
IFRS[®] Interpretations Committee meeting

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Project **Climate-related Commitments (IAS 37)**
Topic **Second submission**
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Paper overview

Introduction

1. As explained in Agenda Paper 2 *Climate-related Commitments—Session overview and wording for agenda decision*, the submitter of the original request on climate-related commitments has submitted a follow-up request (the second submission). The second submission, which is co-signed by a second organisation, is reproduced in the [appendix](#) to this paper.
2. 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.
3. Each of the two fact patterns set out in the second submission describes an entity's commitment to reduce its emissions by a specified amount by 2030 in line with science-based targets (a 2030 commitment). The fact patterns differ from that described in the tentative agenda decision insofar as:

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- (a) they include only an emissions reduction commitment—not both an emissions reduction and an emissions offset commitment;
 - (b) the emissions reduction commitment includes a series of annual targets rather than a single 10-year target; and
 - (c) the fact patterns include a description of various actions the entity has taken that affirm its intention to fulfil its commitment.
 4. The two fact patterns described in the second submission are similar to each other. They differ insofar as they describe entities operating in different sectors and taking different actions to affirm their commitments.
 5. The submitters ask the Committee to consider seventeen ‘areas of interpretation’ of IAS 37 on which they reach conclusions. These conclusions build to overall conclusions that, applying IAS 37:
 - (a) in the fact patterns described in the second submission:
 - (i) the entity’s statement of its 2030 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 the commitment; and
 - (b) if management concludes that an entity’s 2030 commitment does not meet the criteria for recognising a provision, the entity discloses the information required by IAS 37 for contingent liabilities.
 6. In the [introduction](#) to the submission, the submitters express a view that these additional fact patterns could be used to create greater clarity of interpretation, and that without them, the tentative agenda decision will ‘encourage the status quo of non-recognition of a provision for 2030 commitments rather than enabling a thoughtful transition’.

Purpose and content of this paper

7. In this paper, the staff discuss:
 - (a) the submitters' views on the fact pattern described in the tentative agenda decision—paragraph 10; and
 - (b) the two further fact patterns the submitters ask the Committee to consider and the conclusions the submitters have reached on how IAS 37 applies—paragraphs 11–46.
8. The staff conclusions are set out in paragraphs 47–49.
9. A question for the Committee about those conclusions is one of the questions asked in Agenda Paper 2—there are no questions in this paper.

Submitters' views on the fact pattern described in the tentative agenda decision

10. [Section 1](#) of the second submission identifies five aspects of the tentative agenda decision the submitters perceive as limitations. The submitters' explanations of those perceived limitations are summarised below, along with a staff response.

Limitation perceived by submitters	Staff response
<p>(a) The fact pattern assumes that the entity publishes a detailed plan on how it will achieve its net zero transition commitment at the same time as it states its commitment. In reality, the detailed transition plan is likely to be published after the commitment, following negotiation with investors and others.</p> <p>This difference in timing is relevant because stating the commitment is the 'past event'.</p>	<p>We think that whether the entity published its statement of commitment and supporting transition plan at the same or different times is not relevant to the analysis. The relevant facts are the terms of the commitment and plan that exist at the reporting date. Those terms are among the facts and circumstances considered in judging whether the entity has a constructive obligation at the reporting date, and if so, what the nature of that obligation is.</p> <p>We have suggested refining the wording of the fact pattern to avoid any suggestion that the relative publication dates are important: 'With <u>To support</u> its statement, the entity publishes a detailed <u>transition</u> plan...'. </p>

Limitation perceived by submitters	Staff response
<p>(b) The fact pattern assumes that the transition plan never changes. In reality transition plans are dynamic, followed by actions (establishing a pattern of practice) that acknowledge the commitment.</p>	<p>IAS 37 defines a constructive obligation as an obligation that can arise from a ‘sufficiently specific <i>current</i> statement’. The determination of whether an entity’s statement creates a constructive obligation is not a static one-off assessment. It is repeated at the end of every reporting period by reference to the statement current at that time. If an entity’s commitment or transition plan has changed over time, the entity applies the requirements of IAS 37 to its latest commitment and plan.</p> <p>We have suggested an addition to the wording of the agenda decision to clarify that in assessing whether the facts and circumstances are such that the entity has a constructive obligation: <u>If those facts or circumstances change over time, so too could the conclusion.</u></p>
<p>(c) The fact pattern assumes there is only one emissions reduction target, to be achieved within 10 years. In reality, commitments include a series of gradual reduction targets. Accounting between the commitment and the final target reduction date should anticipate that the commitment might not be met.</p>	<p>We think that the number of emissions reduction targets does not affect the analysis—the entity would apply the requirements in IAS 37 to the actions required to meet each target.</p>

Limitation perceived by submitters	Staff response
<p>(d) The fact pattern assumes that offsetting is one of the primary means of reducing emissions. In reality the focus of transition plans for 2030 commitments is to reduce emissions in a series of annual emission reduction targets, with offsets being part of the mix if this target cannot be achieved.</p>	<p>The fact pattern includes two types of commitment that entities make in practice: an emissions reduction commitment and an offset commitment. It includes both types to illustrate how their accounting consequences differ. The fact pattern does not portray offsetting as a primary means of reducing emissions. If anything, it portrays offsetting as the secondary activity—one the entity will employ only for the residual emissions it cannot eliminate by meeting its emissions reduction targets.</p>
<p>(e) The fact pattern assumes that the entity is not committing to invest capital to meet the emissions reductions target. In reality, transition plans for 2030 commitments include estimates of capital expenditure required. Allocation of capital to transition investment lowers returns to investors in the transition period—meaning that the ‘probable outflows’ criterion is satisfied.</p>	<p>The fact pattern in the tentative agenda decision includes plans for capital investment (‘investing in more energy-efficient processes’) as one of the means by which the entity plans to achieve its emissions reduction targets.</p> <p>The analysis in the tentative agenda decision explains why that investment does not satisfy the ‘probable outflows’ criterion. It explains that although the entity will incur expenditure to modify its manufacturing methods, it will receive other resources in exchange for that expenditure, and will be able to use these resources to manufacture products it can sell at a profit.</p> <p>Positive returns from one asset are not outflows even if they are lower than the returns from another asset.</p>

Two further fact patterns the submitters ask the Committee to consider

11. The two further fact patterns the submitters ask the Committee to consider are set out in [Section 4](#) of the second submission. In this section, we:
- (a) [summarise the fact patterns](#) (paragraphs 12–15).
 - (b) [analyse the submitters' conclusions](#) that, in these fact patterns:
 - (i) the entity has a constructive obligation to fulfil its 2030 commitment (paragraphs 16–23);
 - (ii) in some circumstances, some of the entity's obligations might be legal, not constructive (paragraphs 24–25);
 - (iii) the obligations meet the criteria for recognising a provision (paragraphs 26–40).
 - (c) discuss the submitters' overall conclusions that:
 - (i) an entity should default to recognising a provision for a 2030 commitment (paragraphs 41–42); and
 - (ii) if an entity's management concludes that the criteria are not met for recognising a provision, the entity should disclose the information required by IAS 37 for contingent liabilities (paragraphs 43–46).

Fact patterns*Fact pattern 1—an entity in the oil and gas sector*

12. In the first fact pattern, an entity in the oil and gas sector publishes statements of its commitments:
- (a) to be net zero by 2050; and
 - (b) to reduce its Scope 1 and 2 emissions by a percentage amount by 2030, in line with science-based targets (2030 commitment).
13. The entity takes several actions that affirm its 2030 commitment. Such actions may include any of:
- (a) creating and publishing a transition plan that:
 - (i) includes individual aims for each area of business and details how the entity will achieve those individual aims;
 - (ii) explains how the entity will reduce its emissions over the period to 2030 via a series of annual emission reduction targets; and
 - (iii) may set out the annual capital required to meet those targets.
 - (b) after engaging with ‘net zero focused’ investors:
 - (i) amending the plan to balance its transition aims with acceptable returns for those investors, who commit to continue their investment on this basis; and
 - (ii) publishing the updated plan.
 - (c) keeping an updated statement and plan on its website and disclosing its emission reduction targets in its financial statements and in presentations to investors and others.
 - (d) joining coalitions collaborating to achieve emissions reduction targets.

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- (e) publishing information on the entity's achievements against the aims of its statement and its transition plan.
 - (f) beginning a capital allocation program for investments required to reduce emissions and buy offsets.
 - (g) recognising asset decommissioning provisions in the entity's financial statements, or writing down the carrying amounts of assets, consistent with the entity's commitments.
 - (h) becoming a signatory to the Oil and Gas Decarbonization Charter launched at COP28.
14. Other parties may take actions that indicate they expect the entity to fulfil its commitments:
- (a) the entity's investors making their own net zero transition commitments relying on the entity's statements and affirmative actions; or
 - (b) signatories to the Oil and Gas Decarbonization Charter signing that charter relying on other signatories to adhere to the terms of the charter.

Fact pattern 2—an entity in a hard-to-abate sector

15. The second fact pattern is similar to the first fact pattern except that it describes an entity operating in a sector—for example, the chemicals, steel, mining, concrete, aviation or shipping sector—that will be particularly hard to decarbonise (a hard-to-abate sector). This entity's affirmative actions focus on the 'sector pathway' goals created by coalitions of entities in its sector.

Staff analysis of submitters' conclusions

16. In this section we analyse the submitters' seventeen interpretations listed in [Section 3](#) and explained in [Section 4](#) of the second submission.

Interpretations 1–4: The entity has a constructive obligation to fulfil its 2030 commitments

17. The submitters conclude that in both fact patterns, the entity's public statement of its 2030 commitments and its subsequent affirmative actions are sufficient to have created a valid expectation that entity will fulfil its commitments, and hence to have given rise to a constructive obligation (**Interpretation 1**). The submitters conclude that it should be assumed that this valid expectation is held by:
- (a) net zero focused consumers, employees and the public at large (**Interpretation 2**); and
 - (b) net zero focused investors, bankers and insurers, if those entities have made their own climate-related commitments relying on the entity's commitments (**Interpretation 3**).
18. In explaining its conclusions, the submitters refer in particular to:
- (a) the affirmative actions each entity has taken since publishing its commitments (as listed for the oil and gas entity in paragraph 13);
 - (b) actions other parties have taken that indicate they expect the entities to fulfil their commitments (as listed for the oil and gas entity in paragraph 14); and
 - (c) the submitters' view that the assessment should disregard the language the entity uses to describe its commitments. The submitters argue that, even if the entity's statement describes elements of its commitments as aspirations, aims or ambitions, the entity considers only whether the publication of the statement and subsequent affirmative actions establish the commitments and set a valid expectation that the commitments will be fulfilled (**Interpretation 4**).

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19. In our view, whether or not an entity's public statement of its net zero transition commitment is sufficient to create a constructive obligation as defined in paragraph 10 of IAS 37 is a matter of judgement, with the conclusion depending on all the facts of the commitment and all the circumstances surrounding it. In general, we agree that:
- (a) actions an entity takes that publicly affirm its commitments (such as the actions listed in paragraph 13) could increase the likelihood that the entity's statement creates a valid expectation among other parties that the entity will fulfil its stated commitments; and
 - (b) indications that other parties are relying on the entity to fulfil its commitments (such as the indications described in paragraph 14) would provide evidence that other parties expect the entity to fulfil its commitments.
20. However, we continue to think that the language used in describing the commitment and supporting plans could be relevant and should not necessarily be disregarded. For example, we think a statement describing the actions the entity 'will take' could be more likely to contribute to creating a valid expectation that the entity will fulfil the commitment than a statement describing the entity's 'ambitions'.
21. We also think there might be other relevant factors to consider. For example, if an entity had committed to emissions reduction targets in previous years, relevant factors to consider could include:
- (a) whether the entity has achieved the emissions reduction targets for the current year it committed to in previous years; or
 - (b) whether the entity's current emissions reduction targets for future years remain as high as those it committed to in previous years.
22. Consequently, we think it is not possible to for the Committee to conclude on whether the facts and circumstances in the second submission—or in any simplified fact pattern—are sufficient to create a constructive obligation. We therefore continue to agree with the Committee's conclusion in the tentative agenda decision 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.'

23. Agenda Paper 2A *Climate-related Commitments—Comment letter analysis* discusses whether and, if so, how the Committee or the International Accounting Standards Board (IASB) develop guidance on factors management might consider in reaching its conclusion. Such guidance could encompass the factors identified in the fact patterns set out in the second submission—the entity's affirmative actions, and actions of other parties that indicate they are relying on the entity to fulfil its commitments.

Interpretation 5: Some of the entity's obligations might be legal not constructive

24. The submitters observe that some of the affirmative actions taken by an entity—for example, the creation of a transition plan—might be required by law or regulation. The submitters observe that in such circumstances, elements of the entity's commitment might be legal, not constructive, obligations.
25. We agree with this observation, but we think it has no consequences for the tentative agenda decision. If an element of an entity's net zero transition plan is underpinned by legal or regulatory requirements, less judgement might be required in determining whether the entity has an obligation. If management concludes the entity has a legal obligation, it applies the requirements in IAS 37 to determine whether that obligation meets the criteria for recognising a provision in the same way as it applies the requirements to a constructive obligation (as explained in the tentative agenda decision)—the criteria in IAS 37 for recognising a provision apply equally to legal and constructive obligations.

Interpretation 6: an entity must recognise a provision if the recognition criteria are met

26. The submitters conclude that an entity must recognise a provision for an obligation (legal or constructive) if that obligation meets the recognition criteria in of IAS 37.
27. We agree but note that for a complete understanding of this conclusion, it needs to be supported by an explanation of the circumstances in which the recognition criteria are met—as set out in the tentative agenda decision.

Interpretation 7: The entity's statement and affirmative actions are the 'past events' that create a present obligation

28. The first criterion in IAS 37 for recognising a provision is that the entity has a 'present obligation (legal or constructive) as a result of a past event'.¹ The tentative agenda decision explains the Committee's conclusions that:
 - (a) an entity's statement of a net zero transition commitment is not the past event that gives rise to a present obligation; and
 - (b) the entity has a present obligation only when it has taken the actions to which the statement applies, for example, when it has emitted greenhouse gases it has committed to offset.
29. The submitters argue that in the two fact patterns described in the second submission, the entity's statement of its 2030 commitment is a past event that creates a present obligation, and that each action the entity takes to affirm its commitment is another past event that contributes to an established pattern of practice.
30. We see no difference between the tentative agenda decision fact pattern and the second submission fact patterns that might cause the Committee to change the

¹ Paragraph 14(a) in IAS 37.

conclusions set out in the tentative agenda decision. Consequently, we disagree with the submitters' conclusion that in the fact patterns described in the second submission the statement of the entity's commitment is a past event that creates a present obligation.

31. The fact pattern described in the tentative agenda decision includes one affirmative action—the publication of a detailed transition plan. We think it is implicit in the technical analysis in the tentative agenda decision that, like its statement of its commitments, the entity's publication of a transition plan is not a past event that give rise to a present obligation. However, the Committee could make a more explicit and general point about the implications of affirmative actions by:
- (a) adding to the fact pattern a note that 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; and
 - (b) clarifying that such affirmative actions are not events that create a present obligation in the fact pattern described.
32. We have included a drafting suggestion in the wording for the agenda decision in the appendix to Agenda Paper 2.

Interpretations 8–14: It is probable that an outflow of resources embodying economic benefits will be required to settle the present obligation

33. The second criterion in IAS 37 for recognising a provision is that 'it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation'.²
34. The tentative agenda decision explains the Committee's conclusions that, in the fact pattern described in the submission, settling the obligation to achieve emissions

² Paragraph 14(b) in IAS 37.

reduction targets 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.

35. The submitters challenge the Committee’s conclusion, arguing that some investment needed to achieve emissions reduction targets results in an outflow of resources. The submitters argue that such expenditure could include:
- (a) expenditure that does not result in the recognition of an asset—for example, some expenditure on research and development ([Interpretation 11](#)), or operational running costs ([Interpretation 12](#));
 - (b) expenditure on fixed assets that are then depreciated ([Interpretation 12](#)); or
 - (c) future write-downs of existing assets that will be retired early and replaced with lower value assets ([Interpretation 13](#)).
36. The submitters conclude that as soon as a constructive obligation to meet a 2030 emissions reduction target arises, it should be assumed that an outflow of resources will be required to settle that obligation ([Interpretation 14](#)) because of the combined effect of:
- (a) the various ways in which achieving an emissions reduction target could result in an outflow of economic resources (as listed in paragraph 35);
 - (b) the absence of a materiality threshold ([Interpretation 8](#));
 - (c) the need to make the assessment as soon as a constructive obligation arises ([Interpretation 9](#)); and
 - (d) the possibility the entity will need to purchase offsets to achieve its targets ([Interpretation 10](#)).

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37. We disagree that the examples listed in paragraph 35 are examples of outflows of resources. In our view:
- (a) expenditure to acquire a resource involves an exchange, not outflow, of resources even if an IFRS Accounting Standard requires the acquired resource to be recognised as an expense (rather than as an asset) in the entity's financial statements. An acquired resource is recognised as an expense if:
 - (i) although it meets the definition of an asset, it does not fulfil the recognition criteria in the applicable IFRS Accounting Standard—as is the case with some research and development expenditure; or
 - (ii) the resource is consumed as soon as it is received—as is the case with some resources (for example, electricity or fuel) used in the entity's operations.
 - (b) the depreciation of a fixed asset after it is acquired does not mean that acquiring that asset requires an outflow, rather than an exchange, of resources. When the entity pays for the asset, it receives a fixed asset in exchange. The subsequent depreciation of that fixed asset reflects the subsequent consumption of the asset in the production of goods or services.
 - (c) the write-down of an asset is a remeasurement, not an outflow, of a resource.
 - (d) paying cash to purchase an asset is an exchange of resources even if the purchased asset is less efficient (and hence of lower value in use) than the asset it replaces.
38. We agree that the expenditure required to fulfil a commitment to offset future emissions will require an outflow of resources. We think this conclusion is clearly stated in the tentative agenda decision.

Interpretation 15: It must be assumed that a reliable estimate can be made of the amount of the obligation

39. The third criterion in IAS 37 for recognising a provision is that ‘a reliable estimate can be made about the amount of the obligation’.³ The submitters conclude that it must be assumed that a reliable estimate can be made of the amount of a 2030 commitment because carbon prices are available in the public domain.
40. IAS 37 does not specify any circumstances in which it must be assumed that a reliable estimate can be made about the amount of an obligation. However, IAS 37 does state that except in extremely rare cases, an entity will be able to make an estimate of an obligation that is sufficiently reliable to use in recognising a provision. And the tentative agenda decision refers to this statement in IAS 37 in explaining the Committee’s 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.

Interpretation 16: An entity should default to recognising a provision

41. The submitters conclude that an entity should default to recognising a provision for a 2030 commitment because doing so is necessary to reflect management’s stewardship of the entity’s resources, which the submitters argue is required by the *Conceptual Framework for Financial Reporting (Conceptual Framework)*. The submitters argue that accounting should consider the probability that the entity will either meet its targets (creating future inflows of economic resources) or miss those targets (incurring future outflows economic resources). This conclusion reflects the submitters’ view on the types of information that financial statements ought to provide about an entity’s climate-related commitments, not on the requirements of IAS 37.

³ Paragraph 14(c) in IAS 37.

42. We note that the requirements of IAS 37 are not overridden by concepts set out in the *Conceptual Framework*. As is stated in paragraph SP1.2 of the *Conceptual Framework*

The *Conceptual Framework* is not a [IFRS Accounting] Standard. Nothing in the *Conceptual Framework* overrides any Standard or any requirement in a Standard.

Interpretation 17: If an entity does not recognise a provision, it should disclose the information required by IAS 37 for contingent liabilities

43. The submitters conclude that if management concludes that a provision is not to be recognised for a 2030 commitment, the entity should disclose the information required for contingent liabilities by paragraph 86 of IAS 37, unless the possibility of any outflow in settlement is remote.

44. We disagree that the statement of a net zero transition commitment creates a contingent liability:

- (a) the definition of a contingent liability in paragraph 10 of IAS 37 requires that it is at least possible (even if not certain) that the entity has a present obligation as a result of past events:

A contingent liability is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
- (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

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- (ii) the amount of the obligation cannot be measured with sufficient reliability.
- (b) a ‘possible obligation’ exists when there is uncertainty or dispute about the facts or how a law or statement applies to those facts. A typical example is the possible obligation an entity has when another party claims, but the entity disputes, that the entity has committed a past act of wrongdoing for which it must compensate the other party. Until a future event (a court ruling) confirms whether or not that past event occurred, the entity has a possible obligation—a contingent liability.
45. In the fact patterns described in the tentative agenda decision and second submission, there is no uncertainty or dispute about whether events that create a present obligation have occurred—these events have not yet occurred. As explained in paragraph 28, the event that gives rise to a present obligation is not the statement of a net zero transition commitment, it is the action to which the commitment applies (for example, the emission of greenhouse gases that the entity has committed to offset). Until that action has occurred, there is not even the possibility that the entity has a present obligation, so the definition of a contingent liability is not met. Accordingly, the disclosure requirements for contingent liabilities in paragraph 86 of IAS 37 do not apply.
46. That is not to say that an entity’s statement of its net zero transition commitment has no accounting or disclosure consequences. As tentative agenda decision notes:
- 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.

Staff conclusions

47. 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.
48. 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.
49. 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. In paragraph 16 of Agenda Paper 2, we ask the Committee if it agrees with this conclusion.

Appendix—Second submission

Second Submission: Recognising a provision for a Net Zero Transition Commitment as a constructive obligation

Two further fact patterns relating to 2030 Commitments for discussion by the Committee on 5th/6th March 2024

Introduction to and purpose of this Second Submission

This submission (**Second Submission**) is being made by the [Rethinking Capital](#) community. It is being co-signed by the International Foundation for Valuing Impacts. Thank you for your support in enabling us to make it.

The focus of this Second Submission is the category of net zero transition commitments that set an interim date by which the entity will have reduced a percentage of its Scopes 1 and 2 carbon emissions—an example being a ‘50% reduction in Scopes 1 and 2 emissions by 2030 in line with science-based targets or similar’ (**2030 Commitment(s)**) as further defined in paragraph 2 below). Why 2030 is a critical date in tackling the climate crisis is also explained.

This Second Submission follows from our [first submission](#) (**First Submission**) on the same subject area published on 27th October 2023, discussed by the Committee on 28th November 2023 and from the [Tentative Agenda Decision](#) published on 12th December 2023 (**Tentative Agenda Decision**).

This Second Submission concerns the questions of whether:

- a first public statement of the 2030 Commitment, for example a 50% reduction in Scopes 1 and 2 emissions by 2030 (**Original Statement**) together with,
- a subsequent established pattern of practice relating to the 2030 Commitment by which the entity itself acknowledges and affirms the first public statement, typically including a transition plan explaining how the 2030 Commitment will be achieved (**Established Pattern of Practice**),

meet the criteria to be recognised as a provision under IAS37 (Provisions, Contingent Liabilities & Contingent Assets) as a constructive obligation and/or a legal obligation.

Purpose of this Second Submission

We are delighted with the outcome of the First Submission and thank the Committee staff and members for an excellent and rich discussion.

In particular we were delighted that the discussion and Tentative Agenda Decision established three key principles for investors and other stakeholders when interpreting IAS37—a 23 year old standard which was not designed with net zero commitments in mind **(Three Principles)**:

- That a commitment to reduce carbon emissions can be a constructive obligation;
- That if a constructive obligation then a provision must be recognised if the criteria for recognition are met;
- That if a provision is recognised then investments to meet the commitment could be recognised as assets.

These are very positive steps forward and, in our view, can play a vital role in tackling the climate crisis.

The view of our community is that further fact patterns can be used to create greater clarity of interpretation—specifically anonymised fact patterns of 2030 Commitments drawn from the real world. Without these further fact patterns it is considered that the Tentative Agenda Decision will encourage the status quo of non-recognition of a provision for 2030 Commitments rather than enabling a thoughtful transition.

Supporting the third decision of the Interpretations Committee and the joint IASB/ISSB board meeting

Its purpose is also to support the third decision by the Interpretations Committee on 28th November 2023 not to refer the matter back to the International Accounting Standards Board (IASB). Referral back to the IASB would seem to mean that this issue would be included in [the IASB's program to review IAS37](#) which is not due to publish amendments until 'Potentially 2025' (see slide 5).

By contrast further fact pattern submissions and using the mandate of the Interpretations Committee means that a transition in of the interpretations Committee's decisions could occur in one financial year (FY24). This thoughtful transition plan is explained in Rethinking Capital's comment letter to the Tentative Agenda Decision. This Second Submission can therefore minimise delay and support the aim expressed at COP28 to slash carbon emissions by 43% by 2030.

We were informed by the Committee's chairman and staff in December 2023 that the Interpretations Committee can receive and discuss subsequent submissions on the same subject area provided that the further fact patterns submitted raise new areas of interpretation and/or clarification. We believe that the two new fact patterns relating

specifically to 2030 Commitments raise seventeen new points for interpretation and/or clarification of interpretation outlined below.

This Second Submission also supports the integration and connectivity aims expressed and discussed at the first joint board meeting of the IASB and International Sustainability Standards Board (ISSB) on 25th January 2024. We noted in particular the comments on the benefits of discussing the First Submission—by Bruce Mackenzie that ‘connectivity is a verb not a noun’ and the ‘positive response to the First Submission’. And by ISSB board member Richard Barker on ‘the importance of learning connectivity by doing it’ and using the Committee process to ‘close the gap between ISSB standard S2 and IAS37.

Connectivity issues in this submission also relate to intangibles in the application of IAS38 to carbon credits and to innovation (research and development) needed to meet the 2030 Commitment.

This Second Submission is therefore incremental to the First Submission and not intended to disrupt or delay the Committee’s process to ratify the Tentative Agenda Decision by 6th March 2024. It is therefore accepted that this Second Submission would only be discussed at the Committee’s meeting on 5th/6th March 2024 and will result in a further 60 day consultation period and a further ratification period—meaning that it would not be ratified before the Committee’s meeting on 11th/12th June 2024.

Importance & context for this submission

As with the First Submission, it is reiterated that [1266 of the world’s largest 2000 companies](#) have made a Net Zero Transition Commitment but, to our knowledge, none has recognised a provision and/or explained why not.

And that the effects of non-recognition include that the incentives to meet the commitment are upside down—explained in the attached presentation ‘Tackling the root cause of today’s climate and natural inequities’. We request that this presentation is sent to Interpretations Committee members to stress the importance of their decisions.

Because of the importance of this issue to boards, investors and others we therefore specifically request that each of the sixteen interpretation areas in paragraph 3 below are answered one by one in relation to each fact pattern—ideally with a note in a column to the right of our analysis of whether the Committee agrees with our analysis—and if not why not.

Signed

Signed

Andrew Watson

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Contents of this Second Submission

1. Limitations of the fact pattern discussed in the First Submission when applied to 2030 Commitments.
2. Definitions used relevant to 2030 Commitments.
3. Seventeen areas of interpretation and/or clarification of interpretation of IAS37 relating to 2030 Commitments.
4. Two further fact patterns relating to 2030 Commitments and analysis of seventeen areas for discussion.

1. Limitations of the fact pattern discussed in the First Submission when applied to 2030 Commitments

This fact pattern discussed by the Interpretations Committee on 28th November 2023 established the Three Principles. Again we thank the Interpretations Committee and its staff for an excellent and rich discussion.

Fact pattern

In 2020 an entity, a manufacturer of household products, publicly states its commitment:

- a. to reduce its current greenhouse gas emissions by at least 60% by 2029; and*
- b. to offset its remaining emissions in 2029 and thereafter, by buying carbon credits and retiring them from the carbon market.*

With its statement, the entity publishes a detailed plan setting out how it will gradually modify its manufacturing methods between 2021 and 2029 to achieve the 60% reduction in emissions by 2029. 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.

Limitations

The limitations of this fact pattern when applied to 2030 Commitments include that it:

- a) Assumes that an Original Statement is made and at the same time a detailed plan is published. In reality, the detailed plan followed the Original Statement by a period of time and often involved negotiation of how the transition would be financed with investors and others. This simultaneous timing assumption then confuses what is the past event that creates the present obligation—whereas in reality with 2030 Commitments, the Original Statement becomes the past event from which the Established Pattern of Practice then derives.
- b) Assumes that a transition plan is created and never changes. Whereas in reality plans to achieve 2030 Commitments were dynamic and involved ‘negotiation’ with investors and others. When applied to 2030 Commitments, technical confusion can include that an entity could name its transition plan with words like ‘ambitions, aims or aspirations’ to come outside of the definition of a constructive obligation—whereas the substance of the constructive obligation and whether a valid expectation has been created should be the only determining factors. Further clarity is then also needed as to when the entity would take the decision to make a provision. With other fact patterns it becomes clear that the recognition decision must be made when the threshold to be a constructive obligation is reached.
- c) Assumes that the commitment is to be met ‘in 2030’ rather than the reality that 2030 commitments were to transition over a period of years in a series of carbon emission reduction targets. When applied to 2030 Commitments, this creates technical confusion (a) as to what is the past event that gives rise to the present obligation (b) and would result in an illogical accounting conclusion that a provision would only be recognised in 2030 if the entity did not meet the obligation and buy offsets. Accounting between 2029 and 2030 would have to anticipate that the commitment might not be met.
- d) Assumes that offsets are one of the primary means by which emissions will be reduced—whereas in reality, the focus of transition plans for 2030 Commitments is to reduce carbon emissions in a series of annual emission reduction targets with carbon credits/offsets being part of the mix if this target cannot be achieved.
- e) Assumes that the entity is not committing to invest capital to meet the emissions reduction target—whereas in reality transition plans for 2030 Commitments are explicit about the estimates and ranges of capital expenditure required, This assumption then brings into question the probable outflows criteria of recognition of a provision—whereas in reality Net Zero Focused Investors were agreeing to accept lower returns in the transition period to enable transition capital to be allocated.

2. Definitions used relevant to 2030 Commitments

These definitions are used for the purposes of this Second Submission:

<p>2030 Commitment(s)</p>	<p>A sufficiently specific first statement (an Original Statement) followed by an established pattern of practice by which an entity has indicated to other parties—including the public at large—that it has accepted responsibility to reduce a percentage of its carbon emissions by 2030 and as a result of which has created a valid expectation that it will reduce those emissions by 2030. This Original Statement will typically be given in the context of another statement to achieve a final ‘net zero’ emissions state by a date such as 2040 or 2050.</p> <p>An example is ‘50% reduction in Scopes 1 and 2 emissions by 2030 in line with science-based (or similar) targets’. The 2030 date recognises the generally-accepted need to comply with the Paris Agreement’s goal of limiting global average temperature increase to well below 2°C above pre-industrial levels, aiming for 1.5°C—implying the need to move towards net-zero emissions by 2050 or sooner.</p> <p>Here the Original Statement is followed by an established pattern of practice by which an entity through its own actions affirms and acknowledges the Original Statement and the commitment to reduce carbon emissions over time to 2030 from a current emissions state to a percentage reduction (an Established Pattern of Practice). An Established Pattern of practice will typically include a Transition Plan.</p> <p>The Established Pattern of Practice (as updated from time to time) can be decompiled to recognise the elements of the constructive and/or legal obligation—having typically five elements of (1) total emissions at the date of the Original Statement (2) the percentage reduction in emissions from current state to a percentage reduction state by 2030 (3) Scopes 1 and 2 Emissions (4) time from the 2030 Commitment to ‘by’ 2030, meaning it could be achieved earlier (5) at least a high level plan to explain how those emission reductions will be achieved and typically the capital expenditure anticipated to be required.</p>
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<p>Net Zero Focused Consumers</p>	<p>Consumers of an entity who are conscious of whether and to what extent the entity is making decisions purposed to reduce its carbon emissions and who are or may be taking into account the entity’s 2030 Commitment and its Established Pattern of Practice in their buying decisions. These decisions may include paying higher prices to share in the cost of the transition to net zero—thereby effectively contributing financially to the entity and improving the entity’s cashflows.</p>
<p>Net Zero Focused Investors, Insurers & Bankers</p>	<p>Investors , insurers and bankers of or to an entity who are conscious of whether and to what extent the entity is making decisions purposed to reduce its carbon emissions, and who are or may be taking into account the entity’s 2030 Commitment and its Established Pattern of Practice in their decisions.</p> <p>For example, investors may be accepting lower economic returns in the short term in return for long-term growth and the lowering of economic risks to the entity from the climate crisis over time—thereby effectively contributing economically to share in the cost of the net zero transition. Investors can be referred to by descriptions such as ESG, impact, sustainable, responsible or similar.</p>
<p>Scopes 1 and 2 Emissions</p>	<p>Are explained in simple terms in this article by Deloitte:</p> <p>(a) Scope 1 Emissions— This one covers the Green House Gas (GHG) emissions that an entity makes directly — for example while running its boilers and vehicles.</p> <p>(b) Scope 2 Emissions — These are the emissions an entity makes indirectly – like when the electricity or energy it buys for heating and cooling buildings, is being produced on its behalf. In the oil and gas (fossil fuel) sector, Scope 2 includes emissions from the entity’s energy assets;</p> <p>For completeness and as some entity’s also refer to them:</p> <p>(c) Scope 3 emissions —In this category go all the emissions associated, not with the company itself, but that the organisation is indirectly responsible for, up and down its value chain. For example, from buying products from its suppliers, and from its products when customers use them. Emissions-wise, Scope 3 is nearly always the big one.</p>

Transition Plan	<p>A transition plan explaining how the 2030 Commitment will be achieved over time and typically the capital required to meet it. Typically this will be broken down into a series of emission reduction targets year by year from the date of the Original Statement to be achieved ‘by 2030’—so a 2030 Commitment made in 2021 for example would be a series of nine or ten annual emission reduction targets.</p> <p>The Transition Plan will typically distinguish between Scopes 1 and 2 Emissions.</p>
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3. Seventeen areas of interpretation and/or clarification of interpretation of IAS37 relating to 2030 Commitments

This Second submission requests that the Interpretations Committee discuss these seventeen areas based on two new ‘real world’ but anonymised fact patterns of 2030 Commitments.

The first is in the oil and gas (fossil fuel sectors) and the second in sector-based pathways including the so called ‘hard to abate’ sectors described in paragraph 4 below.

No	Area of interpretation and/or clarification of interpretation of IAS37 to 2030 Commitments
1.	A 2030 Commitment made up of an Original Statement (for example ‘50% reduction in Scopes 1 and 2 by 2030’) followed by an Established Pattern of Practice together meet the definition of a constructive obligation under IAS37 paragraph 10.
2.	A 2030 Commitment should be assumed to have created a valid expectation with Net Zero Focused Consumers and the public at large.
3.	A 2030 Commitment should be assumed to have created a valid expectation with Net Zero Focused Investors, Insurers and Bankers if they have generally then made their own commitments to reduce emissions to their own stakeholders relying on the entity’s 2030 Commitment and the 2030 Commitments of other entities.
4.	The Established Pattern of Practice means that whatever name is given to elements of the constructive obligation such as the Transition Plan (aspirations, aims, ambitions etc) is to be disregarded in the analysis of whether a 2030 Commitment is a constructive obligation. What any individual action within the Established Pattern of Practice may be called is not an element in the definition of a constructive obligation. With the only relevant criteria being (a) whether the Original Statement

	followed by an Established Pattern of practice establish the commitment to reduce emissions by 2030 and (b) whether a valid expectation has been set.
5.	And in certain circumstances, legal and/or regulatory requirements for one or more of those affirmative actions including to create a Transition Plan will have crossed the threshold into being a legal obligation under paragraph 10 of IAS37.
6.	Once the threshold to be a constructive obligation and/or legal obligation is met, the entity must recognise a provision for the constructive and/or legal obligation provided that the recognition criteria in paragraph 14 of IAS37 are met.
7.	For the purposes of paragraph 14 (a) of IAS37, the Original Statement becomes the first past event from which the present obligation is created. And each affirmative action within an Established Pattern of Practice in itself creates a new past event. The terms of the constructive and/or legal obligation are therefore determined from the Established Pattern of Practice over time.
8.	There is no financial materiality threshold in paragraph 14 (b) of IAS37. The only question is whether (b) ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.
9.	For the purposes of interpretation of paragraph 14 (b) of IAS37, whether ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ must be assessed at the date that the 2030 Commitment crosses the threshold into being a constructive obligation.
10.	For the purposes of paragraph 14 (b) of IAS37, if the 2030 Commitment or meeting it will require the entity to purchase carbon credits or offsets, then ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ whether or not the entity recognises those credits or offsets as assets, including because of the volatility of the carbon credits and offsets market.
11.	For the purposes of paragraph 14 (b) of IAS37, if the 2030 Commitment or meeting it will require the entity to undertake research and development then ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ unless the entity recognises the cost and market value of the intangible assets created by that activity—including the costs of staff re-purposed to innovate in programs to reduce carbon emissions.
12.	For the purposes of paragraph 14 (b) of IAS37, if the 2030 Commitment or meeting it will require the entity to take actions to reduce Scope 1 (Green House Gas (GHG) emissions that an entity makes directly — for example while running its boilers and

	vehicles) then ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.
13.	<p>For the purposes of paragraph 14 (b) of IAS37 and because the probability must be assessed when the threshold to be a constructive obligation has been reached , then;</p> <p>(a) if the entity is in the oil and gas (fossil fuels) sector, and the 2030 Commitment or meeting it will require the entity to retire fossil fuel assets and to acquire renewable energy assets then,</p> <p>(b) ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ unless</p> <p>(c) management of the entity can demonstrate that these retirement and acquisition activities will not give rise to an asset writedown and/or that the asset acquired will be the same or higher market value than the asset retired.</p>
14.	<p>For the purposes of paragraph 14 (b) of IAS37, the combination of all or some of elements 8 to 13 above together means that it must be assumed that ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p> <p>For the purposes of paragraph 14 (b) of IAS37, the combination of all or some of elements 8 to 13 above together with the commitment being to reduce both Scopes 1 and 2 Emissions by 2030 together means that it must be assumed that ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p>
15.	For the purposes of paragraph 14 (c), 25 and 26 of IAS37, it must be assumed that reliable measurement of a 2030 Commitment can be made from publicly-available means to measure carbon emissions and that this is not an ‘extremely rare case’.
16.	Under the stewardship requirements of the IASB Conceptual Framework, management should default to recognising a provision for a 2030 Commitment— because having recognised a provision, investments made with the purpose of meeting the constructive obligation management have the potential to create future economic benefits and therefore assets.
17.	Even if management and the entity conclude that a provision is not to be recognised for the 2030 Commitment, then unless it is also concluded that the possibility of an outflow of resources embodying economic benefits is remote, it must disclose a contingent liability.

	<p>In making this assessment, it would have to also be concluded that (a) the probability of the 2030 Commitment not being a constructive obligation and/or a legal obligation is remote and, if so, (b) the probability that a provision is to be recognised is also remote.</p> <p>If a contingent liability is disclosed then paragraph 86 of IAS37 requires the entity to include a brief description of the nature of the contingent liability and, where practicable:</p> <p>(a) an estimate of its financial effect, measured under paragraphs 36–52;</p> <p>(b) an indication of the uncertainties relating to the amount or timing of any outflow; and</p> <p>(c) the possibility of any reimbursement.</p> <p>If interpretation 15 is followed then it will be practicable for the entity to estimate its financial effect.</p>
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4. Two further fact patterns relating to 2030 Commitments and analysis for discussion

Fact Pattern 1: Oil and Gas (fossil fuels) sector

*In 2021 or 2022 an entity in the fossil fuels (oil and gas sector), makes a first public statement of its commitment to ‘be net zero by 2050’. It also at the same time or subsequently, makes a second public statement (the **Original Statement**) to reduce a percentage of its carbon emissions in Scopes 1 and/or 2 by 2030—in line with science-based targets or similar words.*

The entity then explains its current carbon emissions and then sets out separate targets in relation to each of the areas of its business where emission reductions can be achieved in this 2030 period in a Transition Plan.

The entity then takes one or more affirmative actions by which the entity itself affirms the commitment in the Original Statement creating an Established Pattern of Practice derived from the Original Statement that may include any of:

- 1. The entity subsequently creating and possibly publishing a first Transition Plan detailing in particular how Original Statement will be achieved. The plan explains how emissions will be reduced over the time period to 2030 in a series of annual emission reduction targets and often the annual capital required. The Transition Plan also breaks down the actions needed between Scope 1 emissions (within the entity’s operations)*

2. *The entity subsequently engages with Net Zero Focused Investors (and often insurers, banks and other stakeholders) to explain the Transition Plan and makes changes to it to reflect their amendments—in particular to balance the transition aims with acceptable returns for investors who commit to continue their investments on this basis. The plan is then published and shared with its investors and others.*
3. *Publication of the Original Statement and/or its Transition Plan as amended from time to time on its website and leaving it on its website. Performance against its Original Statement and its Transition Plan may be updated from time to time.*
4. *Senior executives of the entity join one or more coalitions with a mission to collaborate to achieve the emission reductions.*
5. *The entity states the emission reduction targets in its financial statements and in investor and other presentations.*
6. *Achievements against the Transition Plan are published, typically annually.*
7. *The entity begins a capital allocation program to invest into reducing its emissions which may include buying offsets.*
8. *The entity’s investors and/or insurers and/or bankers and make their own transition commitments relying on these actions that derive from the entity. The entity’s investors may explain to their own investors that returns expected from the entity may be lower because of the need to allocate capital into the transition.*
9. *The entity may make an asset decommissioning provision or asset writedown—because it is incompatible to be aligned to the science-based targets and keep assets are current values.*
10. *The entity becomes a signatory to the [Oil and Gas Charter at COP28](#) to cut methane emissions and make other changes to increase operational efficiency in reducing Scope 1 carbon emissions. The other signatories of this charter welcome the cross-industry initiative—relying on the valid expectations established across the group.*

Analysis of Fact Pattern 1

No	Statement	Rethinking Capital’s analysis for discussion
1.	A 2030 Commitment made up of an Original Statement (for example ‘50% reduction in Scopes 1 and 2 by 2030’) followed by an Established Pattern of Practice together meet the definition of a constructive obligation under IAS37 paragraph 10.	Confirmed. The entity’s Original Statement is followed by a series of at least two affirmative actions by which the entity itself recognises the 2030 Commitment. In particular with the statement to target to reduce emissions by a percentage by 2030 it details how this will be achieved and/or the capital required to achieve it in a Transition Plan—creating an Established

		<p>Pattern of Practice that is then acknowledged and affirmed by a series of actions.</p> <p>The Original Statement is the past event. Each affirmative action afterwards is a component of the 2030 Commitment. And each affirmative action is in itself a past event that adds to the Established Pattern of Practice. The pattern of ongoing publication of the commitment on the entity’s website creates an enduring past event.</p>
2.	<p>A 2030 Commitment should be assumed to have created a valid expectation with Net Zero Focused Consumers and the public at large.</p>	<p>Confirmed by the Tentative Agenda Decision.</p> <p>Valid expectations should be assumed to have been created with Net Zero Focused Consumers from whom an entity would expect to receive future economic benefits in reliance on the Net Zero Transition Commitment. Often advertising by the entity will emphasise the commitment. And with the public at large who may be users, staff or have other stakeholder relationships with an entity and from whom an entity would expect to receive future economic benefits in reliance on the 2030 Commitment. Similarly a decision by staff to seek or continue employment with the entity based on its commitment supports the existence of a constructive obligation.</p>
3.	<p>A 2030 Commitment should be assumed to have created a valid expectation with Net Zero Focused Investors, Insurers and Bankers if they have generally then made their own commitments to reduce emissions to their own stakeholders relying on the entity’s 2030 Commitment and the 2030 Commitments of other entities.</p>	<p>Engagement with the entity’s Net Zero Focused Investors, Insurers, Bankers and other stakeholders show that a valid expectation was intended to be set (why would the entity otherwise engage?) and has been set because the counter-party then itself gave a commitment that created a valid expectation.</p> <p>As a further response, Net Zero Focused Investors in listed companies made their own Net Zero Transition Commitments, individually and in groups such as the Glasgow Financial</p>

		<p>Alliance on Net Zero (GFANZ), Climate Action 100+, and the Net Zero Asset Owners Alliance.</p> <p>Together these alliances, representing hundreds of trillions of dollars of assets under management themselves ‘committed’ to the net zero imperative—and on the basis of which those Net Zero Focused Investors then made their own net zero transition commitments to their own investors and other stakeholders.</p> <p>Net Zero Focused Investors, Insurers & Bankers evidence their valid expectation by a strategy of staying with the company and ‘greening it’ over time. And committing to take lower financial returns in the short term in order to meet the net zero imperative with the expectation of increased shareholder value over time.</p>
4.	<p>The Established Pattern of Practice means that whatever name is given to elements of the constructive obligation such as the transition plan (aspirations, aims, ambitions etc) is to be disregarded in the analysis of whether a 2030 Commitment is a constructive obligation. With the only relevant criteria being (a) whether the Original Statement followed by an Established Pattern of practice establish the commitment to reduce emissions by 2030 and (b) whether a valid expectation has been set.</p>	<p>Confirmed. Paragraph 10 of IAS37 states:</p> <p><i>‘A constructive obligation is an obligation that derives from an entity’s actions where:</i></p> <ul style="list-style-type: none"> <i>(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.</i> <i>(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.’</i> <p>The only relevant criteria in the analysis are therefore (a) whether the Original Statement followed by an Established Pattern of practice establish the commitment to reduce emissions by 2030 and (b) whether a valid expectation has been set with other parties (including Net</p>

		<p>Zero Focused Consumers and/or Net Zero Focused Investors, Insurers & Bankers) that the entity will discharge the responsibility to reduce emissions by 2030.</p> <p>What any individual action may be called is not an element in the definition of a constructive obligation. Further the description using words such as aspirations, aims, ambitions etc could be used to avoid responsibility and accountability to meet the 2030 Commitment, an expectation of Net Zero Focused Investors, Insurers & Bankers in engaging with the entity in particular on its Transition Plan.</p>
5.	<p>And in certain circumstances, legal and/or regulatory requirements for one or more of those affirmative actions including to create a Transition Plan will have crossed the threshold into being a legal obligation under paragraph 10 of IAS37.</p>	<p>Certain elements of the Established Pattern of Practice such as the Transition Plan have become legal and/or regulatory requirements and should be assumed to have crossed the threshold into being a legal obligation under paragraph 10 of IAS37.</p> <p>The prudence and stewardship elements of the IASB Conceptual Framework should therefore require management to default to recognising a provision.</p>
6.	<p>Once the threshold to be a constructive obligation and/or legal obligation is met, the entity must recognise a provision for the constructive and/or legal obligation provided that the recognition criteria in paragraph 14 of IAS37 are met.</p>	<p>Confirmed by the Tentative Agenda Decision.</p>
7.	<p>For the purposes of paragraph 14 (a) of IAS37, the Original Statement becomes the first past event from which the present obligation is created. And each affirmative</p>	<p>Confirmed. The entity's Original Statement is followed by a series of at least two affirmative actions by which the entity itself recognises the 2030 Commitment. In particular with the statement to target to reduce emissions by a</p>

	<p>action within an Established Pattern of Practice in itself creates a new past event. The terms of the constructive and/or legal obligation are therefore determined from the Established Pattern of Practice over time.</p>	<p>percentage by 2030 it details how this will be achieved and/or the capital required to achieve it in a Transition Plan—creating an Established Pattern of Practice that is then acknowledged and affirmed by a series of actions.</p> <p>The Original Statement is the past event. Each affirmative action afterwards is a component of the 2030 Commitment. And each affirmative action is in itself a past event that adds to the Established Pattern of Practice. The pattern of ongoing publication of the commitment on the entity’s website creates an enduring past event.</p>
8.	<p>There is no financial materiality threshold in paragraph 14 (b) of IAS37. The only question is whether (b) ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p>	<p>Confirmed.</p>
9.	<p>For the purposes of interpretation of paragraph 14 (b) of IAS37, whether ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ must be assessed at the date that the 2030 Commitment crosses the threshold into being a constructive obligation.</p>	<p>Confirmed. Whether or not to recognise a provision must be assessed at the date that the threshold to be a constructive obligation is met.</p>
10.	<p>For the purposes of paragraph 14 (b) of IAS37, if the 2030 Commitment or meeting it will require the entity to purchase carbon credits or offsets, then ‘it is probable that an outflow of resources embodying economic</p>	<p>Confirmed. With only limited exceptions expenditure to acquire carbon offsets will not be recognised as an asset. It is noted that the same point has been made by Accounting Standards Canada in its comment letter to the Tentative Agenda Decision.</p>

	benefits will be required to settle the obligation’ whether or not the entity recognises those credits or offsets as assets, including because of the volatility of the carbon credits and offsets market.	This area of connectivity illustrates one of the limiting factors in IAS38 (Intangible Assets) that should be addressed by the ISSB in the need to close the gap between IAS37 and the S2 standard when applied to 2030 Commitments. Reducing Scopes 1 and 2 emissions typically means making material investments into purchasing carbon credits and offsets-the accounting treatment of which is not clear. The accounting should also recognise that investments made into meeting the 2030 Commitment are made to avoid greater future economic outflows (for example a carbon tax or fines) and/or to access new economic resources.
11.	For the purposes of paragraph 14 (b) of IAS37, if the 2030 Commitment or meeting it will require the entity to undertake research and development and/or collaborate in cross-industry initiatives (in this sector for example the Oil and Gas Charter at COP28) then ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ unless the entity recognises the cost and market value of the intangible assets created by that activity—including the costs of staff re-purposed to innovate in programs to reduce carbon emissions.	Confirmed. With only limited exceptions expenditure on innovation (research and development) will not be recognised as an asset in practice This area of connectivity illustrates one of the limiting factors in IAS38 (Intangible Assets) paragraphs 51 to 64 that should be addressed by the ISSB in the need to close the gap between IAS37 and the S2 standard when applied to 2030 Commitments. Reducing Scopes 1 and 2 emissions typically means making material investments into innovation (the words used in paragraphs 51 to 64 are research and development). The accounting should also recognise that investments made into meeting the 2030 Commitment are made to avoid greater future economic outflows (for example a carbon tax or fines) and/or to access new economic resources.
12.	For the purposes of paragraph 14 (b) of IAS37, if the 2030	Confirmed. . Reducing Scope Emissions will typically be classified as Selling, General, and

	<p>Commitment or meeting it will require the entity to take actions to reduce Scope 1 Emissions that an entity makes directly — for example while running its boilers and vehicles) then ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p>	<p>Administrative (SG&A) expenses. In some cases a fixed asset may be recognised and then depreciated—in both cases an outflow of resources occurs.</p> <p>The accounting should also recognise that investments made into meeting the 2030 Commitment are made to avoid greater future economic outflows (for example a carbon tax or fines) and/or to access new economic resources.</p>
13.	<p>For the purposes of paragraph 14 (b) of IAS37 and because the probability can only be assessed when the threshold to be a constructive obligation has been reached , then;</p> <p>(a) if the entity is in the oil and gas (fossil fuels) sector, and the 2030 Commitment or meeting it will require the entity to retire fossil fuel assets and to acquire renewable energy assets then</p> <p>(b) ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’ unless</p> <p>(c) management of the entity can demonstrate that these retirement and acquisition activities will not give rise to an asset writedown and/or that the asset acquired will be the same or higher market value than the asset retired.</p>	<p>Confirmed. Whether or not to recognise a provision must be assessed at the date that the threshold to be a constructive obligation is met.</p> <p>Prudent stewardship should assume it to be improbable that an entity could manage its business over a 8 or 9 year period to avoid a writedown and acquire renewable assets with such efficiency that they would be at the same or higher value.</p> <p>The accounting should also recognise that investments made into meeting the 2030 Commitment are made to avoid greater future economic outflows (for example a carbon tax or fines) and/or to access new economic resources.</p>
14.	<p>For the purposes of paragraph 14 (b) of IAS37, the combination of all or some of elements 8 to 13 above</p>	<p>Confirmed. Each element must increase the probability that an outflow of resources</p>

	<p>means that it must be assumed that ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p> <p>For the purposes of paragraph 14 (b) of IAS37, the combination of all or some of elements 8 to 13 above together with the commitment being to reduce both Scopes 1 and 2 Emissions by 2030 together means that it must be assumed that ‘it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation’.</p>	<p>embodying economic benefits will be required to settle the obligation.’</p> <p>Confirmed. Each element must increase the probability that an outflow of resources embodying economic benefits will be required to settle the obligation.’</p>
15.	<p>For the purposes of paragraph 14 (c), 25 and 26 of IAS37, it must be assumed that reliable measurement of a 2030 Commitment can be made from publicly-available means to measure carbon emissions and that this is not an ‘extremely rare case’.</p>	<p>Confirmed by the Tentative Agenda Decision.</p> <p>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’.</p> <p>Reliable prices and price ranges for a tonne of carbon that are ‘standard enough’ already exist and are in the public domain with support from the G7 and others.</p>
16.	<p>Under the stewardship requirements of the IASB Conceptual Framework, management should default to recognising a provision for a 2030 Commitment—because having recognised a provision, investments made with the purpose of meeting the constructive obligation</p>	<p>Confirmed in accordance with management’s stewardship of the entity’s economic resources contained in the IASB Conceptual Framework for example in paragraphs 1.3, 1.13, 1.15, 1.16, 1.18, 1.20, 1.22 and 3.2.</p> <p>And as with contracts for asset decommissioning, the entity should consider in its strategy, program and accounting the probability that it will (a) meet the commitment</p>

	<p>management have the potential to create future economic benefits and therefore assets.</p>	<p>targets—and that meeting those targets will create future inflows of economic resources (the equivalent of milestone or similar payments in contracts for decommissioning a nuclear power station) or (b) miss the commitment targets and incur future outflows of economic resources (the equivalent of penalties for delays or missed targets in contracts for decommissioning a nuclear power station).</p>
<p>17.</p>	<p>Even if management and the entity conclude that a provision is not to be recognised for the 2030 Commitment, then unless it is also concluded that the possibility of an outflow of resources embodying economic benefits is remote, it must disclose a contingent liability.</p> <p>In making this assessment, it would have to also be concluded that (a) the probability of the 2030 Commitment not being a constructive obligation and/or a legal obligation is remote and, if so, (b) the probability that a provision is to be recognised is also remote.</p> <p>If a contingent liability is disclosed then paragraph 86 of IAS37 requires the entity to include a brief description of the nature of the contingent liability and, where practicable:</p> <p>(a) an estimate of its financial effect, measured under paragraphs 36–52;</p> <p>(b) an indication of the uncertainties relating to the</p>	<p>Confirmed.</p> <p>Under the stewardship requirements of the IASB Conceptual Framework, management should default to disclosing a contingent liability if it is concluded that no provision is required for a 2030 Commitment.</p>

<p>amount or timing of any outflow; and</p> <p>(c) the possibility of any reimbursement.</p> <p>If interpretation 15 is followed then it will be practicable for the entity to estimate its financial effect.</p>	
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Fact Pattern 2: Net zero pathways in each ‘hard to abate’ or other sector

As Fact Pattern 1 other than paragraph 10, except

In 2020 to 2022, many entities in the so called ‘hard to abate’ sectors (chemicals, steel, mining, concrete, aviation and shipping) each make a first public statement of its respective commitment to ‘be net zero by 204x or 205x’.

*An entity also at the same time or subsequently, makes a second public statement (its **2030 Commitment**) to reduce a percentage of its carbon emissions by 2030—in line with science-based targets or similar words.*

*The entity then joins one or more coalitions to create a net zero pathway (**Sector Pathway**) relevant to its sector—recognising that many of the challenges to meet the 2030 Commitment are consistent across a sector. The entity explains how its current carbon emissions are calculated in line with reporting and then sets out separate aims in its context in relation to each of the areas of its business where emission reductions can be achieved in this 2030 period.*

In addition to those actions set out in Fact Pattern 1, the entity then takes one or more affirmative actions by which the entity itself affirms the commitment in the Original Statement creating an Established Pattern of Practice derived from the Original Statement that may include any of:

- 1. An entity may also make a statement to reduce its Scope 3 emissions being indirect emissions generated in its supply chain, such as for transportation.*
- 2. Senior executives recognises the expression ‘hard to abate’ and refers to other sectors in that category.*
- 3. An entity in a hard to abate sector sets out its Sector Pathway and uses terminology relevant to its sector such as ‘clinker factor’, ‘embodied tonnes per building’ and ‘novel binders’ in the concrete sector. Entities in the mining sector may describe their plan as*

to achieve 'Sustainable Mining' or similar and uses terminology relevant to its sector such as moving away from 'thermal coal' and increasing investments into the green minerals required if the sector is to decarbonise.

4. *An entity mentions specific projects that demonstrate its green credentials. Specific targets are set.*
5. *Senior executives of the entity join one or more coalitions with a mission to collaborate to achieve the emission reductions and net zero goal for its sector. These coalitions begin before COP26 in Glasgow and define net zero pathways for the sector in question.*

Analysis of Fact Pattern 2

The analysis of Fact Pattern 1 applies also to Fact Pattern 2. In addition:

- The creation of Sector Pathway creates a valid expectation between members of the same sector.
- For the purposes of interpretation 13, replacement assets will be unusual in sectors other than oil and gas. While oil and gas may transition through retiring fossil fuel assets and buying renewable assets, the hard to abate and other sectors should be assumed not to create replacement assets.