Dr Andreas Barckow, Chairman,
International Accounting Standards Board,
30 Columbus Building,
7 Westferry Circus, Canary Wharf,
London E14 4HD-United Kingdom

21, November 2024

Dear Dr Barckow,

Ref : Exposure Draft Climate-related and Other Uncertainties in the Financial Statements

We are pleased to take this opportunity to comment on this Exposure Draft (the ED). We support the Board's approach in electing to develop illustrative examples and not amend the financial reporting standards and we welcome this initiative. However, we are somewhat concerned about its scope and whether it will in practice resolve the issues it addresses.

In our view, the most urgent matter is that of the coaching of the ever-broader community of users of IFRS. In fact, in the context of the increasing prevalence of environmental issues, the recognition of the close links between the latter and financial performance and the imminent publication of the first sustainability reports (at least for the French European companies that we represent, with the application this year of the ESRS standards), more and more stakeholders are looking at financial statements in the hope of finding responses to all their questions. Issuers are of course often the first in line to be solicited for information in the growing demand for both explanations of the impact and, more particularly, for confirmation of the lack of impact of ESG-related topics in companies' accounts. In addition, the interested parties often do not have sufficiently detailed knowledge of IFRS to be able to understand what can and what cannot be reflected in such financial reports.

Although we understand the finding laid out in the introduction to the ED, that *"These respondents were concerned that information about the effects of climate-related risks in the financial statements was insufficient or appeared to be inconsistent with information entities provide outside the financial statements, particularly information reported in other general purpose financial reports"*, we suspect that such concerns are primarily occasioned by the lack of knowledge on the part of new users of the financial statements as to how IFRS applies to them. Although we accept that the examples can be a useful aide for issuers, we nonetheless think that:

1. The latter have a thorough understanding of the standards and the underlying principles,

2. The existing standards are adequate when necessary for the depiction of all the risks that an entity may face (climate risk, although it is at the forefront of the news, is not the only risk that may be present), and
3. The teaching effort should be aimed mainly at new users of financial statements. We would therefore encourage the IASB to publish as quickly as possible the educational materials that it is considering (Article on the role of financial statements as announced in the staff paper 14 – April 2024 Meeting …).

We are convinced that the linkage between the financial statements and the sustainability reports is indispensable, and we are equally persuaded that it is not possible to locate all the relevant information in a single document. It is thus also necessary to explain the strict boundary that must be maintained between the financial statements and the sustainability reports. Without waiting for the outcome of the complex work on connectivity that will take a certain amount of time, we would encourage the IASB to reiterate, in the introduction to the proposed examples, the respective objectives of the two reports and the great difference in information value between them, and to explain the different categories of user that are addressed by the two types of report. Indeed, even though the ISSB and IASB standards cover the same users through the single prism of financial materiality, we note that in Europe the stakeholders interested in the financial statements now extend to new categories of users who are not currently considered to be users of financial reports according to the conceptual framework. Our concern is that if this clarification is not made then the type of user currently targeted by the Conceptual Framework of IFRS will be widened. Following on from this point, we think that one thing that is missing from the examples proposed in the ED is an example of information which would typically be relevant to a sustainability report but which would not have its place in a financial report.

If you require any further information about our comments on the ED, please do not hesitate to contact us.

Yours sincerely,

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Lise CHORQUES	Lé Quang TRAN VAN	Karine MERLE

Question 1—Providing illustrative examples

The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including **by helping to strengthen connections between an entity's general purpose financial reports.** Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why.

The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards. Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal.

(b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.

We agree with the proposal not to include the examples in the body of the standards since this would avoid the examples of climate-related risk from being viewed as a special item requiring specific disclosure whereas this risk is only one of a number of risks with which entities are confronted. [In addition, it would avoid the necessity of constantly monitoring such examples for amendments.]

Nevertheless, we think that it might be better to group all such examples in a single document as this would allow for the avoidance of repetition, a fuller explanation of the objectives pursued and a clearer distinction to be made between the objectives of financial reports and the users they address on the one hand, and those of other communication media on the other. It would also be useful, in our view, if the examples could be complemented by the addition of the recent Agenda Decisions on the matter of the recognition of liabilities and assets related to commitments to reduce carbon emissions.

Question 2—Approach to developing illustrative examples

Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements:

(a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and

(b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements.

Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB's overall considerations in developing the examples and the objective and rationale for each example.

Do you agree with the IASB's approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples? Please explain why or why not. If you disagree, please explain what you would suggest instead and why.

We are not convinced that in their current state the examples can fully respond to the criticism *« that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements".* In fact, with the exception of only one, all the examples provided result in the provision of additional information to that which is currently given. In this they give weight to the notion that current financial statements are deficient in some aspects and that climate-related risk should always give rise to information in the notes to the financial statements. Furthermore, we feel that the only example proposed which exempts the entity from providing additional disclosure is of a very simple nature which leaves no room for doubt that further information is not needed. Coming back to our view that more educational material is required for users of accounts, we think that it would be helpful to provide a more subtle example, more anchored in reality, for which the conclusion would also be that further disclosure is not required.

Moreover, a number of the examples are based on the presumed expectations of users of financial statements in the context of a specific sector or declarations of commitments to the reduction of carbon emissions. Although we can understand the approach which consists in "reassuring" the reader of the accounts about the absence of the impact of risks, we think that this should be very carefully delimited. Issuers are responsible for their financial statements with the auditors being responsible for assuring their quality. We do not think that it is appropriate to fill the financial statements willy-nilly with statements of "no impact" in respect of all the presumed risks expected by users. We think there is a major difference between:

- Providing detailed information about the long-term assumptions about uncertainties used by the entity when fluctuation of such variables could have a significant effect on the financial results (IE 3-IE 5-IE 7) and
- Making general statements about the absence of impacts (IE 1-2).

In addition, if we have correctly interpreted the objective of paragraph 125 of IAS 1, it seems to us that it should not systematically override other specific standards. For example, IAS 36 does not require the same level of disclosure for a CGU to which goodwill has been allocated and one which does not contain goodwill or another non-amortisable intangible asset. The reason for this is that the risks are not the same. It therefore does not seem appropriate, in our view, to require the same disclosure for both simply because of the reference to IAS 1.

In respect of Example 6, a number of our members have drawn our attention to the difficulty of obtaining the suggested information at present. Moreover, European banking institutions are already subject to a number of European Directives which will require specific information about exposure to climate-related risks. It is not the role of financial statements to replace such Directives. The proposed level of required information is very detailed and this could lead one to believe that a similar level of information should be provided for each risk to which the banks are exposed.

Finally, we are bemused by Example 8 and have doubts both about the interpretation it makes of IFRS 18 and the usefulness of the information it proposes. The great majority of entities possess a large number of fixed assets, most, if not, all of which are probably exposed to a range of risks of different types. It seems to us that to analyse these into categories that are more detailed than those described in paragraph IAS 16.37 goes well beyond the requirements of the standards. Moreover, once one has decided that assets should be broken down and presented according to climate-related risk, there is no obvious reason not to analyse them according to other types of risk. We are concerned that this would lead to a "matrix"-approach to the fixed asset tables in the financial statements. This would probably be complex for the preparer to draw up, difficult for the user to understand and of no great utility to the latter, particularly so if all the elements laid out in paragraph 73 of IAS 16 were to be provided along the same lines.

We also wonder what the informational value of this analysis would be, notably in the case of the reconciliation of movements between the opening and closing balances. Information about assets that exposed to risk, both physical and during the transitional period, are already required by the sustainability standards (ISSB and ESRS) and this is limited to the book values at the balance sheet date. We do not think that the IFRS requirements should go any further. In addition, this information provided in isolation would be misleading, since it could give the impression that these specific assets are at particular risk and should potentially be impaired. The implication of this would be that the financial statements are faulty.