
IFRS[®] Interpretations Committee meeting

Date	March 2024
Project	Climate-related Commitments (IAS 37)
Topic	Session overview and wording for agenda decision
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Purpose of this session

1. In this session, the IFRS Interpretations Committee (Committee) will be asked to decide whether to finalise the tentative agenda decision on Climate-related Commitments it published for comment in December 2023.

Background

Initial consideration and tentative agenda decision

2. In November 2023, the Committee discussed 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). November 2023 meeting [Agenda Paper 2 Climate-related Commitments \(IAS 37\)—Initial consideration](#) reproduces the submission.
3. The Committee considered:
 - (a) whether an entity's net zero transition commitment gives the entity a constructive obligation to fulfil the commitment; and
 - (b) if so, whether the entity recognises a provision for that obligation.

4. The Committee considered a fact pattern that included two types of commitment:
 - (a) *an emissions reduction commitment*—to reduce the entity’s greenhouse gas emissions by a specified amount by a specified future date; and
 - (b) *an offset commitment*—to offset the entity’s residual greenhouse gas emissions after that future date by purchasing and retiring carbon credits.
5. The Committee concluded that the principles and requirements in IAS 37 provide an adequate basis to determine the circumstances in which an entity recognises a provision for the costs of fulfilling a net zero transition commitment. Accordingly, the Committee tentatively decided not to add a standard-setting project to the workplan.
6. In December 2023, the Committee published for comment its [tentative agenda decision](#), setting out its conclusion and the technical analysis supporting that conclusion.

Second submission

7. During the comment period, the submitter of the original request to the Committee submitted a follow-up request (second submission). This second submission is co-signed by a second organisation and is reproduced in the appendix to Agenda Paper 2B *Climate-related Commitments—Second submission*.
8. In the second submission, the submitters:
 - (a) explain what they regard as limitations of the fact pattern described in the tentative agenda decision; and
 - (b) describe two other fact patterns and express views on how IAS 37 applies to these fact patterns. Each of the two fact patterns describes an emissions reduction commitment similar to that described in the tentative agenda decision, but with additional information about various actions the entity has taken that affirm its intention to fulfil its commitment.

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9. The submitters conclude that:
- (a) in the fact patterns described in the second submission:
 - (i) the entity's statement of its emissions reduction commitment creates a present constructive obligation (or in some circumstances a present legal obligation) to fulfil the commitment; and
 - (ii) the entity should default to recognising a provision for that obligation when it announces its commitment; and
 - (b) if management concludes that an entity's net zero transition commitment does not meet the criteria for recognising a provision, the entity discloses the information required by IAS 37 for contingent liabilities.

Papers for this meeting

Agenda Paper 2A—Comment letter analysis

10. In Agenda Paper 2A *Climate-related Commitments—Comment letter analysis* we analyse comments received on the tentative agenda decision:
- (a) we note that most commentators agree with the Committee's conclusions and tentative agenda decision; and
 - (b) we consider commentators' suggestions for refinements to the content and wording of the tentative agenda decision.
11. Some of the comment letters include comments on climate-related accounting matters outside the scope of the agenda decision. Agenda Paper 2A includes a summary of those comments. We will pass this summary to the team managing the International Accounting Standards Board's (IASB's) project on [Climate-related and Other Uncertainties in the Financial Statements](#).

Agenda Paper 2B—Second submission

12. In Agenda Paper 2B *Climate-related Commitments—Second submission* we consider the submitters' analysis of the fact patterns in the second submission and the conclusions the submitters reach on the basis of that analysis. We consider whether the second submission raises new issues that might warrant a second agenda decision or re-exposure of the tentative agenda decision published in December 2023.
13. We acknowledge that actions an entity takes that publicly affirm its net zero transition commitment could increase the likelihood that the entity has a constructive obligation to fulfil the commitment. However, we disagree with key aspects of the submitters' analysis and conclusions. As explained in the tentative agenda decision:
 - (a) whether a statement of a net zero transition commitment gives rise to a constructive obligation as defined in IAS 37 depends on the facts of the commitment and the circumstances surrounding it. It cannot be assumed that an entity that has taken the actions described in the fact patterns in the second submission necessarily has a constructive obligation.
 - (b) neither making a statement of a net zero transition commitment nor taking other actions that affirm an intention to fulfil the commitment are the past events that give rise to a present obligation. For this reason, those actions are not sufficient to meet the criteria in IAS 37 for recognising a provision or disclosing a contingent liability—the entity must also have taken the actions to which the commitment applies, for example, emitted greenhouse gases it has committed to offset.
14. We conclude that the features of the fact patterns described in the second submission:
 - (a) do not raise technical issues beyond those addressed in the tentative agenda decision; and
 - (b) do not affect the conclusions set out in the tentative agenda decision.

15. Hence, we conclude that the second submission warrants neither a second agenda decision nor re-exposure of the tentative agenda decision published in December 2023.

Staff recommendations

16. On the basis of our analyses of comments on the tentative agenda decision (Agenda Paper 2A) and of the second submission (Agenda Paper 2B), we recommend that the Committee finalise the agenda decision, with the wording set out in the appendix to this paper.

Questions for the Committee

Questions for the Committee

1. Do you agree that the second submission warrants neither a second agenda decision nor re-exposure of the tentative agenda decision published in December 2023?
2. Do you agree with the staff recommendation that the Committee finalise the agenda decision?
3. Do you have any comments on the wording of the agenda decision suggested in the appendix to this paper?

Next step

17. If the Committee agrees with our recommendation, we will ask the IASB whether it objects to the agenda decision at the first IASB meeting at which it is practicable to present the agenda decision.

Appendix—Suggested wording for agenda decision

Staff suggestions for the wording of the agenda decision are set out below. The marked insertions and deletions are changes to the tentative agenda decision published in November 2023. [The text boxes give the location of the explanation for the change.](#)

Climate-related Commitments (IAS 37)

The Committee received a request asking it to clarify:

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

Agenda Paper 2A
Appendix B
Table B1(b)

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:

- to reduce its ~~current~~ future greenhouse gas emissions by at least 60% of their current level by 20X9; and*
- to offset its remaining emissions in 20X9 and thereafter, by buying carbon credits and retiring them from the carbon market.*

Agenda Paper 2A
Paragraph 39

~~With~~ To support its statement, the entity publishes a detailed transition plan setting out how it will gradually modify its manufacturing methods between 20X1 and 20X9 to achieve the 60% reduction in emissions by

Agenda Paper 2B
Paragraph 10(a)

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 a detailed transition plan, the entity takes a number of other actions that publicly affirm its intention to fulfil its commitments.

Agenda Paper 2B
Paragraph 31(a)

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.

Agenda Paper 2A
Appendix B
Table B1(f)

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 its commitment—and hence creates a constructive obligation—depends on the facts of the commitment and the circumstances surrounding it. Management would apply judgement to reach a conclusion considering all the relevant facts and

circumstances. If those facts or circumstances change over time, so too could the conclusion.

Agenda Paper 2A
Appendix B
Table B1(c)

Agenda Paper 2B
Paragraph 10(b)

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 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 it has also taken the action to which ~~a-the~~ law applies, ~~it has a present constructive obligation only when it has taken the action to which~~ or its published policy or statement applies. For example, as illustrated in Illustrative Example 2B accompanying

Agenda Paper 2A
Appendix B
Table B1(d)

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.

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 commitment described in the fact pattern creates 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 its commitment 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 ~~At that time, the entity has not taken~~ the actions to which the statement applies and, at the time the entity states its commitment, it has not taken these actions. The costs that the entity will need to incur to ~~modify its~~ operate with modified manufacturing methods and to offset the greenhouse gases that it emits in 20X9 onwards 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. the entity ~~will never~~ does not at any date have a present obligation to reduce its emissions after that date for future modifications to its manufacturing methods because the costs of ~~those modifications~~ will always be 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 point have an obligation to pay for resources it purchases to ~~modify its methods~~ conduct those future operations—

Agenda Paper 2B
Paragraph 31(b)

Agenda Paper 2A
Appendix B
Table B1(e)

for example, to pay for new plant or equipment—but only when it receives those resources.

- c. only when the entity has emitted the greenhouse gases that it has committed to offset will it have a present obligation to retire the carbon credits required to offset those greenhouse gases. The entity will have a present obligation to retire carbon credits only if and when it emits greenhouse gases in 20X9 and later 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 commitment described in the fact pattern creates a present constructive obligation for the entity:

- a. settling the obligation to reduce the entity's 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 for that expenditure, and will be able to use these resources to manufacture products it can sell at a profit.
- b. settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources embodying economic benefits. The entity will be required to purchase and retire carbon credits without receiving any resources embodying economic benefits in exchange.

Agenda Paper
2A Paragraph
32(a)
+ edits for
consistency with
bullet a.

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 commitment to reduce and offset its greenhouse gas emissions creates a constructive obligation 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 until the entity has emitted the greenhouse gases it has committed to offset, it still does not have a present obligation as a past event.
 - iii. as the entity emits greenhouse gases in 20X9 and thereafter, it will incur a present obligation ~~to retire the carbon credits required~~ to offset its past emissions. ~~Assuming it~~ If the entity has not already retired yet purchased, or has purchased and recognises as an asset, the carbon credits needed to offset its past emissions, and ~~that~~ a reliable estimate can be made of the amount of the obligation, the entity recognises a provision.

Agenda Paper 2A
Appendix B
Table B1(a)

Agenda Paper 2A
paragraph 32(b)
and Appendix B
Table B1(g)

If a provision is recognised, is the ~~expenditure required to settle it~~ **amount** recognised as an expense or as an asset when the provision is recognised?

Agenda Paper 2A
Appendix B
Table B1(b)

The Committee observed that ~~expenditure~~ **an 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 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 for an entity to determine:

- a. the circumstances in which an entity recognises a provision for the costs of fulfilling a commitment to reduce or offset its greenhouse gas emissions; and
- b. if a provision is recognised, whether the costs are 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.