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Dear Bruce,

IFRS IC's tentative agenda decisions in its November 2023 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the Tentative Agenda Decisions (TADs) taken by the IFRS IC as published in the November 2023 *IFRIC Update*.

As regards the tentative agenda decision on IAS 37 Provisions, Contingent Liabilities and Contingent Assets (*Climate-related Commitments*), we agree with the IFRS IC's view and the respective conclusions. Also, we agree with the IFRS IC focussing its discussion on the aspect of whether the entity has a constructive obligation and, if so, whether it satisfies the criteria for recognising a provision.

In respect of the specific fact pattern, we share and support the aspects of the IFRS IC's findings – namely

- whether this commitment creates a constructive obligation depends on the particular circumstances surrounding the statement;
- if so, that constructive obligation is *not* a present obligation as a result from a *past* event;
- and, therefore, at the time when the statement is made no provision shall be recognised;
- the entity will not have a present obligation for future modifications to its manufacturing methods as far as the costs of those modifications will be costs incurred to operate in the future;
- but, however, in the future the entity will incur a present obligation (which is to retire carbon credits needed to offset any *remaining* greenhouse gas emissions) and – as far as those credits have not yet been retired – recognises a provision.

We also share the IFRS IC's further observations that

- retiring carbon credits (to offset *remaining* gas emissions) will require an outflow of resources while modifying manufacturing methods (to *reduce* gas emissions) will not as far as it will receive other resources in exchange for that expenditure, and will be able to use these resources to manufacture products it can sell at a profit;

- in the fact pattern described, is it likely that the amount of the constructive obligation can be estimated reliably;
- any expenditure is recognised as an expense, rather than as an asset, unless it gives rise to – or forms part of the cost of – an item that qualifies for recognition as an asset in accordance with an IFRS; and
- irrespective of whether an entity's commitment to reduce or offset its greenhouse gas emissions results in the recognition of a provision, the actions the entity plans to take to fulfil that commitment could affect the amounts at which it measures its other assets and liabilities and the information it discloses about them, as required by various IFRS.

This said, we concur with the IFRS IC's overall conclusion that the respective principles and requirements under IFRS are sufficiently clear and, thus, no standard-setting activities are required. IAS 37 provides an adequate basis for an entity to determine the circumstances in which an entity recognises a provision for the costs of fulfilling a commitment to reduce or offset its greenhouse gas emissions; and if a provision is recognised, whether the costs are recognised as an expense or as an asset when the provision is recognised.

As regards the tentative agenda decision on IFRS 8 Operating Segments (*Disclosure of Revenues and Expenses for Reportable Segments*), we would like to comment on the meaning of materiality in the context of IAS 1.97 and IFRS 8.23 being the main issue adressed. In this regard, we are not clear in how to read the IFRS IC's technical conclusions nor are we convinced that an agenda decision would effectively improve current practice and/or reduce divergence.

- On the one hand, we were made aware that current (disclosure) practice of applying IFRS 8.23(f) in our constituency tends to few disclosures being provided, meaning that those "items of income and expenses" tend to be considered immaterial. This seems to suggest that there is no considerable diversity in practice. Therefore, we are not convinced that clarification is needed in order to enhance comparability and/or improve financial reporting.
- On the other hand, even if clarification were deemed necessary, we consider current wording of the TAD as to how apply IFRS 8.23(f) regarding material items not being sufficiently clear and, thus, being potentially interpreted differently.

In particular with regard to the TAD's final conclusion that, in applying IFRS 8.23(f), an entity should consider "an item of income and expense for disclosure *without regard* to whether that item is presented or disclosed applying a requirement in IFRS Accounting Standards *other than* paragraph 97 of IAS 1", the wording leaves room for interpretation about disclosure requirements for those other specified amounts.

We believe that a wider interpretation would lead to entities disclosing those amounts more often in the future than under current segment disclosure practice and therefore, the IFRS IC's agenda decision could lead to a considerable change to this practice. Notwithstanding this, we doubt whether those (additional or more frequent) disclosures are decision-useful. We would prefer a clarification in the wording in the IFRS IC's final decision that an additional item of income and expense should be considered for segment disclosure under IFRS 8.23(f) *only if* that item is presented or disclosed applying IAS 1.97.

Finally, we like to note that we would feel uncomfortable if the IFRS IC took an agenda decision while there is no strong consensus even among the IFRS IC members.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President