

Feedback on International Accounting Standards Board (IASB) Exposure Draft – Climate-related and Other Uncertainties in the Financial Statements

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.

Comment: We have no adverse comments on this.

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.

Comment: We agree to include the illustrative examples accompany IFRS Accounting Standard, instead of including them in the Standards on the basis that the impacts from climate-related risks on financial statement line items (e.g. valuation of non-current assets, ECL of financial assets) should have been considered / recognised based on the existing requirement in IFRS accounting standard.

Comment: Since the level of details for disclosure is always judgmental, guidance with illustrative examples is always helpful. In addition, we think that the examples should accompany the sustainability reporting standards, instead of educational materials published separately. Examples applicable to reinsurers would be highly appreciated. Guidance on developing assumptions and how to quantify climate-related transition risks such as examples and step-by-step training would be helpful.

To facilitate the work with external audit, it would be appreciated to understand which model the accounting standard is required to adopt and challenges arising from the disclosure requirement.

To end, we suggest adding reference notes in the disclosure requirements under the sustainability reporting standards. For instance, provided examples #5 and #8 of the draft would have corresponding impact on IAS 12 Income Taxes and IAS 16 Property, Plant and Equipment respectively.

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.

Comment: Overall, we agree with IASB’s approach to develop the examples.

In particular, we seek IASB to include additional illustrative examples regarding the IFRS 17 Insurance Contracts.

IASB has developed Examples 3-7 to illustrate how applying the requirements in IFRS Accounting Standard would result in an entity disclosing information about assumptions it makes about the climate-related uncertainties. The Examples are about the impairment of non-financial assets /financial assets and provisions and should have cover major accounting standards, which are likely impacted by climate-related risks, for most of the non-insurance companies.

Nevertheless, the accounting standard, for insurance companies, most impacted by climate-related uncertainties is IFRS 17 which requires, conceptually, the consideration of the effect of climate-related risks when estimating the future cash flows.

This would be helpful if IASB to develop additional examples to illustrate how insurance companies to apply IFRS 17 for climate-related uncertainties.

Question 3 — Other comments

Do you have any other comments on the Exposure Draft?

Comment: Nil

Remarks: *The above comments are from two HKFI members.*