
IASB[®] meeting

Date	April 2024
Project	Climate-related Commitments (IAS 37)
Topic	Finalisation of agenda decision
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Purpose of the meeting

1. At its March 2024 meeting, the IFRS Interpretations Committee (Committee) decided not to add a standard-setting project to the work plan in response to a submission asking it to clarify how IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* applies to commitments an entity makes to reduce or offset its future greenhouse gas emissions (net zero transition commitments). The Committee instead decided to finalise an agenda decision.
2. The purpose of this meeting is to ask the International Accounting Standards Board (IASB) members whether they object to the agenda decision, as required by paragraph 8.7 of the IFRS Foundation *Due Process Handbook*.

Background

3. In November 2023, the Committee discussed a submission asking it to clarify how IAS 37 applies to net zero transition commitments. November 2023 meeting [Agenda Paper 2 Climate-related Commitments \(IAS 37\)—Initial consideration](#) reproduces the submission.

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4. The Committee considered a fact pattern that included two types of net zero transition commitments:
 - (a) *an emissions reduction commitment*—to reduce the entity’s annual greenhouse gas emissions by a specified amount by a specified future date; and
 - (b) *an emissions offset commitment*—to offset the entity’s remaining annual greenhouse gas emissions after that future date by purchasing and retiring carbon credits.
 5. The Committee tentatively concluded that the principles and requirements in IAS 37 provide an adequate basis for an entity to determine:
 - (a) whether making a public statement of a net zero transition commitment gives an entity a constructive obligation to fulfil the commitment;
 - (b) if so, whether the entity recognises a provision for that obligation; and
 - (c) if a provision is recognised, whether the corresponding amount is recognised as an expense or as an asset when the provision is recognised.
 6. Accordingly, the Committee tentatively decided not to add a standard-setting project to the workplan.
 7. In December 2023, the Committee published for comment its [tentative agenda decision](#), setting out its conclusion and the technical analysis supporting that conclusion.

Feedback on the tentative agenda decision

Comment letters

8. The Committee received 43 [comment letters](#). [Agenda Paper 2A](#) for the Committee’s March 2024 meeting (March 2024 Committee Paper 2A) summarises the comments and sets out our analysis of those comments.

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9. Most commentators agreed with the Committee's conclusion and tentative agenda decision, with many of these commentators saying that they welcomed the clarification that the agenda decision would provide. No commentators explicitly disagreed with the Committee's technical analysis or conclusions on the application of IAS 37, but a few expressed a view that IFRS Accounting Standards should be amended to include specific requirements for climate-related commitments.
 10. Some commentators included suggestions for refinements to the content or the wording of the agenda decision. The main suggestion was that the Committee add guidance on factors to consider in judging whether a statement of a net zero transition commitment creates a constructive obligation.
 11. Some commentators included comments on climate-related accounting matters outside the scope of the agenda decision. The main comments were requests for:
 - (a) more guidance or educational material on the information IFRS Accounting Standards require about how an entity's climate-related commitments are reflected in the entity's financial statements;
 - (b) additional requirements and guidance in IAS 37 on climate-related commitments;
 - (c) prioritisation of the IASB's possible future projects on intangible assets and pollutant pricing mechanisms; and
 - (d) collaboration between the IASB and International Sustainability Standards Board.
 12. We summarised those comments in paragraphs 51–57 of [March 2024 Committee Paper 2A](#) and have passed the summary to the team managing the IASB's project on [Climate-related and Other Uncertainties in the Financial Statements](#).

Second submission

13. During the comment period for the tentative agenda decision, the submitters of the original request to the Committee submitted a follow-up request (second submission).
14. In the second submission, the submitters:
 - (a) explained what they regard as limitations of the fact pattern described in the tentative agenda decision; and
 - (b) described two other fact patterns and expressed views on how IAS 37 applies to these fact patterns. Each of the two fact patterns involved an emissions reduction commitment similar to that described in the tentative agenda decision, but with additional information about various actions the entity had taken that affirmed its intention to fulfil its commitment.

The Committee's discussion and decision

15. The Committee considered the feedback on its tentative agenda decision at its March 2024 meeting.
16. The Committee refined aspects of the agenda decision wording in response to matters raised in comment letters and in the second submission. It also considered suggestions for other additions to the agenda decision—for example, for additional guidance on factors to consider in judging whether a net zero transition commitment has given rise to a constructive obligation. The Committee decided against adding further guidance, noting that an agenda decision must not add to or change requirements in IFRS Accounting Standards.
17. Regarding the second submission, the Committee concluded that the features of the fact patterns described in the second submission raised no technical issues beyond those addressed in the tentative agenda decision and did not affect the conclusions set out in the tentative agenda decision. Hence the Committee concluded that the second

submission warranted neither a second agenda decision nor re-exposure of the first tentative agenda decision.

18. All 13 Committee members present voted to finalise the agenda decision. The appendix to this paper includes the wording of the agenda decision approved by the Committee.

Questions for the IASB

Do you object to the Committee's:

- a. decision not to add a standard-setting project to the work plan?
- b. conclusion that the agenda decision does not add or change requirements in IFRS Accounting Standards?

Appendix—the agenda decision

A1. The agenda decision below was approved by the Committee at its March 2024 meeting.

Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

The Committee received a request asking it to clarify:

- a. whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity;
- b. whether a constructive obligation created by such a commitment meets the criteria in IAS 37 for recognising a provision; and
- c. if a provision is recognised, whether the corresponding amount is recognised as an expense or as an asset when the provision is recognised.

The Committee considered this request by reference to the following fact pattern.

Fact pattern

In 20X0 an entity, a manufacturer of household products, publicly states its commitment:

- a. to gradually reduce its annual greenhouse gas emissions, reducing them by at least 60% of their current level by 20X9; and
- b. to offset its remaining annual emissions in 20X9 and in subsequent years by buying carbon credits and retiring them from the carbon market.

To support its statement, the entity publishes a transition plan setting out how it will gradually modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in its annual emissions by 20X9. The modifications will involve investing in more energy-efficient processes, buying energy from renewable sources and replacing existing petroleum-based product ingredients and packaging materials with lower-carbon alternatives. Management is confident that the entity can make all these modifications and continue to sell its products at a profit.

In addition to publishing the transition plan, the entity takes several other actions that publicly affirm its intention to fulfil its commitments.

Does the entity have a constructive obligation?

Paragraph 10 of IAS 37 defines a constructive obligation as an obligation that derives from an entity's actions where:

- a. by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- b. as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Paragraph 20 of IAS 37 states that an obligation always involves another party to whom the obligation is owed, but that it is not necessary to know the identity of that party—the obligation may be to the public at large. The Committee observed that a constructive obligation to reduce or offset greenhouse gas emissions, if one exists, would be owed to all people adversely affected by the emissions so would extend to the public at large.

The Committee further observed that whether an entity's statement of its commitment to reduce or offset its emissions creates a valid expectation that it will fulfil the commitment—and hence creates a constructive obligation to do so—depends on the facts of the commitment and the circumstances surrounding it, including any actions the entity has taken that publicly affirm its intention to fulfil the commitment. Management would apply judgement to reach a conclusion at each reporting date considering all relevant facts and circumstances existing at that date. If the facts or circumstances change from one reporting date to the next, so too could the conclusion.

If the entity's statement has not created a constructive obligation, the entity does not recognise a provision. If the entity's statement has created a constructive obligation, the next question to consider is whether that obligation satisfies the criteria for recognising a provision.

Does the constructive obligation satisfy the criteria for recognising a provision?

Paragraph 14 of IAS 37 requires an entity to recognise a provision when:

- a. the entity has a present obligation (legal or constructive) as a result of a past event;
- b. it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- c. a reliable estimate can be made of the amount of the obligation.

An entity recognises a provision only if all three of these recognition criteria are met.

Present obligation as a result of a past event

The first criterion for recognising a provision is that the entity has a present obligation as a result of a past event.

The Committee observed that, just as the enactment of a law is not sufficient to give an entity a present legal obligation, the publication of a policy or statement is not sufficient to give an entity a present constructive obligation—an entity has a present legal or constructive obligation only when the event to which the law, policy or statement applies has occurred. For example, as illustrated in Illustrative Example 2B accompanying IAS 37, an entity with a widely published policy of cleaning up land it contaminates incurs a present obligation only when it contaminates land—publishing the policy is necessary but not sufficient to give the entity a present obligation.

In explaining the requirement for a present obligation, paragraph 18 of IAS 37 states that ‘no provision is recognised for costs that need to be incurred to operate in the future’ and paragraph 19 of IAS 37 states that ‘it is only those obligations arising from past events existing independently of an entity’s future actions (ie the future conduct of its business) that are recognised as provisions’.

Applying those paragraphs, the Committee concluded that if the commitments described in the fact pattern create a constructive obligation for the entity:

- a. that obligation is not a present obligation as a result of a past event when the entity publicly states the commitments in 20X0. Neither stating a commitment nor taking actions that affirm the entity’s intention to fulfil that commitment are events that create a present obligation. The events that create a present obligation are the events to which the statement applies and those events have not occurred at the time the entity states its commitment. The costs that the entity will incur to reduce its annual greenhouse gas emissions and to offset the greenhouse gases it emits in 20X9 and in subsequent years are costs that it will need to incur to operate in the future—the obligations for those costs do not exist independently of the entity’s future actions.
- b. at any given date, the entity does not have a present obligation to reduce its emissions after that date, because the costs of operating with lower emissions in the future will remain costs that need to be incurred to operate in the future. The entity will at some future date have a liability to pay for resources it buys to carry out those future operations—for example, to pay for new plant or equipment—but only when it receives those resources in an exchange transaction.
- c. only when the entity has emitted the greenhouse gases that it has committed to offset will it have a present obligation to offset those greenhouse gases. The entity will have that present obligation only if and when it emits greenhouse gases in 20X9 and in subsequent years.

Probable outflow of resources

The second criterion for recognising a provision is that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

The Committee concluded that if the commitments described in the fact pattern create a constructive obligation for the entity:

- a. settling the constructive obligation to reduce the entity's annual greenhouse gas emissions will not require an outflow of resources embodying economic benefits. Although the entity will incur expenditure to modify its manufacturing methods, it will receive other resources—for example, property, plant, equipment, energy, product ingredients or packaging materials—in exchange, and will be able to use these resources to manufacture products it can sell at a profit.
- b. settling the constructive obligation to offset the entity's remaining annual greenhouse gas emissions will require an outflow of resources embodying economic benefits. The entity will be required to buy and retire carbon credits without receiving any resources embodying economic benefits in exchange.

Reliable estimate

The final criterion for recognising a provision is that a reliable estimate can be made of the amount of the obligation.

Paragraph 25 of IAS 37 states that 'except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision'.

The Committee concluded that in the fact pattern described, it is likely that the entity would be able to make a reliable estimate of the amount of a constructive obligation that satisfies the other recognition criteria.

Conclusion on whether a provision is recognised

The Committee concluded that in the fact pattern described:

- a. whether the entity's statement of its commitments to reduce and offset its greenhouse gas emissions creates a constructive obligation to fulfil those commitments will depend on the facts of the statement and the circumstances surrounding it.
- b. if the statement creates a constructive obligation:

- i. the entity does not recognise a provision when it makes the statement in 20X0. At that time, the constructive obligation is not a present obligation as a result of a past event.
- ii. the entity does not recognise a provision between 20X0 and 20X9 because it does not have a present obligation as a result of a past event until it has emitted the greenhouse gases it has committed to offset.
- iii. as the entity emits greenhouse gases in 20X9 and in subsequent years, it will incur a present obligation to offset these past emissions. If the entity has not yet settled that obligation and a reliable estimate can be made of the amount of the obligation, the entity recognises a provision.

If a provision is recognised, is the corresponding amount recognised as an expense or as an asset when the provision is recognised?

The Committee observed that if a provision is recognised, the corresponding amount is recognised as an expense, rather than as an asset, unless it gives rise to—or forms part of the cost of—an item that qualifies for recognition as an asset in accordance with an IFRS Accounting Standard.

Other accounting and disclosure implications

The Committee observed that, irrespective of whether an entity's commitment to reduce or offset its greenhouse gas emissions results in the recognition of a provision, the actions the entity plans to take to fulfil that commitment could affect the amounts at which it measures its other assets and liabilities and the information it discloses about them, as required by various IFRS Accounting Standards.

Conclusion

The Committee concluded that the principles and requirements in IFRS Accounting Standards provide an adequate basis to determine:

- a. whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity;
- b. the circumstances in which the entity recognises a provision for the costs of fulfilling a constructive obligation to reduce or offset its greenhouse gas emissions; and
- c. if a provision is recognised, whether the corresponding amount is recognised as an expense or as an asset when the provision is recognised.

Consequently, the Committee decided not to add a standard-setting project to the work plan.