

# *Climate related and Other Uncertainties in the Financial Statements – Proposed illustrative examples: Final Comment Letter*

## Executive Summary

<b>Project Type</b>	Influencing
<b>Project Scope</b>	Moderate
<b>Purpose of the paper</b>	
<p>The purpose of this paper is to obtain the Board's:</p> <ul style="list-style-type: none"><li>a) Approval to issue a Final Comment Letter (FCL) (Appendix A) in response to the IASB Exposure Draft <i>Climate related and Other Uncertainties in the Financial Statements – Proposed illustrative examples</i> (the ED);</li><li>b) Approval for the publication of the Feedback Statement (FBS) (Appendix B); and</li><li>c) Feedback on the draft Due Process Compliance Statement (DPCS) (Appendix C).</li></ul>	
<b>Summary of the issue</b>	
<p>The IASB Exposure Draft (ED) was issued on 31 July 2024 with a comment deadline of 28 November 2024. The IASB project explored targeted actions to improve the reporting of climate-related and other uncertainties and to illustrate how an entity can apply IFRS Accounting Standards to report their effects in the financial statements through a series of eight examples.</p> <p>The examples accompany but do not form part of IFRS Accounting Standards nor do they add to or change the requirements in any IFRS Accounting Standards.</p> <p>The UKEB is commenting on the ED in the interest of ensuring connectivity and high-quality reporting. However, the UKEB will not endorse or adopt these examples, as they are not proposed to form a part of the mandatory IFRS Accounting Standards.</p> <p>The UKEB's Draft Comment Letter (DCL) was published for stakeholder comment on 25 September 2024. This consultation closed on 11 November 2024 and the IASB</p>	

consultation deadline is 28 November 2024. Changes to the DCL resulting from feedback are summarised in this paper.

### **Decisions for the Board**

1. Does the Board agree with the proposed changes in the FCL to reflect stakeholder feedback?
2. Does the Board wish to retain the references to the World Standard Setters Conference connectivity examples in the FCL and FBS?
3. Subject to any amendments arising at this meeting, does the Board approve:
  - a) The FCL (Appendix A) for issue to the IASB and publication on the UKEB website?
  - b) The FBS (Appendix B) for publication on the UKEB website?
4. Does the Board have any comments on the draft DPCS (Appendix C) for the project.

### **Recommendation**

The Secretariat recommends that, subject to any amendments arising at this meeting, the Board approves the FCL and the FBS for issue and publication.

### **Appendices**

- Appendix A Final Comment Letter – clean copy  
Appendix B Feedback Statement  
Appendix C [Draft] Due Process Compliance Statement

## Background

1. The IASB developed these illustrative examples to address stakeholders', particularly investors', concerns that information about climate-related uncertainties in financial statements was insufficient or appeared to be inconsistent with information provided outside the financial statements.
2. The examples focus on areas of materiality judgements, disclosures about assumptions and estimation uncertainties, and disaggregation of information. There is no effective date and no transition requirements as the illustrative examples will not form an integral part of IFRS Accounting Standards.
3. In March 2024, the Secretariat gathered detailed feedback on the IASB's draft illustrative examples from the UKEB Sustainability Working Group and other Advisory Groups. This was shared with the IASB and reflected in the DCL<sup>1</sup>.
4. As the end of the IASB comment period coincides with the November 2024 UKEB meeting the IASB project team have been advised that the FCL may be slightly delayed.
5. The DCL was broadly supportive of the IASB's work on this project, while encouraging the IASB to consider potential unintended consequences and whether, depending on the IASB's objective whether standard setting may be more effective than illustrative examples.

## Outreach and feedback on the DCL

6. In addition to the stakeholder feedback gathered on the draft illustrative examples, the Secretariat held to discussions the ED and DCL with a user, a preparer, a regulator, and industry bodies representing preparers and users.
7. Outreach on the draft comment letter also included discussions with the following UKEB Advisory and Working Groups:
  - a. Academics<sup>2</sup> 23 September 2024
  - b. Sustainability 21 October 2024

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<sup>1</sup> [UKEB April 2024 Board meeting, IASB General Update - Appendix D: Climate-related matters](#)

<sup>2</sup> Due to the timing of this groups meeting the discussion was based on the content of the ED and the expected content of the DCL.

- c. Preparers 28 October 2024
  - d. Investors 4 November 2024
  - e. Accounting Firms and Institutes 7 November 2024
8. Stakeholders were also asked for comments on the connectivity examples presented by the IFRS Foundation at the September 2024 World Standard Setters Conference<sup>3</sup>.
9. Three written responses to the DCL were received: one from an investment firm and two from accounting firms. As the investment organisation submitted the letter on a confidential basis it was not published on the UKEB webpage.
10. Stakeholders were broadly supportive of the UKEB draft positions. The table below presents a summary of the main points of feedback received during the consultation period on the UKEB's DCL.

Topic	Summary of stakeholder feedback / proposed changes	Paragraph in FCL
Unintended consequences: application of paragraph 31, IAS 1.	Preparers advised that the illustrations appeared to indicate a significant change from how this paragraph is interpreted and applied in practice. The implication in the proposed illustrative examples that a 'lack of material effect' is required to be considered does not illustrate the original intention or wording of paragraph 31: it appears more akin to interpretation.	7-9, A4 – A11
Unintended consequences: application of paragraph 125, IAS 1.	It was generally considered the requirement is effective in practice and applied consistently for near term estimation uncertainties (within 12 months).  A tension was observed between preparers and users regarding the disclosure of financially material medium-term estimation uncertainties. Users	10, A12– A17

<sup>3</sup> [Connectivity between the financial statements and sustainability-related financial disclosures](#) (WSSC, September 2024)

Topic	Summary of stakeholder feedback / proposed changes	Paragraph in FCL
	requested information about these whilst preparers did not consider the paragraph required it.	
Requirements, fact patterns and technical content of the examples	Stakeholders made additional suggestions relating to examples one, two, four and seven. In addition, there was support for the inclusion of examples where there was an impact on the financial statements to clearly illustrate why the disclosures belonged within the boundary of the financial statements.	A30 -A37
Other comments	<p>Most stakeholders did not consider that any transition implementation requirements were necessary. However, preparers were concerned stakeholders may consider the use of these illustrations as evidence of errors in previously published financial statements.</p> <p>No stakeholders considered there to be substantive costs or benefits from the implementation of the examples.</p>	A38 – A40
World Standard Setters Conference connectivity examples	Stakeholders broadly considered the examples useful but noted that the fact patterns and explanations for the financial statement impacts and disclosures required more context and detailed explanation for them to be more widely applicable.	12

## Final Comment Letter (FCL)

11. The FCL is attached as Appendix A for consideration and, subject to any amendments, the Board is asked to approve the letter for issue to the IASB and publication on the UKEB website.
12. Due to the number of changes from the DCL we have not provided a track change version. We have instead shaded the areas in the FCL where there were substantive changes.

## Feedback Statement

13. The Feedback Statement is attached for consideration, and, subject to any amendments at this meeting, the Board is asked to approve it for publication on the UKEB website.

## [Draft] Due Process Compliance Statement (DPCS)

14. The [draft] DPCS is attached for consideration. A final version will be presented at the December 2024 meeting for noting, once the final project steps are complete.

### Questions for the Board

1. Does the Board agree with the proposed changes in the FCL to reflect stakeholder feedback?
2. Does the Board wish to retain the reference to the World Standard Setters Conference connectivity examples in the FCL and FBS?
3. Subject to any amendments arising at this meeting, does the Board approve:
  - a) The FCL (Appendix A) for issue to the IASB and publication on the UKEB website?
  - b) The Feedback Statement (Appendix B) for publication on the UKEB website?
4. Does the Board have any comments on the draft DPCS (Appendix C) for the project.

## Next steps

15. Following approval and any amendments required by the Board, the FCL will be submitted to the IASB as soon as practicable after the November 2024 Board meeting. The FCL together with the Feedback Statement will then be published on the [UKEB project webpage](#). The draft DPCS will be updated to reflect feedback, the final project steps and then represented to the Board at the December 2024 meeting for noting.

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

xx November 2024

Dear Dr Barckow

### **Exposure Draft IASB/ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements* - Proposed illustrative examples**

1. The UK Endorsement Board (UKEB) is responsible for the endorsement and adoption of IFRS Accounting Standards for use in the UK and is, therefore, the UK's National Standard Setter for IFRS Accounting Standards. The UKEB leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments, and interpretations. In addition, the Department for Business and Trade has asked the UKEB to consider the overlap between IASB and ISSB issued standards.
2. This letter is intended to contribute to the IFRS Foundation's due process. The views expressed by the UKEB in this letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.
3. There are currently approximately 1,400 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.<sup>1</sup> In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.<sup>2</sup>

### **Overarching comments**

4. As highlighted in the joint National Standard Setters letter to the International Sustainability Standards Board (ISSB) on its Agenda Consultation, we consider that maintaining close alignment and connectivity between financial and

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<sup>1</sup> UKEB calculation based on LSEG and Eikon data, May 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

<sup>2</sup> UKEB estimate based on FAME (company information in the UK and Ireland produced by the Bureau Van Dijk, a Moody's analytics company), Company Watch financial analytics and other proprietary data.

sustainability reporting is paramount to ensuring that the information produced for investors is compatible and comparable.

5. We recognise the challenges of delivering guidance as sustainability reporting continues to evolve. Accordingly, we commend the IASB for its work to help provide all jurisdictions that apply IFRS Accounting Standards, and which are now committed to providing sustainability information to investors, with clarity regarding connectivity.
6. We, therefore, welcome the IASB's development of these examples. We agree that providing illustrative examples should improve reporting for the effects of climate-related, and other, uncertainties in the financial statements. It is also clear to us that the IASB has listened to feedback during their development.

### Standard Setting and other solutions

7. However, we have identified some aspects of the guidance which may be better addressed by standard setting. We are concerned that the guidance goes beyond current understanding and application of the requirements of paragraph 31 of IAS 1 *Presentation of Financial Statements*. Preparers have advised us that the illustrations appeared to indicate a significant change from how this paragraph is interpreted and applied in practice, where it is used more as a 'safety net' and then only in rare circumstances.
8. We also consider that the implication that a 'lack of material effect' is required may lead to disclosure which does not illustrate the original intention or wording of paragraph 31; it appears more akin to interpretation.
9. If the IASB considers that paragraph 31 is not achieving its intended purpose, we suggest standard setting would be more effective than non-mandatory illustrative examples. If the IASB were minded to commence standard setting, we suggest some amendments to the final sentence of paragraph 31 to help achieve this objective. Please refer to A4 – A11 in Appendix A.
10. In relation to paragraph 125 of IAS 1, we welcome the clarification provided in example 4. Stakeholders advised us that they generally consider that the requirement is effective and, in practice, applied consistently for sources of estimation uncertainty with a significant risk of material adjustment in the near term. We did however observe tension between preparers and users regarding the disclosure of financially material sources of estimation uncertainty with a significant risk of material adjustment in the medium-term. To address this, the IASB may wish to consider if an additional requirement is needed in IAS 1, requiring the disclosure of estimation uncertainties with a significant risk of material adjustment after more than one year, with a description of the nature of the risk and qualitative factors. Please refer to A12 – A17 in Appendix A.



## Approach to developing illustrative examples

11. We are generally supportive of the IASB's approach to developing the examples and, in particular, that the examples should illustrate how an entity applies the requirements in IFRS Accounting Standards (BC14). We also agree with the 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 the financial statements.
12. We consider that the examples could be enhanced by including more scenarios where climate-related or other uncertainties have an impact on the financial statements. This would help to clearly illustrate why the disclosures belong within the boundary of the financial statements, as opposed to in other general purpose financial reports. For more detail, please refer to paragraphs A18-A21.
13. We have other comments on the fact patterns and technical content of the examples. Our comments are aimed at enhancing the relevance of the illustrations and supporting connectivity. These are included in the paragraphs A30-A37 in Appendix A.

## World Standard Setters Conference connectivity illustrative examples

14. We commend the IASB and ISSB for developing additional joint connectivity illustrative examples, presented at the World Standard Setters conference in September 2024. We appreciate that these were not in scope of the ED but, as they appeared relevant, we took the opportunity to discuss these as part of our project outreach.
15. Stakeholders were broadly supportive of this approach but noted that the examples needed to include a more detailed analysis of the fact patterns to connect them to the disclosures in the financial statements and for the examples to be more widely applicable.
16. If you have any questions about this response, please contact the project team at [UKEndorsementBoard@endorsement-board.uk](mailto:UKEndorsementBoard@endorsement-board.uk).

Yours sincerely

Pauline Wallace  
Chair  
UK Endorsement Board

# Appendix A: Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples*

## 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) Improvements in reporting

- A1. While we recognise the challenges of delivering guidance, as sustainability reporting is expected to evolve soon, it is also clear that demand for clarity regarding connectivity is urgent and necessary in all jurisdictions that apply IASB's standards, and which are now committed to providing sustainability information to investors. Jurisdictions representing over half the global economy by GDP have

now taken steps towards aligning with, or adopting, ISSB standards<sup>3</sup>. In other jurisdictions, such as the EU where companies are expected to apply ESRS, recent activity indicates that there is expected to be a high degree of interoperability with ISSB standards.

## Connectivity

- A2. As highlighted in the joint National Standard Setters letter<sup>4</sup> to the ISSB on its Agenda Consultation, we consider that maintaining close alignment and connectivity between financial and sustainability reporting is paramount to ensuring that the information produced for investors is compatible and comparable. We are encouraged that one of the objectives set out in the ED (BC21) is to illustrate the provision of connected information in general purpose financial reports and to reinforce compatibility with IFRS Sustainability Disclosure Standards.
- A3. We agree that providing illustrative examples should improve the current level of reporting for the effects of climate-related and other uncertainties in the financial statements. We include below some comments on certain unintended consequences and areas where we consider that the examples could be further improved.

## Standard setting and other solutions

### Paragraph 31, IAS 1

- A4. Users observed that when applying paragraph 31<sup>5</sup> of IAS 1, preparers appeared to only apply the first two sentences and rarely considered the final sentence. They supported the separation of the final sentence in a separate paragraph now incorporated in IFRS 18 *Presentation and Disclosure in Financial Statements*. They considered it may help to place the right emphasise on this aspect of the requirement.
- A5. We include below aspects of the illustrations which appear to go beyond current application and interpretation of paragraph 31 of IAS 1.

<sup>3</sup> [Jurisdictions representing over half the global economy by GDP take steps towards ISSB Standards](#) (IFRS Foundation 2024)

<sup>4</sup> [National Standard Setters Sustainability Forum Joint Letter](#) paragraphs 4 – 9

<sup>5</sup> 'Some IFRSs specify information that is required to be included in the financial statements, which includes the notes. An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material. This is the case even if the IFRS contains a list of specific requirements or describes them as minimum requirements. An entity shall also consider whether to provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity's financial position, and financial performance.' (IAS 1, paragraph 31)

- A6. Examples one<sup>6</sup> and five<sup>7</sup> appear to illustrate instances where materiality judgements, based on IAS 1 paragraph 31, lead to additional disclosures. However, this may place too much reliance on a requirement that is intended to apply when compliance with other IFRS is insufficient to enable users to understand the impact of transactions, other events, and conditions. Preparers noted that this appeared to be a significant change from how the paragraph is currently interpreted and used in practice. We understand that, in practice, this paragraph is used more as a 'safety net' and then only in rare situations.
- A7. In addition, examples one and two<sup>8</sup> suggest that a 'lack of material effect' should also be considered for disclosure under this paragraph. This appears to be inconsistent with the original intention of that paragraph, which only requires 'consideration' of whether disclosure should be provided. However, this is not assumed to override materiality considerations and therefore, it is unclear to stakeholders how disclosing items, which do not have a material effect on an entity's financial statements, provide useful information.
- A8. Users provided additional clarification that, a disclosure highlighting a lack of material effect would only be useful when an entity had raised an expectation in its market communications or other parts of its general-purpose financial reports or when such an expectation exists for the industry within which it operates. By contrast, preparers cautioned that, to avoid 'boiler plate' disclosures, the fact patterns in these examples need to explicitly state management's rationale for determining why disclosure was required in the financial statements.
- A9. It is clear from these observations from stakeholders that the examples go beyond the intent of paragraph 31 of IAS 1, as currently understood in the market. If the IASB is minded to provide further clarifications along the lines included in the illustrated examples, we consider that this would need to be achieved via standard setting. We include some suggestions for standard setting considerations, should the IASB consider this appropriate.
- A10. An alternative approach may be to consider referencing paragraph 112(c) of IAS 1 as it requires the notes to the financial statements to provide '...information that is not presented elsewhere in the financial statements but is relevant to an understanding of any of them.' However, we do not believe this will lead to the disclosure of 'lack of material effect' either as materiality considerations remain overarching.
- A11. If the IASB is minded to undertake a standard setting solution, we suggest the following amendment to paragraph 31 of IAS 1:

<sup>6</sup> Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)

<sup>7</sup> Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)

<sup>8</sup> Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)

‘...An entity shall ~~also consider whether to~~ provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users of financial statements to understand the impact of particular transactions, other events and conditions on the entity’s financial position and financial performance.

If through its market communications, general-purpose financial reports or by virtue of the industry in which an entity operates, a user may reasonably expect a material effect on its financial statements an entity shall provide a specific quantitative or qualitative disclosure, even if assessed as immaterial.’

### Paragraph 125, IAS 1

- A12. We support the clarification provided in example four<sup>9</sup> regarding IAS 1 paragraph 125. While stakeholders acknowledge some confusion in practice, it was generally considered that this paragraph was applied consistently for sources of estimation uncertainty with a significant risk of material adjustment in the near term, and standard setting was not required in respect of those.
- A13. However, in relation to the disclosure of climate-related sources of estimation uncertainty with a significant risk of material adjustment in the medium-term, we noted a tension between preparers and users’ perspectives, in relation to the timeframe.
- A14. Preparers observed that, due to the interrelated nature of uncertainties, it would be challenging to separate them into their component parts. In addition, due to the inherently lower level of reliability, some preparers were hesitant to make these disclosures due to the associated risk of litigation or adding clutter to the financial statements, in particular if the information proved to be materially incorrect. They also emphasised the importance of avoiding blurring the boundaries of the financial statements and considered that the ISSB requirements, regarding disclosure of current and anticipated financial effects over the short, medium, and long terms, may be better placed to meet investor needs.
- A15. By contrast, investors noted frustration that the disclosure of financially material sources of estimation uncertainty with a significant risk of material adjustment in the medium-term were generally absent from financial statements. They anticipated ISSB disclosures may address this but emphasised that an understanding of the financial statements should not be dependent on information outside of those statements. While users considered paragraph 125 of IAS 1 to be broadly effective for near term risks, they emphasised that the disclosure of qualitative information for financially material uncertainties with a significant risk

<sup>9</sup> Disclosure of assumptions: general requirements (IAS 1/IAS 8)

of adjustment after more than one year, was material information from their perspective.

- A16. We noted this tension in our connectivity research<sup>10</sup> which identified that users placed significant reliance on the requirements of IAS 1 in relation to providing sufficient material information on climate-related matters in financial statements, noting both the quantitative and qualitative characteristics of materiality. However, we also found that preparers more typically interpreted the materiality requirements of IAS 1 as rationale for excluding information to avoid unnecessary clutter in the financial statements.
- A17. To address this tension, the IASB may wish to consider, if an additional requirement in IAS 1 may be required. This could require the disclosure of sources of estimation uncertainty with a significant risk of material adjustment to the carrying amount of assets and liabilities after more than one year, with a description of the nature of the risk, and qualitative factors.

### **Use of climate focused examples as analogies for other uncertainties**

- A18. We are concerned about potential unintended consequences if the climate focused examples are used as analogies for all 'other' uncertainties. Preparers noted concerns that the term 'other uncertainties' had not been defined in the ED. They raised concerns of unintended consequences if stakeholders interpreted this term very widely, resulting in an expectation gap or, potentially, legal exposure.
- A19. The IASB may wish to provide additional context to help frame primary users' expectations that these examples relate to all sustainability-related risks. Alternatively, additional fact patterns, or examples that cover a wider variety of uncertainties, such as risks arising from nature, human capital, or artificial intelligence, may provide the range of examples that could be analogised in the future, as other sustainability risks are identified.

### **Example where there is a financial statements impact**

- A20. We note that the examples do not illustrate circumstances when there is an impact on the financial statements. Users have advised us that this is a key area where they perceive a disconnect across general purpose financial reports.
- A21. The IASB may wish to consider providing an example where a climate-related, or other uncertainty, does result in an impact on the financial statements. This would help to clearly illustrate why the disclosures belong within the boundary of the financial statements.

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<sup>10</sup> A Study in Connectivity: [Analysis of 2022 UK Company Annual Reports](#) (UKEB September 2023, para 4.6-4.7, page 37).

## Interaction of IFRS accounting standards with sustainability disclosure standards

- A22. The UKEB research into connectivity<sup>11</sup> highlighted stakeholder feedback that they are seeking clarity on how the IFRS Foundation's two sets of standards are intended to work together in practice. We consider that the IASB could deliver this by incorporating some of the examples with references to, or illustrative connections to, Sustainability Disclosure Standards.
- A23. As examples one and two are specifically intended to reinforce compatibility with Sustainability Disclosure Standards, the IASB may wish to consider reflecting, in the fact pattern, where the entity has applied the requirements of Sustainability Disclosure Standards, e.g. to disclose how sustainability-related risks and opportunities have affected an entity's financial position, financial performance, and cash flows. This approach may provide a more direct connection across the general-purpose financial reports and provide a clearer context for the relevant financial statement disclosures.

### (b) Illustrative examples accompanying IFRS Accounting Standards

- A24. In general, we agree that the IASB's proposal to include the examples as accompanying illustrative material to the relevant accounting standards should provide stakeholders with accessible and relevant guidance when using those standards. We note, however, that there are some areas where other standard setting solutions may be required.
- A25. Whilst the examples are not mandatory, and so do not add or change any IFRS accounting requirements, we anticipate that they will be useful to stakeholders when they are considering accounting for relevant business transactions. We are aware that IASB guidance is often referred to by auditors when engaging with entities on their application of the standards.
- A26. We note in BC45 of the ED that, in addition to including the examples in the relevant accounting standards, the IASB may also group the examples and publish them as a single document. We consider that this would be useful as, without this, some stakeholders may struggle to understand the connections, for example to the context of materiality to the individual examples when included in different standards.

#### 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:

<sup>11</sup> [A Study in Connectivity](#): Analysis of 2022 UK Company Annual Reports (UKEB 2023)

- (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.

- A27. We are generally supportive of the IASB’s approach to developing the examples and that the examples should illustrate how an entity applies the requirements in IFRS Accounting Standards (BC14). We also agree with the 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.
- A28. We do, however, have some comments on the fact patterns and technical content of the examples. Our comments are aimed at helping to enhance the relevance of the illustrations and to support connectivity. These are included in the paragraphs that follow.

### **Use of standalone examples**

- A29. We support the use of standalone examples but also consider walk-through examples would be beneficial. We appreciate that walk-through examples are significantly more complex to develop and would take longer to build a consensus. The IASB may wish to consider developing more in-depth examples, as the next phase of work, with the ISSB.

### **Specific comments on examples**

- A30. In relation to materiality judgements and the disclosure of additional information, we are concerned that examples one and two only reference the qualitative aspect of materiality. We suggest the IASB consider emphasising in each example that there is a single definition of materiality, and that concluding on it requires consideration of both quantitative and qualitative aspects.



- A31. Stakeholders advised us that the key challenges in practice relating to the application of IAS 36 *Impairment of Assets* are connectivity between climate-related scenarios and impairment assumptions, the effects on expected cash flows (beyond a five-year period) and how those may affect asset terminal values. The IASB may wish to consider if some of these aspects could be reflected in example three<sup>12</sup> to make it more applicable, or potentially considered for a future joint illustrative example with the ISSB.
- A32. We suggest that example four could be improved by providing the rationale for the entity performing impairment testing at a CGU level. The IASB may wish to consider aligning the fact pattern more closely to the requirements of IAS 36 paragraph 67 (a) and (b). In addition, we recommend that any impact on the useful economic lives of the non-current assets should also be considered in the fact pattern. Users emphasised that they considered sensitivity and scenario analysis as material information and recommended these were referenced in the fact pattern of the example.
- A33. Example six<sup>13</sup> provides a helpful illustration of climate-related factors considered when the entity assesses materiality. We suggest that including direct references to IFRS 7 paragraph 33 (qualitative disclosures), and paragraph 34 (quantitative disclosures), would help clarify the approach taken.
- A34. In relation to example seven<sup>14</sup>, the illustration is based on an ‘increasing risk’ which may require the accelerated closure of facilities. However, the type and significance of the risk is not made explicit. The IASB may wish to consider providing further clarity to ensure consistent application.
- A35. The IASB has communicated that, as the illustrations will be principles-based, it does not intend to publish further examples. However, we are aware that the recent exposure draft on Provisions— *Targeted Improvements* contains a climate-related illustrative example, and we would encourage alignment when the IASB issues the final amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- A36. Stakeholders also advised us that the most relevant challenge, in practice, relates to situations where assets may need to be replaced or repurposed due to climate-related risks, and the potential implications for impairment, reduction in useful economic life and consequential acceleration of depreciation and potential decommissioning provisions. The IASB may wish to consider if some of these aspects could be reflected in example seven to enhance its relevance, or potentially included in a future joint illustrative example with the ISSB.

<sup>12</sup> Disclosure of assumptions: specific requirements (IAS 36)

<sup>13</sup> Disclosure about credit risk (IFRS 7)

<sup>14</sup> Disclosure about decommissioning and restoration provisions (IAS 37)

- A37. We also consider that it would be helpful to clarify in example eight how materiality was assessed and how the disaggregation resulted in material information. Preparers expressed concerns that the illustration may introduce a new class of asset and that for many organisations separating Property, Plant & Equipment (PPE) carrying values between high emissions and low emissions assets may not be achievable, in practice.

### Question 3 – Other comments

Do you have any other comments on the Exposure Draft?

- A38. We note in paragraph BC9(a) that the IASB is anticipating that feedback will help determine whether other actions, including standard setting, may be necessary. However, it is unclear to us whether answers to the questions asked in the ED, which focus on the illustrative examples, will necessarily provide that evidence.
- A39. Most stakeholders did not consider that any transition implementation requirements were necessary as there was no change to the accounting standards. However, preparers were concerned that some stakeholders may consider the use of these illustrations as evidence of errors in previously published financial statements.
- A40. No stakeholders considered there to be substantive costs or benefits from the implementation of the examples.

# **Feedback Statement**

## **Climate-related and Other Uncertainties in the Financial Statements**

**Proposed illustrative examples**

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**Final Comment Letter (FCL)**

**28 November 2024**

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process.

The views expressed by the UKEB in its comment letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

# Contents

	Page
Purpose of this document	4
Background	5
The IASB's Exposure Draft	6
Outreach approach	7
UKEB and stakeholder views	8 - 10

# Purpose of this document

This document presents the views of UK stakeholders on the UKEB's Draft Comment Letter on the IASB's Exposure Draft (ED) [Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples](#) and explains how the UKEB's Final Comment Letter addressed those views.

# Background

- Stakeholders expressed strong concerns in the IASB Agenda Consultation that information about the effects of climate-related risks in the financial statements may be insufficient or inconsistent with information entities provide outside the financial statements.
- In March 2023, the IASB added a project to its work plan to explore targeted actions to improve the reporting of the effects of climate-related risks in the financial statements.
- Adopting a principles-based approach, the IASB proposed eight illustrative examples to accompany IFRS Accounting Standards that provided guidance for how entities should apply the requirements in those standards to report the effects of climate-related and other uncertainties in the financial statements.
- No effective date or transition requirements are proposed by the IASB as the illustrative examples will not form an integral part of IFRS Accounting Standards.
- The UKEB is commenting on the IASB's project in the interests of ensuring connectivity and high-quality reporting. However, the UKEB will not endorse or adopt the use of the illustrative examples as they are not proposed to form part of mandatory IFRS Accounting Standards.

# The IASB's Exposure Draft

The [Exposure Draft](#) (ED) proposes eight examples illustrating how an entity may apply the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The examples are listed below for information:

- Example 1—Materiality judgements leading to additional disclosures (IAS 1/IFRS 18)
- Example 2—Materiality judgements not leading to additional disclosures (IAS 1/IFRS 18)
- Example 3—Disclosure of assumptions: specific requirements (IAS 36)
- Example 4—Disclosure of assumptions: general requirements (IAS 1/IAS 8)
- Example 5—Disclosure of assumptions: additional disclosures (IAS 1/IFRS 18)
- Example 6—Disclosure about credit risk (IFRS 7)
- Example 7—Disclosure about decommissioning and restoration provisions (IAS 37)
- Example 8—Disclosure of disaggregated information (IFRS 18)



# Outreach approach

Outreach began in March 2024 based on the IASB draft illustrative examples. Detailed stakeholder feedback was used to inform the Draft Comment Letter (DCL).

Outreach on the Exposure Draft (ED) was conducted throughout September and November 2024 to inform the Final Comment Letter. This included:

- A dedicated meeting with the UKEB Sustainability Working Group and discussions with all UKEB Advisory Groups.
- One-to-one meetings with a user, preparer and a regulator as well as discussions with preparer and user industry representative bodies.
- Public consultation on the UKEB's DCL.

Stakeholders were also asked for their views on connectivity examples presented by the IFRS Foundation at the [World Standard Setters Conference](#) in September 2024.

Stakeholders type	Engagements
UKEB Advisory and Working Groups <sup>**</sup>	5
Preparers <i>Industry bodies</i> <sup>*</sup>	3
Users <i>Industry bodies</i> <sup>*</sup>	1
Preparers	1
Users	1
Regulators	1

\* The industry bodies have multiple members from a variety of stakeholder types.  
\*\* UKEB groups represented views from 45 members.

The DCL was shared with stakeholders via UKEB subscriber alerts and was made available on the UKEB website.

Three comment letters were received, two from accounting firms and one from an investment firm<sup>\*\*\*</sup>. These were in addition to the engagements shown in the table.

Where stakeholders agreed with the DCL position and where there has been no substantive change in drafting from the DCL, this feedback has been excluded from the summary of feedback presented on the following slides.

All comments and views were considered in reaching the final UKEB views on the questions raised by the IASB in the ED.

\*\*\* The investment organisation requested their letter be treated confidentially and therefore it was not published on the UKEB project webpage.

# UKEB and stakeholder views

ED 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?

UKEB draft position	Stakeholder views	UKEB final position
<p>Agreement that providing illustrative examples should help improve the reporting of the effects of climate-related and other uncertainties in the financial statements. However, potential unintended consequences were noted.</p>	<ul style="list-style-type: none"> <li>• Stakeholders provided more feedback on the use of paragraph 31 of IAS 1 in the illustrative examples.</li> <li>• Stakeholders considered paragraph 125 of IAS 1 was generally applied effectively. Users noted concerns regarding the lack of disclosure of qualitative information for financially material uncertainties, after more than one year.</li> <li>• Preparers noted that without defining the term 'other uncertainties' there was a risk of creating an expectation gap for users.</li> </ul>	<ul style="list-style-type: none"> <li>• Reflected additional feedback on paragraph 31 of IAS 1 in the FCL.</li> <li>• Removal of reference to unintended consequences from a potential over reliance of paragraph 125, in IAS 1.</li> <li>• Recommendation to define the term 'other uncertainties'.</li> </ul>

# UKEB and stakeholder views

ED Question 1(b): Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards?

UKEB draft position	Stakeholder views	UKEB final position
The UKEB supported the approach taken by the IASB and suggested that the examples should also be published as a single document.	<ul style="list-style-type: none"> <li>• Supportive</li> </ul>	<ul style="list-style-type: none"> <li>• No change to draft position.</li> </ul>

ED Question 2: Do you agree with the IASB's approach to developing the examples?

Stakeholder views	Stakeholder views	UKEB final position
<p>The UKEB supported the approach of standalone examples but also noted walk-through examples would be beneficial.</p> <p>The DCL suggested several areas to potentially improvements with the illustrations.</p>	<ul style="list-style-type: none"> <li>• Example 1 &amp; 2 – emphasis required to provide more specific context and explanation for the disclosure decisions.</li> <li>• Example 4 – request for the fact pattern to reflect the consideration of sensitivity and scenario analysis.</li> <li>• Example 7 – the type and significance of the 'increasing risk' in the fact patter required clarification.</li> </ul>	<ul style="list-style-type: none"> <li>• Areas noted by stakeholders to improve the selection of requirements and technical content of the examples added.</li> </ul>

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

UKEB draft position	Stakeholder views	UKEB final position
<p>UKEB noted that it is unclear whether responses to the questions asked would provide the IASB with the evidence for any other actions which may be necessary.</p>	<ul style="list-style-type: none"> <li>• Most stakeholders did not consider that transition implementation requirements were necessary.</li> <li>• Preparers were concerned that some stakeholders may consider the use of these illustrations as evidence of an errors in previously published financial statements.</li> <li>• No stakeholders considered there to be substantive costs or benefits from the implementation of the examples.</li> </ul>	<ul style="list-style-type: none"> <li>• Transition implementation requirements noted as not being required.</li> <li>• Preparers concerns regarding potential legal exposure noted.</li> <li>• Stakeholders' views on cost and benefits noted.</li> </ul>

# Disclaimer

This Feedback Statement has been produced to set out the UKEB's response to stakeholder comments received on the UKEB's Draft Comment Letter on the IASB's Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements*.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

## Contact Us

UK Endorsement Board

6th Floor | 10 South Colonnade | London | E14 4PU

[www.endorsement-board.uk](http://www.endorsement-board.uk)

# Appendix C: DRAFT Due Process Compliance Statement: *Climate-related and Other Uncertainties in the Financial Statements* – Proposed illustrative examples

The International Accounting Standards Board (IASB) published IASB/ED/2024/6 *Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples* on 31 July 2024. The IASB comment period ends on 28 November 2024.

## Influencing process

### Project preparation

Step	Mandatory / optional <sup>1</sup>	Metrics or evidence	UKEB Secretariat comments
<b>Added to UKEB technical work plan</b> [Due Process Handbook (Handbook) 4.30]	Mandatory	Project included in the UKEB published technical work plan	<b>Complete:</b> The Amendments were included in the UKEB technical work plan published in <a href="#">April 2023</a> .

<sup>1</sup> In accordance with the [Due Process Handbook](#).

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Project Initiation Plan (PIP)</b> [Handbook 5.4 to 5.8, A1 to A2 and A12 to A14]	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for influencing (key milestones and timing)	<b>Complete:</b> The Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities.  The <a href="#">PIP</a> was approved at the <a href="#">18 July 2024 Board meeting</a> .
	Mandatory	Outreach plan for stakeholders and communication approach outlined	<b>Complete:</b> The PIP (referred to above) included the outreach plan and approach.
	Mandatory	Resources allocated	<b>Complete:</b> One Project Director, and one Assistant Project Manager (0.5 FTE) with technical support from another Project Director were allocated to the project.



Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Project Initiation Plan (PIP)</b> [Handbook 5.4 to 5.8, A1 to A2 and A12 to A14] (continued)	Mandatory	Assessment of whether to set up an ad-hoc advisory group	<b>Complete:</b> Taking a proportionate approach, an ad-hoc advisory group was not considered necessary due to the narrow-scope nature of the Amendments.
	Mandatory	Assessment of whether PIP required updating	<b>Complete:</b> We monitored this throughout the project, the nature and scope of which remained as proposed in the original PIP.
	Mandatory	UKEB Board public meeting held to approve PIP	<b>Complete:</b> The <a href="#">PIP</a> was approved at the <a href="#">18 July 2024 Board meeting</a> .
<b>Education sessions</b> [Handbook 4.10]	Optional	Board provided with education sessions	<b>Complete:</b> The Board was provided with an education session on the proposed amendments at its <a href="#">18 July 2024 private Board meeting</a> .

## Desk-based research

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<p><b>Desk-based research</b>                      [Handbook 5.9 and A3]</p>	<p>Optional</p>	<p>Review of relevant documentation</p>	<p><b>Complete:</b> the Secretariat has reviewed:</p> <ul style="list-style-type: none"> <li>• The IASB’s work on the project, including the staff papers and the <a href="#">ED</a>;</li> <li>• Other <a href="#">educational material</a> and <a href="#">webcast</a> published by the IASB on their project webpage</li> <li>• Other standard-setters’ views</li> <li>• Accounting manuals and press releases for guidance and illustrative examples</li> <li>• Observing IASB advisory group meetings:                             <ul style="list-style-type: none"> <li>• Accounting Standards Advisory Forum (26 September 2024)</li> <li>• Capital Markets Advisory Committee (8 November 2024) and</li> <li>• Global Preparers Forum (15 November 2024)</li> </ul> </li> </ul>

## Outreach

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Outreach activities</b> [Handbook 5.10 to 5.12 and A4 to A8]	Mandatory	Evidence of consultation	<b>Complete:</b> Outreach activities focused on consultation with: <ul style="list-style-type: none"> <li>All UKEB Advisory Groups</li> <li>A dedicated meeting on the project with the Sustainability Working Group</li> <li>One-to one interviews with preparer and user industry bodies, a preparer a user and a regulator;</li> <li>Obtaining responses to the Draft Comment Letter (DCL). The UKEB received three comment letters. One comment letter was submitted on a confidential basis and two letters were published on the UKEB website.</li> </ul>

## Draft Comment Letter (DCL)

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>DCL published for comment</b> (mandatory unless impracticable) [Handbook paragraphs 5.13 to 5.17 and A4(d)]	Mandatory	Comment period set for responses to DCL	<b>Complete:</b> The DCL was published for consultation for 47 days on 25 September 2024 (comment period deadline: 11 November 2024).
	Mandatory	Review and approval at a UKEB public meeting	<b>Complete:</b> The <a href="#">DCL</a> was reviewed and approved at the <a href="#">Board meeting on 19 September 2024</a> , subject to revisions requested at the meeting. The revisions were approved by the Chair.

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
	Mandatory	DCL published on website for public consultation	<b>Complete:</b> The <a href="#">DCL</a> was published on the UKEB website for public consultation on 25 September 2024 (comment period deadline: 11 November 2024).

## Project finalisation and project closure

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Final Comment Letter (FCL)</b> [Handbook paragraph 5.18 and A4(d)]	Mandatory	Public responses to DCL considered and published on website	<b>Complete:</b> The UKEB received three comment letters, two were published on the UKEB website as one was sent on a confidential basis.  All responses were assessed, reflected as appropriate in the FCL and summarised in the Feedback Statement.
	Mandatory	FCL approved by the UKEB in public meeting	<b>Pending:</b> A draft of the FCL will be presented for approval to the Board at its 28 November 2024 public meeting.
	Mandatory	FCL submitted to the IASB and posted on UKEB website	<b>Pending:</b> Following board approval the letter will be submitted to the IASB and posted on the UKEB website <sup>2</sup> .

<sup>2</sup> Note as the IASB submission date of 28 November is the same day as the UKEB meeting the IASB has been advised that the UKEB letter may potentially slightly delayed.

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Feedback Statement</b> [Handbook 5.19 to 5.22 and A9 to A11]	Mandatory	Feedback Statement approved for publication by the UKEB in a public meeting	<b>Pending:</b> A draft of the Feedback Statement will be presented for approval to the Board at its 28 November 2024 public meeting.
	Mandatory	Feedback Statement published on the UKEB website	<b>Pending:</b> following board approval the final version of the Feedback Statement will be published on the UKEB website.
<b>Due Process Compliance Statement (DPCS)</b> [Handbook 5.23 to 5.26 and A12 to A14]	Mandatory	DPCS approved by the UKEB in public meeting	<b>Pending:</b> A draft DPCS will be presented for approval to the Board at its 28 November 2024 public meeting. A final DPCS was presented for noting at the Board's 12 December 2024 meeting.
	Mandatory	DPCS published on the UKEB website	<b>Pending:</b> following board approval the final version of the DPCS was published on the UKEB website after the 12 December 2024 Board meeting.

## Ongoing communications

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Public Board meetings</b> [Handbook 4.10]	Mandatory	UKEB public meetings held to discuss technical project	<p><b>Complete:</b>                      The board received updates on the project at its <a href="#">April, June, October</a> meetings in 2023 and at <a href="#">January, February, April, May, June, October</a> meetings in 2024.</p> <p>The Board approved the <a href="#">PIP</a> at its meeting on 18 July 2024, the <a href="#">DCL</a> at its meeting on 19 September 2024</p> <p><b>Pending:</b> the FCL and FBS will be reviewed by the UKEB at the 28 November 2024.</p>
<b>Secretariat papers</b> [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available usually no later than 5 working days before a Board meeting.	<p><b>Complete:</b>                      The UKEB's meeting papers were published on the UKEB website 5 working days before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website.</p>

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Project webpage</b> [Handbook 4.25(b)]	Mandatory	Project webpage contains a project description with up-to-date information on the project.	<p><b>Complete:</b> The <a href="#">project webpage</a> has been updated regularly on a timely basis.</p>

Step	Mandatory / optional	Metrics or evidence	UKEB Secretariat comments
<b>Subscriber Alerts</b> [Handbook 4.24]	Optional	Evidence that subscriber alerts have occurred	<b>Complete:</b> Subscribers were alerted via email 5 days before each Board meeting, with links to the agenda, papers, and the option to dial in to observe the discussion.
<b>News Alerts</b> [Handbook 4.24]	Optional	News Alert to announce publication of key documents	<b>Complete:</b> A News Alert was published on 26 September 2024 to announce the publication of the DCL. Further News Alerts were published on 3, 10, 18, 21, 25, 29, 30 October and 1 November 2024, and calling for comments.  <b>Pending:</b> A News Alert will be published alerting stakeholders to the FCL.

Conclusion
This project complies with the applicable due process steps, as set out in the December 2022 UKEB Due Process Handbook.