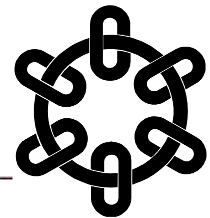
Norsk RegnskapsStiftelse



29 March 2024

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft – Financial Instruments with Characteristics of Equity

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Financial Instruments with Characteristics of Equity.*

We appreciate the attempt to propose solutions to specific issues identified during the feedback process of the discussion paper. However, we regret that the IASB "decided not to pursue the proposed classification approach" (BC6) and to limit the project's scope.

We believe that a wider scope could have led to more conceptually coherent proposals and information that might be more useful. We are not convinced that the proposed solutions in total will decrease the current inconsistency in application, as the substance over form issue is not clearly addressed.

We also note that the IASB in several instances rejects solutions because they are complex and costly. We are not convinced that a more complex solution will always be costly. Entities with complex instruments need to monitor those, and when monitoring routines exist, the extra cost to collect data for accounting purposes may be limited.

In the appendix, we explain why we do not support the following proposals:

- The clarification of laws or regulations (question 1) – as we do not consider this a problem in practice and believe there is a risk of unintended consequences.

- The proposed amendment to not accept an interest rate based on a benchmark as a relevant mechanism to adjust for the passage of time (question 2).

- Contingent settlement provisions (question 4) – as we believe both expected probability and timing of settlement are relevant features of such a liability and should affect its measurement.

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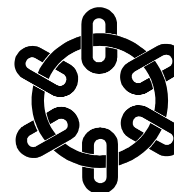
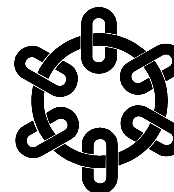


Should you wish to further discuss our comments, please do not hesitate to contact the chair, Bjørn Einar Strandberg.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS
bjorn.einar.strandberg@pwc.com



Appendix 1 – our comments

Below we provide our responses to the questions in the ED.

Response to question 1 - The effects of relevant laws or regulations

[For ease of writing, we refer to *laws* rather than *laws and regulations*, and to *rights* rather than *rights and obligations*, unless the full term is important for our arguments.]

Based on our knowledge, in our jurisdiction classification issues are in practice adequately addressed under the existing IAS 32. Consequently, we remain unconvinced that the benefits of the suggested binary approach (i.e. inside or outside law) outweigh the drawbacks of possible new inconsistencies and potential unintended consequences.

In summary, our concerns relate to the following:

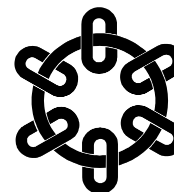
a) The proposed approach amplifies inconsistencies with the substance over form concept in the Framework, thereby undermining comparability.
b) Lack of clarity regarding implications of changes in legislation.
c) Unintended consequences.
d) Ambiguous wording in AG24B.

a) Substance over form and comparability

We hold the view that for both companies and their stakeholders, whether rights are created by law or contracts is of little importance as long as the rights are enforceable. Instead of pursuing the overarching principle of substance-over-form as established in the Conceptual Framework paragraph 4.60 (ref IAS 32.BC14 ff), the IASB reinforces a deviation from this principle.

To uphold a deviation from the Conceptual Framework warrants convincing arguments. We are not convinced by this ED, as it leaves this discussion rather untouched.

In an extreme situation, the proposed approach might cause financial reporting that does not faithfully represent the substance of legal rights and obligations with clear economic consequences. We are also somewhat concerned that continuing to exclude law from the classification may hamper comparability, especially cross-border. For multinational companies this might cause different treatment of identical rights and obligations located in different jurisdictions. In our opinion, amendments to IAS 32 should seek to reduce deviations from concepts in the Conceptual Framework, rather than reinforcing such deviations.



b) Change in law

In IAS 32.BC17, the IASB discusses effects of changes in law and refers to static and dynamic terms. It is however not clear to us whether the IASB's proposed distinction between laws and contracts will require a new assessment of the instrument whenever there is a change in the laws in question.

Consider the following example:
The law in Country A grants the non-controlling shareholders a put option and the parent a call option over the shares owned by the non-controlling shareholders whenever the parent owns at least 90% of the shares in a subsidiary. The law stipulates that the redemption rights are currently exercisable for both parties at fair value. The non-controlling interests are in this scenario classified as equity.

A parent company in Country A also has a subsidiary in Country B with non-controlling interests and wants these shareholders to have similar rights. The parent company therefore establishes these rights in a separate contract. As this is based on a contract, the non-controlling interest will in this scenario be classified as a liability. This example illustrates that identical rights may lead to different classification.

What happens if the law changes?

- If Country B changes its law in line with the law in Country A, the substance of the instrument does not change. The right is now regulated in law as well as in the separate contract.

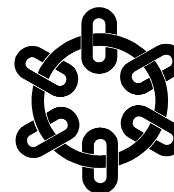
- According to paragraph 15A(b) rights created by law shall be disregarded. Using the term *created* seem to refer to the initial creation of the right. In our example, the right was created by a separate contract and not by law. This would follow from a narrow reading of the term *created*. Or should it be read more widely with the consequence that changes in law may change the classification even though there is no change in the substance of the rights and obligations of the parties?

c) Unintended consequences

It is our understanding that the approach proposed by the IASB under question 1(b) is not expected to change the classification of common equity or liability instruments. We are concerned that the exclusion of rights or obligations solely created by laws may lead to challenges and potentially unintended consequences the practical application.

We note that financial instruments such as ordinary shares typically are solely based on rights according to company legislation, whereas more sophisticated instruments have contractual terms that are heavily influenced by regulations (e.g. CRD/CRR for additional tier 1 capital (AT1) for financial institutions).

It is our understanding that the proposed approach is not expected to fundamentally change the IAS 32 classification of such instruments (in these examples equity), and we appreciate the IASB recently having provided educational material (FICE webcasts series, number 2) on the classification of more complex instruments, such as bail-in/AT1 instruments. However,



we would encourage the IASB to provide further guidance as part of the standard, e.g. as illustrative examples or application guidance, to illustrate how to come to this conclusion when excluding rights created by laws.

As for mandatory tender offers that are solely required by law, we are concerned that such obligations will not be recognised in a timely manner based on the current proposal, but only when there exist some level of acceptance of a concrete offer made in accordance with the law.

Lastly, we note that there is a potential inconsistency with the provisions in IFRIC 2 (applicable to co-operative entities), since paragraph 5 of IFRIC 2 clarifies that all terms and conditions must be considered in the classification of financial instruments, and that "… those terms and conditions include relevant local laws, regulations and the entity's governing charter in effect at the date of classification". To be consistent with IFRIC 2 we suggest the inclusion of a clarification that laws and regulations may *remove or limit* contractual terms, but not create rights and obligations that are within the scope of IAS 32.

d) Ambiguous wording in AG24B

While the content of AG24B is quite clear, we question whether the wording give room for an ambiguous interpretation that is not intended. The first sentence states:

"An entity shall consider a <u>*contractual*</u> *right or obligation, which is not solely created by laws or regulations…"*

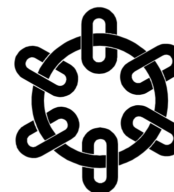
The way we see it, the main content of this new paragraph is that laws and regulations cannot create a contractual right or obligation. The sentence above could be read as this might be a possibility.

Response to question 2 - Settlement in an entity's own equity instruments

In general, we agree with the IASB's proposals to accept some more variability in the fixed-for-fixed criterion.

However, we would suggest the IASB accept even more flexibility: In the *Illustrative Examples and Implementation Guidance* (IE), Example 20 rejects a specified interest rate benchmark as a passage-of-time adjustment. We assume this is because a benchmark (e.g. interbank offered rates) may introduce variability as the future adjustments are unknown at initial recognition, as opposed to a fixed rate.

The way we see it, relevant benchmarks may represent a better approximation of time value of money and hence passage-of-time, than a predetermined fixed rate that is not responsive to other changes in the economic environment. Such responsiveness may be aligned also with the preservation argument.



We suggest the IASB reconsider allowing the use of variable rates linked to standardised benchmarks, that are considered an appropriate representation of the time value of money, as we believe this could also be an acceptable a passage-of-time adjustment that does not breach the fixed-for-fixed criteria.

Response to question 3 - Obligation to purchase an entity's own equity instruments

In general, we welcome the proposal as it may increase the consistency in application. However, there are various views on this issue, as described in the literature and accounting guidance of the large firms. We are concerned for any unintended consequences but have no further specific comments related to this question.

Response to question 4 - Contingent settlement provisions

We welcome the proposal to clarify the accounting for instruments with contingent settlement provisions. We appreciate that it is now clarified that components of a compound instruments should be accounted for separately.

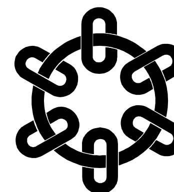
Measurement
The proposed paragraph 25A states that "the probability and estimated timing of occurrence or non-occurrence of uncertain future events […] have no effects on the initial or subsequent measurement". According to BC98 this means measurement at "the full amount payable to settle the liability component upon occurrence of the uncertain future event discounted from the earliest date that the amount could be required to be paid" (emphasis added).

We are not convinced that a measurement model that ignores the probability and expected timing of the contingent event provides useful information. A contingent event outside the control of both parties, is different from a redemption option where the counterparty may control when the outflow of economic benefits take place.

In situations where the redemption amount may be high, but the probability for settlement low, the proposed model would measure the contingent settlement at an amount that is very different from that of a market participant, and therefore very different from fair value.

Moreover, in the discussion of the meaning of *not genuine*, the IASB argues that a liability might be recognised even though it is very unlikely (if it is neither extremely rare nor highly abnormal). When recognised, it shall be measured at the "full amount". In sum this means that very unlikely liabilities can be recognised at full amount. We are not convinced that this provides useful information.

In effect, the proposal seems to introduce a new class of financial liabilities with separate measurement rules. If such a proposal is carried forward, we question whether it should rather be placed within IFRS 9 as it relates to classification and measurement of financial instruments.



Terminology
In the regulation of *not genuine*, the current regulation uses three cumulative conditions of extremely rare, highly abnormal and very unlikely to occur. The added text in AG28 creates a distinction between an event being *very unlikely* but still not being *extremely rare*. Currently, many stakeholders consider these two terms to mean the same. For instance, EY International GAAP 2024, Chapter 42 section 4.3.2 refers to these two terms as synonyms. We think there may be challenges when such subtle terminology differences are translated into local language, including Norwegian. The last sentence in AG28 is somewhat counterintuitive, as requirements to repay an instrument is not a clause that could "maintain sufficient levels of regulatory capital".

The IASB proposes to define liquidation as follows: "*Liquidation is the process that begins after an entity has permanently ceased its operations"* (IAS 32.11). We agree that it would be useful to include a definition of this term. However, we note that the proposed definition is inconsistent with other descriptions in IFRS of the same term:

- The Conceptual Framework refers to liquidation and ceasing of trade as two different things: "… that could be avoided only by liquidating the entity or by ceasing to trade" (Conceptual Framework, paragraph 4.33, emphasis added). Hence, we are not convinced that the IASB's reference in IAS 32.BC115 (b) to "the *Conceptual Framework* […] equates liquidation with ceasing to trade" is appropriate.

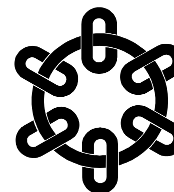
- IAS 1.25 includes the same distinction between liquidation and ceasing of trade as the Conceptual Framework, but also includes "or has no realistic alternative but to do so". It is not clear whether this extra alternative in IAS 1.25 is meant to be covered by the new definition of liquidation in IAS 32.

In practice, we do not expect these differences in the description/definition of the term liquidation to have a large impact in most cases. Nevertheless, the IASB should aim for definitions that result in consistent understanding of the terms across the conceptual framework and the different IFRS Accounting Standards. Inconsistencies increase the risk for diversity in practice. One solution might be to define *liquidation* as the dissolvement of a company and then refer to *liquidation or ceasing of trade* when an IFRS Accounting Standard intends to include both these dimensions.

We do not provide comments to question 5 and 6.

Response to question 7 - Disclosure

As a result of the law versus contract approach in question 1, similar instruments might be classified differently depending on the jurisdiction in which the parent or its subsidiaries operates. In such situations, and whenever important for understanding the basis for the classification of the instrument, it might be useful to users to receive information on the nature of these instruments and how much is classified as liability and equity, respectively.



Response to question 8 - Presentation of amounts attributable to ordinary shareholders

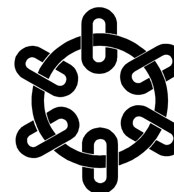
The IASB proposes to distinguish between *ordinary shareholders of the parent* and *other owners of the parent*. However, we cannot see that the term *ordinary shareholders* has been defined.

If the IASB considers ordinary shareholders in the proposed amendments to paragraphs 54, 81B and 107 of IAS 1, to be holders of *ordinary shares* as defined in IAS 33, this link should in our view be made explicit.

While we support the intention to more clearly distinguish between economic results allocated to the ordinary shareholders and other stakeholders, the proposal seems to be somewhat immature. Our observations indicate that certain practical issues need to be sorted out in order to make this proposal workable.

A narrower solution would be to merely require the attribution of net profit to be split between the amount that is included in the numerator of the EPS computation in order to make this clearer, without requiring a split of amounts within equity.

We do not provide comments to questions 9 and 10



Appendix 2 – the questions

Appendix 1 includes our responses to the questions in the ED. In appendix 2 we repeat the questions from the ED.

Question 1—The effects of relevant laws or regulations (paragraphs 15A and AG24A–AG24B of IAS 32)

The IASB proposes to clarify that:

a) only contractual rights and obligations that are enforceable by laws or regulations and are in addition to those created by relevant laws or regulations are considered in classifying a financial instrument or its component parts (paragraph 15A); and

b) a contractual right or obligation that is not solely created by laws or regulations, but is in addition to a right or obligation created by relevant laws or regulations shall be considered in its entirety in classifying the financial instrument or its component parts (paragraph AG24B).

Paragraphs BC12–BC30 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Question 2—Settlement in an entity's own equity instruments (paragraphs 16, 22, 22B–22D, AG27A and AG29B of IAS 32)

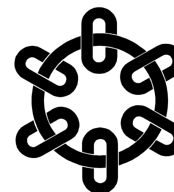
The IASB proposes to clarify when the fixed-for-fixed condition in paragraph 16(b)(ii) of IAS 32 is met by specifying that the amount of consideration to be exchanged for each of an entity's own equity instruments is required to be denominated in the entity's functional currency, and either:

a) fixed (will not vary under any circumstances); or

b) variable solely because of:

    i. preservation adjustments that require the entity to preserve the relative economic interests of future shareholders to an equal or lesser extent than those of current shareholders; and/or

    ii. passage-of-time adjustments that are predetermined, vary with the passage of time only, and have the effect of fixing on initial recognition the present value of the amount of consideration exchanged for each of the entity's own equity instruments (paragraphs 22B–22C).



The IASB also proposes to clarify that if a derivative gives one party a choice of settlement between two or more classes of an entity's own equity instruments, the entity considers whether the fixed-for-fixed condition is met for each class of its own equity instruments that may be delivered on settlement. Such a derivative is an equity instrument only if all the settlement alternatives meet the fixed-for-fixed condition (paragraph AG27A(b)).

The IASB further proposes to clarify that a contract that will or may be settled by the exchange of a fixed number of one class of an entity's own non-derivative equity instruments for a fixed number of another class of its own non-derivative equity instruments is an equity instrument (paragraph 22D).

Paragraphs BC31–BC61 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Question 3—Obligations to purchase an entity's own equity instruments (paragraphs 23 and AG27B–AG27D of IAS 32

The IASB proposes to clarify that:

a) the requirements in IAS 32 for contracts containing an obligation for an entity to purchase its own equity instruments also apply to contracts that will be settled by delivering a variable number of another class of the entity's own equity instruments (paragraph 23).

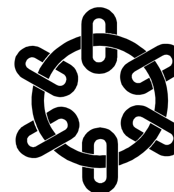
b) on initial recognition of the obligation to redeem an entity's own equity instruments, if the entity does not yet have access to the rights and returns associated with ownership of the equity instruments to which the obligation relates, those equity instruments would continue to be recognised. The initial amount of the financial liability would, therefore, be removed from a component of equity other than non-controlling interests or issued share capital (paragraph AG27B).

c) an entity is required to use the same approach for initial and subsequent measurement of the financial liability—measure the liability at the present value of the redemption amount and ignore the probability and estimated timing of the counterparty exercising that redemption right (paragraph 23).

d) any gains or losses on remeasurement of the financial liability are recognised in profit or loss (paragraph 23).

e) if a contract containing an obligation for an entity to purchase its own equity instruments expires without delivery:

    i. the carrying amount of the financial liability would be removed from financial liabilities and included in the same component of equity as that from which it was removed on initial recognition of the financial liability.



ii. any gains or losses previously recognised from remeasuring the financial liability would not be reversed in profit or loss. However, the entity may transfer the cumulative amount of those gains or losses from retained earnings to another component of equity (paragraph AG27C).

f) written put options and forward purchase contracts on an entity's own equity instruments that are gross physically settled—consideration is exchanged for own equity instruments—are required to be presented on a gross basis (paragraph AG27D).

Paragraphs BC62–BC93 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Question 4—Contingent settlement provisions (paragraphs 11, 25, 25A, 31, 32A, AG28 and AG37 of IAS 32)

The IASB proposes to clarify that:

a) some financial instruments with contingent settlement provisions are compound financial instruments with liability and equity components (paragraphs 25 and 32A);

b) the initial and subsequent measurement of the financial liability (or liability component of a compound financial instrument) arising from a contingent settlement provision would not take into account the probability and estimated timing of occurrence or non-occurrence of the contingent event (paragraph 25A);

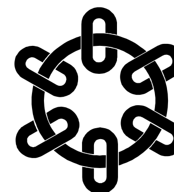
c) payments at the issuer's discretion are recognised in equity even if the equity component of a compound financial instrument has an initial carrying amount of zero (paragraphs 32A and AG37);

d) the term 'liquidation' refers to the process that begins after an entity has permanently ceased its operations (paragraph 11); and

e) the assessment of whether a contractual term is 'not genuine' in accordance with paragraph 25(a) of IAS 32 requires judgement based on the specific facts and circumstances and is not based solely on the probability or likelihood of the contingent event occurring (paragraph AG28).

Paragraphs BC94–BC115 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.



Question 5—Shareholder discretion (paragraphs AG28A–AG28C of IAS 32)

The IASB proposes:

a) to clarify that whether an entity has an unconditional right to avoid delivering cash or another financial asset (or otherwise to settle a financial instrument in such a way that it would be a financial liability) depends on the facts and circumstances in which shareholder discretion arises. Judgement is required to assess whether shareholder decisions are treated as entity decisions (paragraph AG28A).

b) to describe the factors an entity is required to consider in making that assessment, namely whether:

   i. a shareholder decision would be routine in nature—made in the ordinary course of the entity's business activities;

   ii. a shareholder decision relates to an action that would be proposed or a transaction that would be initiated by the entity's management;

   iii. different classes of shareholders would benefit differently from a shareholder decision; and

   iv. the exercise of a shareholder decision-making right would enable a shareholder to require the entity to redeem (or pay a return on) its shares in cash or another financial asset (or otherwise to settle it in such a way that it would be a financial liability) (paragraph AG28A(a)–(d)).

c) to provide guidance on applying those factors (paragraph AG28B).

Paragraphs BC116–BC125 of the Basis for Conclusions explain the IASB's rationale for these proposals.

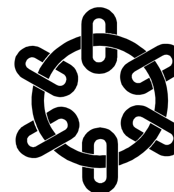
Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Question 6—Reclassification of financial liabilities and equity instruments (paragraphs 32B–32D and AG35A of IAS 32)

The IASB proposes:

a) to add a general requirement that prohibits the reclassification of a financial instrument after initial recognition, unless paragraph 16E of IAS 32 applies or the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement (paragraphs 32B–32C).

b) to specify that if the substance of the contractual arrangement changes because of a change in circumstances external to the contractual arrangement, an entity would:



i. reclassify the instrument prospectively from the date when that change in circumstances occurred.

ii. measure a financial liability reclassified from equity at the fair value of that financial liability at the date of reclassification. Any difference between the carrying amount of the equity instrument and the fair value of the financial liability at the date of reclassification would be recognised in equity.

iii. measure an equity instrument reclassified from a financial liability at the carrying amount of the financial liability at the date of reclassification. No gain or loss would be recognised on reclassification (paragraph 32D).

c) provide examples of changes in circumstances external to the contractual arrangement requiring reclassification (paragraph AG35A).

Paragraphs BC126–BC164 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to reclassify the instrument prospectively from the date when a change in circumstances occurred give rise to any practical difficulties? If so, please describe those practical difficulties and the circumstances in which they would arise.

Question 7—Disclosure (paragraphs 1, 3, 12E, 17A, 20, 30A–30J and B5A–B5L of IFRS 7)

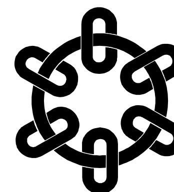
The IASB proposes:

a) to expand the objective of IFRS 7 to enable users of financial statements to understand how an entity is financed and what its ownership structure is, including potential dilution to the ownership structure from financial instruments issued at the reporting date (paragraph 1).

b) to delete the reference to derivatives that meet the definition of an equity instrument in IAS 32 from paragraph 3(a) of IFRS 7.

c) to move paragraphs 80A and 136A from IAS 1 to IFRS 7. These paragraphs set out requirements for disclosures relating to financial instruments classified as equity in accordance with paragraphs 16A–16B and/or paragraphs 16C–16D of IAS 32 (paragraphs 12E and 30I). The IASB also proposes to expand paragraph 80A to cover reclassifications if there are changes in the substance of the contractual arrangement from a change in circumstances external to the contractual arrangement.

d) to amend paragraph 20(a)(i) of IFRS 7 to require an entity to disclose gains or losses on financial liabilities containing contractual obligations to pay amounts based on the



entity's performance or changes in its net assets, separately from gains or losses on other financial liabilities in each reporting period.

e) to include disclosure requirements for compound financial instruments in IFRS 7 (paragraph 17A).

The IASB proposes to require an entity to disclose information about:

(a) the nature and priority of claims against the entity on liquidation arising from financial liabilities and equity instruments (paragraphs 30A–30B);

(b) the terms and conditions of financial instruments with both financial liability and equity characteristics (paragraphs 30C–30E and B5B–B5H);

(c) terms and conditions that become, or stop being, effective with the passage of time (paragraph 30F);

(d) the potential dilution of ordinary shares (paragraphs 30G–30H and B5I–B5L); and

(e) instruments that include obligations to purchase the entity's own equity instruments (paragraph 30J).

Paragraphs BC170–BC245 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with the proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Question 8—Presentation of amounts attributable to ordinary shareholders (paragraphs 54, 81B and 107–108 of IAS 1)

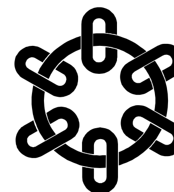
The IASB proposes to amend IAS 1 to require an entity to provide additional information about amounts attributable to ordinary shareholders. The proposed amendments are that:

(a) the statement of financial position shows issued share capital and reserves attributable to ordinary shareholders of the parent separately from issued share capital and reserves attributable to other owners of the parent (paragraph 54);

(b) the statement of comprehensive income shows an allocation of profit or loss and other comprehensive income attributable to owners of the parent between ordinary shareholders and other owners of the parent (paragraph 81B);

(c) the components of equity reconciled in the statement of changes in equity include each class of ordinary share capital and each class of other contributed equity (paragraph 108); and

(d) dividend amounts relating to ordinary shareholders are presented separately from amounts relating to other owners of the entity (paragraph 107).



Paragraphs BC246–BC256 of the Basis for Conclusions explain the IASB's rationale for these proposals.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposed requirement to allocate issued share capital and reserves between ordinary shareholders and other owners of the parent give rise to any practical difficulties in determining the required amounts? If so, please describe the possible difficulties and specify areas in which further guidance would be helpful.

Question 9—Transition (paragraphs 97U–97Z of IAS 32)

The IASB proposes to require an entity to apply the proposed amendments retrospectively with the restatement of comparative information (a fully retrospective approach). However, to minimise costs, the IASB proposes not to require the restatement of information for more than one comparative period, even if the entity chooses or is required to present more than one comparative period in its financial statements.

For an entity already applying IFRS Accounting Standards, the IASB proposes:

(a) to require the entity to treat the fair value at the transition date as the amortised cost of the financial liability at that date if it is impracticable (as defined in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors) for the entity to apply the effective interest method in IFRS 9 Financial Instruments retrospectively (paragraph 97X);

(b) not to require the entity to separate the liability and equity components if the liability component of a compound financial instrument with a contingent settlement provision was no longer outstanding at the date of initial application (paragraph 97W);

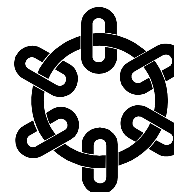
(c) to require the entity to disclose, in the reporting period that includes the date of initial application of the amendments, the nature and amount of any changes in classification resulting from initial application of the amendments (paragraph 97Z);

(d) to provide transition relief from the quantitative disclosures in paragraph 28(f) of IAS 8 (paragraph 97Y); and

(e) no specific transition requirements in relation to IAS 34 Interim Financial Reporting for interim financial statements issued within the annual period in which the entity first applies the amendments.

For first-time adopters, the IASB proposes to provide no additional transition requirements.

Paragraphs BC262–BC270 of the Basis for Conclusions explain the IASB's rationale for these proposals.



Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why.

Would the proposal to apply the proposed amendments retrospectively give rise to any other cases in which hindsight would be necessary? If so, please describe those cases and the circumstances in which the need for hindsight would arise.

Question 10—Disclosure requirements for eligible subsidiaries (paragraphs 54, 61A–61E and 124 of [IFRS XX])

The IASB proposes amendments to the draft Accounting Standard [IFRS XX Subsidiaries without Public Accountability: Disclosures], which will be issued before the proposals in the Exposure Draft are finalised.

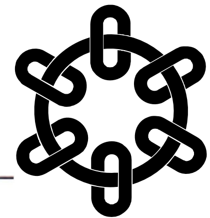
[IFRS XX] will permit eligible subsidiaries to apply the recognition, measurement and presentation requirements in IFRS Accounting Standards with reduced disclosures.

The IASB's proposals select appropriate disclosure requirements from those proposed for IFRS 7, based on the IASB's agreed principles for reducing disclosures.

Paragraphs BC257–BC261 explain the IASB's rationale for the selected disclosures.

Do you agree with these proposals? Why or why not? If you disagree with any of the proposals, please explain what you suggest instead and why, taking into consideration the reduced disclosure principles described in BC258

Norsk RegnskapsStiftelse



15 July 2024

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft – Business Combinations – Disclosures, Goodwill and Impairment

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Business Combinations – Disclosures, Goodwill and Impairment.*

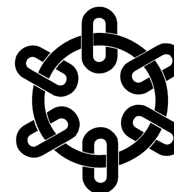
We agree that investors need better information about business combinations, and that different levels of information based on the strategic importance is a reasonable way forward. However, with the thresholds proposed we believe too many business combinations may be identified as strategic. We disagree with the proposal to use operating profit as a threshold.

We are concerned about the requirement to provide quantitative information about expected synergies in the year of acquisition. The disclosure requirements are comprehensive and may be challenging to provide, especially for smaller and less sophisticated entities. We suggest that an entity may be exempted from specifying synergies by category if it does not estimate synergies by category for internal management purposes, combined with a requirement to disclose that fact.

Not all expected synergies may be reflected in the acquisition price, and an entity can expect synergies from a business combination even if no goodwill is recognized. We encourage the IASB to further consider the appropriateness of disclosure of synergies that is not reflected in the acquisition price.

We agree that IAS 36 should be amended to clarify that goodwill cannot be allocated to the operating segment level by default, and welcome amendments that would reduce the shielding effect. However, in our view, some aspects of the proposed amendment should be clarified.

While paragraph 80(a) of IAS 36 currently requires goodwill to be allocated to the lowest level where goodwill is monitored, the ED propose to use the level at which the business associated with the goodwill is monitored for internal management purposes. As businesses are monitored at many levels with different degrees of aggregation, we encourage the IASB to



clarify what is meant by 'internal management'. Paragraphs 83 (b) and BC 201 indicate that this is a level below senior management/key management personnel, but do not clarify what level of management this is. If it refers to any level of management, the wording seems to imply that goodwill in most cases would end up being allocated to individual CGUs (and not group of CGUs) as in most cases there will be financial information available for an individual CGU that are reviewed/monitored by some lower level of management. Without clarification we believe there is a risk for diversity in practice, and that the objective of avoiding shielding will not be met.

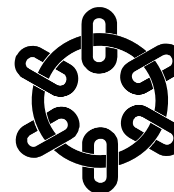
We agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which an entity is yet not committed or from improving an asset's performance. According to the proposal such cash flows are included when they are considered part of the asset's 'current potential' to be restructured, improved or enhanced. As we see it, further guidance should be included on what is meant by 'current potential' and it should be clarified if this means that such cash flows should only be included if they would be included when determining fair value under IFRS 13.

Our detailed comments to the questions in the ED are provided in the Appendix.

Should you wish to further discuss our comments, please do not hesitate to contact Bjørn Einar Strandberg, chair of the Technical Committee on IFRS.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS
bjorn.einar.strandberg@pwc.com



Appendix 1 – our comments

Below we provide our responses to the questions in the ED.

Response to question 1 – Performance of a business combination

We agree with the proposal to disclose information about the performance of a strategic business combination, subject to an exemption for information that can be expected to seriously prejudice the acquisition date key objectives.

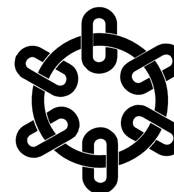
The proposed disclosures will provide relevant information to the users of financial statements regarding the performance of the acquisition. The information is relevant to understand the price paid, and the value of goodwill and other assets acquired. The information is also highly relevant for users when assessing managements stewardship. We agree that the information should only be required for strategic business combinations, and not all (material) business combinations, and that the information to be provided is entity specific and based on information reported internally. We think this is necessary to balance the benefits to the users with the entities' cost of providing the information.

We agree that the information belongs in the financial statements. We do not find the information to be forward looking, as it is information that underpins the consideration transferred. Even if the information would be considered forward-looking, we believe the information relates to assets and liabilities that at the acquisition date are measured by estimating future cash-flows and as such meets the conditions for inclusion in the financial statements according to the Conceptual Framework paragraph 3.6.

Response to question 2 – Disclosures: Strategic business combinations

We agree that information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met), should only be required for strategic business combinations which is a subset of material business combinations. However, we do not agree with all the proposed thresholds.

The ED proposes both qualitative and quantitative thresholds, and a business combination meeting any one of the proposed thresholds would be considered a strategic business combination. As explained in BC54, the thresholds are meant to capture 'strategic business combinations' which are those for which "failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. Overall, we consider the proposed thresholds for identifying a strategic business combination too broad, and hence not capturing only strategic business combinations.



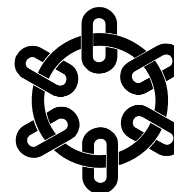
Especially, we do not think ‘operating profit’ should be a required threshold. If the acquirer has an operating profit near zero, almost every business combination will exceed the 10% threshold. For example, this could result in a business combination being identified as strategic due to an impairment recognised in the financial statements of the acquirer in the most recent annual period, even though the operating profit of the acquiree is well below the normalised operating profit of the acquirer.

Further, for many businesses operating profit may be volatile, especially businesses with significant use of derivatives used for economic hedging of operating items, but where hedge accounting is not applied, and for business with material assets measured at fair value (i.e. investment properties and biological assets). Whether an acquisition is above the 10% threshold will thus depend on the acquirer’s and acquiree’s fair value gains and losses in the most recent annual period before the acquisition date. Such fair value gains and losses are often not representative for the size or underlying performance of the business.

There may be many situations where the suggested operating profit threshold will lead to business combinations being above the threshold even though the business combination in substance is not strategic. We therefore suggest that ‘operating profit’ is removed as a threshold.

The IASB also proposes a quantitative threshold based on total assets. The suggested threshold is based on the amount recognised as of the acquisition date for all assets acquired (including goodwill) in per cent of the carrying amount of the total assets recognised in the acquirer’s consolidated statement of financial position as at the acquirer’s most recent reporting period date before the acquisition date. We challenge the comparison of fair values in the acquiree with the book values of the acquirer. We believe comparing fair values with book values may lead to too many acquisitions being considered strategic business combinations.

We acknowledge that a closed set of thresholds has benefits compared to a non-exhaustive list of criteria to identify strategic business combination. It reduces the risk of failure to identify strategic business combinations and it requires limited use of judgement. However, we are not convinced that it is appropriate to identify a business combination as strategic simply based on exceeding a quantitative threshold. We believe the IASB should consider whether the quantitative threshold should be combined with some form of qualitative criteria, or if the quantitative thresholds should be “rebuttable presumptions” for strategic acquisition rather than a strict rule. On the other hand, we acknowledge that a closed list may be appropriate when considered in connection with paragraph B67B (a) of IFRS 3. If key management personnel of an entity are not reviewing the performance of a business combination exceeding a quantitative threshold as it does not consider it strategically important the entity will disclose this fact and the reason why and will not be required to disclose the actual performance in subsequent periods.



From the qualitative criteria a business combination would be considered strategic if the business combination resulted in the "acquirer entering into a new major line of business or geographical area of operations". We believe it should be clarified whether this means

(i) 'Major line of business' or 'major geographical area of operations', or
(ii) 'Major line of business' or 'geographical area of operations'

If it means the latter, we are not convinced that the qualitative criteria of entering into a new geographical area of operations is appropriate, as quite small and possibly even immaterial business combinations may result in an entity entering into a new geographical area.

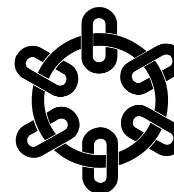
Response to question 3 – Disclosures: Exemption from disclosing information

We agree that there should be an exemption for commercially sensitive information. Disclosing commercial sensitive information may result in significant costs for entities. As we see it, this warrants an exemption for commercially sensitive information, even if information is useful for investors. The challenge is to find the right balance, so that information is exempted only when it is appropriate. The exemption should neither be too narrow nor too wide.

The ED proposes that information may be exempted if disclosing the information can be expected to prejudice seriously the achievement of any of the entity's acquisition date key objectives for the business combination. The wording is based upon similar wording in IAS 37 paragraph 92. It follows from BC80 that feedback the IASB has received suggest that the exemption in IAS 37 works well in practice.

We welcome the inclusion of a list of non-exhaustive factors an acquirer considers when assessing whether the information would prejudice seriously the achievement of the acquisition date key objective. We agree that an entity should be able to describe a specific reason why this is the case. We also welcome that the IASB has not specified how often or rare it expects entities to apply the exemption, but rather focus on the situations in which an entity could apply the exemption.

The exemption is limited to information that can prevent the entity from achieving the key objectives for the business combination in question. In some circumstance, disclosing the key objective and targets for a business combination, may give other parties information that can be used to infer information about the possible price the entity would be willing to pay to acquire other businesses in the future. In our opinion, the exemption should also apply to information that could seriously prejudice the entity's position in relation to possible future business combinations.



Response to question 4 – Disclosures: Identifying information to be disclosed

Question 4 (a) – Disclosure of information reviewed by key management personnel

We do not agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel. We believe the information to disclose should be the information reviewed by the entities chief operating decision maker (CODM), which was also the proposed solution in the discussion paper.

CODM describes a function, not a person, and that function is to allocate resources to and to assess the performance of the operating segments of an entity (cf IFRS 8.7). Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of an entity (cf. IAS 24.9). In our view, the role of the CODM is more closely aligned with the task of reviewing whether a business combination meets acquisition date key-objective and targets, (or put more simply; whether a business combination is successful, and the price paid reasonable), than the role of key management personnel.

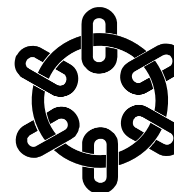
In our experience, CODM is also a term well understood by preparers, and a term that works well in practice. For the sake of good order, this is mainly based upon entities applying IFRS 8, and the situation may be different for non-listed entities not required to apply IFRS 8. We question whether the term key management personnel is as well understood and thoroughly assessed as CODM, as the identification of key management personnel affects disclosures of related parties' transactions and key management personnel compensation, which may not be considered as significant as segment information.

Further, it is not clear to us whether information reviewed by the acquirer's key management personnel refers to key management personnel as a group or as individual persons within the group. To illustrate: An entity has an executive management team which includes segment managers of the entity's different operating segments. All members of the executive management team are defined as key management personnel. A business combination takes place in one of the segments, and the performance of this business combination is reviewed by the segment manager of this segment, but not by the executive management team. In our opinion, if the final standard retains the requirement to disclose information reviewed by the key management personnel, this should be key management personnel as a group, and not any individual defined as key management personnel. If the term *key management personnel* is kept in the final standard, we find it crucial that it is clarified whether the term refers to key management personnel as a group or as individual persons.

Question 4 b – period of providing information of performance

We agree that an entity should be required to disclose information about the performance of a business combination for as long as the entity reviews the information internally.

How long business combinations are reviewed internally may vary between entities, and also vary between different business combinations within the same entity as it varies when the acquisition-date key objective and targets are expected to be met. In some business



combinations this can be shortly after the acquisition date, while in other business combinations this can be several years after acquisition. As such, it is reasonable to require information to be disclosed as long as the entity reviews performance internally, rather than requiring disclosure for a fixed period.

Our understanding is that information of acquisition-date key objective and targets will be required in interim reports under IAS 34.16A (i). Further our understanding is that disclosure of actual performance will only be required in annual financial statements, as IAS 34.16 (i) seems to require disclosure relating to business combination in the interim period, however the wording is not entirely clear. We suggest that this is clarified, either by amending the wording of IAS 34.16A (i) or in the basis for conclusion in the amendment to IFRS 3.

We agree with the proposal that if an entity is not reviewing or does not plan to review a business combination, it shall disclose that fact and the reason for not doing so. This disclosure requirement has some element of a negative confirmation ("Performance of the business combination is not disclosed, as key management personnel are not reviewing if acquisition date key objective and targets are met"), which we generally think should be avoided. However, we believe the reason for not disclosing this information is relevant information for investors, especially in assessing managements stewardship. Thus, we believe this information should be disclosed.

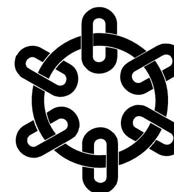
Question 5 – Disclosures: Other proposals

Disclosures of expected synergies in the year of acquisition

We have several concerns relating to the proposed requirement to provide quantitative information about expected synergies in the year of acquisition.

Currently, paragraph B64 (e) of IFRS 3 requires an entity to disclose a qualitative description of the factors that make up the goodwill recognised, and this could include synergies. However, the proposed new disclosure requirement is much more extensive and requires additional information about expected synergies from combining operations of the acquiree and the acquirer, quantified by category and disclosing the time from which the benefits are expected to start and how long they will last. In addition, the estimated cost to achieve these synergies should be disclosed. This is comprehensive disclosures that may be challenging to provide for producers.

In our jurisdiction, listed entities required to use IFRS vary in size and sophistication. We are concerned that smaller, less sophisticated entities don't estimate expected synergies from business combinations by category. In our experience, even more sophisticated entities, may not estimate synergies in such detail for all business combinations. We suggest that an entity should be exempted from providing disclosures of synergies by category if it does not estimate synergies based on categories for internal management purposes, combined with a requirement to disclose this fact. In addition, we ask the IASB to consider whether the disclosure of synergies should only be required for strategic business combinations.



Another concern is that the disclosure requirement seems to apply whether goodwill is recognised or not, or when goodwill only captures part of the expected synergies. An entity can expect synergies from a business combination even if no goodwill is recognised. If an entity (the acquirer) has a good bargaining position and/or there are no other entities that can achieve similar synergies, the purchase price may reflect only the fair value of the assets acquired and liabilities assumed, and not the expected synergies which are specific for the acquirer. BC139 argues that information about synergies is not forward looking as it relates to assumptions for a historic transaction and where these assumptions are "reflected in the acquisition price". However, all expected synergies may not be reflected in the acquisition price. If an entity estimates the value of a potential acquiree to be 110 million including buyer specific synergies, but due to a good bargaining position ends up paying 100 million CU, we are not convinced that disclosing the expected synergies is appropriate.

In our opinion, information about synergies that are not reflected in the acquisition price and recognised/subsumed in goodwill, is forward looking information that seems more appropriate to disclose outside the financial statements for example in a management report. On the other hand, we acknowledge that separating between synergies reflected in the acquisition price and synergies not reflected in the acquisition price, may not be possible or appropriate. We encourage the IASB to further consider the appropriateness of disclosure of synergies not reflected in the acquisition price.

This proposed disclosure requirement for synergies applies to all individually material business combinations. In addition, the disclosure requirement seems to apply to business combinations that are individually immaterial, if they are material collectively in the reporting period in accordance with IFRS 3 paragraph B65. In our experience, most entities do not quantify expected synergies for individual immaterial business combinations, and if it is quantified it is typically at a lower management level than CODM or key management personnel. If required, an estimate is likely to be prepared for disclosure purposes only. We do not believe that estimates that are prepared for disclosure purposes only, and that are not used for business purposes, will be considered useful by investors. We are of the opinion that this disclosure requirement should not apply for business combinations individually immaterial, even if they are collectively material for the reporting period.

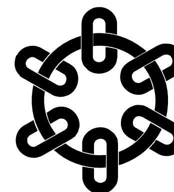
The strategic rationale for a business combination

The ED proposes to replace the requirement to disclose the primary reason for a business combination, with a proposal to disclose the strategic rationale for the business combination.

We do not have strong views regarding this proposal as we think that the information provided will be similar in both cases.

Contribution of the acquired business

We agree with the proposal to require disclosure of operating profit from the acquired business. This avoids issues related to how to adjust for financing cost when disclosing profit from the combined entity as if all business combinations in the period occurred in the beginning of the annual reporting period ("proforma operating profit").



We agree with the decision not to add specific application guidance relating to the preparation of the proforma information. There is diversity in practice in preparing proforma information, and additional guidance would be helpful. However, providing such guidance would be a complex and resource demanding project for the IASB. We believe the IASB resources could be better used on other projects.

The IASB has proposed to specify that the basis for preparing the proforma information is an accounting policy choice, as this will result in entities disclosing information about the basis of preparation in accordance with paragraph 117 of IAS 1 (cf. BC 177). Given the lack of guidance and diversity in practice, we agree that entities should disclose the basis of the preparation of the information. However, we suggest that is regulated as a requirement to provide an explanation of the basis used to prepare the information, and not by considering the basis for preparation an accounting policy.

In our opinion, specifying that this is an accounting policy, does not only imply that the basis of preparation has to be disclosed (if considered a material accounting policy), but also that IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* applies. This implies that accounting policy has to be developed following the requirements in paragraph 10, 11 and 12 of IAS 8, that the accounting policy should be applied consistently and that any changes in the accounting policy would need to meet the criteria in paragraph 14 of IAS 8. In our opinion, considering the basis for preparation an accounting policy would imply additional costs for producers while adding limited benefits for users, which we believe mainly need information about the basis for preparation of the information.

Classes of assets acquired and liabilities assumed

We agree with the proposal. We do not see any specific need to strengthen the disclosure requirement further than the proposed amendment to IFRS3.IE72 where pension and financing liabilities are added.

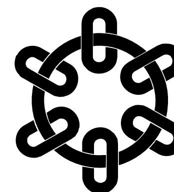
Deleting disclosure requirements

We agree with the proposal to delete some of the disclosure requirements from IFRS 3.

Question 6 – Changes to the impairment test

Question 6a) – proposals to reduce shielding:

While paragraph 80(a) of IFRS 3 currently requires goodwill to be allocated to the lowest level goodwill is monitored, the ED propose to change this to the level at which the business associated with the goodwill is monitored for internal management purposes. Thus, the current requirement focuses on monitoring goodwill, while the proposed requirement focuses on monitoring business. This is reasonable, as in our experience entities are not monitoring



goodwill, but are monitoring the related business. However, we think further clarification is needed to ensure consistent application of the amendment.

Following paragraph 80A (b) of the ED, goodwill shall be allocated to the lowest level for which there is financial information about cash generating units ("CGUs") that internal management uses to monitor the business associated with the goodwill. It follows from paragraph 83 (b) in the ED that this may not be the same level at which key management personnel monitors the business. BC 200 and BC 201 indicates that internal management refers to a level lower than senior management. However, it is not clarified what level of management 'internal management' refers to.

In our experience an entity is monitoring the business at several levels: senior management's monitoring is likely to be at operating segment level, whereas middle management may monitor divisions within an operating segment, and lower management, like a production plant manager or a store manager, monitors an individual production plant or an individual store. In most cases, there will be financial information available for a CGU that is reviewed by some level of management. If 'internal management' is referring to any level of management, the proposed wording of the amendment would seem to imply that goodwill should be allocated to individual CGUs, and that it will no longer be possible to allocate goodwill to a group of CGUs. We do not think this is the intention of the amendment. If internal management is referring to senior management (ie: CODM or key management personnel), goodwill is likely to be allocated to operating segments, and the proposed amendment will not have any effect on reducing shielding. To avoid diversity in practice, we find it imperative that it is clarified what level of management 'internal management' refers to.

Question 6b – Proposal to reduce management over-optimism

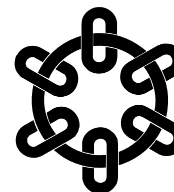
We agree with the proposal to require entities to disclose in which reportable segment a CGU that contains goodwill has been included. In our experience many entities already provide such disclosures under the current requirements as it is relevant for an understanding of the financial statements and the connection between the primary financial statements and the notes. Making this an explicit requirement may help ensure that all entities provide such information which we find to be useful for an understanding of the financial statements. However, we do not believe it will reduce management over-optimism.

Question 7 - Changes to the impairment test: Value in use

Question 7a – Proposal to remove constraint from including cash flows from future restructurings and future enhancement of an asset's performance

We agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which an entity is yet not committed or from improving an asset's performance, but we call for more guidance on when such cash flow should be included.

According to the proposed amendment cash flows should be included when they are associated with the 'current potential' of the asset to be restructured, improved or enhanced,



but it is unclear what is meant by the term ‘current potential’. According to BC 213 the reason/purpose of the proposal is that value in use should be more consistent with how fair value is determined under IFRS 13 *Fair Value Measurement*. Under IFRS 13 cash flows to restructure, improve or enhance an asset is taken into consideration if a market participant would take it into account, and fair value is based on the concept of “highest and best use”. In our opinion, it should be clarified whether the requirements in IFRS 13 should be considered when assessing an asset’s current potential.

Questing 7b) – Proposal to remove requirement to use pre-tax cash flows and pre-tax discount rates when calculating value in use

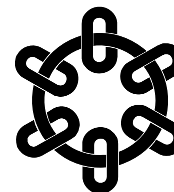
We agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rate. Correct treatment of tax in an impairment test is challenging whether the test is performed pre-tax or post tax. Performed correctly, the impairment test will lead to the same impairment loss whether performed pre-tax or post tax. Entities should thus be allowed to perform the test in the way they find most efficient.

Question 8 – Proposed amendments for IFRS X *Subsidiaries without Public Accountability: Disclosures*

We do not have any comments or views regarding this.

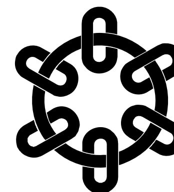
Question 9 - Transition

We agree with the proposed transition requirements.

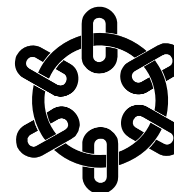


Appendix 2 – questions for respondents

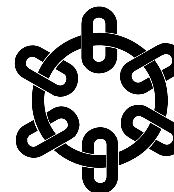
Question 1—Disclosures: Performance of a business combination (proposed paragraphs B67A–B67G of IFRS 3)
In the PIR of IFRS 3 and in responses to the Discussion Paper the IASB heard that: • users need better information about business combinations to help them assess whether the price an entity paid for a business combination is reasonable and how the business combination performed after acquisition. In particular, users said they need information to help them assess the performance of a business combination against the targets the entity set at the time the business combination occurred (see paragraphs BC18–BC21). • preparers of financial statements are concerned about the cost of disclosing that information. In particular, preparers said the information would be so commercially sensitive that its disclosure in financial statements should not be required and disclosing this information could expose an entity to increased litigation risk (see paragraph BC22). Having considered this feedback, the IASB is proposing changes to the disclosure requirements in IFRS 3 that, in its view, appropriately balance the benefits and costs of requiring an entity to disclose this information. It therefore expects that the proposed disclosure requirements would provide users with more useful information about the performance of a business combination at a reasonable cost. In particular, the IASB is proposing to require an entity to disclose information about the entity's acquisition-date key objectives and related targets for a business combination and whether these key objectives and related targets are being met (information about the performance of a business combination). The IASB has responded to preparers' concerns about disclosing that information by proposing: • to require this information for only a subset of an entity's business combinations – strategic business combinations (see question 2); and • to exempt entities from disclosing some items of this information in specific circumstances (see question 3). (a) Do you agree with the IASB's proposal to require an entity to disclose information about the performance of a strategic business combination, subject to an exemption? Why or why not? In responding, please consider whether the proposals appropriately balance the benefits of requiring an entity to disclose the information with the costs of doing so. (b) If you disagree with the proposal, what specific changes would you suggest to provide users with more useful information about the performance of a business combination at a reasonable cost?



Question 2—Disclosures: Strategic business combinations (proposed paragraph B67C of IFRS 3)
The IASB is proposing to require an entity to disclose information about the performance of a business combination (that is, information about the entity's acquisition-date key objectives and related targets for the business combination and whether these key objectives and related targets are being met) for only strategic business combinations – a subset of material business combinations. A strategic business combination would be one for which failure to meet any one of an entity's acquisition-date key objectives would put the entity at serious risk of failing to achieve its overall business strategy. The IASB is proposing that entities identify a strategic business combination using a set of thresholds in IFRS 3 – a business combination that met any one of these thresholds would be considered a strategic business combination (threshold approach) (see paragraphs BC56–BC73). The IASB based its proposed thresholds on other requirements in IFRS Accounting Standards and the thresholds regulators use to identify particularly important transactions for which an entity is required to take additional steps such as providing more information or holding a shareholder vote. The proposed thresholds are both quantitative (see paragraphs BC63–BC67) and qualitative (see paragraphs BC68–BC70). (a) Do you agree with the proposal to use a threshold approach? Why or why not? If you disagree with the proposal, what approach would you suggest and why? (b) If you agree with the proposal to use a threshold approach, do you agree with the proposed thresholds? Why or why not? If not, what thresholds would you suggest and why?



Question 3—Disclosures: Exemption from disclosing information (proposed paragraphs B67D–B67G of IFRS 3)
The IASB is proposing to exempt an entity from disclosing some of the information that would be required applying the proposals in this Exposure Draft in specific circumstances. The exemption is designed to respond to preparers' concerns about commercial sensitivity and litigation risk but is also designed to be enforceable and auditable so that it is applied only in the appropriate circumstances (see paragraphs BC74–BC107). The IASB proposes that, as a principle, an entity be exempt from disclosing some information if doing so can be expected to prejudice seriously the achievement of any of the entity's acquisition-date key objectives for the business combination (see paragraphs BC79–BC89). The IASB has also proposed application guidance (see paragraphs BC90–BC107) to help entities, auditors and regulators identify the circumstances in which an entity can apply the exemption. (a) Do you think the proposed exemption can be applied in the appropriate circumstances? If not, please explain why not and suggest how the IASB could amend the proposed principle or application guidance to better address these concerns. (b) Do you think the proposed application guidance would help restrict the application of the exemption to only the appropriate circumstances? If not, please explain what application guidance you would suggest to achieve that aim.



Question 4—Disclosures: Identifying information to be disclosed (proposed paragraphs B67A–B67B of IFRS 3)

The IASB is proposing to require an entity to disclose information about the performance of the entity's strategic business combinations (that is, information about its acquisition-date key objectives and related targets for a strategic business combination and whether these key objectives and related targets are being met) that is reviewed by its key management personnel (see paragraphs BC110–BC114).

The IASB's proposals would require an entity to disclose this information for as long as the entity's key management personnel review the performance of the business combination (see paragraphs BC115–BC120).

The IASB is also proposing (see paragraphs BC121–BC130) that if an entity's key management personnel:

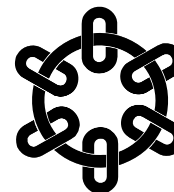
- do not start reviewing, and do not plan to review, whether an acquisition-date key objective and the related targets for a business combination are met, the entity would be required to disclose that fact and the reasons for not doing so;
- stop reviewing whether an acquisition-date key objective and the related targets for a business combination are met before the end of the second annual reporting period after the year of acquisition, the entity would be required to disclose that fact and the reasons it stopped doing so; and
- have stopped reviewing whether an acquisition-date key objective and the related targets for a business combination are met but still receive information about the metric that was originally used to measure the achievement of that key objective and the related targets, the entity would be required to disclose information about the metric during the period up to the end of the second annual reporting period after the year of acquisition.

(a) Do you agree that the information an entity should be required to disclose should be the information reviewed by the entity's key management personnel? Why or why not? If not, how do you suggest an entity be required to identify the information to be disclosed about the performance of a strategic business combination?

(b) Do you agree that:

(i) an entity should be required to disclose information about the performance of a business combination for as long as the entity's key management personnel review that information? Why or why not?

(ii) an entity should be required to disclose the information specified by the proposals when the entity's key management personnel do not start or stop reviewing the achievement of a key objective and the related targets for a strategic business combination within a particular time period? Why or why not?



Question 5—Disclosures: Other proposals

The IASB is proposing other amendments to the disclosure requirements in IFRS 3. These proposals relate to:

New disclosure objectives (proposed paragraph 62A of IFRS 3)

The IASB proposes to add new disclosure objectives in proposed paragraph 62A of IFRS 3 (see paragraphs BC23–BC28).

Requirements to disclose quantitative information about expected synergies in the year of acquisition (proposed paragraph B64(ea) of IFRS 3)

The IASB proposes:

- to require an entity to describe expected synergies by category (for example, revenue synergies, cost synergies and each other type of synergy);
- to require an entity to disclose for each category of synergies:
  - the estimated amounts or range of amounts of the expected synergies;
  - the estimated costs or range of costs to achieve these synergies; and
  - the time from which the benefits expected from the synergies are expected to start and how long they will last; and
- to exempt an entity from disclosing that information in specific circumstances.

See paragraphs BC148–BC163.

The strategic rationale for a business combination (paragraph B64(d) of IFRS 3)

The IASB proposes to replace the requirement in paragraph B64(d) of IFRS 3 to disclose the primary reasons for a business combination with a requirement to disclose the strategic rationale for the business combination (see paragraphs BC164–BC165).

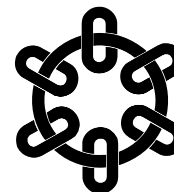
Contribution of the acquired business (paragraph B64(q) of IFRS 3)

The IASB proposes to amend paragraph B64(q) of IFRS 3 to improve the information users receive about the contribution of the acquired business (see paragraphs BC166–BC177). In particular, the IASB proposes:

- to specify that the amount of profit or loss referred to in that paragraph is the amount of operating profit or loss (operating profit or loss will be defined as part of the IASB's Primary Financial Statements project);
- to explain the purpose of the requirement but add no specific application guidance; and
- to specify that the basis for preparing this information is an accounting policy.

Classes of assets acquired and liabilities assumed (paragraph B64(i) of IFRS 3)

The IASB proposes to improve the information entities disclose about the pension and financing liabilities assumed in a business combination by deleting the word 'major' from paragraph B64(i) of IFRS 3 and adding pension and financing liabilities to the illustrative example in paragraph IE72 of the Illustrative Examples accompanying IFRS 3 (see paragraphs BC178–BC181).



Deleting disclosure requirements (paragraphs B64(h), B67(d)(iii) and B67(e) of IFRS 3)

The IASB proposes to delete some disclosure requirements from IFRS 3 (see paragraphs BC182–BC183).

Do you agree with the proposals? Why or why not?

Question 6—Changes to the impairment test (paragraphs 80–81, 83, 85 and 134(a) of IAS 36)

During the PIR of IFRS 3, the IASB heard concerns that the impairment test of cash-generating units containing goodwill results in impairment losses sometimes being recognised too late.

Two of the reasons the IASB identified (see paragraphs BC188–BC189) for these concerns were:

- shielding; and
- management over-optimism.

The IASB is proposing amendments to IAS 36 that could mitigate these reasons (see paragraphs BC192–BC193).

Proposals to reduce shielding

The IASB considered developing a different impairment test that would be significantly more effective at a reasonable cost but concluded that doing so would not be feasible (see paragraphs BC190–BC191).

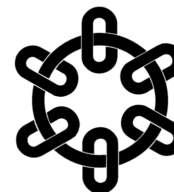
Instead, the IASB is proposing changes to the impairment test (see paragraphs 80–81, 83 and 85 of IAS 36) to reduce shielding by clarifying how to allocate goodwill to cash-generating units (see paragraphs BC194–BC201).

Proposal to reduce management over-optimism

The IASB's view is that management over-optimism is, in part, better dealt with by enforcers and auditors than by amending IAS 36. Nonetheless, the IASB is proposing to amend IAS 36 to require an entity to disclose in which reportable segment a cash-generating unit or group of cash-generating units containing goodwill is included (see paragraph 134(a) of IAS 36). The IASB expects this information to provide users with better information about the assumptions used in the impairment test and therefore allow users to better assess whether an entity's assumptions are over-optimistic (see paragraph BC202).

(a) Do you agree with the proposals to reduce shielding? Why or why not?

(b) Do you agree with the proposal to reduce management over-optimism? Why or why not?



Question 7—Changes to the impairment test: Value in use (paragraphs 33, 44–51, 55, 130(g), 134(d)(v) and A20 of IAS 36)

The IASB is proposing to amend how an entity calculates an asset's value in use. In particular, the IASB proposes:

- to remove a constraint on cash flows used to calculate value in use. An entity would no longer be prohibited from including cash flows arising from a future restructuring to which the entity is not yet committed or cash flows arising from improving or enhancing an asset's performance (see paragraphs BC204–BC214).
- to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use. Instead, an entity would be required to use internally consistent assumptions for cash flows and discount rates (see paragraphs BC215–BC222).

(a) Do you agree with the proposal to remove the constraint on including cash flows arising from a future restructuring to which the entity is not yet committed or from improving or enhancing an asset's performance? Why or why not?

(b) Do you agree with the proposal to remove the requirement to use pre-tax cash flows and pre-tax discount rates in calculating value in use? Why or why not?

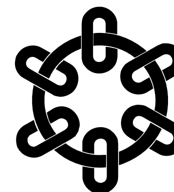
Question 8—Proposed amendments to IFRS X *Subsidiaries without Public Accountability: Disclosures*

The IASB proposes to amend the forthcoming IFRS X *Subsidiaries without Public Accountability: Disclosures* (Subsidiaries Standard) to require eligible subsidiaries applying the Subsidiaries Standard to disclose:

- information about the strategic rationale for a business combination (proposed paragraph 36(ca) of the Subsidiaries Standard);
- quantitative information about expected synergies, subject to an exemption in specific circumstances (proposed paragraphs 36(da) and 36A of the Subsidiaries Standard);
- information about the contribution of the acquired business (proposed paragraph 36(j) of the Subsidiaries Standard); and
- information about whether the discount rate used in calculating value in use is pre-tax or post-tax (paragraph 193 of the Subsidiaries Standard).

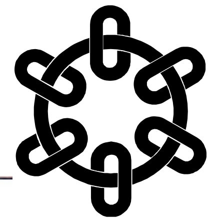
See paragraphs BC252–BC256.

Do you agree with the proposals? Why or why not?



Question 9—Transition (proposed paragraph 64R of IFRS 3, proposed paragraph 140O of IAS 36 and proposed paragraph B2 of the Subsidiaries Standard)
The IASB is proposing to require an entity to apply the amendments to IFRS 3, IAS 36 and the Subsidiaries Standard prospectively from the effective date without restating comparative information. The IASB is proposing no specific relief for first-time adopters. See paragraphs BC257–BC263. Do you agree with the proposals? Why or why not? If you disagree with the proposals, please explain what you would suggest instead and why.

Norsk RegnskapsStiftelse



7 August 2024

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft – Contracts for Renewable Electricity

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Contracts for Renewable Electricity.*

We support the main proposal of the exposure draft. The draft amendment addresses important challenges related to the electricity market in a timely manner and is a satisfying contribution to resolving accounting issues related to long-term electricity supply contracts.

Assuming the proposed amendments are finalised in the fourth quarter this year, we believe that mandatory implementation as of January 1, 2025, is too burdensome for entities with many contracts and/or complex issues. We also notice that the endorsement processes will be challenging to complete in time for application in interim reporting for 2025. We therefore suggest mandatory application as of January 1, 2026, with early adoption permitted.

We acknowledge that this project is narrow in scope. However, the interplay between the scope paragraph and the related text in the basis for conclusions can be perceived to limit the application for electricity produced based on water, which we do not support.

Further, we believe there might be a basis for amending the hedge accounting requirements to cover other situations when the requirements create what is sometimes referred to as artificial ineffectiveness and see a potential for further expanding the eligibility of the own-use exception to some additional power contracts. However, in the interest of time, we propose that the IASB assesses such further amendments at a later stage.

Our detailed comments to the questions in the ED are provided in the Appendix.

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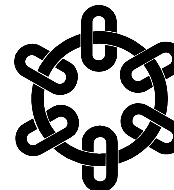
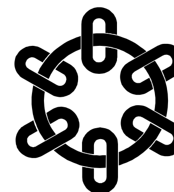


Should you wish to further discuss our comments, please do not hesitate to contact Karina Vasstveit Hestås or Bjørn Einar Strandberg.

Yours faithfully,

Bjørn Einar Strandberg
Chair of the Technical Committee on IFRS
bjorn.einar.strandberg@pwc.com



Appendix 1 – our comments

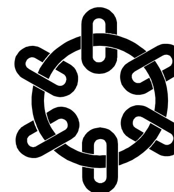
Below we provide our responses to the questions in the ED.

Question 1 – Scope of the proposed amendments
Paragraphs 6.10.1–6.10.2 of the proposed amendments to IFRS 9 would limit the application of the proposed amendments to only contracts for renewable electricity with specified characteristics. Do you agree that the proposed scope would appropriately address stakeholders' concerns (as described in paragraph BC2 of the Basis for Conclusions on this Exposure Draft) while limiting unintended consequences for the accounting for other contracts? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We agree that the proposed scope covers the most challenging aspects of power purchase agreements (PPAs), i.e. contracts with 'pay-as-produced' features for electricity from renewable sources, and in particular provides relief in the application of the own-use requirements when accounting for such contracts for consumers of electricity. Furthermore the proposed scope provides a welcomed change in the hedge accounting requirements for both virtual PPAs and physical PPAs failing own use, with significant improvements for producers of electricity.

Although we appreciate the IASB's narrow scope for these amendments, limiting the risk of unintended consequences, we ask the IASB to consider whether the current wording of paragraph 6.10.1 (b) is intended to be interpreted as narrowly as to only cover contracts with 'pay-as-produced' features. Due to the mechanics of the electricity market, volumes to be delivered under a 'pay-as-produced' contract typically has to be nominated just hours before the actual production, with short term balancing mechanisms at even shorter timeframes. We urge the IASB to ensure that the wording will include such 'pay-as-forecasted' contracts which in practice have identical or similar volume risk allocation.

We appreciate the reference to production facilities in scope in paragraph 6.10.1(a) that refers to sun, wind and water as examples, which provides a good framework for the regulation. However, the wording in BC9 creates some uncertainty. BC9 indicates that some contracts for hydroelectricity are scoped out. The way we see it, all hydroelectric power production is nature dependent, and not capable of guaranteeing specific quantities of electricity at any time due to dependency on the availability of water in the river or reservoir, except if assessed over a short period, and only for production units with a large reservoir. In our view, the wording of BC9 is therefore not helpful in assessing the scope of the proposed amendment.



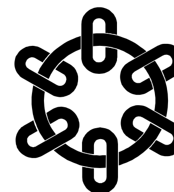
Using the term “Renewable Energy” could lead to some ambiguity due to how it inter-operates with Renewable Energy Certificates (RECs) or similar instruments, as also referred to in the project documents. We propose clarifying the wording in the final document. Possible wording in paragraph 6.10.1 might be *electricity from renewable energy sources* rather than *renewable energy,* or another wording reflecting that the scope refers to characteristics of the production facility rather than the labeling and the features of the electricity in the marketplace.

We would like to ask the IASB to explore whether the hedge accounting relief could be expanded to apply to contracts for other commodities when the contractually agreed volume varies with a hedged, physical volume, so that there is no real ineffectiveness in the hedging relationship. We acknowledge that this project is narrow in scope, and agree to the urgency of the project, and will therefore propose that the IASB assess such an extension at a later stage.

Question 2 – Proposed ‘own-use’ requirements
Paragraph 6.10.3 of the proposed amendments to IFRS 9 includes the factors an entity would be required to consider when applying paragraph 2.4 of IFRS 9 to contracts to buy and take delivery of renewable electricity that have specified characteristics. Do you agree with these proposals? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We support the proposed amendments, making the own-use exception available to contracts within the scope of the amendment.

We believe the requirement to consider receipt and consumption of electricity over a period which is shorter than the contract in total but allowing for absorbing natural variation in the production pattern for electricity, is reasonable. However, we are concerned that the example of one month in 6.10.3(b)(iii) for absorbing the net sales through future net purchases could be interpretated as a maximum time frame. For instance, during the stormy season, offshore wind production can be well above normal production levels for periods that can span weeks. We believe the period should reflect production patterns relevant for the production facility in question. Hence, we suggest deleting the example of one month, or extend the wording to underline that the features of the production facility may indicate that a longer period is ‘reasonable’.



Question 3 – Proposed hedge accounting requirements
Paragraphs 6.10.4–6.10.6 of the proposed amendments to IFRS 9 would permit an entity to designate a variable nominal volume of forecast electricity transactions as the hedged item if specified criteria are met and permit the hedged item to be measured using the same volume assumptions as those used for measuring the hedging instrument. Do you agree with these proposals? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

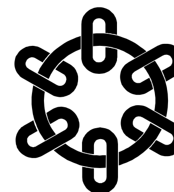
We agree with the proposed amendments to the hedge accounting requirements.

For sellers, the designation of a variable nominal volume that mirrors the hedging instrument better reflects the economic relationship between the hedged item and hedging instrument, as the electricity produced is being fully hedged. We note that the amendments will remove the potential 'false ineffectiveness' related to a profile mismatch arising from differences in designated forecasted produced and sold electricity volumes and actual electricity volumes. This 'false ineffectiveness' arises today because of the static designation of the hedged item and does not represent true ineffectiveness given that the volumes are still economically hedged through the hedging instrument. That is, the notional amount of the derivative designated as a hedging instrument (the PPA/VPPA) varies depending on the outcome of the hedged item (forecasted sales).

For purchasers, the proposed changes will similarly improve application of hedge accounting by allowing an entity to identify the hedged item by reference to the hedging instrument, which we support.

We observe the significant inherent complexity of the hedge accounting proposals, however, we believe that these challenges best will find their resolution in practice rather than through additional detailed guidance.

We would encourage the IASB to assess an extension of these amendments to similar fact patterns where there is a contractual volumetric link between the hedged item and hedging instrument (i.e. load-following swaps). As we appreciate the timeliness of the amendments, we would suggest that this is considered as a part of the upcoming Post-implementation Review of the hedge accounting requirements of IFRS 9.



Question 4 – Proposed disclosure requirements
Paragraphs 42T–42W of the proposed amendments to IFRS 7 would require an entity to disclose information that would enable users of financial statements to understand the effects of contracts for renewable electricity that have specified characteristics on: (a) the entity's financial performance; and (b) the amount, timing and uncertainty of the entity's future cash flows. Do you agree with these proposals? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

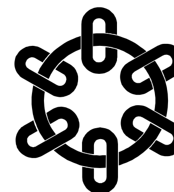
We agree that there is a need for additional disclosures about contracts within the scope of the amendment and how those contracts expose (relieves) the parties to (from) risks.

The disclosures in 42T seem reasonable and well balanced.

However, we find the proposed disclosures in 42U and 42V overly extensive and burdensome. These disclosures cover aspects of energy cost, pricing and price risks also for contracts outside the scope of the amendment and therefore should, in our view, not be introduced as part of this narrow-scope project. Further, we are not convinced that this information is useful for the users of the financial statements.

The proposed IFRS 7.42U seems to require disclosures about contracts that are outside the scope of IFRS 7, and rather in scope of IFRS 15. We find that problematic. In our view, the disclosure requirements in IFRS 15 are sufficient for contracts within its scope. Should the IASB conclude that additional disclosures are required, we suggest any amendments are included in IFRS 15 rather than IFRS 7.

We find the proposed requirements in IFRS 7.42V (b) to (d) particularly problematic. To fulfil these quantitative disclosures, it is necessary to capture information that may be unrelated to 'pay-as-produced' contracts in a company's sourcing portfolio as price differences can be substantial between fixed-price contracts with a known profile and the often highly volatile average spot prices.



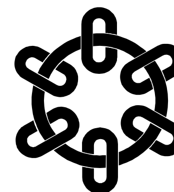
Question 5 – Proposed disclosure requirements for subsidiaries without public accountability
Paragraphs 67A–67C of the proposed amendments to the forthcoming IFRS 19 *Subsidiaries without Public Accountability: Disclosures* would require an eligible subsidiary to disclose information about its contracts for renewable electricity with specified characteristics. Do you agree with these proposals? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We have not assessed the proposal for IFRS 19.

Question 6 – Transition requirements
The IASB proposes to require an entity to apply: (a) the amendments to the own-use requirements in IFRS 9 using a modified retrospective approach; and (b) the amendments to the hedge accounting requirements prospectively. Early application of the proposed amendments would be permitted from the date the amendments were issued. Do you agree with these proposals? Why or why not? If you disagree, please specify with which aspect of the proposals you disagree. What would you suggest instead and why?

We agree to the proposed transition requirements for the amendments to the own-use requirements. However, we propose to allow for full retrospective application of the amendments to the hedge accounting requirements to prevent the recognition of a fair value of a VPPA on the effective date that may create ineffectiveness going forward.

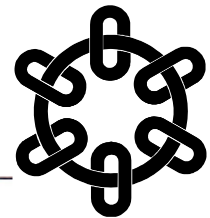
We further suggest that the fair value option in IFRS 9.2.5 should be available.



Question 7 – Effective date
Subject to feedback on the proposals in this Exposure Draft, the IASB aims to issue the amendments in the fourth quarter of 2024. The IASB has not proposed an effective date before obtaining input about the time necessary to apply the amendments. In your view, would an effective date of annual reporting periods beginning on or after 1 January 2025 be appropriate and provide enough time to prepare to apply the proposed amendments? Why or why not? If you disagree, what effective date would you suggest instead and why?

We find the implementation date challenging. The information required to apply the proposed amendments may not be readily available. For example, information about the assessments of expected purchases and sales for 'pay-as-produced' contracts may not be maintained for contracts concluded *not* to meet the current own-use requirements, and may be time-consuming to prepare, in particular for companies with a large number of such contracts. We therefore propose to require the amendments to be applied for annual reporting periods beginning on or after 1 January 2026 with early adoption permitted.

Norsk RegnskapsStiftelse



19 November 2024

International Accounting Standards Board
Email: commentletters@ifrs.org

Cc: EFRAG

Dear Sir/Madam

Exposure Draft 2024/6 – Climate-related and Other Uncertainties in the Financial Statements

Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Climate-related and Other Uncertainties in the Financial Statements.*

We support the main proposals in the exposure draft and commend the IASB's initiative to provide additional guidance for improving the application of IFRS Accounting Standards particularly in relation to climate-related uncertainties. Although the impact of climate-related issues on financial statements have garnered significant attention in recent years, these uncertainties continue to present various challenges in the application of IFRS Accounting Standards. In this context, we believe the proposed illustrative examples will be helpful and have the potential to enhance the overall quality of information provided.

Some minor improvements may be beneficial to some of the examples. Specifically, we have concerns about the (lack of) application of certain requirements in IFRS Accounting Standards in several examples (particularly Examples 4 and 8), the determination of what information is material (particularly Example 1) and believe that some of the examples (particularly Example 3) could benefit from a more detailed discussion on how the IFRS Accounting Standards requirements are applied to the specific fact pattern. Please refer to our detailed comments in Appendix 1 below.

Should you wish to further discuss our comments, please do not hesitate to contact Bjørn Einar Strandberg.

Yours faithfully,

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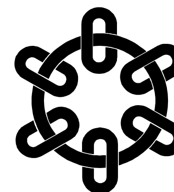


Appendix 1 – our comments to the questions in the exposure draft

Below we provide our responses to the questions in the ED.

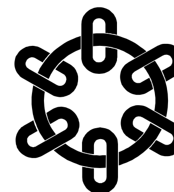
Response to Question 1 – Providing illustrative examples

Question 1 – Providing illustrative examples
The IASB is proposing to provide eight examples illustrating how an entity applies the requirements in IFRS Accounting Standards to report the effects of climate-related and other uncertainties in its financial statements. The IASB expects the examples will help to improve the reporting of these effects in the financial statements, including by helping to strengthen connections between an entity's general purpose financial reports. Paragraphs BC1–BC9 of the Basis for Conclusions further explain the IASB's rationale for this proposal. (a) Do you agree that providing examples would help improve the reporting of the effects of climate-related and other uncertainties in the financial statements? Why or why not? If you disagree, please explain what you would suggest instead and why. The IASB is proposing to include the examples as illustrative examples accompanying IFRS Accounting Standards instead of publishing them as educational materials or including them in the Standards. Paragraphs BC43–BC45 of the Basis for Conclusions further explain the IASB's rationale for this proposal. (b) Do you agree with including the examples as illustrative examples accompanying IFRS Accounting Standards? Why or why not? If you disagree, please explain what you would suggest instead and why.

Response to Question 1– Providing illustrative examples

As noted in the cover letter, we believe the illustrative examples proposed will help to improve how climate-related uncertainties are disclosed in financial statements, since they clarify expectations for preparers. While illustrative examples cannot solve all issues that arise and future standard-setting might also be required, we agree that adding illustrative examples is an appropriate step. The proposed illustrative examples will also complement the educational material already published by the IASB by providing more specific examples on how IFRS Accounting Standards are applied to climate-related uncertainties.

However, as Illustrative Examples are not part of the IFRS Accounting Standards themselves and are in fact not even part of the endorsement process in our jurisdiction, there is a risk that the effect of the proposed Illustrative Examples might not affect practice as warranted. With this in mind, we believe it is important that the IASB continues to monitor the development in practice to consider whether standard setting is required. To raise the authoritative standing of the examples, the IASB could consider embedding the examples within the respective IFRS Accounting Standards, rather than as illustrative examples.



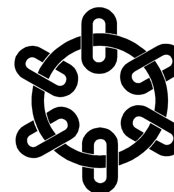
In paragraph BC18 in the Exposure Draft, the IASB has explained that it believes that stand-alone examples (i.e., those with narrow fact patterns) are more effective to improve reporting of climate-related and other uncertainties. We agree with this choice of direction but note that some examples are not as precise and specific as this approach would imply.

For example, in Example 1, instead of addressing the specific disclosures the entity would make to satisfy the requirements in paragraph 31 of IAS 1, paragraph 1.9 simply states that "the entity discloses that its transition plan has no effect (…) and explains why." This might be a deliberate choice as IAS 1.31 contain no specific factors to consider when providing additional disclosures in accordance with that paragraph, but the lack of specific requirements is precisely why the example should illustrate the specific disclosures that would likely be required of the entity in this narrow fact pattern.

As such we would like to see a concrete disclosure text that fulfils the expectations, rather than the meagre conclusion cited above. While Example 1 differs from the other examples in some respects, we believe that specific illustrations are generally more helpful. In the examples relying on general requirements, such as IAS 1.31, it would also be helpful to indicate where in the financial statements such disclosures might be provided.

Question 2 — Approach to developing illustrative examples
Examples 1–8 in this Exposure Draft illustrate how an entity applies specific requirements in IFRS Accounting Standards. The IASB decided to focus the examples on requirements: (a) that are among the most relevant for reporting the effects of climate-related and other uncertainties in the financial statements; and (b) that are likely to address the concerns that information about the effects of climate-related risks in the financial statements is insufficient or appears to be inconsistent with information provided in general purpose financial reports outside the financial statements. Paragraphs BC10–BC42 of the Basis for Conclusions further explain the IASB's overall considerations in developing the examples and the objective and rationale for each example. Do you agree with the IASB's approach to developing the examples? In particular, do you agree with the selection of requirements and fact patterns illustrated in the examples and the technical content of the examples? Please explain why or why not. If you disagree, please explain what you would suggest instead and why.

We agree with the IASB that examples should cover the most relevant issues with the objective of narrowing the expectation gap between users and preparers.
Below, we provide our comments to some of the specific examples in the Exposure Draft.



Example 1 and 2
We welcome an example that illustrates the application of IAS 1.31 [IFRS 18.20], as this paragraph is an important supplement to the specific disclosure requirements in IFRS Accounting Standards. Various stakeholders (including other stakeholders than the primary users of financial statements as defined in IAS 1.7) increasingly demand additional disclosures about climate-related and other uncertainties in financial statements.

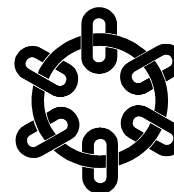
In the absence of specific disclosure requirements in IFRS Accounting Standards about climate-related uncertainties, the disclosure objectives in the various IFRS Accounting Standards and IAS 1.31 becomes more prominent. When making materiality judgements about the information to be provided applying those paragraphs and in general, IAS 1.7 explains in the definition of materiality that "[f]inancial statements are prepared for users who have a reasonable knowledge of business and economic activities and who review and analyse the information diligently." Furthermore, information is material if it "could reasonably be expected to influence decisions" by primary users.

Thus, IAS 1.7 suggests that the users of the financial statements are familiar with the entity's published transition plan as described in paragraph 1.2 in the Exposure Draft. Furthermore, the fact that the manufacturing facilities are nearly fully depreciated, and that the entity has no asset retirement obligations (paragraphs 1.3(a) and (c) in the Exposure Draft) should also be known to the users, as that information would have been disclosed in accordance with the specific requirements of IAS 16 and IAS 37, respectively. Accordingly, users described in IAS 1.7 could arguably be able to ascertain, based on available information, that the transition plan will have little effect on the assets and liabilities currently recognised in the entity's financial statements.

Paragraph 1.7 of the Exposure Draft argues that additional information could in fact be material, since "For example, users (…) **might** expect that some of its asses **might** be impaired (…)" (emphasis added). This language could be read as suggesting a lower threshold than "could reasonably be expected to influence", as described in IAS 1.7. While this might not be intentional, we believe the example should better explain this or use more clear language in paragraph 1.7.

A premise in Example 1, as described in paragraph BC32 of the Exposure Draft, is that the entity does <u>not</u> apply IFRS Sustainability Disclosure Standards. It is not entirely clear to us how this impacts the disclosures suggested to be provided in the financial statements in the example. One reading could be that sustainability disclosures reduce the need for additional disclosures in the financial statements. It could also be understood as an opening to cross-referencing, with the current obstacles due to the audit perimeter. In practice we believe the financial statements should be considered on its own, and if information is material for users of the financial statements, this information needs to be provided in the financial statements irrespective of what information is provided in the sustainability statements. This contrasts with paragraph BC25, which explains that applying both sets of IFRS Standards might in fact help to avoid duplicated disclosures, even though paragraph BC32 points in the direction of additional information.

As explained in paragraph BC22, the IASB's intention was not to limit the examples to situations where both sets IFRS Standards are applied, which we support, since many entities



applying IFRS Accounting Standards are in fact required to apply other sustainability reporting standards than IFRS Sustainability Disclosure Standards. To achieve this objective, we encourage the IASB to expand on how the assumption that the entity does not apply IFRS Sustainability Disclosure Standards impacts the example, and also to address more generally how information provided in (non-IFRS) sustainability disclosures would impact the example.

A consequence of the example might be that entities to a larger extent than today conclude that negative confirmations are needed for the lack of effect on the financial statements of various transactions, events or conditions. As entities provide more information about sustainability-related matters and related operational risks, this only increases the relevance of this question. Even though we generally support Example 1, in our view it is important that the IASB takes steps to ringfence the conclusion in the example or to add additional commentary on when such confirmations would (not) be necessary, thereby avoiding the suggestion that negative confirmations are a general requirement under IFRS. We hold the view that the absence of a particular disclosure is informative to users in itself, as it suggests the entity has considered the information not to be material for users.

Our understanding is that the IASB intends to use examples 1 and 2 to contrast situations where additional disclosures may or may not be required. Given the similarities between examples 1 and 2, reworking these examples into alternative scenarios of the same overall example, while emphasizing the differences, could more effectively convey this message.

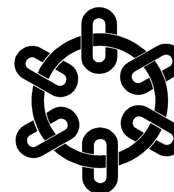
Example 3
Example 3 is helpful in addressing how costs of emissions are included both in a value in use calculation and in disclosures about key assumptions. The example also refers to a widespread challenge entities face when operating in jurisdictions with emission pricing regulations, specifically the fact that the entity "expects such regulations to become more widespread in the future" cf. paragraph 3.2.

In practice, judgements about how to incorporate (expected) future regulations are challenging, and result in a wide range of application issues across different industries. Unfortunately Example 3 does not address this aspect of the fact pattern in further detail.

While paragraph 3.5 refers to the *future scope* of emission regulations and paragraph BC34(a) in the Exposure Draft explains that the example illustrates disclosures about "potential future increases in the scope of these regulations", it is not clear whether that refers to the scope of existing regulations or expected new regulations.

We would therefore encourage the IASB to expand the example to illustrate in more detail how the entity incorporates its expectations and makes judgements about expected future climate-related regulations, including how anticipated regulations are factored into value in use calculations. Other standards, such as IAS 12, are clear that only regulations that are substantially enacted should be considered.

If future regulations are expected leading to higher cost of emissions, this would likely impact future product prices upwards. We would encourage IASB to be clear that such likely but indirect effects are not dealt with in the example, but indicate that both risk and opportunities need to be factored in, and not be skewed into a narrow risk-focus only.



Example 4
The example provides a helpful illustration of the interaction between the specific disclosure requirements in IAS 36 and the disclosure requirements about estimation uncertainty in IAS 1.

However, we question the absence of paragraph 132 of IAS 36 in this example. Even though IAS 36 requires less extensive disclosures about impairment tests of single assets or cash-generating units that do not contain goodwill or intangible assets with indefinite useful lives, IAS 36.132 states that "[a]n entity is encouraged to disclose assumptions used to determine the recoverable amount of assets (cash-generating units) during the period." Thus, had the entity provided the disclosures encouraged by this paragraph, additional disclosures as required by IAS 1.125-129 might not have been necessary. While we generally do not support the use of "encouraged" disclosure in accounting standards, the fact that this paragraph exist should not be overlooked in the example.

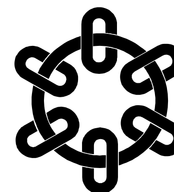
If the IASB believes that this paragraph is not relevant to consider in a fact pattern similar to that in Example 4, we would strongly encourage the IASB to undertake narrow-scope standard-setting to remove paragraph 132 of IAS 36, or alternatively make this paragraph required.

The example also refers to the use of scenarios in determining the recoverable amount in paragraph 4.3. Paragraph 4.9 further explains that the entity in Example 4 provides disclosures about the sensitivity to the assumptions applied.

We would like to draw your attention to the fact that providing sensitivity analyses when multiple scenarios have been applied in determining the recoverable amount can be complex. The use of scenarios is recognised as a sophisticated method and subject to a cost-benefit constraint, ref IAS 36.A12. When used, as in this example, there is an expectation that also sensitivities to the scenarios may be available.

A suggested way to exemplify this could be to provide a fact pattern with three main scenarios, and where the key estimate is the weighting of each scenario with sensitivities provided around the weighting used. A current and practical example is the weighting of the three main scenarios presented by the International Energy Agency (Stated Policy, Announced Pledges and Net Zero Emissions by 2050).

Finally, we are concerned that the use of the word 'scenario' may be misunderstood if it is used only to describe ordinary estimation uncertainty for one parameter. Our general understanding is that it represents a coherent set of assumptions that are mutually interdependent. We remind IASB that the current IAS 36 refers to scenarios in two instances only, namely in A12 and BCZ41.



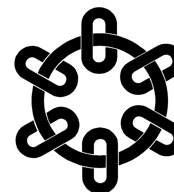
Example 8

We agree with the conclusion in the example that providing disclosures for the two types of property, plant and equipment separately, and believe the example has the potential to provide helpful guidance on how to apply the aggregation and disaggregation requirements in IFRS 18 in conjunction with specific disclosure requirements in other IFRS Accounting Standards.

However, in the specific example it is not clear to us why this conclusion rests solely on the application of IFRS 18 and does not discuss the requirements in IAS 16 for identifying classes of assets in more detail. Paragraph 8.6 of the ED states that the entity "disaggregates the information it provides in the notes about **the related class** of PP&E" (emphasis added), but does not explain how the entity arrived at the conclusion that the two types of PP&E with significantly different vulnerabilities to climate-relate transition risks constitute one single class of PP&E within the context of IAS 16. Since IAS 16.37 explains that a class of assets is "a grouping of assets of a similar nature and use in an entity's operations" it seems plausible that an entity could instead conclude that the assets constitute separate classes of PP&E since their nature could easily be defined as different.

Paragraph B111(a) of IFRS 18 indeed seems to acknowledge that such an outcome is possible and that providing disclosures per class of PP&E could be sufficient to meet the disaggregation requirements in the standards. If the two types of PP&E mentioned in the example were deemed not to be dissimilar in nature or use and are therefore deemed to constitute a single class applying IAS 16.37, we agree that an entity by applying paragraph B110 of IFRS 18 might conclude that further disaggregation of the class of PP&E is required.

Hence, the analysis in the example appears to be incomplete and describes a one-way dependency, where IFRS 18 is applied on top of IAS 16, rather than the interdependency and connection between IFRS 18 and other IFRS Accounting Standards that paragraph B111 in particular appears to describe. We therefore encourage the IASB to expand the analysis in the example in line with our comments above.



Response to Question 3 – Other comments

Question 3 — Other comments
Do you have any other comments on the Exposure Draft?

Addressing climate-related matters in financial reporting extends beyond providing approriate disclosures and can be challenging. For instance, climate-realted issues raise various application questions concerning recognition and measurement, such as incorporating the uncertainty illustrated in Example 3 into the calculation of value in use.

Additionally, the concept of connectivity remains challenging, and more specific illustrations or guidance would be helpful, particularly to explain the thought process behind achieving connectivity. Some of the proposed illustrative examples, particularly Examples 4 and 5 suggest that the requirements in IFRS Accounting Standards may not fully meet users' need for information. We encourage the IASB to consider this carefully, rather than referring to IAS 1.31 or similar in all situations. Specifically, it should assess whether IAS 36.132 is useful and appropriate in its current form and whether IAS 12 would benefit from a disclosure objective that could address the lack of specific requirements in Example 5. Nonetheless, we agree with the IASB that amending specific disclosure requirements to address all possible scenarios would not be meaningful.

While we support the IASB's scope for the project and anticipate it will contribute to improving information available to users of financial statements, we encourage the IASB to monitor application questions regarding recognition and measurement and consider adding further projects to its standard-setting agenda in the future.

Regarding the effective date and transition, we concur with the IASB's reasoning in paragraphs BC48-BC49 of the exposure draft. We believe there is no need for specific transition rules or an effective date since the examples illustrate the application of current requirements rather than adding new requirements.