

Bruce Mackenzie
Chair, IFRS Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

5 February 2024

Dear Bruce

Tentative Agenda Decision: Climate-related Commitments (IAS 37)

We are pleased to comment on the above Tentative Agenda Decision (the TAD).

We agree with the IFRS Interpretations Committee's decision not to add this item to its agenda, and with the technical analysis set out in the TAD. However, we consider that it would be appropriate for the IFRS Interpretations Committee (the Committee) to expand the analysis in the TAD to address the circumstances in which climate-related commitments would result in first, disclosure of a contingent liability and, second, the recognition of a provision. We believe this is necessary to address the concerns of stakeholders.

Various forms of climate-related commitments are becoming more common in response to public pressure, government commitments and enhanced corporate responsibility. While the TAD describes circumstances in which a climate commitment does not result in the recognition of a provision in the scope of IAS 37, we believe it would be beneficial for stakeholders to better understand circumstances in which a contingent liability would be disclosed, and when a provision would be recognised. The recognition of a provision may be as a result of:

- Climate commitments resulting in what are effectively onerous contracts due to the unavoidable costs of satisfying climate commitments being greater than the benefits expected to be derived from that expenditure, or
- The general recognition criteria in IAS 37 being met.

The explanation in the TAD of why the climate commitment described in the submission does not meet the recognition criteria in IAS 37 does not necessarily mean that a stakeholder can infer the circumstances in which a commitment would be met. In this context, we note that illustrative examples that explain how IFRS Accounting Standards may be applied in practice are most effective when they explain facts and circumstances in which criteria would and would not be met.

¹Service provision within the BDO network in connection with IFRS (comprising International Financial Reporting Standards, International Accounting Standards, and Interpretations developed by the IFRS Interpretations Committee and the former Standing Interpretations Committee), and other documents, as issued by the International Accounting Standards Board, is provided by BDO IFR Advisory Limited, a UK registered company limited by guarantee. Service provision within the BDO network is coordinated by Brussels Worldwide Services BV, a limited liability company incorporated in Belgium. Each of BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and the BDO member firms is a separate legal entity and has no liability for another entity's acts or omissions. Nothing in the arrangements or rules of the BDO network shall constitute or imply an agency relationship or a partnership between BDO International Limited, Brussels Worldwide Services BV, BDO IFR Advisory Limited and/or the BDO member firms. Neither BDO International Limited nor any other central entities of the BDO network provide services to clients.

We acknowledge that the Committee can only respond in the TAD to the questions asked in the submission. However, the issue could be addressed in a number of ways, including issuing staff educational materials which expand on the fact pattern included in the submission and include additional fact patterns, illustrating circumstances in which various climate commitments do and do not result in the disclosure of a contingent liability or the recognition of a provision.

We also note that the IASB has a current project to amend IAS 37 *Provisions - Targeted Improvements*. We recommend that the IASB consider adding guidance and factors to consider for key areas of judgement in determining the point at which disclosure is required for a contingent obligation, the existence of a constructive obligation and whether a provision is required to be recognised.

We believe that expanding on the technical analysis set out in the TAD is necessary as the heightened focus by stakeholders on this issue is likely to result in further submissions to the Committee if a broader approach is not taken.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)7875 311782 or by email at abuchanan@bdoifra.com.

Yours faithfully

Andrew Buchanan

Global Head of IFRS and Corporate Reporting