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Financial Reporting Technical Committee

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Berlin, 15 November 2024

Re: EFRAG's Draft Comment Letter on ED/2024/6 Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples

Dear Mr Klinz, dear Wolf,

On behalf of the DRSC's Financial Reporting Technical Committee (FR TC) I am writing to comment on EFRAG's Draft Comment Letter on the IASB's Exposure Draft on Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples (ED/2024/6). Thank you for the opportunity to comment on this Draft Comment Letter.

- 1 The FR TC has also prepared a comment letter on the ED/2024/6 to the IASB. We attach this letter for your information. It lays out the FR TC's view on the ED/2024/6, on the IASB project in general, and on the examples as well as suggestions for additional amendments to the IFRS. We would nevertheless like to take up the opportunity to additionally comment on some of the specific aspects that EFRAG raises in its draft comment letter.
- 2 Generally, we support EFRAG's lines of arguments. We also view the examples laid out in ED/2024/6 as an important and suitable first step towards more precisely illustrating how climate-related and other uncertainties should be addressed in IFRS financial statements and we agree

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with EFRAG's view on the usefulness of the examples (EFRAG's draft CL, p. 3, 9, and 10). In line with EFRAG, the FR TC further believes, however, that the illustrative examples alone will not allow to fully reach the objective of the IASB's project.

- 3 For one, like EFRAG, we believe a thorough review of the proposed Illustrative Examples is necessary to clarify the fact patterns in order for these fact patterns to be laid out more accurately and thereby addressing more specifically the important aspects of reporting on climate-related and other uncertainties (e.g., boundaries between financial reporting and other reporting instruments; or the differentiation between effects on recognition and/or measurement on the one side contrary to effects on disclosures on the other side). The examples would also benefit from being drafted more realistic and therefore more relatable for the reporting entities. Last but not least, the examples should address more aspects of long-term uncertainties in general, instead of focusing on climate-related risks as the ED/2024/6 currently does.
- 4 That being said, there are a few minor aspects in EFRAG's draft comment letter where our views diverge from EFRAG's opinion as laid out in the draft. These are explained in the following paragraphs.
- 5 For one, the FR TC is not sure whether examples relating to the effects of social or governance risks (as suggested on p. 11) would necessarily contribute to clarifying the questions around long-term uncertainties and risks. We do not believe that the IASB necessarily needs to develop examples on all aspects of sustainability (E, S, and G), but we believe that the IASB should focus on the general questions around long-term uncertainties and risks, as suggested by the project. This can, of course, include examples on social and/or governance uncertainties and risks. But the main criteria, in our view, should be whether these examples contribute to clarifying critical aspects around disclosures for long-term uncertainties. This further work might not necessarily bring up crucial aspects of social or governance risks. If EFRAG has in mind specific social or governance risks that represent those long-term uncertainties, those would be very appreciated and could be explicitly addressed in the comment letter to the IASB.
- 6 In addition, unlike EFRAG the FR TC is not convinced that walk-through examples will provide more or better insights into the issues at hand. Additional educational material might be helpful,

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but in our view the IASB should rather focus on developing Illustrative Examples that fit the current structure and that can be included in the respective IFRS.

- 7 Also, unlike EFRAG, the FR TC did not come to the conclusion that the IASB should “include a caveat indicating that each example focusses on a selection and not all the key material information that is required to be disclosed by the related IFRS” (EFRAG draft CL, p. 4). We are of the opinion that this is the very nature of examples and that IFRS preparers and users of IFRS information are aware of the advantages but also of the limitations of examples. To include a caveat for these examples would raise the question about whether for currently existing Illustrative Examples the IASB intended to claim completeness (which was not and could not be intended by the IASB).
- 8 In the light of existing practice around the use of Illustrative Examples the FR TC is also not convinced that a “decision tree” (EFRAG’s draft CL, p. 12) will be necessary to present the hierarchy of the considerations.
- 9 Another suggestion that the FR TC does not concur with is that specific examples for SME would also be useful (EFRAG’s draft CL, p. 18). There is no evidence for the FR TC at this point that the underlying issues addressed in the Illustrative Examples would be different for SMEs and would therefore make necessary separate examples for SMEs to illustrate those differences.
- 10 Furthermore, EFRAG suggests that further work on the conceptual framework level is needed to clarify and ensure the boundaries of financial statements and other reporting instruments (EFRAG’s draft CL, p. 3). The FR TC instead supports the IASB’s general approach to have a narrow scope project on this topic. While we agree that it seems that Illustrative Examples alone might not be sufficient (and we therefore suggest limited amendments to the IFRS) we do not believe that conceptual framework level work is necessary at this point. We are especially not convinced that it will be necessary to develop a Sustainability Reporting Conceptual Framework. We agree that the question of boundaries between the different reporting instruments is crucial to connect the different reporting elements (and furthermore, not the least to avoid duplicating reporting requirements). However, we do not believe that the careful description of the boundaries of the respective reporting instruments requires an update of the existing Conceptual Framework or even an additional Conceptual Framework for Sustainability Reporting purposes.

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- 11 EFRAG lays out in its draft comment letter that other aspects besides consistency are necessary to be addressed in a framework (EFRAG's draft CL, p. 13). One aspect is cross-referencing and that the IASB should consider connectivity requirements for financial statement information akin to those in place for ESRS and ISSB Standards. The FR TC finds this suggestion difficult for the IASB to take up. One issue could be that the IFRS SDS currently do not require a specific placement of sustainability information. It will therefore be difficult for the IASB to address this question.
- 12 Regarding EFRAG's specific questions to the constituents (EFRAG's draft CL, p. 15), the FR TC is of the opinion that it is not helpful that the IASB included the wording of the IFRS IC for the application of the Illustrative Examples as this implies changes to the current understanding of the IFRS. We agree with EFRAG that there should be no obstacles for the reporting entities to immediately consider the Illustrative Examples proposed in the ED.
- 13 Regarding EFRAG's other question to constituents (EFRAG's draft CL, p. 26), the FR TC believes that the assumptions addressed in IAS 1.125 include assumptions beyond one year. However, IAS 1.125 explicitly refers to impacts of those (possibly longer-term) assumptions for only the next reporting period. We therefore understand IAS 1.125 to differentiate between the assumptions (including for longer periods) and the impacts on assets and liabilities resulting from the measurement on the basis of these assumptions (impacts to consider are limited to the impacts for the next reporting period).
- 14 Last but not least, the FR TC would like to explicitly express its agreement with the concerns about negative confirmations (EFRAG's draft CL, p. 22).
- 15 On a more general note, we note that EFRAG in its draft comment letter sometimes does not provide specific conclusions as to whether it supports, for example the project objectives / direction, or not (for example, EFRAG's draft CL, p. 4). Currently, EFRAG instead refers to being aware of the different views of various stakeholders and lays out these different views (for example, EFRAG's draft CL, p. 9). We suggest, as far as possible, that in its final comment letter, EFRAG provides a conclusion on how the IASB should take into account these differing views. This might be possible based on the feedback that EFRAG receives to its draft comment letter.

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If you have any questions regarding our comment letter, please contact either Kati Beiersdorf (beiersdorf@drsc.de) or me.

Kind regards,

Sven (Morich)

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