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IAIS' response to the IASB's exposure draft on Climate-related and Other Uncertainties in the Financial Statements

Dear Dr Barckow:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the recent International Accounting Standards Board (IASB) exposure draft on Climate-related and Other Uncertainties in the Financial Statements, issued in July 2024.

The IAIS is supportive of the exposure draft and the objective of providing additional guidance in relation to how an entity applies the requirements of IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IAIS also supports the proposed approach to present this additional information as illustrative examples accompanying the Standards.

General comments:

As the IASB assesses how to provide sufficient or consistent information on effects of climate-related risks reported in the financial statements or in the general-purpose financial reports, it may wish to consider the following:

- The illustrative examples proposed do help to show the thought processes that should be considered in relation to disclosures connected to climate and other uncertainties, as well as relevant references. However, the IASB could consider adding more detail to the illustrative examples. For example, it is not always clear how the main references (eg IAS 1 paras 31, 125, 129) may interact with each other or be considered in combination. We also question whether IAS 1 para 112 (c) could be relevant to disclosures on climate and other uncertainties. To the extent that there is potential overlap between these requirements, it would be helpful to be explicit on how the references are relevant to each of the examples and add cross-references to examples in different standards. In addition, with the first two illustrative examples, on materiality judgements for additional disclosures under IAS 1 para 31, the IASB could consider including a decision tree or a more detailed walk-through to clarify the approach to use, particularly as there may be a variety of relevant uncertainties and judgements for the firm to consider.

- The IAIS notes that none of the illustrative examples provided by the IASB in the exposure draft deals directly with insurance contracts, fair value or price risk, all of which are particularly relevant for insurers. That said, we agree with the IASB's comment (Basis of Conclusion (BC) 10 that "…the effects of climate-related and other uncertainties are pervasive across the financial statements…" and so accept the need to limit the number of examples chosen.
- The IAIS suggests that the IASB consider whether there is more that it could do to demonstrate connectivity with the International Sustainability Standards Board (ISSB) standards to help users better understand the way that these requirements can work together and complement each other. The IAIS agrees that the IASB cannot (and should not) assume that the ISSB standards will necessarily be employed by all entities that are subject to IASB requirements. However, the examples do present an opportunity to demonstrate the potential benefits of connectivity, especially if there is a separate publication that would be used (as noted in BC 45). For example, the IASB could consider working together with the ISSB to show how the IASB and the ISSB requirements would apply to these illustrative examples if the latter were being applied. As one illustration, the existing BC 32 could leave it unclear how a firm will approach disclosures if it applies ISSB standards, eg whether it could meet IASB requirements through a cross reference to its sustainability report rather than directly in the notes to the financial statements.

Specific comments:

Question 1 – Providing illustrative examples

Does providing illustrative examples improve the reporting of climate-related and other uncertainties in the financial statements? Do you agree with including the examples as illustrative examples accompanying the IFRS Accounting Standards?

The IAIS agrees that providing illustrative examples can be helpful to demonstrate how disclosure requirements for climate and other uncertainties can be met. We support the IASB's proposal to include these as part of the illustrative examples attached to accounting standards, although there could also be benefits to these being published additionally as part of a separate document (BC45). Further, the examples could demonstrate the connectivity of IASB standards with those of the ISSB. The IAIS notes that some examples relating to insurance have previously been published in an IASB article, but this format does not have the status, visibility or impact of an illustrative example that is associated with a specific standard. (https://www.ifrs.org/content/dam/ifrs/news/2019/november/in-brief-climate-change-nick-anderson.pdf).

Although these proposed illustrative examples could be usefully extended to cover a broader range of circumstances in greater detail (eg through walk-through examples), we view it as a positive that in developing the examples and illustrating the disclosure requirements the IASB has collaborated with ISSB members and technical staff to facilitate connected general purpose financial reporting. However, we would encourage the IASB to consider if there is more to be achieved through these illustrative examples, for instance demonstrating the way that IASB and ISSB requirements link together.

Question 2 – Approach to developing illustrative examples

Do you agree with the IASB's approach to developing examples?

The IAIS agrees with the IASB's approach to developing examples, as they illustrate relevant concepts. For instance, at least some of the illustrative examples may be relevant to insurers in their capacity as preparers and/or major investors (ie as both preparers and users of information that relates to climate and other uncertainties). However, examples relating to insurance contracts, such as the impact of climate and other uncertainties on the nature and extent of the risks from contracts within the scope of IFRS 17 paragraph 93(c), and investments held at fair value, such as how judgements on additional information to evaluate the quantitative information disclosed in accordance with IFRS 13 paragraph 92(d) could be impacted by climate and other uncertainties, could be beneficial for insurers.

Separately, the IAIS notes that some examples (eg example 6) do not refer to the need to consider paragraphs 125 and 129 of IAS 1, although these paragraphs are referred to in relation to other examples. If these paragraphs are not applicable to the example, then it would be helpful to identify why this is the case. For instance, this could be achieved by flagging other relevant considerations and cross-referencing to other relevant examples. This would set out more clearly the approach that should be applied. In addition, users could benefit from more guidance on disclosures that are not material from a quantitative perspective, but material from a qualitative perspective, as discussed in paragraphs 54 and 55 of *IFRS Practice Statement 2 Making Materiality Judgements*.

As mentioned above, while example 6 (disclosure about credit risk) highlights various relevant aspects for preparers to consider, it could benefit from further details. Considering climate-related risks in accounting and disclosure entails increased use of estimates and reliance on forward-looking information. Against this background, some preparers may use overlays or post-model adjustments to address any identified model limitations. In this context, primary users of financial statements may be interested in relevant information about, for example, what assumptions were used, how the staging implications of the climate-related overlays or post-model adjustments have been addressed, and how the reasonableness of the overlays or post-model adjustments have been assessed (eg consider the results of "back-testing").

In general, if there is an overlap between the requirements of the various paragraphs then it would be useful to be explicit, including whether each of these requirements is only relevant in some circumstances or if all these requirements would need to be met concurrently. The IASB may also wish to consider whether IAS 1 paragraph 112(c) is relevant. If this is not the case, then the IASB may consider whether this is an intended outcome or if the paragraph needs to be amended or clarified. The IAIS notes that the main paragraphs that are referred to were not developed specifically with climate and other uncertainties in mind and so the IASB should be open to providing additional clarity in this area should this prove to be warranted.

Question 3 – Other comments

No other comments.

This comment letter was prepared on behalf of the IAIS by its Accounting and Auditing Working Group (AAWG), chaired by Markus Grund of BaFin, in consultation with IAIS Members. If you have further questions regarding this letter, please contact Lydia Kimumwe at the IAIS Secretariat (tel: +41 61 280 8679; email: lydia.kimumwe@bis.org).

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About the IAIS

The IAIS is a global standard-setting body whose objectives are to promote effective and globally consistent supervision of the insurance industry to develop and maintain fair, safe and stable insurance markets for the benefit and protection of policyholders and to contribute to the maintenance of global financial stability. Its membership includes insurance supervisors from more than 200 jurisdictions. Learn more at www.iaisweb.org.