Estimates and judgements are used in climate-related scenario analysis, and in general purpose financial statements. It may be useful to expand the illustrative examples to demonstrate situations where there may be legitimate and valid differences between assumptions used for scenario analysis in climate reporting and assumptions used in the financial statements and how these differences should be disclosed by preparers of the financial statements. An example is Note 1 in Glencore's 2022-23 annual report (available [here](#)) and the independent audit report. Note 1 is an extensive discussion which is summarised by Glencore's independent auditor in the audit report as:

IFRS requires the Group's financial reporting to be based, amongst other things, on the Group's best estimate of assumptions that are reasonable and supportable as at the date of reporting. Those assumptions may not align with the ways in which the global economy, society and government policies will need to change to meet the targets set out in the International Energy Agency's (IEA) Net Zero Emission scenario or the Group's stated ambitions.

- Glencore's coal pricing assumptions used (which differ from the IEA's pricing assumptions under the respective scenarios) to assess its coal non-current assets for indicators of impairment or impairment reversals and, where such indicators existed, the valuation of the coal non-current assets;

Examples 1 and 2

- A majority of offices agree that these examples are appropriate as illustrative examples as they illustrate the application of specific paragraphs of individual standards.
- A minority of offices believe that Examples 1 and 2 seem to fit better with the Materiality Practice Statement.
- It is not clear for each illustrative example, whether entities in each fact pattern apply IFRS Sustainability Disclosure Standards. We therefore suggest that the additional information in paragraph BC32 which states that it is assumed in Examples 1 and 2 that the entity does not apply IFRS Sustainability Disclosures is disclosed as an assumption within Examples 1 and 2. It would also be useful to explain the outcomes and what if anything may differ if the entity did apply IFRS Sustainability Disclosure Standards.

Example 3

- We expect arrangements to offset GHG emissions (such as carbon credits and emission allowance costs, which are mentioned, but not deliberated on) to become more common in the near future due to government commitments to reduce carbon emissions by specific deadlines. The IFRIC's Agenda Decision on "Climate-related Commitments" (April 2024), which considers these offset arrangements, has been referred to in paragraph BC37 but not in Illustrative Example 3. We recommend the IASB include a direct reference to the Agenda Decision in Illustrative Example 3.

Example 4

- IAS 36 does not require an entity to disclose information about the assumptions used in determining a cash-generating unit's (CGU's) recoverable amount if the CGU includes no goodwill or intangible assets with indefinite lives and the entity recognised no impairment loss for that CGU during the period. However, in example 4, the entity decides to make additional disclosures as per the requirements of IAS 1. In this example, the general requirements seem to take precedence over the specific requirements of the standard and we anticipate challenges in getting preparers to make disclosures in such cases (given the requirements of IAS 8 paragraph 7). Therefore, we recommend the IASB reiterate expectations and objectives of these examples, so there are less disputes when assessing specific requirements vs general requirements.

Example 5

- Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18). The assumption in the example is for no write down of the deferred tax asset based on the assumption that recovery of the tax losses is expected before the legislation is effective. We suggest that an additional scenario be included, for the situation that there is a likelihood of a write-down if the legislation becomes effective before the expected recovery of the tax losses.

Example 6

- Disclosure about credit risk (IFRS 7): We agree that climate-related information is likely to be relevant to users, given the current focus and media reporting on climate change on the agriculture sector and low-lying areas. The example needs to be expanded to specifically disclose why climate-related risks may be material or not.

For example, if the loans have short-term remaining maturities (say 2 to 5 years), then the effect of climate-related risks would not be expected to result in any significant change to the current variations in weather or sea levels in the immediate future and over the maturity of the loans. If the loans have long-term maturities, say 20 to 30 years, then there may be more variations expected than over 2 to 5 years. However, the disclosure instead should be based on reality. That is, that there is not expected to be any significant change to the current variations in weather or sea levels in the immediate future and over the maturity of the loans (say, mostly in range of 2 to 5 years).

Example 7

- Disclosure about decommissioning and restoration provisions (IAS 37): We do not believe that the example of not recognising a decommissioning or restoration provision is common. We suggest that the example be redrafted to be more relatable. That is, that the expected payments may be required to be made earlier – potentially arising in a material change in the provision (already recognised).
- An additional example should be included requiring the discount rate for provisions to be disclosed. While IAS 1 requires the disclosure of other major sources of estimation uncertainty, in our experience, discount rates are not usually disclosed. This is partly because IAS 37 Provisions, Contingent Liabilities and Contingent Assets does not require the disclosure of the discount rate. However, the discount rate will often be material information. The disclosure of the discount rate is also material because there is often a misconception that allowing for increasing risk for a provision means increasing the discount rate (the approach used for assets), when the reality is that the discount rate should be decreased (leading to a higher liability). Also, a discount rate for provisions could be negative.

Example 8

- Disclosure of disaggregated information (IFRS 18): The example says to split PPE carrying values between high emissions and low emissions PPE. This seems to be the desired outcome.

The example is not clear why there is a mandated need to split these assets, but there is no requirement to split assets by other risks. There are many ways to split assets based on risks, including:

- assets involved in manufacturing in high vs low regulatory environments (e.g. food, drugs)
- assets in countries with dictatorships or authoritarian governments (and higher risk of nationalisation) than in democracies.

The example should be clear as to what is mandated (must) compared to voluntarily providing additional information (might).

- In addition to being relevant to the application of IFRS 18, it should also be noted as relevant to the application of IAS 1, as discussed in paragraph BC42.



4 October 2024

Australian Accounting Standards Board (AASB)
Submitted via website

Dear Sir/Madam,

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

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members include Australian and international asset owners and institutional investors with more than \$1 trillion in funds under management.

Through our research, engagement, advocacy and voting recommendations, ACSI supports members in exercising active ownership, which enhances the long-term value of the retirement savings entrusted to them to manage. ACSI members can achieve value for their beneficiaries through genuine and permanent improvements to the ESG practices of the companies in which they invest.

ACSI is responding to this consultation from the perspective of both our members as financial reporters and as users of financial reporting produced by investee companies.

Summary of ACSI's position

Climate change risks are financial in nature and deeply embedded across the economy. Climate-related disclosures support investors' investment analysis, risk assessment, stewardship activities and due diligence processes.

ACSI believes that financial statements should include disclosure of how material climate-related judgements and assumptions have been integrated. Users of financial reporting will be supported by coherent disclosures across financial, directors' and sustainability reports. To address this objective, ACSI supports the International Accounting Standards Board's (IASB) Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* (the Exposure Draft). We encourage the AASB to adopt the guidance once finalised.

We also highlight the implications of inconsistent definitions of 'primary users' of superannuation funds' financial statements and sustainability reports respectively. Addressing this issue would strengthen the link between the reports, supporting the objective of the Exposure Draft.

Feedback on the Exposure Draft

The Exposure Draft notes that financial statement users have expressed concerns that the effects of climate-related risks in financial statements may be insufficient or appeared to be inconsistent with information provided by entities outside the financial statements. ACSI shares these concerns and recently examined the issue in research which looked at how Australian listed companies have

integrated climate-related disclosures in their financial statements.¹ One challenge is that financial statements can be focused on the short-term, and many climate-related risks may be realised over the medium or longer term. As comprehensive climate-related financial disclosure requirements are implemented, institutional investors will continue to encourage companies to produce disclosures that coherently explain related financial implications, as appropriate.

ACSI supports the IASB's proposal to provide illustrated examples, as they will be particularly beneficial to those organisations that are at early stage in their reporting of climate related financial information. We encourage AASB to adopt the IASB guidance once finalised. However, we note that climate related reporting practices are evolving and further guidance over coming years will likely be valued by both reporters and users. For example, given the application of the reporting requirements in Australia to unlisted superannuation funds, they would be supported by sector-specific disclosure examples.

Considerations regarding superannuation entities

ACSI and its members support the application of the Australian mandatory climate reporting regime to superannuation funds. However, the ISSB's Climate Reporting Standards are aimed at issuers of capital.² AASB S1 - *General Requirements for Disclosure of Sustainability-related Financial Information* notes that entities with not-for-profit activities might need to amend the descriptions used for particular items of information when applying Australian Sustainability Reporting Standards. Similarly, a modified approach will be necessary for unlisted superannuation entities, and this would be supported by sector-specific guidance and examples. In the context of the current Exposure Draft, there are no examples that are specifically aimed at Australian unlisted superannuation funds. Our view is that the Exposure Draft would be more helpful to superannuation funds if it contained relevant examples.

We note the objective of strengthening the connections between entities' financial statements and other disclosures for these entities. In this context, you will be aware that currently, superannuation entities prepare financial statements principally to inform current and potential fund members. This definition of 'primary users' is provided by AASB 1056 – *Superannuation Entities*, which differs from the definition of users of financial reporting more generally and from the definition of users of sustainability reporting under AASB S2 – *Climate-related disclosures*. In the context of the current consultation, it would be helpful for the AASB to clarify the approach to alignment across financial statements and sustainability reports for superannuation funds.³ Relevant examples would be helpful.

I trust our comments are of assistance. Please contact Kate Griffiths, Executive Manager – Policy and Research (kgriffiths@acsi.org.au) should you require any further information.

Yours sincerely,



Louise Davidson AM
Chief Executive Officer

¹ [Promises, Pathways & Performance: Climate Change Disclosure in the ASX200](#), July 2024, p. 15.

² This perspective is outlined in [ACSI's submission on the Draft Australian Sustainability Reporting Standards - Disclosure of Climate-related Financial Information](#)

³ Noting the AASB's decision that no changes were required to the Standard in respect to the primary users of general purpose financial reports of superannuation entities (see [Minutes of the 205th meeting of the AASB](#)).

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.

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

UNISUPER SUBMISSION TO AUSTRALIAN ACCOUNTING
STANDARDS BOARD (AASB)

About UniSuper

UniSuper is one of Australia's largest super funds with more than 647,000 members and approximately \$139 billion in funds under management as at 30 June 2024.

Consultation feedback

UniSuper welcomes the opportunity to provide feedback to the Australian Accounting Standards Board (AASB) consultation on the ED 331 Climate-related and Other Uncertainties in the Financial Statements.

The ISSB Sustainability disclosure (IFRS S1 and S2) Standards were designed only for profit-oriented entities reporting (i.e. reporting entities or companies that receive external capital – debt or equity - to fund their operations) and whose end users are 'primary users of general-purpose financial reports'. The Standard is built around the premise that the reporter is an issuer of capital that will report operational information and meet the information needs of investors.

In Australia, the intention is to apply this standard to pension funds, amongst others, who are not profit-orientated. ISSB states that *"if entities with not-for-profit activities in the private sector or the public sector apply this Standard, they might need to amend the descriptions used for particular items of information when applying IFRS Sustainability Disclosure Standards"*.

While the provided examples of guidance are helpful, industries that are not profit-orientated need greater guidance than provided in these notes. We suggest further guidance is needed, in particular, for the materiality principles.

Example 2 'Materiality judgements not leading to additional disclosure' applies to service providers operating in industries that have limited exposure to climate-related transition risks. We believe this would apply to UniSuper's administration entity (USM) which provides administration and investment services to the members of UniSuper (the Fund). The climate-related transition risks for our administration company, UniSuper Management Pty Ltd (USM), are immaterial. After all, climate-related disclosures for the Fund itself will be prepared in line with the requirements for Group 2 entities.

We recommend that final guidance makes it clear that UniSuper's administration company can rely on the materiality principles set out in Example 2. We also recommend that the guidance should contain examples on how to apply materiality to entities which are not profit-orientated.

It is important to note:

- (a) USM is a separate entity for mandatory climate reporting purposes provides administration and investment services to UniSuper (The Fund).
- (b) USM is not a manufacturer of goods, and thus has lower greenhouse gas emissions (Scope 1 and Scope 2) from its office operations and omitting this information would not significantly influence the decision making of superannuation fund members or users of its financial statements. This is because members invest in the specific investment products offered by UniSuper the Fund, and not directly in USM.
- (c) Applying materiality on this basis would not apply to the investments of UniSuper (the Fund) and these will be separately disclosed in line with the reporting requirements for Group 2 entities.

UniSuper would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission.



4 October 2024

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

Submitted via email: standard@asb.gov.au

Dear Dr Kendall

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

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Exposure Draft (ED).

General comment

Overall, IPA supports the inclusion of examples that assist in applying the requirements of a standard. For this reason, we support the:

- Intent of the ED to include illustrative examples that would help improve the reporting of the effects of climate-related uncertainties in the financial statements.
- The principles-based approach of the illustrative examples, while dealing with uncertainties arising from climate-related risks, can also apply to uncertainties in general.
- The inclusion of the illustrative examples accompanying the accounting standards, instead of publishing them as educational materials or elsewhere.

However, IPA thinks that the illustrative examples contain simple fact patterns with high level conclusions of whether additional disclosures are warranted. The examples would be more useful if they contained more complex fact patterns and detailed the likely disclosures, ie the reasons why the climate-related uncertainties would not have an effect on the entity's financial position and financial performance. More specificity in the examples would assist not only in applying the standards by preparers but also auditors when assessing the additional disclosures. The examples in their current general form may lead to differing and inconsistent interpretations by the entity and auditors/regulators, on whether additional disclosures should be made and the extent of the disclosures. The examples may therefore serve as points of contention as opposed to being useful.

Specific comment

Our responses to the specific questions in the ED are in Attachment 1.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely

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

Vicki Stylianou
Group Executive, Advocacy & Professional Standards
Institute of Public Accountants

Attachment 1 – IPA’s responses to ED 331 specific questions

Question 1 (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.

In general, IPA supports the inclusion of examples that assist in applying the requirements of a standard. We note that uncertainties arising from climate-related risks are not dissimilar to uncertainties in general that are addressed in existing accounting standards. However, given recent requirements for climate reporting (mandatory in some jurisdictions, such as Australia) as separate reports to financial statements, it is important the effects of climate-related risks and other uncertainties are sufficiently disclosed in the financial statements. This also assists in strengthening the connections of information between the entity’s general purpose financial report. For these reasons, IPA supports providing climate-specific examples and the principles based on which the examples are developed that apply to uncertainties in general.

Question 1(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.

IPA supports including the examples as illustrative examples accompanying accounting standards. This is consistent with the approach in existing accounting standards where illustrative examples, while not an integral part of a standard, are included in the standard to assist in applying the accompanying guidance. This ensures that the examples are in one easily accessible location and would be more effective than presented in separate educational materials.

Question 2 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.

The examples in the Exposure Draft largely contain fact patterns that are simple and of a high level with conclusions of whether additional disclosures are warranted. This is seen in Examples 1 and 2, which illustrate at a high level how an entity makes material judgements for the additional disclosures about the effect of an entity’s (manufacturer) climate transition plan on its financial position and financial performance.

IPA thinks that, for the examples to be more useful and achieve the Exposure Draft’s intended objectives, consideration should be given to other more common industries in addition to those in the manufacturing industries. It would also be more effective if the examples contained more complex fact patterns and detail the likely disclosures, ie the reasons why the transition plan in Example 1 does not have an effect on the entity’s financial position and financial performance. This is particularly the case in Examples 4 to 6, which aim to illustrate the application of standards that deal with more complex matters such as impairment and credit risks. More specificity in the examples would assist not only the application of the standards by preparers but also auditors when assessing the additional disclosures. The examples in their current general form may lead to differing and inconsistent interpretations, by the entity the auditors/regulators, on whether additional disclosures should be made and the extent of the disclosures. The examples may therefore serve as points of contention as opposed to being useful.

Question 3 Do you have any other comments on the Exposure Draft?

Refer to the comments in Question 2.

4/10/2024

Australian Accounting Standards Board
Collins St West
VIC 8007
Australia

Via email to: standard@asb.gov.au

AustralianSuper submission to the Exposure Draft 331: Climate-related and Other Uncertainties in the Financial Statements – Illustrative Examples Consultation

AustralianSuper welcomes the opportunity to provide high-level feedback on the illustrative examples included in the AASB's Exposure Draft 331 *Climate-related and Other Uncertainties in the Financial Statements*.

We believe that transparent, credible, and comparable climate-related financial disclosures within Australian financial statements will support investment decision making and are a welcome development.

AustralianSuper is Australia's largest superannuation fund¹ and is run only to benefit members. Over 3.4 million Australians are members of AustralianSuper with over \$341bn in member assets under management at 30 June 2024. AustralianSuper supports standardised, internationally aligned requirements for disclosure of sustainability-related matters, where they materially impact an entity's financial performance and position. High-quality disclosures outlining the effect of climate-related risks and opportunities on the financial statements will enable users to make better informed decisions.

Climate change is one of the most significant investment issues today. It will impact economies, industries, societies and the environment. As such, climate change presents risks and opportunities for investments in our portfolio. We aim to manage the risks and opportunities of climate change that we believe are likely to impact members' investment returns. This is consistent with our purpose of helping members achieve their best financial position in retirement.

AustralianSuper will be both a preparer and user of climate-related financial disclosures. For asset owners like AustralianSuper, our portfolio disclosures are aggregated from underlying portfolio company disclosures. Therefore, the quality, comparability and usefulness of disclosures will be reliant on the availability, standardisation and quality of the financial information reported by listed and unlisted companies across our global portfolio. We therefore welcome the proposal to provide illustrative examples of appropriate climate-related financial disclosure in ED331.

However, we also request the inclusion of an example for an asset owner. This would help Australian Superannuation Funds with the practical application of ED331.

We would be pleased to provide additional information or to discuss this submission in further detail. If that would be of assistance, please contact Greg Pozza, Manager ESG Regulatory Disclosure & Reporting (GPozza@australiansuper.com).

Yours faithfully,



Matt Harrington
Chief Financial Officer – AustralianSuper

¹ APRA Quarterly superannuation fund level statistics, June 2024. Released 2 October 2024

Key points of feedback

- **Materiality of disclosures and relevance to primary users.** AustralianSuper supports alignment of Australia's accounting standards with international actions to improve the reporting of the effects of climate-related risks in the financial statements. We acknowledge that this is a critical step alongside the introduction of the ISSB and ASRS. However, given the significant program of work undertaken by the AASB to develop AASB 1056 *Superannuation Entities* and the unique structure of the Australian superannuation industry, we encourage the AASB to provide examples of likely areas of material disclosure with respect to superannuation entity financial statements aligned with the measurement principles included in AASB 1056. This would take into account the information needs of users of the general purpose financial statements of superannuation entities as defined in AASB 1056.
- **Additional guidance for asset owners:** We reiterate our request made in previous consultations² for customised sector guidance and illustrative examples for asset owners. While the eight proposed illustrative examples included in the IFRS exposure draft are useful for companies operating in single or multiple sectors, we note that none are appropriate for asset owners with investments across all economic sectors. As an example, when undertaking impairment analysis, the carrying values of our assets at balance date incorporate numerous data points impacted by climate change and the estimation of values in absence of this data would require undue cost and effort for little useful financial information. Due to the unique nature of pension and superannuation funds, who are both preparers and users of climate disclosures, and heavily reliance on external entities for climate-related information and data, it is important that industry-specific disclosure examples are developed for asset owners. We would welcome involvement in this process.

² <https://www.australiansuper.com/about-us/advocacy>

10 October 2024

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Australian Accounting Standards Board (AASB)

Via email: hsimova@asb.gov.au
llu@asb.gov.au

Dear AASB

AASB Exposure Draft ED 331 – Climate-related and Other Uncertainties in the Financial Statements – proposed illustrative examples

Thank you for the opportunity to provide a submission on the draft IFRS Exposure Draft – Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples (**Exposure Draft**).

The AICD's mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of more than 52,000 reflects the diversity of Australia's director community, comprised of directors and leaders of not-for-profits, large and small businesses and the government sector.

This submission is informed by consultation with members, including the AICD Reporting Committee comprising Audit Committee Chairs and members, audit firm partners and Chief Financial Officers (CFOs).

1. Executive Summary

The AICD welcomes the guidance as an important initial step in clarifying how financial statements should incorporate the impact of climate change.

In summary, our key points are as follows:

- Climate disclosure within the financial statements should not be viewed in isolation from other relevant disclosures, particularly mandatory climate disclosures required under the domestic climate reporting standard (AASB S2). Some of the mandated disclosures under AASB S2 require quantitative disclosures (albeit subject to a number of carve-outs¹) that may lead to financial statement adjustments. We would encourage the issue of guidance or educational material which addresses how AASB S2 may intersect with financial statement disclosures.
- More broadly, organisations need to be aware of the interconnectedness between the various reports, how disclosures in one report may impact another, and how inconsistencies may give rise to greenwashing allegations and/or risk.

¹ Including that an entity need not provide quantitative information about the current or anticipated financial effects of a climate-related risk or opportunity if the entity determines that: (a) those effects are not separately identifiable; or (b) the level of measurement uncertainty involved in estimating those effects is so high that the resulting quantitative information would not be useful.

- To improve the accessibility and usability of the Exposure Draft for directors, standard-setters could consider supplementing the illustrative examples with broader, more accessible guidance, providing more detail on how key threshold judgments within the illustrative examples are exercised, and ensuring that the illustrative examples cover a broad range of sectors.
- Given the current focus on climate disclosures (particularly in light of mandatory climate reporting), the Exposure Draft should be confined to that topic.
- Directors recognise the need for education and training for boards, finance teams, and internal control and audit staff on integrating climate considerations into financial statements. We would encourage the AASB to issue further accessible guidance and educational material tailored to the individual needs of the various roles involved in the financial reporting process, including directors.

2. The director role

Directors are acutely aware of, and focused on, discharging their non-delegable financial reporting duties. This includes issuing directors' declarations confirming that the financial statements and notes comply with the accounting standards and give a "true and fair view" of the company's financial position and performance. In doing so, directors consider whether the financial statements incorporate all information that has a material impact on the organisation's financial position, performance and prospects. This can include climate-related impacts.

As part of their oversight role, directors need to satisfy themselves that the underlying assumptions, judgements and assessments applied in the financial statements (such as those applicable to revenue, liability and asset valuations), including as they apply to climate, have reasonable grounds.

It is important to build awareness, understanding and capacity on the impact of climate on the financial statements across the spectrum of actors involved in the financial reporting process. This includes those charged with oversight and governance (including directors), as well as the finance, risk management, and internal audit teams.

We would encourage the AASB to consider issuing accessible guidance and educational material tailored to the individual needs of the various roles involved in the financial reporting process, including directors.

3. Aligning financial statement disclosures with other climate disclosures

To mitigate greenwashing risk, disclosures of climate-related effects in the financial statements must be consistent with climate disclosures in other public or investor-facing reports. This includes the Directors' Report and the mandatory Sustainability Report (for those covered by Australia's mandatory climate reporting regime).

While we appreciate that the Exposure Draft is limited in scope to the financial statements, it is important that organisations are made aware of the interconnectedness between the various reports, how disclosures in one report may impact another report, and how inconsistencies may give rise to greenwashing allegations and/or risk.

This is particularly the case given AASB S2 requires the provision of quantitative information in relation to (focusing on disclosure of *current*, as opposed to anticipated, financial effects):

- how climate-related risks and opportunities have affected the entity's financial position, financial performance and cash flows for the reporting period;

- significant risk of a material adjustment within the next annual reporting period to the carrying amounts of assets and liabilities reported in the related financial statements;
- current changes to the entity's business model, including its resource allocation e.g. resource allocations resulting from demand or supply chain changes or from business development through capital expenditure, additional expenditure on research and development, or acquisitions and divestments;
- the amount and percentage of assets or business activities vulnerable to climate-related physical and transition risks, and climate-related opportunities; and
- the amount of capital expenditure, financing or investment deployed towards climate-related risks and opportunities.

We appreciate that AASB S2 has a number of qualifications for the provision of quantitative information, including, relevantly, where the level of measurement uncertainty is so high that the resulting quantitative information would not be useful. To date, the majority of climate disclosures have been qualitative, with limited financial report disclosures, although references to climate in financial statement notes have been increasing in recent years.² Under the mandatory climate reporting regime, it is likely that most organisations will begin with qualitative disclosures and may progress to quantitative disclosures as the quality and availability of data and methodologies improve.

Given the interconnectedness between mandatory climate reporting and financial statement disclosures, it would be useful for the AASB to provide supplementary guidance or educational material on how the AASB S2 requirements may intersect with financial statement disclosures.

We also note that some of the assumed facts within the examples will also be impacted by the introduction of mandatory climate reporting. For instance, statements such as "the entity discloses no other information about climate-related transition risks in its general-purpose financial statements" (in Examples 1 and 2) may need to be revisited to consider whether the entities are captured within the mandatory climate reporting regime.

4. Other implementation considerations

Feedback from members is that the Exposure Draft provides helpful insight into how climate-related considerations may be disclosed in the financial statements.

In particular, directors found it useful that the examples included instances where climate did *not* require additional disclosures, as well as examples where additional disclosures or adjustments were necessary. This supported the message that not every climate consideration will have a quantifiable financial impact that needs to be recorded in the financial statements (as distinct from narrative disclosure in other reports).

To improve the accessibility and usability of the Exposure Draft for directors, we offer the following suggestions:

- **Supplement the illustrative examples with broader, more accessible guidance:** While we appreciate the Exposure Draft is a technical accounting document, this may hinder its accessibility and usability by other stakeholders involved in the financial reporting process, including directors. Supplementing the Exposure Draft with broader, narrative-

² Only 14.9% of ASX-listed entities made climate disclosures in the notes of their financial statements in their 2022 Annual Reports, albeit this was an increase from 10.5% in 2021. The ASX100 are leading the pack - just over half (50.5%) of ASX100 entities made references to climate in their financial statements notes in 2022. See AASB – AUASB Research Report (Nov 2023) [Trends in climate-related disclosures and assurance in the Annual Reports of ASX-listed entities](#) at pages 14 and 15.

style guidance could bridge this accessibility gap. To reduce the burden on the AASB, this could take the form of updating existing guidance, such as the April 2019 AASB and AUASB's [Climate-related and other emerging risks disclosures: assessment of financial statement materiality using AASB/ IASB Practice Statement 2](#) or adapting IFRS's [Effects of climate-related matters on financial statements](#) to the Australian context.

- **Providing more detail on how key threshold judgments are exercised:** Some of the illustrative examples deem certain threshold information as fact. For instance, Example 1 states as part of the 'background' that the entity is exposed to climate-related transition risks, while Example 2 states that the entity 'has limited exposure to climate-related transition risks.' These conclusions are stated without explaining the rationale for the entity coming to this view, or the likely nature and extent of these risks. Such assessments are not merely background information but are critical to the entity's assessment of the financial impact of climate. As such, we would encourage the examples to provide more fulsome explanations of how entities have exercised these key threshold judgments to avoid confusing report preparers and users.
- **Limit the guidance to climate only:** Given the current focus on climate disclosures (particularly in light of mandatory climate reporting) and the particularities of accounting for climate's financial effect, the Exposure Draft should be limited to that topic area.
- **Potential future topics to address in any future guidance** could include accounting for carbon credits and the impact of pollution.
- **Ensuring examples across a broader range of sectors:** While some of the examples consider the sectoral impact of climate change, others are relatively broad. For instance, Example 2 only states that the entity is a 'service provider' (which is extremely broad) while Example 4 merely states that the entity is in a 'capital-intensive industry.' Ensuring the examples incorporate more detailed facts about the impact and role of sectoral factors may aid their use.

5. Next steps

If you would like to discuss any aspects further, please contact Anna Gudkov, Senior Policy Adviser at agudkov@aicd.com.au.

Yours sincerely,



Christian Gergis GAICD
Head of Policy



Treasury

Contact: Sean Osborn
Telephone: 02 9228 5932

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.

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.