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International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Dear Board Members,

RESPONSE TO EXPOSURE DRAFT *CLIMATE-RELATED AND OTHER UNCERTAINTIES IN THE FINANCIAL STATEMENTS (PROPOSED ILLUSTRATIVE EXAMPLES)* ("ED")

ISCA sought views from its members through a 2-month public consultation and from the ISCA Financial Reporting Committee which comprises experienced technical professionals from audit firms, preparers of financial statements and other stakeholders.

We appreciate and support the IASB's overall objective of improving the reporting of the effects of climate-related risks and other uncertainties in the financial statements as this is an area of key focus by investors and regulators. The provision of illustrative examples is a good initial step towards addressing stakeholders' concerns that the information about such uncertainties is at times insufficient or appeared to be inconsistent with information provided outside the financial statements.

Except for Example 1 and certain areas which we have reservations on (as highlighted below), we are generally supportive of the proposals in the ED and have highlighted areas where further clarifications or enhancements could be made.

Example 1

This example illustrates the disclosure of "non-impact" statements in the financial statements because the information is material. As the IASB has intended for the principles and requirements illustrated in the examples to apply equally to all uncertainties, we are concerned that entities will now need to include "negative" statements on all uncertainties in the financial statements. To do so, entities will need to develop additional controls over their assessment process to ascertain uncertainties which could be material to users of financial statements. However, entities may err on the side of caution and include negative statements for all risks and uncertainties, including those which are immaterial. This will add clutter to the financial statements which runs contrary to the IASB's goal of decluttering the financial statements. In view of these concerns, we urge the IASB to consider removing Example 1.

Areas which we have reservations on

- While the illustrative examples aim to strengthen the connection between financial statements and other general-purpose financial reports such as sustainability reports, they are limited to disclosures only. We believe that the linkages in areas of recognition and measurement should also be considered. For instance, entities might need to consider how the assumptions used for the impairment test (required under IAS 36) could correspond to assumptions used in the reporting of climate-related scenario analysis (required under IFRS S2) to help users of financial statements better understand the linkage between the two reports.

- The placement of the illustrative examples within the Standards makes them more visible, but there is a concern that having them included in the Illustrative Examples document accompanying the respective Standards and not housed within one document might make it difficult for preparers to get a comprehensive overview. We note IASB's intent to consider grouping the illustrative examples and publish them as a single document in paragraph BC45. We believe that this would be very useful to the preparers, and we hope that the IASB will proceed with this.

- We are concerned that entities may face challenges in determining whether specific information is material to the users of their financial statements, especially when the climate-related or other uncertainties do not impact the financial position and performance for the current reporting period or the next twelve months.

- It is not clear whether the disclosures should be included inside or outside the financial statements. There is a need to reconcile the requirements in IFRS with the requirements of the ISSB Standards to disclose anticipated financial effects of risks that translate into impact to the financial position, financial performance and cash flows. As the sustainability report and financial statements are part of an entity's general purpose financial reports, we urge the IASB and the ISSB to work together to address whether entities are expected to reach similar materiality conclusion when assessing the disclosures required by the ISSB Standards and IFRS Accounting Standards and the appropriate location of the disclosures.

Our detailed comments to specific questions in the ED are set out below.

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.

<u>Provision of illustrative examples</u>

Although IFRS Accounting Standards do not refer explicitly to climate-related matters, entities are expected to consider these matters when (i) their effect is material in the context of the financial statements, or (ii) the related information is not presented elsewhere in the financial statements but is relevant to an understanding of any financial statement item. These overarching requirements in IAS 1 are omnipresent, and previous educational materials issued by the IASB in 2019 and 2020 sought to raise awareness of these as well as principles in several other Standards which may be applicable in considering the effects of climate-related matters on financial statements.

In our view, the provision of illustrative examples builds on these educational materials and makes it easier for preparers to understand the practical applicability of the various principles in the Standards. This is a good starting point to further improve the reporting of climate-related risks and other uncertainties in the financial statements.

Linkage between the entity's financial statements and other general purpose financial reports

Although the illustrative examples seek to strengthen the linkage between the entity's financial statements and other general purpose financial reports such as sustainability reports, we note that they are limited to disclosures only. To holistically improve the reporting of climate-related risks and other uncertainties in the financial statements, the linkages in areas of recognition and measurement should also be highlighted. For instance, entities might need to consider how the assumptions used for the impairment test (required under IAS 36) could correspond to assumptions used in the reporting of climate-related scenario analysis (required under IFRS S2) to help users of financial statements better understand the linkage between the two reports.

Placement of the illustrative examples

The inclusion of the examples as illustrative examples accompanying the Standards also makes them more apparent than previous educational materials. We believe this will create more awareness among preparers and encourage them to consider the connectivity of information in financial statements and sustainability reports.

However, as each example would be included in the Illustrative Examples document accompanying the respective Standards and not housed within one document, there are concerns that the preparers may have difficulties getting an overview of the various Standards which may be applicable. We note IASB's intent to consider grouping the illustrative examples and publish them as a single document in paragraph BC45. We believe that this would be very useful to the preparers, and we hope that the IASB will proceed with this.

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 the IASB's approach in developing the illustrative examples as they highlight some of the most relevant requirements of the IFRS Accounting Standards in relation to the reporting of climate-related risks and other uncertainties in the financial statements.

Whilst we generally agree with the fact patterns illustrated in the examples and the technical content of the examples, we have concerns about certain illustrative examples as set out below.

Example 1 – Materiality judgements leading to additional disclosures (IAS 1 / IFRS 18)

In this example, although the entity has assessed and noted that the climate-related transition plan has no effect on the recognition or measurement of its assets and liabilities and related income and expenses, it would disclose the "non-impact" in its financial statements because this information is material.

In our view, the above disclosure constitutes a "negative" statement and is a departure from current practice where entities typically include financial statement disclosures that have an impact on their financial position and financial performance. Furthermore, as the IASB has intended for the principles and requirements illustrated in these examples to apply equally to all uncertainties, this would mean that entities will be required to provide negative statements on all uncertainties in the financial statements going forward. To do so, entities will have to develop additional controls over their assessment process to ascertain those uncertainties whose impact is financially immaterial but qualitatively material to users of financial statements for disclosure in the financial statements. Entities may err on the side of caution and include negative statements for all risks and uncertainties, including those which are immaterial. This will add clutter to the financial statements which runs contrary to the IASB's goal of decluttering the financial statements.

In view of the above concerns, we urge the IASB to consider removing Example 1.

Example 5 – Disclosure of assumptions: additional disclosures (IAS 1 / IFRS 18)

In this example, the fact pattern is such that the entity is operating in a jurisdiction whose government has <u>announced</u> regulation that would restrict the entity's ability to operate and generate profits in that jurisdiction in the future.

We wish to highlight that the process of legislation development typically differ among jurisdictions and the use of the term "announcement" may be too simplistic as it could lead to entities believing that they would need to disclose the impact of any announced legislative changes, even if those changes were not yet certain to be enacted. Hence, we would suggest for the IASB to clarify that in the background of Example 5 that an enactment of the regulations is certain once the announcement is made and only the timing of enactment and the effective date are subject to uncertainty post the announcement

Example 6 – Disclosure about credit risk (IFRS 7)

In this example, one portfolio of loans that has been identified for monitoring and taking of action to mitigate credit risk is "loans to corporate real estate customers that are secured by properties located in low-lying areas subject to flood risk". We wish to highlight that the assessment should extend to "loans to all customers (not just corporate real estate customers) that are secured by properties located in low-lying areas subject to flood risk".

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

Reiteration that the assessment/judgement is required to be performed annually

The current wording of the illustrative examples appear to suggest that the assessment/judgement regarding the impact of climate-related transition plan on the entity's financial position and financial performance is only required to be performed once, rather than on an annual basis. We suggest for the IASB to make it clear that the assessment/judgement may vary each year depending on facts and circumstances as well as users' needs at each point in time.

Appropriate location of the disclosures and connectivity with ISSB Standards

While IFRS Accounting Standards generally require entities to disclose information about climate-related and other uncertainties, we are concerned that entities may face challenges in determining whether specific information is material to the users of their financial statements, particularly if the entity concludes that climate-related or other uncertainties do not impact its financial position and performance for the current reporting period or the next twelve months. Example 1 appears to suggest that statements indicating 'no impact' must be included in the financial statements.

It is not clear whether the disclosures should be included inside or outside the financial statements. There is a need to reconcile the requirements in IFRS with the requirements of the ISSB Standards to disclose anticipated financial effects of risks that translate into impact to the financial position, financial performance and cash flows.

As the sustainability report and financial statements are part of an entity's general purpose financial reports, we urge the IASB and the ISSB to work together to address whether entities are expected to reach similar materiality conclusion when assessing the disclosures required by the ISSB Standards and IFRS Accounting Standards and the appropriate location of the disclosures.

Regarding disclosures of anticipated financial effects, we like to highlight that under the Conceptual Framework paragraph 3.6, forward-looking information is included in the financial statements if it relates to the entity's assets or liabilities and suggest for the IASB to consider using this as the basis to assess whether these disclosures are to be provided within or outside the financial statements.

Should you require any further clarification, please feel free to contact Ms Felicia Tay at felicia.tay@isca.org.sg or Ms Jezz Chew at jezz.chew@isca.org.sg.

Yours faithfully,

Mr Terence LAM
Director, Advocacy & Professional Standards