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Mr. Bruce Mackenzie
Chair of the IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
London
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Our ref BOD/288

1 February 2024

Dear Mr. Mackenzie

Tentative Agenda Decision: *Climate-related Commitments – IAS 37*

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *Climate-related Commitments – IAS 37*. We have consulted with, and this letter represents the views of, the KPMG network.

As many governments and entities around the world are setting their net-zero targets, climate-related commitments have become a focus for many stakeholders. Questions have been asked about how they impact financial reporting under IFRS® Accounting Standards; specifically, if and when they result in the recognition of a liability. The Committee's agenda decision will provide a helpful explanation of how to apply the existing requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to climate-related commitments; including how to determine if an entity's public statement has created a constructive obligation and, if so, whether that constructive obligation is a *present obligation* resulting in the recognition of a liability.

We agree with the Committee's analysis and conclusion that an entity that makes a public statement about net-zero targets and plans, performs an assessment to determine if a present obligation exists and if the specific criteria are met at a reporting date to recognise a liability. In particular, we agree that judgement would be required to conclude whether the entity's statement that it will reduce or offset its emissions creates a valid expectation that it will fulfil its commitment – and hence creates a constructive obligation.

We believe the factors included in paragraph 23 of the agenda paper would be helpful in making this assessment and recommend making them publicly available – e.g. by including the factors in the agenda decision itself or through educational material. We appreciate the importance of ensuring that an agenda decision or education material does not add to the requirements in IFRS Accounting Standards. However, if the factors are presented as useful indicators, not a mandatory checklist, then this could promote consistency in how entities approach the assessment.

We also agree with the Committee's conclusion that in the specific fact pattern discussed, there is no *present obligation* as a result of a past event at the point in time the entity makes its public statement – neither for the costs to modify its manufacturing methods in the future, nor for the surrender of carbon credits required to offset greenhouse gases it will emit in the future. Therefore, there is no liability to recognise, at that date, in the specific fact pattern discussed.

Although the agenda decision will provide helpful explanations, we observe that how an entity addresses and discloses climate-related matters and other uncertainties in its financial statements is under scrutiny now more than ever. Entities may face direct challenge from investors, regulators and other report users on how the climate-related matters they read about in the front part of the annual report are reflected in the financial statements. The International Accounting Standards Board (IASB) is exploring clarifying or enhancing requirements in IFRS Accounting Standards as part of its *Climate-related and Other Uncertainties in the Financial Statements* project. However, climate-related matters and the connected reporting relate to both the front part of the annual report and the financial statements. Achieving this will require a connected approach from the IASB and International Sustainability Standards Board to support a coherent package of disclosures about:

- the details of the net-zero transition plan; and
- how it impacts information in the financial statements.

Please contact Brian O'Donovan at brian.odonovan@kpmgifrg.com or Kim Heng at kheng@kpmg.com.au if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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