

5 February 2024

Mr Bruce Mackenzie
Chair of the IFRS Interpretations Committee
IFRS Foundation
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Canary Wharf
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Submitted to: www.ifrs.org

Dear Bruce

IFRS Interpretations Committee tentative agenda decision *Climate-related Commitments*

Thank you for the opportunity to comment on the tentative agenda decision *Climate-related Commitments*, the subject of which is of great interest to New Zealand stakeholders due to its link to climate and other sustainability matters.

We agree with the Committee's conclusions set out in the tentative agenda decision. However, we recommend changes to improve its usefulness and to drive greater consistency in application.

Recommendations

Provide additional guidance to assist with determining whether there is a constructive obligation

The tentative agenda decision states that management would apply judgement to reach a conclusion on whether the facts of the entity's commitment and the circumstances surrounding it create a constructive obligation for the entity. However, there is no further guidance in the explanatory material to assist management in applying this judgement and to support consistency of application.

To provide adequate guidance to entities, the agenda decision should include:

- a statement that management could refer by analogy to the criteria set out in paragraphs 72–74 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for concluding that an entity has a constructive obligation for the costs of restructuring a business.
- the factors noted in the [appendix](#) to this letter. These factors have been taken from paragraph 23 of the November 2023 staff paper AP2.

Provide guidance on the distinction between considerations of recognition and measurement

No guidance has been provided in the tentative agenda decision on the measurement of a provision arising from a climate-related commitment as it was outside of its scope. We believe that an analysis of climate-related commitments within the context of the requirements of IAS 37 is incomplete



without consideration of certain measurement-related issues, as there is a high degree of intersection when considering recognition and measurement in this context. For example, because climate-related commitments are often long-term moving targets, revisions are likely to occur. It is important to distinguish between whether such revisions affect initial recognition or instead require remeasurement. We recommend the agenda decision addresses the distinction between considerations of recognition and measurement.

Other observations

The need for standard-setting to incorporate more complex fact patterns

The conclusions in the tentative agenda decision have been made in relation to a relatively simple fact pattern, which does not contain complexities such as the existence of a threshold (above which an entity would be required to offset its emissions). Due to concerns with IFRIC 21 *Levies* and how it interacts with IAS 37, it is not always clear when a provision should be recognised when there is such a threshold. Therefore, we believe that guidance in this area would be useful for entities.

Standard-setting is likely to be the most appropriate course of action, rather than expanding on the tentative agenda decision to include this type of complexity. We are aware that the IASB is currently developing proposals to amend IAS 37, via its Provisions – Targeted Improvements project. Such amendments may include new application requirements for when an entity has a present obligation for costs that become payable only if a measure of its activity exceeds a specified threshold. We are supportive of the IASB’s efforts in this regard and encourage the development of illustrative examples depicting multiple complex fact patterns, which would be useful to stakeholders.

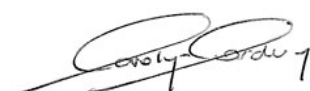
Assisting non-accountants with understanding the agenda decision

The subject matter of this tentative agenda decision is of great interest to New Zealand stakeholders (both accountants and non-accountants) due to its link to climate and other sustainability matters. In New Zealand, large publicly listed companies, insurers, banks, non-bank deposit takers and investment managers must make climate risk disclosures for reporting periods beginning on or after 1 January 2023.

It would be useful for the Committee to support the final agenda decision with plain-language communications that are clearly distinguishable from formal guidance or interpretation.

If you have any queries or require clarification of any matters in this letter, please contact Carly Berry (carly.berry@xrb.govt.nz) or me.

Yours sincerely



Carolyn Cordery
Chair – New Zealand Accounting Standards Board

Appendix – recommended guidance to include in the agenda decision

Management may consider the factors listed below when applying judgement as to whether there is a constructive obligation. These factors, however, are merely indicative of the facts of the commitment and the circumstances surrounding it and are not, in themselves, conclusive. We recommend that the agenda decision make it clear that while the words and phrases used in any statement may change, merely changing the words without changing the facts and circumstances, would not be enough to alter the conclusion as to whether or not there is a constructive obligation.

- *the language used in the statement*—a statement describing the actions the entity ‘will take’, ‘is committed to taking’ or ‘pledges to take’ may be more likely to indicate that the entity will fulfil the commitment than a statement describing the entity’s ‘ambitions’, ‘targets’ or ‘aspirations’.
- *the specificity and status of plans supporting the statement*—a statement may be more likely to raise a valid expectation that the entity will achieve its stated greenhouse gas emission reductions if it is supported by formally-approved plans detailing, for example:
 - the nature and timing of the actions the entity will take to achieve the reductions;
 - milestones the entity has committed to achieve on the path to its longer-term goals; and
 - how management will measure progress towards the milestones and longer-term goals (for example, the metrics it will use).
- *the timing of the actions required to fulfil the commitment*—plans for short and medium-term actions are less likely to be changed than those for longer term actions.
- *publicly available evidence of progress to date*—evidence that an entity has achieved milestones it committed to in previous statements may enhance expectations that it will achieve milestones and longer-term goals it commits to in its current statement. Conversely, evidence that the entity has failed to achieve milestones may reduce those expectations.