Dr. Andreas Barckow, Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD

28 November 2024

Dear Dr. Barckow,

Subject: IASB Exposure Draft, Climate-related and Other Uncertainties in the Financial Statements: Proposed illustrative examples

The International Corporate Governance Network (ICGN) welcomes the opportunity to respond to the International Accounting Standards Board's (IASB) consultation IASB/ED/2024/6, which sets out proposed illustrative examples on how to report the effects of climate-related and other uncertainties in financial statements. Led by investors responsible for assets under management of $77 trillion, ICGN promotes high standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries.

In November 2023, ICGN published a [Viewpoint on reflecting climate-related matters in financial statements.] The viewpoint explained why accounting for climate change matters to investors, identified potential obstacles impeding progress, and made suggestions for constructive dialogue between investors and companies on the matter. As part of this, ICGN encouraged standard-setters and regulators to continue providing guidance to companies and auditors, including illustrative examples.

ICGN strongly supports the IASB's initiative to help improve the reporting of climate-related matters in financial statements and welcomes the response to investors' concerns that this information can be insufficient or inconsistent with information provided outside the financial statements. We are pleased to see the range of examples provided in the IASB Exposure Draft to support the application of IFRS standards.

While we are very supportive of the Exposure Draft, we believe the illustrative examples could be further strengthened to improve clarity in areas such as the disclosure of quantitative information on assumptions and estimates, asset retirement obligations (AROs), claims of commercial sensitivity, financial implications of legal or regulatory action, and physical climate-related risks. Our responses to the specific consultation questions are provided in the Annex below.

Thank you again for the opportunity to provide our comments. If you would like to follow up with questions or comments, please contact our Global Policy Director, Severine Neervoort (severine.neervoort@icgn.org) or Policy Executive, Maggie Fellowes (maggie.fellowes@icgn.org).

Yours faithfully,

Jen Sisson

Jen Sisson
Chief Executive Officer, ICGN

Appendix: Response to consultation questions

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.

ICGN response: Yes, ICGN believes providing illustrative examples will help companies, who can then apply the logic to their own circumstances. Once published, communication and educational efforts will be important to ensure that companies, auditors and regulators worldwide become familiar with the illustrative guidance and implement it.

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.

ICGN response: We support the proposed approach of the illustrative examples accompanying the IFRS Accounting Standards. This allows for flexibility to add more examples in future, or change the examples, without changing the standards themselves.

It is also important the illustrative examples are easily accessible. Publishing the material in a single document that can be easily referenced will help with this. Additionally, we suggest it would be useful for the IFRS Foundation to consolidate all documents related to sustainability-related disclosures, including the illustrative examples, in one place on the IFRS website.

2 a) 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.

ICGN response: ICGN broadly supports the approach taken and the range of situations covered in the examples. We do, however, have some suggestions to consider for strengthening the impact of the examples.

1. *Clarify the expectation that both quantitative and qualitative information must form part of the assessment and disclosure*

There is currently a particular lack of consistency in quantitative disclosures of critical climate-related accounting assumptions and estimates in financial statements. This undermines the reliability of companies' financial statements and subsequently affects investors' ability to interpret and compare companies' financial condition and operating performance. These issues were recently highlighted by a group of 40 institutional investors in a letter to the Securities and Exchange Commission (SEC) about the prevalence of Inadequate critical accounting assumption disclosures. A concern from ICGN is that companies may provide very high-level rationales that are qualitative-only, to support a continuation in practices.

It would be helpful for the IASB to present a clear expectation, through the illustrative examples, that both quantitative and qualitative factors should form part of the materiality assessment and the disclosure. It would also be helpful to set clear expectations on the significant quantitative assumptions that should be disclosed in certain circumstances. In the case of asset retirement obligations (AROs), an example would be to include current estimated costs, expected timing, inflation rates, discount rates, and undiscounted cash flows (example 7). This would help investors understand the assumptions that were made and improve trust in the accuracy of the provision amount recognised.

2. *Add an illustrative example to address unrecognised asset retirement obligations*

The examples should also illustrate how to approach unrecognised AROs. AROs are typically calculated by estimating the current value of the decommissioning obligations based on estimates of the cash flows to settle them in future.

In a sample of 2023 annual reports of six European Oil and Gas companies, the Climate Accounting and Audit Project (CAAP) and Principles for Responsible Investment (PRI) found that at least half had unrecognised AROs, with the other half disclosing insufficient information to be understood by investors. [1]'Indeterminate' settlement dates for asset retirement is often the reason cited by companies for not recognising ARO provisions. This appears to be quite common, despite the IFRS standards stating it should be 'extremely rare' that the timing of costs to settle an obligation cannot be determined.

We suggest it would be helpful for the IASB to provide additional guidance on this issue through the illustrative examples. It would be particularly useful to clarify:

- Is the current prevalence of unrecognised AROs appropriate, considering the expectation in the standards that an inability to determine settlement dates would be 'extremely rare'?
- When there is uncertainty on the timing of settlement for asset retirement, should the estimated costs, range of timing, and undiscounted cash flows be disclosed, or is the company not required to disclose any information regarding the financial significance of this type of obligation?

3. *Clarify when and how certain disclosure is commercially sensitive and how companies should approach this*

A commonly cited reason for not disclosing quantitative information, including key accounting assumptions, is that the information is commercially sensitive. This is often regarding forward-looking assumptions on the price of commodities (e.g., fossil fuels), which can be important information to inform investor understanding and decision making. There is currently a lack of consistency on this issue, with some companies claiming the information is commercial sensitive and others disclosing the same data. It would be useful for the IASB to provide clarity through the illustrative examples on what is reasonable practice in this regard.

4. *Add an example to illustrate disclosure of climate-related litigation or infringements*

If a company is subject to penalties, fines or lawsuits and this has an impact on the financial statements, the matters should be disclosed according to International Accounting Standards 1 and 37. However, disclosures have been limited in some cases of ongoing climate litigation or sanctions. To help address this issue, it would be useful for the IASB to add an illustrative example that clarifies appropriate practice for disclosing the potential financial implications of legal or regulatory action.

5. *Provide greater emphasis on physical climate-related risks*

We would welcome greater emphasis on the financial consequences of physical climate-related risks and how companies should factor this into their forward-looking estimates and assumptions. Through the illustrative examples, it would be helpful to demonstrate how a company materially exposed to physical risk should disclose this in the financial statement.

6. *Take into account various company sizes*

We note the examples cover a wide range of industries, but not the diversity in company size. Providing guidance to smaller companies could be useful for preparers.

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

No