Staff paper

Agenda reference: 2A

IFRS® Interpretations Committee meeting

Date	**March 2024**
Project	**Climate-related Commitments (IAS 37)**
Topic	**Comment letter analysis**
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Paper overview

Background

1. As explained in Agenda Paper 2 *Climate-related Commitments—Session overview and wording for agenda decision*, in November 2023, the IFRS Interpretations Committee (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).

2. The Committee concluded that 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.

3. In December 2023, the Committee published for comment its tentative agenda decision, setting out its conclusion and the technical analysis supporting that conclusion.

Purpose of this paper

4. This paper discusses the comments received on the tentative agenda decision. It includes:

   (a) information on commentator demographics (paragraphs 6–7);

   (b) our analysis of:

      (i) overall views on the Committee's conclusions and tentative agenda decision (paragraphs 8–18); and

      (ii) suggestions for refinements to the content and wording of the agenda decision (paragraphs 19–49).

   (c) a summary of comments on climate-related accounting matters outside the scope of the agenda decision (paragraphs 50–57).

Staff recommendations and questions for the Committee

5. The staff recommendations and questions for the Committee are set out in Agenda Paper 2—there are no questions in this paper.

Commentator demographics

6. The Committee received 43 comment letters. The letters are available on the Climate-related Commitments (IAS 37) project pages on the IASB website.

Comment letters on tentative agenda decision

Type of commentator	Number commenting
National accounting standard setter	14
Accounting practitioner:	
- International accounting firms	7
- Others	3
Organisation involved in sustainability- or impacts-related policy or reporting	6
Primary user of financial statements	2
Securities regulator	2
Accountancy professional body	3
Preparer of financial statements	3
Accounting academic or other individual	3
Total	**43**

7. Appendix A to this paper lists the commentators included within each category.

Overall views on the Committee's conclusions and tentative agenda decision

8. In this section we discuss commentators' overall views on the Committee's conclusions and tentative decision not to add a standard-setting project to the work plan. We discuss the views of:

   (a) commentators agreeing with the conclusions and tentative decision (paragraphs 9–15); and

   (b) commentators not agreeing (paragraphs 16–18).

Commentators agreeing with the conclusions and tentative decision

9. Most commentators agree with both the Committee's conclusions and its tentative decision. They include:

   (a) all of the:

      (i) international accounting firms;

      (ii) groups representing primary users of financial statements;

      (iii) securities regulators; and

      (iv) accounting professional bodies;

   (b) thirteen of the fourteen national accounting standard setters;

   (c) four organisations involved in sustainability- or impacts-related policy or reporting;

   (d) two groups representing preparers of financial statements; and

   (e) one other accounting practitioner and one group of academics.

10. Many of these commentators say they welcome the clarification that the agenda decision will provide:

> As primary users of financial reports, the accounting implications of climate-related commitments are of paramount importance to us. We support the IASB's initiative to reaffirm existing requirements and provide clarity on their application to climate-related commitments. We agree with the committee's decision not to pursue standard setting and believe that the Agenda Decision will be helpful in laying out how IAS 37 applies generally to this topic, with no provision arising until all four criteria for recognising a provision are met. *Six financial institutions*[1]

> We note that the illustrative fact pattern used includes several characteristics of company circumstances we increasingly see at present. With annual financial statements in mind, as of any year end (balance sheet date), there may be a range of climate-related emissions commitments and/or targets that have been announced, and various strategies and/or plans to meet those commitments/targets. Those strategies/plans often do include steps to both reduce emissions through various changes to the company's manufacturing methods or even its products, and some will also include additional offsetting mechanisms. While the specifics of a company's facts and circumstances will inevitably vary and change over time, the fact pattern helpfully brings these elements together for illustration of how the requirements would be applied at any balance date, and does so without placing undue reliance upon labels and terminology (commitment vs aim vs target, etc). *Climate Accounting & Audit Project*[2]

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[1] Christian Brothers Investment Services, CAAT Pension Plan, KBI Global Investors, Miller/Howard Investments Inc, Sarasin & Partners LLP, Trusteam Finance

[2] The Climate Accounting & Audit Project describes itself as a group of accounting and finance experts that is working with investors to ensure the requirements of the IASB and International Auditing and Assurance Standards Board (in particular the guidance on climate risk) are followed, and hence that material climate risks are considered and that this is given appropriate transparency in company financial statements and the associated audit reports.

11. Some commentators specifically welcome the discussion on identifying constructive obligations, the first step in deciding whether to recognise a provision. For example:

    (a) Compass Climate, an organisation advising governments on climate policy, says that because most climate targets are not legally binding, the consideration of how and when a constructive obligation might arise is critical;

    (b) the Securities and Exchange Commission of Brazil says it is aware that some stakeholders have been arguing against recognising provisions for climate commitments on the grounds that they have no legally enforceable obligations.

12. Some commentators specifically welcome the clarification of the past event that gives rise to a present obligation. For example:

    (a) Compass Climate notes that it is working on a real-world question on whether a particular entity should recognise a provision for a climate target involving carbon credit offsets. It describes as a useful clarification the conclusion that, in relation to the purchase of carbon credits, the past event that creates a present obligation is the emission of gases.

    (b) the Public Accountants and Auditors Board Zimbabwe highlights the reference to paragraph 18 of IAS 37 which states that no provision is recognised for costs that need to be incurred to operate in the future. It says this reference is useful in explaining why only costs emanating from a past events are recognised as a provision.

13. Carbon Tracker says it is especially pleased to see the reference to the ‘other accounting implications’ of an entity’s net zero transition commitment and the emphasis that such implications exist irrespective of whether that commitment results in the recognition of a provision.

14. Ernst & Young notes that the Committee’s conclusions are consistent with its understanding of both the current IAS 37 requirements and current practice.

15. Rethinking Capital also says it agrees with the Committee's conclusions and tentative agenda decision. However, unlike other commentators, it expresses a view the agenda decision will result in a widespread change in practice, with entities recognising provisions for net zero transition commitments that they have not recognised up until now. Rethinking Capital discusses how entities could make the transition and also expresses a view that further clarity could be achieved by analysing two further fact patterns, explaining that view further in its second submission to the Committee—see Agenda Paper 2B *Climate-related Commitments—Second submission*.

Commentators not agreeing with the Committee's conclusions or tentative agenda decision

16. Four commentators, although not disagreeing with the Committee's technical analysis and conclusions, state or imply that they disagree with the Committee's tentative decision not to add a standard-setting project to the workplan:

    (a) Syamantak Saha (Financial Data Engineer) and Dr Hafez Abdo (Associate Professor of Accounting at the University of Nottingham) would like IFRS Accounting standards to be amended to require entities to recognise provisions for the future costs of fulfilling net zero transition commitments.

    (b) Bancolombia would like specific requirements for climate-related matters to be added to IFRS Accounting Standards to promote consistent application and better explain the relationship between the requirements of IFRS Accounting Standards and those of IFRS Sustainability Standards.

    (c) The McGuinness Institute attaches to its comment letter a discussion paper exploring whether a specific commitment to purchase carbon credits to offset emissions should be recognised as a liability. In its comment letter, the McGuiness Institutes says it thinks that:

        (i) accounting standards are not as clear as they could be; and

(ii) a conclusion that no provision is required would indicate that current standards are not sufficient.

17. David Hardidge, who provides preparers of financial statements with advice on IFRS Accounting Standards, thinks the tentative agenda decision should not be issued on its own—it should be issued as part of a more comprehensive response to the accounting implications of climate-related commitments, including impairment of assets.

18. Three commentators do not say explicitly whether they agree or disagree with the Committee's conclusions and tentative agenda decision, so their overall view is unclear. They comment on other matters, as discussed later in this paper.

Suggestions for refinements to the agenda decision

19. In this section we discuss commentators' suggestions for refinements to the content or wording of the agenda decision—specifically suggestions that the Committee:

(a) add guidance on factors to consider in judging whether a net zero transition commitment creates a constructive obligation (paragraphs 20–26);

(b) avoid unintended messages on accounting for carbon credits (paragraphs 27–32);

(c) omit some analysis of the probable outflows recognition criterion (paragraphs 33–37);

(d) clarify whether and how to analogise to asset decommissioning obligations (paragraphs 38–42);

(e) refer to disclosure requirements (paragraph 43–45);

(f) include examples of other accounting implications of a net zero transition commitment (paragraphs 46–48); and

(g) consider drafting amendments (paragraph 49).

Add guidance on factors to consider in judging whether a net zero transition commitment creates a constructive obligation

20. Several commentators comment on the Committee's conclusion 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 those facts and circumstances.

Comments on whether the Committee should reach more definitive conclusions

21. A few commentators comment on whether the Committee should reach a more definitive conclusion on the circumstances in which an entity's commitment creates a constructive obligation:

    (a) arguing for a more definitive conclusion:

        (i) a few commentators suggest that adding a more definitive conclusion for the fact pattern presented would help users of financial statements better understand why not all statements of climate-related commitments would create constructive obligations—commitments are 'are usually aspirational, and often change as reality bites'; and

        (ii) the Securities and Exchange Commission of Brazil urges the Committee to list circumstances in which a commitment would give rise to a constructive obligation.

    (b) in contrast, the Canadian Accounting Standards Board says that by not concluding on whether the entity's statement creates a constructive obligation, the tentative agenda decision:

(i) underscores the need to consider the surrounding facts and circumstances and apply judgement; and

(ii) clarifies that not every climate-related commitment will necessarily create a constructive obligation.

(c) the French Autorité des Normes Comptables and Brazilian Association of Public Companies both say they agree with the Committee's decision not to include in the tentative agenda decision examples of factors the management might consider in reaching its judgement.

Requests for more guidance on the facts and circumstances

22. Some commentators request more guidance on the factors management should consider in judging whether a statement of a net zero transition commitment creates a constructive obligation—noting that guidance could support consistent application.

23. Regarding the format of the guidance, commentators' suggestions include:

(a) adding guidance to the agenda decision itself or publishing it in educational material. KPMG acknowledges the risk that the guidance could be viewed as adding to or changing the requirements of IAS 37, and so suggests presenting a list of factors to consider as 'useful indicators', rather than as a mandatory checklist.

(b) adding guidance to IAS 37 as part of its Provisions—Targeted Improvements project. The Canadian Accounting Standards Board notes that developing guidance as part of that project, rather than adding it to the agenda decision, would avoid the risk of the agenda decision or educational materials adding to or changing the requirements of IAS 37.

24. Regarding the content of the guidance:

(a) some commentators refer to the examples of factors to consider in paragraph 23 of [Agenda Paper 2 *Climate-related Commitments (IAS 37)—Initial consideration*] discussed at the Committee's November 2023 meeting. These examples refer to the language used in the statement, the specificity and status of plans supporting the statement, the timing of the actions required to fulfil the commitment and publicly available evidence of progress to date:

(i) several commentators say that these examples could be useful indicators to refer to; but

(ii) Compass Climate cautions against using them.

> There are many wider and different reasons why a company may have no realistic alternative but to follow through with a climate target (for example, reputational damage affecting its ability to continue to operate) irrespective of how advanced its plans to meet the target are. It may also have a strong track-record of meeting past obligations even if the current plans are nascent. A company that is struggling to follow through is not necessarily one that is less committed or more able to realistically back out. *Compass Climate*

Compass Climate concludes that because of the many and varying reasons why a company might have no alternative but to follow through with a climate target, including further guidance on this issue could be over-interpreted in a way that leads to liabilities not being recognised.

(b) as noted in paragraph 18 of Agenda Paper 2B, Rethinking Capital and the International Foundation for Valuing Impacts think the language used in the statement should be disregarded. They view as important:

(i) actions the entity has taken that affirm its intention to fulfil its commitment; and

(ii) actions other parties have taken that indicate they expect the entity to fulfil its commitment.

(c) Carbon Tracker asks for guidance on:

(i) the circumstances in which a statement of an entity's commitment is 'sufficiently specific' to meet the definition of a constructive obligation; and

(ii) whether a transition plan is sufficient or necessary.

(d) there are conflicting views on whether guidance should refer to the criteria set out in paragraphs 72–74 of IAS 37 for concluding that an entity has a constructive obligation for the costs of restructuring a business. A few commentators say that management could refer to those criteria by analogy. In contrast, Compass Climate says that in a real-world case it has been working on, tests for restructuring obligations have been applied to an environmental obligation in a way that it does not think 'is necessarily a good fit'.

(e) Grant Thornton asks that guidance includes both examples of circumstances in which constructive obligation exists and examples of circumstances in which it does not. It says that including examples of both types of circumstances will help reduce the 'expectation gap' that currently exists between users and preparers of financial statements.

Staff analysis

25. We think the Committee should neither add guidance on this matter to the agenda decision, nor publish it as educational material. As evidenced from the comments summarised in paragraph 24, views differ on the content of the guidance and there is a risk that, however worded, any guidance would add to the requirements of IAS 37.

26. We will pass on to the relevant project team the suggestion that the IASB consider developing guidance as part of its Provisions—Targeted Improvements project.

Avoid unintended messages on accounting for carbon credits

27. The Canadian Accounting Standards Board, Ernst & Young, Grant Thornton and the French Autorité des Normes Comptables raise concerns that the wording of the tentative agenda is such that it might be read as specifying how an entity accounts for carbon credits it purchases to offset its greenhouse gas emissions.

28. Commentators refer to the statement in the tentative agenda decision that

> b. settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources. The entity will be required to retire carbon credits without receiving any resources in exchange.

29. The commentators say they think there is a risk that readers will infer from the second sentence that acquired carbon credits can be recognised as assets until they are retired. They say that accounting practice for carbon credits is still developing and that while some carbon credits might be recognised as assets, this determination requires judgement and depends on the facts and circumstances. They further note that the accounting treatment of carbon credits is not within the scope of the agenda decision.

30. The commentators suggest ways of avoiding the risk of unintended inferences about the accounting treatment of carbon credits. Suggestions include:

    (a) deleting the second sentence from the bullet quoted in paragraph 28;

    (b) discussing possible ways of accounting for the carbon credits; or

    (c) revising the wording of the agenda decision to focus the example on situations where the entity has concluded that carbon credits represent an asset.

Staff analysis

31. We think that completely deleting the second sentence quoted in paragraph 28 could weaken the agenda decision—for readers to understand the conclusion that 'settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources', it is helpful for the agenda decision to identify the outflow.

32. However, it is not the purpose of this agenda decision conclude on the accounting treatment of carbon credits. We do not want to imply that a carbon credit necessarily meets the asset definition and recognition criteria, which we might do by identifying its retirement, rather than its purchase, as the outflow of resources. We suggest two amendments to the wording of the agenda decision.

(a) in the 'probable outflows of resources' section:

> b. settling the obligation to offset the entity's remaining greenhouse gas emissions will require an outflow of resources. The entity will be required to purchase and retire carbon credits without receiving any resources in exchange.

(b) in the 'Conclusion on whether a provision is recognised' section:

> ii 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.

Omit some analysis of the probable outflows recognition criterion

33. The UK Endorsement Board suggests that the agenda decision omit the paragraph of analysis explaining why the entity's obligation to reduce its emissions fails the second recognition criterion—the paragraph explaining that settling the entity's obligation to reduce its emissions will require an exchange, not an outflow, of resources embodying economic benefits.

34. The UK Endorsement Board suggests omitting that paragraph for two reasons:

    (a) it is not necessary. Because the entity's obligation to reduce its emissions fails the first recognition criterion, there is no need to consider whether it also fails the second and third recognition criteria.

    (b) IAS 37 does not define the term 'outflow'—it does not explicitly state that there must be a net outflow or that an exchange of resources is not an outflow. Grant Thornton also notes this point.

Staff analysis

35. IAS 37 does not explicitly define the term outflow to mean a net outflow. However, we think the requirement for a net outflow is implicit in IAS 37:

    (a) the requirement in IAS 37 for a probable outflow of resources embodying economic benefits reflects the definition of a liability in paragraph 10 of IAS 37 (a present obligation … expected to result in an outflow from the entity of resources embodying economic benefits). And it mirrors the definition of an asset in paragraph 8 of IAS 38 *Intangible Assets* (a resource … from which future economic benefits are expected to flow to the entity). These asset and liability definitions have been used widely in developing IFRS Accounting Standards and they are consistently used with a sense of a need for net outflows or inflows.

(b) the requirements in IAS 37—and the conclusions in the illustrative examples accompanying IAS 37—are all consistent with a notion of a provision being recognised only when settlement of an obligation will require a net outflow of resources.

36. Additionally, our experience is that stakeholders seeking to understand the requirements of IAS 37—and the conclusions in the illustrative examples accompanying IAS 37—find helpful the clarification that an exchange of resources is not an outflow.

37. Accordingly, we suggest that the agenda decision retains this aspect of the analysis.

Clarify whether and how to analogise to asset decommissioning obligations

38. Carbon Tracker notes that, in applying the requirements of IAS 37 to net zero transition commitments, some people might apply by analogy the requirements for asset decommissioning obligations. It says these people might conclude that because the construction of an asset is the past event that gives rise to a present obligation to decommission that asset, it is also the past event that gives rise to a present obligation for the costs of offsetting the emissions the asset will produce. Carbon Tracker suggests that it would be useful if the Committee could clarify whether, and if so how, the analogy to decommissioning obligations is relevant.

39. Ernst & Young suggests edits to the wording of the fact pattern to help clarify that a present obligation to offset emissions arises from the use of the assets that create the emissions, not the purchase of those assets, and thereby avoid inappropriate analogies to decommissioning provisions:

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

a. to reduce its ~~current~~ future greenhouse gas emissions by at least 60% of their current level by 20X9; and

b. to offset its remaining emissions in 20X9 and thereafter, by buying carbon credits and retiring them from the carbon market.

Staff analysis

40. An entity applying IAS 37 recognises a provision for an asset decommissioning obligation when it causes the environmental damage that the decommissioning will rectify. In some cases, the damage is caused by the construction of the asset, while in others it is caused by the use of the asset. IAS 37 is clear that an entity recognises a decommissioning provision only for the costs of rectifying past damage and not for the costs of rectifying further environmental damage that might result from future use of the asset—paragraph 19 states that 'an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station *to the extent that the entity is obliged to rectify damage already caused*'. [Emphasis added]

41. We think Ernst & Young's edits are helpful clarifications and have included them in the changes to the wording of the draft agenda decision set out in the appendix to Agenda Paper 2.

42. We think that the requirements for asset decommissioning provisions provide a useful analogy when considering commitments to offset greenhouse gas emissions, but only if the requirements are fully explained. We will consider opportunities to use the analogy in any educational or communications materials we develop to support the agenda decision.

Refer to disclosure requirements

43. The Climate Accounting & Audit Project suggests adding to the agenda decision a discussion of the information an entity would disclose about the provisions it has or has not recognised in relation to its net zero transition commitments:

> For example, it would likely help to providing an understanding of the financial statements (including the gap on non-recognition of provisions) if disclosure was made on whether the company considers there are or are not constructive obligations associated with its climate-related commitments, and if there are, which of the recognition criteria were met/not met. *Climate Accounting & Audit Project*

44. IOSCO notes that in reaching a conclusion on whether to recognise a provision, management would apply judgement. It says that, when material, it would expect disclosure of such judgements, allowing an investor to understand the effects of the judgements on the application of the entity's accounting policies.

Staff analysis

45. We suggest that the agenda decision does not refer to possible disclosure requirements relating to net zero transition commitments.

    (a) IAS 37 has no specific requirement for the information that the commentators suggest could be helpful and an agenda decision must not add or change requirements in IFRS Accounting Standards; and

    (b) although IAS 1 *Presentation of Financial Statements* has more general disclosure requirements—for example to disclose information about some judgements made in applying the entity's accounting policies—the information required to comply with those requirements will depend on the relevant facts and circumstances.

Include examples of other accounting implications of a net zero transition commitment

46. The tentative agenda decision finishes with an observation 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.

47. A few respondents suggest that the agenda decision identify some of these implications:

(a) the Climate Accounting & Audit Project and Deloitte suggest clarifying how a net zero transition commitment could affect the entity's assessments of other provisions and contingent liabilities within the scope of IAS 37:

(i) the Climate Accounting & Audit Project notes that an entity might need to recognise, remeasure or disclose information about asset decommissioning obligations, contractual commitments that become onerous, or contingent liabilities; and

(ii) Deloitte suggests explaining that the actions planned to fulfil a commitment to reduce emissions could make some contracts onerous or involve restructuring activities for which provisions would be considered applying paragraphs 70–83 of IAS 37.

(b) the Climate Accounting & Audit project also suggests identifying some other accounting implications (for example, changes in useful lives or residual values of assets, impairment of assets) and the need to consider not only the disclosure requirements for specific transactions in the applicable Standards but also the overarching disclosure requirements of IAS 1.

Staff analysis

48. As discussed in paragraphs 37–38 of Agenda Paper 2 *Climate-related Commitments (IAS 37)—Initial consideration* for the Committee's November 2023 meeting, an entity's net zero transition commitments could have a variety of accounting implications beyond the need to consider whether to recognise a provision for the commitment. However, explaining all these implications is beyond the scope of the agenda decision and highlighting a few could imply that others are less important. At its November meeting, the Committee considered but decided against including examples of implications in the agenda decision. Few commentators have questioned the absence of examples so we think none should be added.

Consider drafting amendments

49. Respondents also made a number of more minor/drafting suggestions. We have listed and responded to these suggestions in Appendix B to this paper:

(a) Table B1 in Appendix B lists and explains suggestions we have reflected in the agenda decision wording in the appendix to Agenda Paper 2; and

(b) Table B2 lists suggestions we have not reflected, and our reasons.

Comments on climate-related accounting matters outside the scope of the agenda decision

50. Some commentators include comments on climate-related accounting matters outside the scope of the agenda decision. We summarise those comments in paragraphs 51–57. We will pass our summary to the team managing the IASB's project on Climate-related and Other Uncertainties in the Financial Statements.

Further guidance and educational material

51. Several commentators—including organisations involved in sustainability reporting and both groups representing primary users of financial statements—stress the importance of information about how an entity's climate-related commitments are reflected in the entity's financial statements. Some commentators encourage the IASB to help facilitate the disclosure of such information by publishing educational material. Some specifically refer to that educational material being developed as part of the IASB project on Climate-related and Other Uncertainties in the Financial Statements, or by updating educational material the IASB has previously published to cover statements of climate-related commitments.

52. A few commentators suggest developing educational materials to support consistent application of IAS 37 to climate-related commitments. Suggestions include:

    (a) expanding on the fact pattern discussed in the agenda decision and including additional fact patterns that identify circumstances in which various climate commitments do and do not result in the recognition of a provision or the disclosure of a contingent liability;

    (b) providing guidance on the circumstances in which climate-related commitments or publicly disclosed transition plans meet the IAS 37 definition of a restructuring; and

(c) publishing a decision tree or process map—possibly one that also includes relevant requirements of IFRS Sustainability Disclosure Standards, which could be particularly helpful in circumstances where no provision is recognised.

IASB Provisions—Targeted Improvements Project

53. Several commentors suggest amendments to IAS 37 that they would like the IASB to consider as part of its Provisions—Targeted Improvements Project. Suggestions include:

(a) adding requirements for entities making climate-related commitments to disclose:

  (i) how management has determined whether the commitment creates a constructive obligation;

  (ii) how management judged whether a provision should be recognised for that commitment; and

  (iii) how the entity's financial statements reflect the effects of the commitment.

(b) adding application requirements and examples illustrating net zero transition commitments, including examples illustrating more complex fact pattens—for example, those in which n an entity has a present obligation for costs that become payable only if a measure of its activity (for example, its greenhouse gas emissions) exceeds a specified threshold.

(c) adding guidance on factors to consider in determining whether a net zero transition commitment gives rise to a constructive obligation (as discussed further in paragraphs 24–26 above);

(d) adding requirements to disclose information about capital expenditure projects required to fulfil climate-related commitments, and capital already committed to purchasing assets to fulfil those commitments.

Projects not yet on the IASB work plan

54. The International Foundation for Valuing Impacts asks the IASB to prioritise its project to update IAS 38 *Intangible Assets*.

55. The Canadian Accounting Standards Board, Grant Thornton and Deloitte ask the IASB to prioritise the project on Pollutant Pricing Mechanisms currently on the IASB's reserve list.

Working with the ISSB

56. Several respondents refer to the importance of the IASB working in collaboration with the International Sustainability Standards Board.

> This issue highlights the need for connectivity between broader corporate reporting (including sustainability reporting) and information in the financial statements to, in this case, provide clarity for the broad range of interested stakeholders on whether statements made as part of a sustainability report do, or validly do not, affect the recognition and measurement of items in the financial statements. We urge the International Accounting Standards Board (the IASB) to accelerate its project on climate-related and other uncertainties in financial statements and, in collaboration with the International Sustainability Standards Board, to focus on the interaction between those disclosures and the information provided by sustainability reporting. *Deloitte*

Other matters

57. Other suggestions include:

(a) considering two ‘bigger picture’ issues:

(i) whether different methods of achieving the same climate goal would be accounted for differently. If so, the accounting requirements could create incentives to use one method rather than another, changing behaviour.

(ii) how financial accounting requirements might help or hinder progress towards zero emissions.

(b) using plain language when discussing climate-related issues, on the grounds that terminology used by those involved in financial reporting may not carry the same meaning to users of financial statements or people operating in the sustainability field.

(c) publishing plain language communications to support the final agenda decision.

Appendix A—Commentators by category

Website ref

National accounting standard setters (14)	
07	Canadian Accounting Standards Board
10	Accounting Standards Board of Japan
11	French Autorité des Normes Comptables
18	Saudi Organization for Chartered and Professional Accountants
19	New Zealand External Reporting Board
22	Malaysian Accounting Standards Board
23	Indonesian Financial Accounting Standards Board
24	Public Accountants and Auditors Board Zimbabwe
25	Organismo Italiano di Contabilita
26	Institute of Chartered Accounts of India
30	UK Endorsement Board
35	Accounting Standards Committee of Germany
37	Group of Latin American Accounting Standard Setters
42	Brazilian Accounting Pronouncements Committee

Primary users of financial statements (2)	
34	Climate Accounting & Audit Project
43	Six financial institutions

Website ref	
Securities regulators (2)	
8	Securities and Exchange Commission of Brazil
29	International Organization of Securities Commissions (IOSCO)
Accounting practitioners (10)	
International accounting firms (7)	
09	Ernst & Young Global
12	KPMG
14	PricewaterhouseCoopers International
15	Mazars
31	Grant Thornton International
32	BDO
41	Deloitte Touche Tohmatsu
Others (3)	
05	Altaf Noor Ali, Pakistan
17	Mo Chartered Accountants, Zimbabwe
38	David Hardidge
Accounting professional bodies (3)	
20	Chartered Accountants Australia and New Zealand and CPA Australia
28	South African Institute of Professional Accountants
33	FAR, Sweden

Website ref	
Organisations involved in sustainability or impacts related policy or reporting (6)	
01	Rethinking Capital
04	International Foundation for Valuing Impacts
21	McGuinness Institute
27	Compass Climate
36	Carbon Tracker
39	Accounting for Sustainability
Preparers of financial statements (3)	
06	German Insurance Association
13	Bancolombia
40	Brazilian Association of Public Companies (ABRASCA)
Accounting academics and others (3)	
02	Syamantak Saha, Financial DA
03	Doctor Hafez Abdo, University of Nottingham, England
16	Professors and lecturers of accounting, University of Genoa, Italy

Appendix B—Drafting suggestions

In this appendix, we analyse commentators' drafting suggestions:

(a) **Table B1** lists and explains suggestions we have reflected in the draft agenda decision wording in the appendix to Agenda Paper 2; and

(b) **Table B2** lists suggestions we have not reflected, and our reasons for not doing so.

Table B1—Drafting suggestions reflected in agenda decision wording

B1	Commentator suggestion	Staff response
(a)	*Carbon Tracker:* Make explicit the Committee's conclusion that the entity would not recognise a provision in the years between 20X1 and 20X9, and explain why. Doing so could help the understanding of those who expect provisions to be recognised for net zero transition commitments.	We suggest inserting a new bullet point in the conclusions section stating that: 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.
(b)	*UK Endorsement Board (UKEB):* The drafting of the discussion of whether the 'debit side' of a provision is unnecessarily complex.	We suggest simplifying: c. 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.
(c)	*Climate Accounting & Audit Project* The consideration of whether an entity has a constructive obligation will be ongoing, ie at each balance sheet date. This is probably implied, but could be more directly stated.	To make this important point more explicit, we suggest adding: If those facts or circumstances change over time, so too could the conclusion.

B1	Commentator suggestion	Staff response
(d)	*Accounting Standards Board of Japan, EY, David Hardidge* Add to the agenda decision the minimum wage example from paragraph 28 of Agenda Paper 2 *Climate-related Commitments (IAS 37)—Initial consideration* discussed at the Committee's November 2023 meeting. '28 …For example, suppose a new law is enacted requiring entities to pay a minimum wage to their employees from a specified future date. The enactment of that law does not in itself give those entities a present obligation to pay employee wages. A present obligation will arise only when the entity receives the employee services for which it will need to pay the wages…'.	The staff paper included the minimum wage example to illustrate the observation that the enactment of a law does not create a present obligation. Although some people have said they find this example helpful, others were confused by it because employee benefits are not within the scope of IAS 37. However, feedback we have received indicates that many people find helpful the analogy drawn using this example—they understand that the enactment of a law is not sufficient to create a present legal obligation, so stating that observation helps them understand why the announcement of a commitment is not sufficient to create a present constructive obligation. We suggest adding to the agenda decision to draw out the analogy more explicitly: 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.

B1	Commentator suggestion	Staff response
(e)	*UKEB:* In bullet b. of the 'present obligation as a result of a past event' section, avoid stating that an entity will 'never' have a present obligation for future modifications to its operating methods. It is possible that an entity could have a present obligation in future, for example an executory contract could become onerous.	On reflection, we think the tentative agenda decision mis-describes the entity's obligation—it is not an obligation to modify the entity's operations; rather it is an obligation to operate with lower emissions in future, fulfilled by operating in a modified way. This obligation will not ever become a present obligation. The agenda decision refers to an obligation to pay for an asset to draw a contrast between that type of obligation and the obligation to operate with lower emissions. We agree that a contract to purchase such an asset could be onerous, but the onerous contract obligation would be different from the obligations discussed in the agenda decision. We suggest the following refinements: 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—for example, to pay for new plant or equipment—but only when it receives those resources.

B1	Commentator suggestion	Staff response
(f)	*Deloitte:* Add a further reference to IAS 37 to support the observation that an obligation can be owed to the public at large.	This observation is widely understood and accepted so we decided there was no need to explain it in the tentative agenda decision. On reflection, we agree that a short explanation would provide helpful context. We suggest adding a sentence before the observation: 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 other party—the obligation may be to the public at large.
(g)	*Deloitte*: Delete the conclusion 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'. Given the limited description of the fact pattern, is not clear how the Committed arrived at this conclusion.	The agenda decision notes that IAS 37 states that the circumstances in which a reliable estimate cannot be made will be 'extremely rare'. We think it is fair to conclude that in the fact pattern described, it is likely that those extremely rare circumstances do not exist. However, we suggest edits that mean the overall conclusion does not rely on an assumption that these circumstances do not exist: ~~Assuming …~~ If … ~~that a~~ reliable estimate can be made of the amount of the obligation, the entity recognises a provision.

Table B2—Drafting suggestions not reflected in agenda decision wording

B2	Commentator suggestion	Staff reasons for not picking up suggestion
(a)	*Rethinking Capital:* The write-up of the agenda decision would benefit from more context, including: (a) an explanation of Rethinking Capital's reasons for submitting a request to the Committee; and (b) links to various supporting documents: Rethinking Capital's submission, a presentation referenced in the submission and the staff papers discussed by the Committee.	An agenda decision provides a concise, stand-alone record of a Committee decision. Information supporting an agenda decision can be found within the relevant project pages of the IFRS Foundation website and is publicly available. All the information the commentator has suggested is available within the Climate-related Commitments project pages.
(b)	*Carbon Tracker:* add information to the fact pattern to clarify the assumed treatment of carbon credits.	Accounting requirements for carbon credits are not within the scope of the agenda decision.
(c)	*UKEB, Deloitte, Grant Thornton:* refer to paragraph 17 of IAS 37 (which explains that for a past event to lead to a present obligation, the entity must have no realistic alternative to settling the obligation). Deloitte thinks that a reference would provide a clearer context to the analysis. In contrast, the UKEB thinks that paragraph can lead to uncertainty about when a present obligation arises—the tentative agenda decision should clarify that it should be read alongside paragraph 19 of IAS 37,	Other paragraphs provide all the requirements needed for the Committee to reach a conclusion. We think the clearest explanation of the conclusion is achieved by referring those other paragraphs and not to paragraph 17.

B2	Commentator suggestion	Staff reasons for not picking up suggestion
	which states that the obligation must exist independently of the entity's future actions.	
(d)	*UKEB, EY, Grant Thornton:* Show how the recognition criteria are assessed in steps. Add statements that: • if the first (present obligation) criterion is not met, there is no need to consider the second (probable outflows) or third (reliable estimate) criteria. • if the first criterion is satisfied but the second is not, there is no need to consider the third. Start the analysis of the second criterion with a clarification that it is considered if the first criterion is met.	The tentative agenda decision states explicitly that an entity recognises a provision only if all three criteria are met. We agree that setting out the criteria as a step-by-step process could help entities apply them. As part of its Provisions—Targeted Improvements project, the IASB will consider suggestions for reformatting the recognition criteria in IAS in this way. However, the recognition criteria in IAS 37 are not set out as in this way at present. We think that for the purpose of this agenda decision it is sufficient to state explicitly that all three criteria must be met.
(e)	*UKEB:* State explicitly that if an entity has concluded that its commitment has created a constructive obligation, the next step to assess whether that constructive obligation is 'present' and 'as a result of a past event'. This is a crucial part of the analysis and stating it would emphasise the need for a present obligation and lead into the next part of the analysis.	We think the agenda decision should not imply that the recognition criteria in IAS 37 are applied in any particular order—the wording in the agenda decision is more accurate and clear enough.
(f)	*UKEB and Grant Thornton:* Omit the reference to Illustrative Example 2B	The tentative agenda decision uses Illustrative Example 2B accompanying

B2	Commentator suggestion	Staff reasons for not picking up suggestion
	accompanying IAS 37. The Committee should reach its conclusions independently of non-mandatory material accompanying IFRS Accounting Standards.	IAS 37 to help explain the Committee's conclusions, not as the basis for those conclusions. Other agenda decisions have referred to illustrative examples or guidance in a similar way.
(g)	*UKEB*: remove 'without receiving any resources in exchange' from bullet b. in the discussion of the probable outflows criterion. An entity is unlikely to retire carbon credits without expecting some form of benefit (eg enhanced reputation leading to future revenues).	We think an entity does not receive a resource in exchange for purchasing and retiring carbon credits.
(h)	*Climate Accounting & Audit Project:* Clarify that there may be various constructive obligations rather than just a single determination regarding the overall commitment. A constructive obligation could exist for some steps but not others, for example if the plans for some steps are more specific than for others.	The wording of the agenda decision does not imply a particular unit of account. It uses the singular form (a commitment, an obligation) throughout. If there are multiple commitments and obligations, the conclusions would apply to each one.
(i)	*UKEB and Climate Accounting & Audit Project* Expand the 'Conclusion on whether a provision is recognised' section to separately address both components of the commitment (the reduction component and the offset component).	We started writing the overall conclusion in the way the commentators suggest, but found we were just repeating the conclusions set out the 'Present obligation as a result of a past event' section. In this final summing up, we are aiming just to pick out key points: no provision is recognised when making a commitment, a provision for offsets is

B2	Commentator suggestion	Staff reasons for not picking up suggestion
		recognised only when gases have been emitted.
(j)	*Carbon Tracker:* For completeness clarify how an entity would account for a firm commitment to purchase plant and equipment.	The agenda decision discusses the accounting treatment of emissions reductions commitments, not asset purchase commitments.
(k)	*Deloitte:* The agenda decision should refer to further guidance in IAS 37 to explain the factors management may consider in judging whether the entity has a constructive obligation. Add: <u>Paragraph 20 explains that in order for a commitment to give rise to a constructive obligation, the commitment should be communicated in a sufficiently specific matter to raise a valid expectation in the party to whom the obligation is owed that the entity will discharge its responsibilities.</u>	Paragraph 20 of IAS 37 is not directly relevant—it is specifically referring to management or board decisions and clarifying that such decisions are not necessarily sufficient to create a constructive obligation. Furthermore, we don’t think it identifies new factors to consider—it is essentially just identifying criteria within the definition of a constructive obligation that must also be met.
(l)	*Deloitte:* The analysis of whether settling the obligation to reduce emissions will require an outflow of resources should explain how to apply the principle, not firmly conclude that there will be no outflow.	We think the fact pattern is such that we can conclude that the steps planned for reducing emissions will not require an outflow. Replacing the conclusion with a process to follow could leave the conclusion less clear.