

Summary of the Sustainability Working Group meeting held on 21 October 2024 from 14:00pm to 17:00pm

In attendance	
Name	Designation
Seema Jamil-O'Neill	Chair
Anna Korneeva	SWG Member
Anna Malcolm	SWG Member
Deepa Raval	SWG Member (attended virtually)
Ronita Ram	SWG Member (attended virtually)
Mark Randall	SWG Member
Peter Leadbetter	SWG Member
Sabrina Curry	SWG Member
Yannis Tsalavoutas	SWG Member (attended virtually)
Carlos Martin Tornero	FCA Observer
Debbie Crawshawe	DBT Observer
Sue Harding	Observer with speaking rights (CRUF)
Fiona Donnelly	Observer (ICAS - attended virtually)

Apologies: Chris Smith, George Richards, Henry Biddle, James Sawyer, Joshua Davies, Kylee Dickie and Sarah Wilkin.

Relevant UKEB Secretariat members were also present.

Welcome and Objectives

1. The Chair welcomed the UKEB's Sustainability Working Group (SWG) members.
2. The Chair noted that the primary objective of the meeting was to collect feedback on the UKEB's Draft Comment Letter (DCL), published on 25 September 2024, in response to the IASB's ED [*Climate-related and Other Uncertainties in the Financial Statements*](#) (CROUFS).

Update on endorsement of ISSB standards

3. The Chair outlined the UK government's process for the endorsement of the ISSB Standards and the roles of the two committees involved: the Technical Advisory Committee (TAC); and the Policy Implementation Committee (PIC).
4. The TAC performs the technical assessments of the ISSB standards and provides recommendations on their endorsement, for use in the UK, to the Secretary of State (SoS). The TAC meetings are held in public, and the summary minutes published.
5. The main aim of the PIC is to facilitate coordinated implementation of the sustainability standards across the UK gov, regulators and standard-setters. The meetings are held in private, but the summary minutes are publicly available.
6. The final endorsement decisions on ISSB Sustainability Disclosure Standards will be made by the SoS. The UK government has committed to endorsement decisions on IFRS S1 and S2 being made in 2025, subject to a public consultation on the draft UK Sustainability Reporting Standards (UK SRS).

Overview of the IASB's CROUFS project

7. The Chair highlighted that the IASB had published the CROUFS ED to address stakeholder feedback, including from the UK, which sets out illustrative guidance for the application of accounting standards to improve the reporting of climate related matters and other uncertainties in the financial statements.
8. The Chair noted that the UKEB is intending to comment on the IASB's ED in the interest of ensuring connectivity and high-quality reporting. However, the UKEB will not endorse or adopt these illustrative examples, as they are not proposed to form a part of the mandatory IFRS Accounting Standards.

IASB Exposure Draft Questions

9. Members were asked for their views on the UKEB's draft position set out in the UKEB's DCL, which was supportive but noted several potential unintended consequences.
10. The UKEB DCL expressed concern that the ED potentially placed over-reliance on paragraph 31 of IAS 1, by reading the 'lack of material effect' into the wording of this paragraph, in a way that was not currently applied, in practice.
11. Members of SWG made the following points:
 - a) Several members noted that paragraph 31 was not widely used in practice and that they had not considered it would require the disclosure of a 'lack of effect'. These members were concerned that the examples appeared to be interpreting the requirement as opposed to providing application guidance and represented a significant change from current practice.
 - b) A User considered that additional reference to paragraphs 17(c) and 112(c) would be beneficial to avoid over reliance on paragraph 31 and to encourage companies to provide a best estimate of material uncertainties.
 - c) It was noted that the IASB's *Materiality Practice Statement* (MPS) contained an illustration where a company operating in an industry exposed to climate change disclosed no material effect as it was considered material for users. However, the Chair noted that the MPS was not a mandatory standard.
 - d) Another member questioned if a 'nil return' was decision useful when there may be other disclosures outside financial statements that explained the rationale for 'no impact' on the financial statements.
12. Members generally agreed with the UKEB's draft position and considered that further clarification regarding the application of judgement for assessing financial materiality would be helpful.
13. The UKEB Secretariat advised that the IASB's Basis for Conclusions noted there may be challenges, in practice, with the application of paragraph 125 of IAS 1. The UKEB draft position was that, if this was the case, then additional disclosure requirements in the standards, rather than illustrative examples, may be required.
14. The members noted the following points during the discussion:
 - e) Users were interested in how material medium-term potential uncertainties had, or had not, been reflected in the financial statements and noted that some preparers appeared to feel constrained by this paragraph.
 - f) Preparers expressed concerns regarding the reliability of information and potential legal exposure arising from medium-term risks being reported in

the financial statements. Several members felt medium-term risks were outside the boundary of the financial statements and considered it appropriate that management should determine whether disclosure was required based on their assessment of materiality.

15. The UKEB Secretariat asked members to comment on the principles-based approach taken in the ED. Members made the following comments:
 - g) A member noted a high risk of unintended consequences in relation to applying the examples, which were primarily climate-related, to other, wider uncertainties.
 - h) A User considered the examples could be applied by analogy to a range of uncertainties but needed specific assets to be identified in each example.
 - i) Other members considered that additional examples on topics, other than climate, would be helpful to ensure the broader applicability of the examples beyond climate and to avoid any unintended consequences.
16. The UKEB Secretariat asked members to comment on whether it would be helpful if the examples included financial statement impacts and links to sustainability disclosures to aid connectivity. Members made the following comments:
 - j) Most members agreed that illustrations of financial statement impacts and their interaction with sustainability disclosure standards would be useful.
 - k) Members were unclear whether the examples in the ED assumed that IFRS S1 and S2 had been applied and, if so, whether an assumption had been made that this would have provided decision useful information regarding current and anticipated financial effects.
 - l) A User noted that the financial statements were required to stand alone and, therefore, understanding them should not be reliant on cross-references to sustainability, or any other information, outside those statements.
 - m) An academic member noted that as IFRS S1 and S2 allow cross-referencing to the financial statements. This may help avoid any overlaps with uncertainties recognised in the financial statements.

Comments on specific ED examples

17. SWG members generally expressed support for the examples and considered that, while they may not result in a significant change in practice, they were a helpful initial step. Members felt the examples could be improved by:
 - a. demonstrating more actual impacts on the financial statements;

- b. articulating more clearly managements judgement process relating to the assessment of financial materiality;
 - c. including in one example financial statement considerations of short-, medium- and long-term uncertainty; and,
 - d. the addition of an asset decommissioning provision.
- ii) Members also highlighted possible practical challenges relating to Value In Use calculations for impairment testing and that the IASB could also consider referring to existing related guidance in relevant accounting standards.
18. It was considered that the context from the materiality assessment examples could be lost if the examples were not considered collectively. The members, therefore, supported the IASB publishing the examples together, as well as accompanying the individual accounting standards.

World Standard Setters connectivity examples

19. Members had not been aware of these additional connectivity examples from the ISSB and IASB staff. In general, members were supportive of the objective of demonstrating connectivity between the Boards' standards but were unclear of these examples' status or relationship to the current ED.
20. Some members commented that the examples would be more useful, in practice, if the fact patterns were more detailed, and an analysis and further explanation was provided for how the financial statement disclosures were derived.

Horizon scanning

21. The members considered future risks, opportunities, and their implications for connectivity in reporting between IFRS sustainability disclosure and accounting standards.

Next Steps

22. The SWG were advised that the UKEB DCL consultation was open until 11 November 2024 and members were encouraged to submit formal responses or comments.