Objective

1. This paper introduces the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ and its potential applicability to IFRS Sustainability Disclosure Standards.

2. The objectives of this paper are to:

   (a) discuss the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’, including its use in IFRS Accounting Standards;

   (b) seek the ISSB’s feedback on the staff’s analysis and recommendations regarding the application of this concept in specific areas of Exposure Draft IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information ([draft] S1) and Exposure Draft IFRS S2 Climate-Related Disclosures ([draft] S2); and

   (c) seek decisions from the ISSB on the staff’s recommendations.

Summary of recommendations

3. Preparers may be challenged to apply disclosure requirements that involve a high level of outcome or measurement uncertainty including where forward-looking information is required to be considered or disclosed. The staff recommends the ISSB introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’—which is used in similar circumstances in some IFRS Accounting Standards—as a mechanism to facilitate application of particular requirements of IFRS S1 and IFRS S2, specifically:

   (a) the identification of risks and opportunities ([draft] S1 and [draft] S2);

   (b) applying value chain-related requirements, specifically in relation to:

      (i) the scope of the value chain ([draft] S1 and [draft] S2);

      (ii) measurement of Scope 3 greenhouse gas (GHG) emissions ([draft] S2);

   (c) the determination of anticipated financial effects on an entity’s financial performance, financial position and cash flows ([draft] S1 and [draft] S2);

   (d) applying climate-related scenario analysis ([draft] S2); and
(e) the calculation of metrics in particular cross-industry metric categories ([draft] S2).

4. The staff emphasises:

(a) the introduction of this concept would not exempt entities from providing required disclosure; and

(b) these recommendations do not propose additional disclosure requirements. Rather, these recommendations would provide clarity about the information that entities would use in the preparation of disclosures.

Structure of the paper

5. This paper is structured as follows:

(a) background (paragraphs 6–11);

(b) staff analysis and recommendations (paragraphs 12–46);

(c) questions for the ISSB (paragraph 47); and

(d) Appendix—Reasonable and supportable information as described in IFRS 9 Financial Instruments

Background

6. The ISSB published [draft] S1 and [draft] S2 in March 2022 and the comment period for the exposure drafts ended in July 2022. A common request by respondents to the exposure drafts was for greater clarity about how to apply particular proposed requirements that would involve a high level of measurement or outcome uncertainty. The ISSB began its redeliberations on [draft] S1 and [draft] S2 in September 2022, considering feedback received during the comment period. This paper builds on redeliberations on topics already undertaken by the ISSB and seeks to provide a practical solution when the application of particular proposed requirements is considered to have a high level of measurement or outcome uncertainty.

7. Requirements that involve a high level of outcome or measurement uncertainty are not unique to sustainability-related disclosure. IFRS Accounting Standards also require disclosures and/or the recognition and measurement of amounts that are subject to such uncertainty. For example, IFRS 9 Financial Instruments (IFRS 9) requires entities to account for expected credit losses, which requires the use of forward-looking information and requires a high level of estimation and judgment. Therefore, there is a high level of measurement uncertainty. In such circumstances, the International Accounting Standards Board (IASB) has used the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ in a number of recent IFRS Accounting Standards to specify the type of information that entities are required to use. For example:

(a) IFRS 9 uses the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ to specify the information that an entity is required to use and to support the application of the requirements associated with impairment of financial assets. Entities are required to use information with these characteristics in both the assessment of whether there has been a significant increase in credit risk since initial recognition¹ and in the measurement of expected credit losses.

¹ Which determines whether an entity has to recognise lifetime expected credit losses.
(b) IFRS 17 *Insurance Contracts* (IFRS 17) uses the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ in a few areas, but most notably entities are required to use information with these characteristics in estimating future cash flows.

8. This concept is not used in IFRS Accounting Standards as a broad principle, but instead the IASB has used it in specific circumstances to facilitate application of requirements that involve a high level of outcome or measurement uncertainty. IFRS 9 states [emphasis added]:

> reasonable and supportable information is that which is *reasonably available at the reporting date* without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort. An entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available at the reporting date without undue cost or effort and that is relevant (IFRS 9, B5.5.51).

9. Said plainly, when considering this concept, an entity:

   (a) is required to consider information that is reasonably available, including that which it already has, and cannot disregard known information (as stated above, all reasonable and supportable information, available without undue cost or effort, must be considered);

   (b) must have a reasonable basis for using the information (as stated above, information must be supportable);

   (c) need not undertake an exhaustive search for such information (as stated above, the information should be available without undue cost or effort); and

   (d) is required to consider information that is historical, current and forward-looking, but only the information that is *available at the reporting date* (as stated above, available at the reporting date, including information about past events, current conditions and forecasts of future economic conditions).

10. Relevant extracts from IFRS 9 and IFRS 17 are reproduced in Appendix A to this paper.

11. Requiring entities to use reasonable and supportable information that is available at the reporting date without undue cost or effort when applying particular requirements that involve a high level of measurement or outcome uncertainty provides clarity to entities by establishing parameters around the type of information to consider, and around the associated effort to obtain such information. The reference to ‘reasonable and supportable’ also confirms that entities are required to use information that is relevant to what is being measured and that there must be an appropriate basis for the information used. Furthermore, given its use in IFRS Accounting Standards, this is a familiar concept for many users, regulators and auditors.

**Staff analysis and recommendations**

12. The staff recommends the ISSB introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ as a mechanism to facilitate application of particular areas of IFRS S1 and S2.

13. The staff recommends this concept be introduced in the areas outlined in paragraphs 17–42. These particular areas have a high level of outcome or measurement uncertainty, including when entities are
required to consider or disclose forward-looking information, and therefore give rise to potential challenges in application. We think this clarification will assist preparers in applying these disclosure requirements and also support the provision of high-quality information.

14. As explained in paragraph 4, the staff emphasises:

(a) the introduction of this concept would not exempt entities from disclosure; and

(b) these recommendations do not propose additional disclosure requirements. Rather, these recommendations would provide clarity about the information that entities would use in the preparation of disclosures.

15. Given that this concept is used in IFRS Accounting Standards, the staff thinks many preparers, users, regulators and auditors will have experience in its use and application. Therefore, this clarification will be responsive to feedback from respondents requesting greater clarity in the application of particular areas of IFRS S1 and S2.

16. The staff thinks this concept will also assist those preparers that are less able to comply with the requirements proposed in [draft] S1 and [draft] S2. For example, an entity that is more resource constrained, such that the costs of obtaining particular information is proportionally higher than for entities with fewer resource constraints, would be permitted to undertake a proportionally less exhaustive search for information. While the entity would be required to comply with disclosure requirements, the entity would do so with information that is available without undue cost or effort. Said simply, the staff thinks this concept will also help in addressing concerns raised by many stakeholders relating to proportionality or scalability. The staff thinks this concept has been used to this effect in IFRS 9 to support the application by different entities of particular requirements in that Standard2. The staff also proposed this concept to be used to address concerns related to proportionality or scalability in Agenda Paper 4A: Using scenario analysis to assess climate resilience (January 2023) and Agenda Paper 3E and 4E: Current and anticipated financial effects and connected information (January 2023).

The identification of risks and opportunities ([draft] S1 and [draft] S2)

17. Paragraph 16 in [draft] S1 and paragraph 9 in [draft] S2 would require entities to disclose material information about their sustainability-related and climate-related risks and opportunities. In their comment letters, preparers described challenges in identifying risks and opportunities, specifically sharing concerns such as:

(a) the breadth of an assessment that would be necessary to address the entire universe of potential sustainability risks and opportunities that may affect the entity;

(b) disclosure of risks or opportunities that are not immediately identifiable, but whose existence or importance to the entity becomes apparent some time later with the benefit of hindsight; and

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2 In the Basel Committee on Banking Supervision’s December 2015 publication “Guidance on credit risk and accounting for expected credit losses”, the Basel Committee noted that the concept of “reasonable and supportable information that is available as at the reporting date without undue cost or effort’ was intended to ease the implementation burden of IFRS 9 for a wide range of companies. However, the Basel Committee specifically noted the expectation that the use of this concept by internationally active banks and those banks more sophisticated in the business of lending would be limited, particularly because – given their business – the cost of obtaining relevant information is not considered by the Committee to be likely to involve “undue cost or effort”.

General Sustainability-related Disclosures and Climate-related Disclosures—Reasonable and supportable information that is available at the reporting date without undue cost or effort
(c) the potential for an entity to overstate the opportunities to which it is exposed.

18. At the December 2022 ISSB meeting, the ISSB decided to provide additional guidance to help an entity identify the sustainability-related risks and opportunities about which it is required to provide information and to provide additional guidance to help an entity identify material information in the context of sustainability-related financial disclosures.

19. The staff thinks that introducing the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ would complement the additional guidance agreed to by the ISSB in its December meeting by providing additional clarity to entities about the information to be considered in their assessment of about risks and opportunities. More specifically, we think introducing this concept will clarify:

(a) that entities may not overstate or understate opportunities (or conversely, risks) based on information that is unsupported or unreasonable, as entities are required to have a sensible basis of information to support the application of S1 and S2;

(b) that entities are required to use information that is available to them (including historical experience, current information and forecasts of future conditions), and thus does not extend to information that was not available at the reporting date; and

(c) entities are not expected to perform an exhaustive search for information to uncover every risk or opportunity —ie such an exhaustive search would represent ‘undue cost or effort’.

20. Therefore, we recommend the ISSB clarify that the identification of risks and opportunities is based on reasonable and supportable information that is available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future conditions.

Value chain-related concepts: the scope of the value chain ([draft] S1 and [draft] S2)

21. Appendix A of [draft] S1 proposes a definition of ‘value chain’ (and Appendix A of [draft] S2 refers to that proposed definition):

The full range of activities, resources and relationships related to a reporting entity’s business model and the external environment in which it operates.

A value chain encompasses the activities, resources and relationships an entity uses and relies on to create its products or services from conception to delivery, consumption and end-of-life. Relevant activities, resources and relationships include those in the entity’s operations, such as human resource; those along its supply, marketing and distribution channels, such as materials and service sourcing and product and service sale and delivery; and the financing, geographical, geopolitical and regulatory environments in which the entity operates.

22. [Draft] S1 and [draft] S2 propose particular disclosure requirements related to an entity’s value chain, including disclosure of risk and opportunities within the value chain, which would require entities to assess the scope of their value chain, and the corresponding risks and opportunities. Respondents described challenges associated with obtaining the necessary information to support an entity’s assessment of the scope of its value chain, particularly due to how extensive an entity’s value chain could be, as well as the potential complexities related to compiling the information needed to prepare the required disclosures.
23. For example, a manufacturing company may have operations and supply chain activities in various parts of the world, and also distribute its products worldwide. Such an entity will rely on third-party relationships globally to source materials, facilitate sales, and to distribute goods, among other things. Assessing the scope of the value chain and understanding its composition will require global outreach and coordination to these third-parties; third-parties that may change and outsource work throughout the year. Assessing the full scope of the entity’s value chain exposes the entity to a high level of uncertainty with regard to the breadth and composition of the value chain, the availability of information on a timely basis, among other things.

24. In the October 2022 meeting, the ISSB confirmed the definition of Value Chain. Given the nature of the assessment of an entity’s value chain that is required in applying S1 and S2, the staff thinks that introducing the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ would provide clarity to entities by establishing parameters about the type of information an entity would consider, and the associated effort required to obtain such information, to support disclosure regarding the value chain. Specifically, we think this concept will clarify:

(a) that entities are required to use information that is available to them at the reporting date without undue cost or effort, thereby supporting entities that face challenges associated with timeliness of obtaining information from entities in its value chain;

(b) that entities are not required to perform an exhaustive search for information associated with its value chain, which would require undue cost or effort, thereby guiding entities in the assessment of information available from the value chain; and

(c) that entities are however required to use information and make assessments regarding the value chain using information that is reasonable and supportable.

25. We recommend the ISSB clarify that the determination of the scope of the value chain, which includes its composition, is based on reasonable and supportable information that is available at the reporting date without undue cost or effort.

Value chain-related concepts: measurement of Scope 3 GHG emissions ([draft] S2)

26. In addition to the disclosure of risks and opportunities within the value chain, paragraph 21(a)(ii)(3) in [draft] S2 would require entities to disclose Scope 3 GHG emissions. Respondents to [draft] S2 said that the measurement of Scope 3 GHG emissions would present a number of challenges, including those related to data availability, use of estimates, calculation methodologies and other sources of uncertainty.

27. Agenda paper 4B, Scope 3 greenhouse gas emissions (December 2022), discusses some of these challenges and recommended particular reliefs. As recommended in paragraph 50 of that paper, the ISSB decided that an entity should use ‘reasonable and supportable information that is available to an entity without undue cost or effort’ to estimate and disclose its Scope 3 GHG emissions. The staff thinks it would be helpful to clarify that this is information that is available at the reporting date.

28. The staff recommends clarifying that the measurement of Scope 3 GHG emissions is based on reasonable and supportable information available at the reporting date without undue cost or effort.
Disclosures about anticipated financial effects on an entity’s financial performance, financial position and cash flows ([draft] S1 and [draft] S2)

29. The proposals in paragraph 22 of [draft] S1 and paragraph 12(a) and 13(a)(i) of [draft] S2 would require entities to disclose information that enables users of general-purpose financial reporting to understand the anticipated effects of significant sustainability-related and climate-related risks and opportunities on its financial position, financial performance and cash flows for the reporting period, over the short, medium and long term (‘anticipated financial effects’).

30. Respondents said there would be challenges associated with providing such information, specifically with regard to the outcome uncertainty involved. For example, as noted in paragraph BC98 of the Basis for Conclusions on [draft] S2, anticipated financial effects could be due to a combination of sustainability-related risks that are not separable for the purposes of climate-related disclosure, and therefore it may be difficult to separately identify the anticipated effect of climate in isolation from other risks. Furthermore, the determination of anticipated effects of such risks and opportunities requires an assessment of forward-looking information, which is likely impacted by several variables.

31. Respondents also said there would be challenges associated with the calculation of these effects, and therefore, measurement uncertainty. To calculate and measure an anticipated financial effect of such risks and opportunities on financial position, financial performance, and cash flows will require forecasting, estimation, allocation methodologies, and other considerations that are likely impacted by several variables. The difficulty of providing estimates could also be compounded by the level of uncertainty about outcomes (e.g., climate outcomes) and the effect of those outcomes on a particular entity.

32. The staff are proposing recommendations related to the requirements on anticipated financial effects as part Agenda Paper 3E and 4E Current and anticipated financial effects and connected information. In addition, given the nature of anticipated financial effects, and the associated high level of measurement or outcome uncertainty especially in regard to quantification, the staff thinks that introducing the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ will provide additional clarity to entities. We think this concept will help establish parameters around the type of information to consider, and around the associated effort required to obtain such information, to support disclosure regarding anticipated effects. Specifically, we think this concept would provide clarity:

(a) that entities may not overstate or understate the anticipated financial effects of opportunities (or conversely, underestimate or overstate anticipated financial effects of risks) based on information that is unsupportable or unreasonable;

(b) that entities are not required to perform an exhaustive search for information to determine the anticipated financial effects of risks and opportunities, including the efforts to obtain information necessary to determine the attribution of specific effects to specific risks or opportunities. The efforts to obtain such information should be balanced with consideration of the cost and effort required to obtain information to support the entity’s assessments of anticipated effects;

(c) that entities are not required to perform an exhaustive search for information to measure the anticipated financial effects described in paragraph 32(b). When measuring anticipated financial effects of such risks and opportunities, entities would be required to use reasonable and supportable information that is available without undue cost or effort; and

(d) that entities only use information that is available to them at the reporting date (including information about past events, current conditions, and forecasts of future economic conditions) thus excluding information that becomes available subsequently.
33. In Agenda Paper 3E and 4E: **Current and anticipated financial effects and connected information** (January 2023), the staff also proposed this concept to be used to address concerns related to proportionality or scalability, specifically in the determination of whether reasonable and supportable information is available without undue cost or effort to support quantitative disclosures.

34. The staff emphasises that this concept would not exempt entities from disclosure. Rather, this clarification would be used to determine the information that an entity is required to use as a basis application of the requirements regarding anticipated effects.

35. We therefore recommend the ISSB clarify that the determination of anticipated effects, including both the disclosure of anticipated effects as well as any quantified anticipated impact, is based on reasonable and supportable information that is available at the reporting date without undue cost or effort.

**Climate-related scenario analysis ([draft] S2)**

36. Paragraph 15 of [draft] S2 proposed requirements for an entity to disclose information about its assessment of the resilience of its strategy to climate-related risks.

37. At a supplementary meeting in November 2022, the ISSB decided to require an entity to assess its climate resilience using climate-related scenario analysis. The ISSB also decided that entities be required to apply a method of climate-related scenario analysis commensurate with the entity’s circumstances. The ISSB asked the staff to do further work to clarify the criteria an entity would use to select a method of climate-related scenario analysis, including by developing application guidance for the requirements proposed in paragraph 15 of [draft] S2.

38. Agenda Paper 4A **Using scenario analysis to assess climate resilience** (January 2023) includes the staff’s recommendations about applying the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ in undertaking scenario analysis.

**The calculation of particular metrics ([draft] S2)**

39. Paragraphs 21(b)–(d) of [draft] S2 would require an entity to disclose the amount and percentage of assets or business activities (i) vulnerable to transition risks and (separately) vulnerable to physical risks; and (ii) aligned with climate-related opportunities.

40. Respondents said there would be challenges related to the calculation of these metrics. These respondents’ concerns were primarily focused on the judgement and measurement uncertainty required. For example, some respondents expressed concern with an entity’s ability to attribute particular assets to specific climate-related opportunities, and therefore the information that could be used to support attribution.

41. Given the nature of these calculations, and the associated high level of measurement uncertainty, the staff thinks that introducing the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ would provide clarity to entities by establishing parameters around the type of information to consider, and around the associated effort to obtain such information, to support disclosure of these metrics. Specifically, we think introducing this concept will provide clarity that:

(a) entities may not overstate or understate assets or business activities aligned with climate-related opportunities (or conversely, assets or business activities vulnerable to transition or physical risks) based on information that is unsupported or unreasonable, as entities are required to have a sensible basis of information to support disclosure;
(b) in determining the appropriate information to consider, entities would include information that is historical, current and forward-looking that is available at the reporting date. For example, consideration of past occurrences such as extreme weather events and their impact on assets may be included as part of the package of information considered, to the extent that such information is available at the reporting date without undue cost or effort; and

(c) entities need not conduct an exhaustive search for information when calculating these metrics—undue cost or effort is not required to obtain the information necessary to disclose such metrics.

42. **We recommend the ISSB clarify that the calculation of such metrics is based on reasonable and supportable information available at the reporting date without undue cost or effort.**

**Other option considered but not recommended**

43. The staff considered whether to introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ as a concept to be broadly applied throughout [draft] S1 and [draft] S2.

44. As discussed, the objective of introducing this concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ is to target those disclosure requirements when there is a **high level** of measurement or outcome uncertainty. In these circumstances, the concept provides entities with additional explicit clarity regarding the activities and information necessary to prepare such disclosures, with an emphasis on the using only reasonable and supportable information available without undue cost or effort.

45. Therefore, given there are specific topics where there is a high level of outcome or measurement uncertainty, the staff believes this concept should be introduced in those specific areas to provide further clarification to assist preparers applying IFRS S1 and IFRS S2.

46. The staff also note that the IASB does not use this concept as a general principle, but instead uses it in specific circumstances. Therefore, the staff recommendations are consistent with the approach taken by the IASB and also reflect an approach that is familiar to much of the financial reporting preparer community and financial statement auditor community.
Questions for the ISSB

47. The staff presents the following questions for the ISSB.

1. Do you have any comments or questions on the staff analysis and recommendations?

2. Does the ISSB agree with the staff’s recommendation to introduce the concept of ‘reasonable and supportable information that is available at the reporting date without undue cost or effort’ to provide clarity to entities in the application of certain ISSB standards?

3. If so, does the ISSB agree with the staff’s recommendations:

   (a) to clarify that the identification of risks and opportunities is based on reasonable and supportable information that is available without undue cost or effort at the reporting date, including information about past events, current conditions and forecasts of future conditions ([draft] S1 and [draft] S2);

   (b) to clarify that the determination of the scope of the value chain, which includes its composition, is based on reasonable and supportable information that is available at the reporting date without undue cost or effort ([draft] S1 and [draft] S2);

   (c) to clarify that the measurement of Scope 3 GHG emissions is based on reasonable and supportable information available at the reporting date without undue cost or effort ([draft] S2);

   (a) to clarify that the determination of anticipated effects, including both the disclosure of anticipated effects as well as any quantified anticipated impact, is based on reasonable and supportable information that is available at the reporting date without undue cost or effort ([draft] S1 and [draft] S2); and

   (b) to clarify that the calculation of the amount and percentage of assets or business activities (i) vulnerable to transition risks and (separately) vulnerable to physical risks; and (ii) aligned with climate-related opportunities, is based on reasonable and supportable information available at the reporting date without undue cost or effort ([draft] S2).

4. The staff notes the staff recommendation Agenda Paper 4A: Using scenario analysis to assess climate resilience (January 2023) to require an entity to use an approach to climate-related scenario analysis that enables the entity to consider all reasonable and supportable information that is available without undue cost or effort, at the reporting date, including information about past events, current conditions and forecasts of future economic conditions. Voting on this will be undertaken as part of the associated discussion.
Appendix A—Reasonable and supportable information as described in IFRS 9 Financial Instruments

A1. IFRS 9 Financial Instruments: Reasonable and supportable information

B5.5.49 For the purpose of this Standard, reasonable and supportable information is that which is reasonably available at the reporting date without undue cost or effort, including information about past events, current conditions and forecasts of future economic conditions. Information that is available for financial reporting purposes is considered to be available without undue cost or effort.

B5.5.50 An entity is not required to incorporate forecasts of future conditions over the entire expected life of a financial instrument. The degree of judgement that is required to estimate expected credit losses depends on the availability of detailed information. As the forecast horizon increases, the availability of detailed information decreases and the degree of judgement required to estimate expected credit losses increases. The estimate of expected credit losses does not require a detailed estimate for periods that are far in the future—for such periods, an entity may extrapolate projections from available, detailed information.

B5.5.51 An entity need not undertake an exhaustive search for information but shall consider all reasonable and supportable information that is available without undue cost or effort and that is relevant to the estimate of expected credit losses, including the effect of expected prepayments. The information used shall include factors that are specific to the borrower, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date. An entity may use various sources of data, that may be both internal (entity-specific) and external. Possible data sources include internal historical credit loss experience, internal ratings, credit loss experience of other entities and external ratings, reports and statistics. Entities that have no, or insufficient, sources of entity-specific data may use peer group experience for the comparable financial instrument (or groups of financial instruments).

B5.5.52 Historical information is an important anchor or base from which to measure expected credit losses. However, an entity shall adjust historical data, such as credit loss experience, on the basis of current observable data to reflect the effects of the current conditions and its forecasts of future conditions that did not affect the period on which the historical data is based, and to remove the effects of the conditions in the historical period that are not relevant to the future contractual cash flows. In some cases, the best reasonable and supportable information could be the unadjusted historical information, depending on the nature of the historical information and when it was calculated, compared to circumstances at the reporting date and the characteristics of the financial instrument being considered. Estimates of changes in expected credit losses should reflect, and be directionally consistent with, changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of credit losses on the financial instrument or in the group of financial instruments and in the magnitude of those changes). An entity shall regularly review the methodology and assumptions used for estimating expected credit losses to reduce any differences between estimates and actual credit loss experience.

B5.5.53 When using historical credit loss experience in estimating expected credit losses, it is important that information about historical credit loss rates is applied to groups that are defined in a manner that is
consistent with the groups for which the historical credit loss rates were observed. Consequently, the method used shall enable each group of financial assets to be associated with information about past credit loss experience in groups of financial assets with similar risk characteristics and with relevant observable data that reflects current conditions.

B5.5.54 Expected credit losses reflect an entity’s own expectations of credit losses. However, when considering all reasonable and supportable information that is available without undue cost or effort in estimating expected credit losses, an entity should also consider observable market information about the credit risk of the particular financial instrument or similar financial instruments.

A2. Refer to Appendix A of Agenda paper 4B, Scope 3 greenhouse gas emissions (December 2022) for further examples of the use of the terms ‘reasonable and supportable’ and ‘undue cost or effort’ from IFRS 9 Financial Instruments (IFRS 9) and IFRS 17 Insurance Contracts (IFRS 17).