Think Ahead ACCA

IASB/ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements

Proposed illustrative examples

Exposure Draft issued by the IASB in July 2024

Comments from ACCA
21 November 2024

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GENERAL COMMENTS

ACCA welcomes the opportunity to provide views in response to the IASB's exposure draft (ED) for *Climate-related and Other Uncertainties in the Financial Statements*. Our response has been developed with the assistance of ACCA's Global Forum for Corporate Reporting.

Our general comments on the proposed illustrative examples are as follows:

We commend the IASB's effort to develop illustrative examples ('Examples') to support consistent application of specific requirements in the IFRS Accounting Standards ('Standards') by all entities to provide sufficient and consistent information in the financial statements and other general purpose financial reports.

We believe illustrative examples that emulate responses to real events and illustrate the thought process behind those responses are useful. Examples that provide guidance on disclosing adverse effects on the entity's financial position and/or financial performance as a result of uncertainties would also be useful, and such examples should be developed.

In addition, we appreciate examples that identify the circumstances requiring additional information and illustrating the said information. Therefore, Examples in this ED will be more helpful for preparers and users of their financial statements ('users') if they include illustrative disclosures rather than a reproduction of the requirements in the Standards. Further details are available in our comments to question 2.

All Examples in this ED are based on climate-related uncertainties. This is a good beginning, and preparers would benefit from more examples illustrating the effects of other uncertainties. For now, the approach to apply the guidance in these Examples to other uncertainties needs to be made clear.

Since the IASB has decided on producing stand-alone examples, all Examples in this ED should be truly stand-alone when placed into separate IFRS Accounting Standards. An entity may not benefit from the lessons in Examples 1 and 2 if it has missed them before reading Examples 3 – 8.

The collaboration between members and staff of the IASB and the ISSB is crucial to enhancing Examples 3 – 8 to demonstrate the connectivity between information in the financial statements and information in another report, such as the cause-and-effect relationship of the uncertainty and the entity's financial position or performance.

We suggest the IASB consider developing high-quality educational materials with broader fact patterns which are more realistic and would be more helpful to preparers. We believe entities would benefit from comprehensive examples that illustrate interactions between Standards, and illustrating disclosures based on the requirements in several Standards. The principles-based nature of the Standards could result in many interactions between Standards as demonstrated in Examples 4 and 5. More examples of such interactions would be useful to help preparers and users provide better information in the financial statements. On a related note, we suggest the IASB consider adding examples, in the future, that demonstrate the recognition and measurement of assets and/or liabilities, and changes in estimates, such as changes to the useful lives or residual value of assets, that arise from climate-related or other uncertainties.

Our detailed responses to the specific questions asked are set out below.

RESPONSES TO SPECIFIC QUESTIONS RAISED

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.

ACCA response

a) Providing examples to help improve the reporting of the effects of climate-related and other uncertainties in the financial statements

We believe illustrative examples that identify the circumstances where additional information is needed and demonstrate how such information should be disclosed would help many entities provide better information to facilitate users' understanding of the effects of uncertainties on the entities' financial position and financial performance.

Our stakeholders said examples that emulate responses to real events and provide case studies of the thought process behind those responses are useful and highly appreciated[1].

As the sustainability reporting landscape continues to evolve with new standards being issued and new practices for preparing sustainability-related disclosures emerge, entities may start evaluating financial effects that have not been considered previously. New questions on application of the Standards may arise which necessitate updates to these Examples or development of new ones. We suggest the IASB consider the due process for maintaining the relevance of these Examples in view that they would be placed within the illustrative examples of individual IFRS Accounting Standards.

b) Whether to include the examples as illustrative examples accompanying IFRS Accounting Standards

We recognise the benefits of having illustrative examples that accompany a Standard and support consistent application of specific requirements in that Standard, in particular examples that target particular matters or requirements that give rise to stakeholders' concerns [paragraph BC18].

However, educational material may better support consistent application of requirements across one or more Standards. For example, the educational material for *Effects of climate-related matters on financial statements*.

Suggestions for developing educational materials using walk-through examples
In addition to providing illustrative examples accompanying IFRS Accounting Standards, we suggest the IASB consider developing high-quality educational materials using walk-through examples[2].

We believe providing educational materials using walk-through examples would allow greater flexibility in content, presentation format and flexibility in illustrating more than one requirement. A broad fact pattern is more realistic and would be more helpful to preparers.

As the IASB has noted in paragraph BC2(c), an entity might not always be able to identify the effects of climate-related uncertainties separately from those of other uncertainties. Accordingly, more than one requirement in the IFRS Accounting Standards may be applicable in each situation. Entities would benefit from a comprehensive example that:

- illustrates several requirements from a selection of Standards, and
- demonstrate connectivity between the uncertainty and the entity's assets, liabilities, income and expenses.

[1] ACCA gathered this feedback while conducting outreach with members and employers to formulate our research workplan. Though the outreach was not performed for the purpose of this ED, we believe this feedback is applicable here.
[2] In the context of this ED, paragraph BC17 describes walk-through examples as examples with broad fact patterns illustrating several requirements in a selection of IFRS Accounting Standards.

The fact pattern in Example 5 has the potential to become a useful walk-through example. Based on the fact pattern, the announced regulation would restrict the entity's ability to operate and generate profits in that jurisdiction in the future, although the time when the regulation would be effective is uncertain. Focusing solely on the deferred tax asset in Example 5 is too narrow and overly simplistic for an entity that finds itself in a similar situation. It's unlikely that the entity would sit idle and wait for the regulation to become effective. Hence, it would be useful to

- expand the fact pattern (background) to describe the entity's principal activities and its plans to manage this uncertainty, and
- demonstrate the connection to information that is provided outside the entity's financial statements.

Preparers would benefit from the illustration of connected information about the implications on the entity's

- carrying amounts of assets, such as inventories, property, plant and equipment ('PPE'), intangible asset, right-of-use assets, etc,
- remaining useful life[3] and/or residual value of PPE or intangible assets,
- carrying amounts of liabilities, such as provisions arising from climate-related obligations, onerous contracts, restructuring, long-term borrowings with covenants, etc and
- going concern.

With regard to assessment of going concern, demonstrating an entity's thought process when applying the principles in paragraphs 25 and 26 of IAS 1[4] [paragraphs 6K and 6L of IAS 8[5]] in response to this hypothetical situation would be helpful. Alternatively, the IASB may update the educational material on going concern requirements to consider the effects of climate-related or other uncertainties.

Lastly, educational material with walk-through examples may help to better distinguish and connect the roles of financial statements and sustainability-related disclosures, where sustainability-related disclosures will help meet users' information needs that go beyond the scope of financial statements. It should be possible for the IASB, or IFRS Foundation, to provide such examples in self-contained educational material that is clearly outside the Standards. The walk-through examples should demonstrate the building blocks approach in how the IFRS Accounting Standards interact with the IFRS Sustainability Disclosure Standards, and as far as possible, how interoperability with the European Sustainability Reporting Standards (ESRS) and/or GRI standards applies within the same fact patterns. For example, in addition to considering the requirements of IFRS Accounting Standards, an entity applying the IFRS Sustainability Disclosure Standards would need to disclose information about the effects of climate-related risks and opportunities on its financial position,

[3] For example, a change in the estimated useful life of a PPE also affects the depreciation expense for the current and future periods during the asset's remaining useful life. Illustrating the disclosure required by paragraph 39 of IAS 8 would be useful for preparers.

[4] When preparing financial statements, an entity is required to make an assessment of its ability to continue as a going concern by taking into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

[5] These paragraphs are consequential amendments to IAS 8 when IFRS 18 becomes effective, as set out in Appendix D in IFRS 18.

financial performance and cash flows for the reporting period[6]. Developing such walk-through examples will necessitate closer involvement from members and staff of the ISSB to illustrate the requirements of sustainability disclosure standards in addition to the requirements of the IFRS Accounting 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:

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.

ACCA response

To clarify the relevance of these Examples to address uncertainties other than climate-related uncertainties
We note it's not always possible to identify the effects of climate-related uncertainties separately from those of other uncertainties [paragraph BC2(c)]. And we are supportive of ensuring the Examples are applicable to various types of uncertainties, including those yet to emerge (ie futureproofing the Examples), so entities would treat the uncertainties consistently [paragraph BC2(b)].

However, all Examples in this ED are based on climate-related uncertainties. How an entity would apply the guidance in these Examples to other uncertainties needs to be made clear. For example, an overarching instruction (or preamble) guiding entities on using these Examples.

[6] The IASB has similar observation in paragraph BC32 of this ED.

To demonstrate connection to information provided outside the financial statements
We note the IASB's focus on disclosure of information when developing the examples in this ED. According to paragraph BC1, the IASB aimed to respond to strong demands from stakeholders who were concerned that information about the effects of climate-related risks in the financial statements was sometimes insufficient or appeared to be inconsistent with information entities provided outside the financial statements.

Since the IASB has decided on producing stand-alone examples [paragraph BC18], they should be truly stand-alone when placed into separate IFRS Accounting Standards. An entity may not benefit from the lessons in paragraphs 1.8 and 2.8 of Examples 1 and 2 respectively if it missed these Examples before reading Examples 3 – 8.

Examples 3 – 8 in this ED should also demonstrate the connection between information in the financial statements and the uncertainties that are disclosed either within the financial statements and/or outside the financial statements. Demonstrating this connection is important to guide entities on providing sufficient and consistent information within and outside the financial statements to address stakeholders' concern[7]. For example, where the requirement in paragraph 31 of IAS 1 [paragraph 20 of IFRS 18] is similar to a requirement for additional disclosures in a sustainability disclosure standard, we suggest demonstrating how and where an entity would provide the information applying paragraph 31 of IAS 1[8]. Notwithstanding the IASB's views in paragraphs BC26 and BC27 of this ED, preparers would benefit from guidance on how and where to provide the additional disclosures and to reduce duplication of disclosures across general purpose financial reports. We suggest the IASB work together with the ISSB on improving Examples 1 – 8[9].

Use realistic information to provide helpful guidance
We believe the IASB has selected hypothetical situations that many, though not all, entities would encounter. Some entities might face some challenges in disclosing information about the effects of climate-related or other uncertainties in the financial statements when the circumstance is non-recurring or happens infrequently.

Reproducing requirements from the Standards in these Examples would raise awareness about those requirements but doing that solely would result in an entity reading the same requirement twice without receiving further guidance to improve the information an entity provides in its financial statements. Details are available in our comments for Examples 3 – 6 and 8 below.

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[7] ACCA explores the importance of connectivity in reporting and business in this article, '*Making information connections for sustainable value creation*' (ACCA, 2024), and in this webinar, '*Connecting sustainability to business strategy*'. These resources would be available on or after 27 November 2024.
[8] For entities applying the IFRS Sustainability Disclosure Standard, paragraphs 15(b) and B26 of IFRS S1 may have similar effects on an entity's disclosures as paragraph 31 of IAS 1 [paragraph 20 of IFRS 18]. This consideration would be relevant for Examples 1, 2 and 5 of this ED.
[9] Paragraphs BC7(c) and BC21 of this ED mentioned members and technical staff the IASB and ISSB have developed these Examples in collaboration.

We believe many entities would appreciate further guidance on some principles in the Standards that have far-reaching effects, such as paragraph 31 of IAS 1 [or paragraph 20 of IFRS 18]. An entity would benefit from examples that illustrate the 'additional disclosures' in the form of quantitative and/or qualitative information, to enable users to understand the effects of hypothetical situation(s) on the entity's financial position and financial performance. Such examples would help entities to provide better information to users to understand the effects of climate-related or other uncertainties in the financial statements.

We suggest emulating the approach in developing *Illustrative Examples accompanying IFRS 15* where the examples refer to the applicable requirements in IFRS 15 without reproducing the content in the Standard. Thereafter, use quantitative and/or qualitative information to illustrate application of specific requirements to the hypothetical situation. For example:

- *'Examples 1 – 4 illustrate the requirements in paragraphs 9 – 16 of IFRS 15 on […]. In addition, the following requirements are illustrated in these examples […]'.*
- *'The entity applies paragraphs 31 – 38 of IFRS 15 to determine whether […]'.*
- *'Examples 20 – 21 illustrate the requirements in paragraphs 50 – 54 of IFRS 15 on […]'.*

Additional examples illustrating adverse financial effects
We believe climate-related or other uncertainties could result in adverse financial effects that affect the recognition and measurement of assets, liabilities, income or expenses. Examples that illustrate a hypothetical situation with adverse effects need to be developed.

We suggest adding hypothetical situations with fact patterns that

- are similar to Example 1, where the manufacturing facilities represent a substantial portion of total assets, the assets are not fully depreciated, and the recoverable amounts of the affected cash-generating units are close to their respective carrying amounts.
- illustrate when a commitment or transition plan result in recognising a provision in accordance with IAS 37.
- illustrate when a cash generating unit containing goodwill is impaired.

The IASB may consider enhancing the content in the educational material for *Effects of climate-related matters on financial statements* in developing these additional examples.

Comments on individual examples

Example 1
We support illustrating a situation that is relatively safe, ie the uncertainty does not present any material effect on an entity's financial position and financial performance, and illustrating the thought process in determining the information an entity would provide in accordance with the requirement in IAS 1 [IFRS 18].

Paragraph 1.8 provides a useful reminder to think holistically and connect an entity’s assessment to stakeholders’ perception about its industry and the information it would disclose outside the financial statements.

The understandability of paragraph 1.9 would be enhanced by clearly referencing its connection to paragraph 1.3. We also suggest providing a sample disclosure that represents the conclusion in paragraph 1.9 and demonstrates the connection with the entity’s sustainability-related disclosures.

Example 2
We note this example provides a contrast to the conclusion in Example 1 by demonstrating an uncertainty may not always present material effects to an entity’s financial position and financial performance.

We support illustrating the thought process in arriving at the conclusion that no additional disclosure is necessary. Similar to Example 1, we believe paragraph 2.8 would remind an entity to think holistically in determining whether to provide additional disclosure in its financial statements.

We concur with the IASB’s view in paragraph BC31 that Example 2 would address stakeholders’ concerns about excessive disclosures, ie considering qualitative factors does not always result in additional disclosures.

Example 3
We have concerns about the usefulness of this example.

Reproducing a requirement in IAS 36 needs to be accompanied by further guidance that illustrates its application or demonstrates the information an entity should provide. Doing this is important to discourage boilerplate disclosure that merely reproduces words or phrases in the Standards. For instance, we suggest illustrating the *'external sources of information'* in paragraph 3.5(b) instead of reproducing this phrase from IAS 36.

Paragraph 3.5 of this ED appears to illustrate the disclosure required by paragraph 134(d)(i) – (ii) of IAS 36. The key assumptions in paragraph 3.5(a) include *‘emission allowance cost assumptions, such as the <u>future</u> price of greenhouse gas emission allowances and the <u>future</u> scope of emission regulations’*.

The ‘future’ described in paragraphs 3.5(a) and (b) is vague. A climate-related transition risk, like the one in this example, may happen beyond 5 years from when an entity measures the value-in-use (VIU) of an asset or cash generating unit (CGU). The same is true for a climate-related physical risk. We suggest illustrating plausible justifications[10] for projecting cashflows beyond 5 years and the key assumptions[11] used.

Also, preparers need further guidance when applying paragraphs 33 and 44 of IAS 36 in assessing whether an asset or CGU (in its current condition) is impaired when comparing the carrying value against future cashflows that incorporate the effects of future uncertainties, such as those posed by climate-related transition risk.

We hope the IASB will take this feedback into consideration when deliberating amendments to impairment testing, including the extent of taking into consideration future improvements to an asset, in the [*Exposure Draft: Business Combinations—Disclosures, Goodwill and Impairment*].

Further, paragraph 3.6 of this ED appears to have largely reproduced paragraph 134(f) of IAS 36 with minimal changes. In particular, paragraphs 3.6(a) – (c) are direct replicas of paragraphs 134(f)(i) – (iii). Doing this would not:

- provide additional guidance to preparers who are trying to apply the requirements in the Standards,
- demonstrate what information would meet the requirements of paragraphs 134(f)(i) – (iii) of IAS 36, and
- explain how this information connects to the uncertainty, ie greenhouse gas emissions regulation in the jurisdictions in which the entity operates [based on the background for this example].

Moreover, Example 3 should

- illustrate the entity's disclosure about its expectation for greenhouse gas emissions regulations becoming more widespread in the future in its general purpose financial report outside the financial statements.
- demonstrate the connection between the effects of greenhouse gas emissions regulations becoming more widespread, and the potential increase in costs of emission allowances in the future (ie the 'uncertainties') with the impairment assessment of CGU that contain goodwill. Demonstrating such connections would improve reporting of material information within the financial statements. This would require applying paragraph 31 of IAS 1 [paragraph 20 of IFRS 18].

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[10] Paragraph 33 of IAS 36 requires an entity to *'use reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. The cashflow projections shall cover a maximum period of five years, unless a longer period can be justified. Cashflow projections for periods beyond the period covered by the most recent budgets/forecasts shall be extrapolated using a steady or declining growth rate, unless an increasing rate can be justified. This growth rate shall not exceed the long-term average growth rate for the products, industries, or country(-ies) in which the entity operates or, market in which the asset is used, unless a higher rate can be justified'*.

[11] Paragraph 134(d)(i) of IAS 36 requires an entity to disclose *'each key assumption on which management has based its cash flow projections for the period covered by the most recent budgets/forecasts. Key assumptions are those to which the unit's (group of units') recoverable amount is most sensitive'*.

Example 4
According to paragraph BC37 of this ED, the IASB created Example 4 to help an entity determine whether to disclose information about climate-related and other assumptions, including assumptions about events or conditions that might occur in the medium or long term. Paragraph 4.4 is helpful in reminding preparers about the requirements of IAS 1 [IAS 8] even when a particular Standard does not require disclosure of information about assumptions used in measuring an entity's assets and liabilities. However, the rest of this example needs significant improvement before they are helpful.

The last sentence in paragraph 4.6(a) is confusing: *'[…] a potential impairment loss from a relatively small adjustment to the total carrying amount might be material.'* We suggest reworking this sentence to present its meaning clearly and reviewing whether the IASB meant recoverable amount instead of carrying amount.

Paragraph 4.6(c) may encourage boilerplate disclosure, as it lacks specificity to help users understand the information provided and connect it with a particular uncertainty in the entity's context. We suggest illustrating the intended disclosure using one of the hypothetical assumptions in paragraph 4.3. A realistic example would be more helpful in guiding entities to apply the requirements in the Standards.

We suggest clarifying in paragraph 4.6(d) whether the carrying amount of the CGU is highly sensitive to a specific assumption, or all assumptions set out in paragraph 4.3 collectively.

While paragraphs 125 and 129 of IAS 1 [paragraphs 31A and 31E of IFRS 18] use the term 'assumptions', we suggest the IASB consider illustrating this example using 'key assumptions[12]', given this example is illustrating that an impairment assessment has been performed on CGUs.

We doubt repeating the same content in paragraphs 4.5 and 4.7 would be useful, and thus suggest removing paragraph 4.5.

Lastly, we reiterate illustrating realistic quantitative and/or qualitative information an entity would disclose in this hypothetical situation. The illustrative information can be placed either directly in the paragraphs or as a full-fledged illustrative information encompassing all the elements in this example. Reproducing parts of a Standard may create awareness about the requirements, but we doubt this alone will guide entities to provide sufficient and connected information to support users in understanding the effects of climate-related or other uncertainties on an entity's financial statements. We suggest improving paragraphs 4.8 and 4.9 with realistic information that meets the requirements of paragraph 129 of IAS 1 [paragraph 31E of IFRS 18], instead of merely reproducing the paragraph here.

[12] Paragraphs 130(f)(iii) and 134(d)(i) of IAS 36 describes 'key assumptions' as *'those to which the unit's (group of units') recoverable amount is most sensitive'*.

Example 5
We believe the fact pattern and selection of requirements in Example 5 are useful. Example 5 demonstrates the interrelation between paragraphs 31 and 125 of IAS 1 [paragraphs 20 of IFRS 18 and 31A of IAS 8] that may not be obvious in practice.

We support illustrating the entity’s thought process in concluding:

- it would recognise a deferred tax asset for the full amount of its carry forward unused tax losses,

- there is no significant risk of a material adjustment to the carrying amount of the deferred tax asset within the next financial year, and therefore it does not need to provide further information on its assumptions about the future, and other major sources of estimation uncertainty at the end of the reporting period, and

- it needs to provide additional information to enable users to understand the effects of the announced regulation on the carrying amount of the deferred tax asset and a related deferred tax expense, if the entity assumed the announced regulation would become effective earlier.

We find paragraph 5.11 useful as it describes the information an entity would be expected to provide in this hypothetical situation. We suggest supplementing the descriptions with realistic quantitative and qualitative information an entity would disclose in this hypothetical situation.

Example 6
We believe this example has the potential to help an entity to provide better information that enable users to understand the effect of climate-related risks in the value chain (ie the debtors) on its exposure to credit risk, and consequently the uncertainty on the amount and timing of future cash flows.

Referring to paragraph 6.3, we support illustrating the thought process and the factors an entity would consider in concluding whether the effects of climate-related risks on its exposure to credit risk from specific portfolios of loan receivables are material information. When reading paragraph 35B of IFRS 7, it is not obvious to consider disclosing the effects of debtors' exposure to climate-related risk on the entity's (lender’s) exposure to credit risk, though this factor may have been considered as part of the entity’s risk management practice. This would require considering paragraphs 35D and 35E of IFRS 7 collectively.

While the IASB has cited paragraphs 35A – 38 of IFRS 7 are applicable in this example, we note that refers to a total of 16 paragraphs. It would be more helpful to pinpoint the particular paragraph or requirement in a paragraph, like the approach used in earlier examples.

Paragraphs 6.4(a) and (b) are reproducing paragraphs 35F and 35G of IFRS 7 with subtle changes by mentioning 'climate-related risks'. Similarly, paragraph 6.4(d) has merely reproduced paragraph 34(c) of IFRS 7. As mentioned in earlier examples, doing this alone is not helpful.

The description of collateral held in paragraph 6.4(c) appears insufficient to satisfy the requirements in paragraph 35K[13] of IFRS 7.

To further enhance Example 6, we suggest supplementing paragraph 6.4 with realistic quantitative and/or qualitative information an entity in this hypothetical situation would disclose. The illustrative information can be placed either directly in the respective paragraphs or as a full-fledged illustrative disclosure encompassing all the elements in this Example.

Example 7
We support the fact pattern in Example 7 that considers the qualitative factors when assessing the materiality of information. We support illustrating a situation where the qualitative information may be material though the carrying amount may be relatively small compared to other items of assets or liabilities. We suggest explaining how this example would be applicable to uncertainties other than climate-related uncertainties.

Example 8
We support illustrating an example that provides disaggregated information that enables users to understand the characteristics that are not shared by two seemingly similar class of assets.

However, the fact pattern in Example 8 does not provide sufficient information to guide an entity to provide disaggregated information when applying paragraphs 41 – 42 of IFRS 18.

Paragraph 8.3 is a useful reminder of the requirement in paragraph 51 of IAS 16 to assess the residual value and useful life of PPE at least at each financial year end.

Paragraph 8.5 should illustrate the thought processes that an entity in a similar situation would make. Currently, the paragraph appears to arrive at an abrupt conclusion which does not explain the reasoning behind it.

Paragraph 8.6 should provide additional information to an entity looking for guidance to provide disaggregated information. Pointing an entity to specific paragraphs in IFRS 18 and IAS 16 is not sufficient guidance on its own.

To further enhance Example 8, we suggest providing a full-fledged illustrative disclosure at the end of the example. The illustrative disclosure should encompass all elements in the preceding paragraphs and uses realistic quantitative and/or qualitative information an entity in this hypothetical situation would disclose.

[13] Paragraph 35K of IFRS 7 requires a narrative description of collateral held as security including a description of the nature and quality of the collateral held, and an explanation of any significant changes in the quality of that collateral as a result of deterioration or changes in the collateral policies of the entity during the reporting period.

QUESTION 3 – OTHER COMMENTS

Do you have any other comments on the Exposure Draft?

ACCA response

To demonstrate disclosing information once

We understand the concerns about duplication of information provided in an entity's financial statements and in other general purpose financial reports [paragraphs BC23 – BC26]. Some of these duplications may be a result of legislations requiring management commentary or similar information to be provided across multiple reports, or legislations requiring different frameworks or standards to be applied in providing the information. Such information may include climate-related or other uncertainties.

At the strategic level, we suggest the IASB collaborates with regulators and policy makers at the policy-making level to harmonise reporting requirements and minimise duplication of information across different reports for compliance purposes. In addition, the IASB should engage with the ISSB, as much as possible, to support better connectivity between financial and sustainability-related information and reducing duplication of disclosures.

At the operational level, we suggest demonstrating how information in the financial statements is connected to information in the other reports, such as the cause-and-effect relationship of the uncertainty and the financial information. When illustrating connection to sustainability-related risks and opportunities, consider also the interoperability of such disclosures with requirements in ESRS and GRI standards, to reduce duplication of disclosures.

Since the IFRS Sustainability Disclosure Standards permit an entity to include information in its sustainability-related financial disclosures by cross reference to another report published by the entity, for example, its financial statements [paragraph 63 of IFRS S1], we suggest demonstrating this cross reference using a walk-through example.

Use a consistent caveat for these Examples

When the eight Examples are placed within the illustrative examples or implementation guidance of individual Standards, they may be subjected to different overarching caveats. A consistent caveat for these Examples, like the one in paragraph IE1 of IFRS 15, would be helpful.