

International Financial Reporting Standards
Interpretations Committee
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

31 January 2024

Dear IFRS Interpretations Committee members

Invitation to comment - Tentative Agenda Decision: *Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets) (IFRIC Update November 2023 - Agenda Paper 2)*

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) discussed by the IFRS Interpretations Committee (the IFRS IC) in November 2023.

Overall, we welcome the IFRS IC addressing concerns related to the application of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37) to climate-related commitments.

We acknowledge that the IFRS IC needs to address the question raised in the submission applying the requirements that currently exist in IFRS accounting standards. Our response similarly considers existing requirements.

We agree with the technical analysis and the conclusion reached in the Tentative Agenda Decision (TAD), which is consistent with our understanding of both the current IAS 37 requirements and current practice. We acknowledge that there is sometimes a misunderstanding about the trigger for recognition of a liability. Therefore, the TAD is helpful in clarifying that, under IAS 37, a public statement by an entity is not sufficient, on its own, to trigger the recognition of a liability. In particular, the TAD helps to clarify that, among other criteria, there needs to be a past event to which the obligation applies (such as the act of emitting greenhouse gases in the past) before concluding a liability must be recognised for a constructive obligation.

The situation discussed in the submission might be compared to another matter, i.e., a decommissioning liability. However, the past event for a decommissioning liability for an oil platform, mine or building, for example, is not the future use of the asset, but rather the asset's construction. Therefore, proper identification of the past event leading to present obligation is crucial in the process of liability recognition. For this reason, we would suggest amending the wording of the fact pattern to state, "to reduce its *future* greenhouse gas emissions by at least 60% compared to current levels by 20X9" to avoid confusion.

The inclusion of examples to illustrate application of the IAS 37 requirements and the thought process to apply them, as presented in TAD, is helpful. Nonetheless, we note the following additional areas where we believe additional improvements would help:

- Reference to Illustrative Example 2B accompanying IAS 37

The TAD illustrates the requirement for the existence of a past obligating event by referring to Illustrative Example 2B accompanying IAS 37. Example 2B explains that the obligating event is the contamination of the land and concludes that a provision would be recognised in the fact pattern presented. While we agree that this is helpful, in our view, the minimum wage example provided in paragraph 28 of Agenda Paper 2 prepared for the November 2023 IFRS IC meeting also is helpful in illustrating the role of the public announcement in the sequence of events leading to a provision being recognised. This is because the minimum wage example shows how the announcement and the law apply to the action that creates a present obligation for an outflow of resources. The example also makes it clear that neither the announcement nor the enactment of the law alone lead to a provision without the entity's action. As this is a key distinction and Example 2B is quite brief, we believe the inclusion of the minimum wage example outlined in the Staff paper would enhance the usefulness of the TAD to a wider range of readers.

- Carbon credits as assets used to settle the obligation

We believe that reference in the TAD to the entity's obligation to retire carbon credits to settle the emission obligation could be misread to imply that all carbon credits meet the definition of an asset. While some carbon credits might be recognised as assets, this determination requires judgement and depends on the facts and circumstances - that is, whether a particular carbon credit represents an economic resource will depend on the facts and circumstances. Furthermore, we note that the question raised in the submission focused on recognition of a liability, rather than the appropriate accounting for the variety of carbon credits in both voluntary and compliance markets.

We, therefore, recommend revising the wording in the TAD to focus the example on situations on where recognised carbon credit assets already represent an economic resource (i.e., where an entity has already concluded that carbon credits represent an asset). For example, "... the entity will have a present obligation requiring an outflow of resources (e.g., recognised carbon credits) only if ..."

- Presentation of the thought process

We welcome the approach taken in the TAD to present the thought process. However, we would suggest further improvements to enhance usability for a wider range of users and provide more clarity on the steps that must be followed to satisfy the requirements in IAS 37. This could be achieved through, for example, enumeration of the steps that the entity needs to go through to recognise a provision, and/or by adding appropriate, numbered headings corresponding to those steps.

Should you wish to discuss the contents of this letter with us, please contact Michiel van der Lof at the above address or on +31 6 212 52634.

Yours sincerely

Ernst & Young Global Limited