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Via Online Submission to commentletters@ifrs.org

Comments on IASB Exposure Draft 'Climate-related and Other Uncertainties in the Financial Statements – Proposed Illustrative Examples

Norges Bank Investment Management (NBIM) welcomes the opportunity to provide comments on the IASB Exposure draft on 'Climate-related and Other Uncertainties in the Financial Statements – Proposed Illustrative Examples'. We would like to extend our support for IASB's project to improve the reporting of effects of climate-related risks in financial statements, in response to strong investor demand.

NBIM is the investment management division of the Norwegian Central Bank and is responsible for investing the Norwegian Government Pension Fund Global. NBIM is a globally diversified investment manager with USD 1,661 billion at 30 June 2024 and we are active investors in over 65 countries.

As a long-term investor, we consider our returns over time to be dependent on sustainable economic, environmental and social development, as well as on well-functioning, legitimate and efficient markets. The fund is exposed to climate risk and investment opportunities through the companies and assets it invests in. As such, we require reliable, consistent, comparable, complete and connected financial and climate-related financial information across global capital markets to inform our investment decisions, risk management processes and ownership activities.

Climate risks and opportunities are financially material and can already be observed across major asset classes, including equity, and corporate debt. Physical and transition climate effects are impacting companies' financial performance and position, for example through effective or announced climate fiscal policies, and realised damage or impairment to assets. Climate-related assumptions can significantly affect carrying amounts of non-current assets, and additional disclosures can help users understand the effects of climate events on current liabilities such as working capital facilities. Such assumptions and other climate-related uncertainties may be considered material information that should be disclosed to users of financial statements in line with IAS 1.7.

For wider context, the materiality of climate-related financial information for investor decision-making and market transparency is further underscored by the steps taken by 30 jurisdictions accounting for

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over 40% of global market capitalisation on the adoption or other use of the IFRS Sustainability Disclosure Standards (ISSB standards)[1]. It is therefore critical that the effects of climate-related risks are consistently and adequately reported in financial statements. This will also strengthen the connectivity between the information provided in financial statements and information provided in other parts of general-purpose financial reports.

We thank you for considering our perspective and remain at your disposal should you wish to discuss these matters further.

Please find in the annex our responses to IASB's online consultation.

Yours sincerely

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Annex 1: IASB ED – Questions for respondents. We are pleased to provide below our detailed responses to the questions.

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.

[1] as of October 2024

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NBIM response

The IFRS Accounting Standards (IASB standards) must be implemented in a consistent manner both within and across jurisdictions to provide investors with comparable and decision-useful information. This applies equally to climate-related and other uncertainties which fall into the objective and scope of financial statements and constitute material information. As noted in our cover letter, climate-related effects can meaningfully impact companies' financial performance and position. Whilst IASB standards are generally sufficient in requiring entities to disclose information about the effects of climate-related risks in the financial statements, their application will be improved by the provision of illustrative examples. This ensures that preparers and auditors develop and apply the rigour and discipline required for audited financial statements to emerging areas of climate-related and other uncertainties and risks. This guidance will also help enhance the connectivity between financial statements and climate-related financial reports, such as the connectivity between disclosure requirements for paragraphs 31 and 125 of IAS 1 and for paragraph 15 of IFRS S2.

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.

NBIM response

We agree with including the examples as illustrative examples rather than educational materials. This will maximise their accessibility, prominence and reach beyond preparers to auditors and regulators. Global standardisation of investor-focused disclosures will enable investors to accurately assess and benchmark existing and potential portfolio companies. This enhances market efficiency and supports cross-border capital flows. As climate-risk related measurement and management methodologies are still evolving, the greater flexibility in content and format afforded by illustrative examples may be useful.

IASB can consider updating Practice Statement 2 on Making Materiality Judgements to include a more useful example of judgements on the disclosure of climate-related information in financial statements. Example C on disclosure of energy regulation assumptions relating to impairment of a coal fired power plant asset may have limited relevance compared to an example based on manufacturing and/or logistics assets that are common to many industries. In addition, companies need guidance on how to assess climate-related risks in a forward-looking manner to inform the basis for assumptions used in financial statements.

We support the publication of a single document of the illustrative examples of climate-related and other uncertainties, subject to the amendments proposed below in Q2. This helps companies understand how climate-related uncertainties may be pervasive across multiple line items in financial statements and relevant for different IFRS standards.

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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.

NBIM response

We agree with the approach to developing examples on requirements listed in (a) and (b) above. However, we recommend that the examples include three important considerations to more accurately illustrate how the potential effects of climate-related uncertainties can be reported in financial statements. These considerations are: (i) physical risk assumptions; (ii) assumptions on insurance availability, coverage and affordability; and (iii) disaggregation by jurisdiction and geolocation.

(i) Assumptions on physical risk

We recommend including the effects of physical climate risks on financial statements as an additional example. Disclosure of physical climate risk assumptions can assist users in understanding whether climate-related uncertainties may affect other financial statement line items such as working capital positions and current liabilities. Supply chains are increasingly disrupted by extreme and unpredictable climate events, such as the effect of drought on waterways and resultant transport delays[2]. The increased unpredictability and intensity of such events may increase the risk that new developments in the next financial year or beyond result in changes in the assumptions, as well as the sensitivity of the line items to such changes.

The current examples should demonstrate the direct feedback loop between physical and transition risks. Companies can refer to and consider using external reference climate scenarios such as those

[2] Droughts are damaging supply chains on waterways | World Economic Forum https://www.weforum.org/stories/2023/10/drought-trade-rivers-supply-chain/

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developed by the Network for Greening the Financial System (NGFS)[3]. Under the NGFS "orderly" climate scenario, physical risks are low when climate policies are introduced early and become more stringent over time. On the other hand, a low transition risk environment based on inadequate, late and/or uncoordinated climate policies results in severe physical risk ("hot house world" and "too-little-too-late" scenarios). The NGFS is currently developing 3–5-year short term scenarios which IASB should consider as it develops and updates educational materials on climate risk in financial statements.

Assumptions used in financial statements should be consistent and not self-contradictory in order to be reasonable and supportable. Companies should use and disclose physical risk assumptions that correspond to their assumptions on national and global climate policies. Physical risk assumptions can impact, inter alia, the useful life, residual value and ability to recover the carrying amount of fixed assets. Alternatively, IASB can consider amending some of the eight examples. Example 5 could incorporate a longer delay to the effective date of the announced regulation and similar policy occurrences across major economies, resulting in higher physical risks.

(ii) Assumptions on insurance availability, coverage and affordability

The examples should include assumptions around availability, coverage and affordability of business insurance for physical climate risk events where relevant. The European Insurance and Occupational Pensions Authority highlighted a significant protection gap in Europe where insurance covers only 23% of total economic losses caused by extreme weather and climate-related events[4]. EIOPA noted that the expected increase in severity and frequency of extreme weather events and related insurance claims in Europe will cause risk-based insurance premiums to rise over time, potentially reducing affordability and availability of insurance coverage against climate-related hazards. Estimates of the natural catastrophe protection gap for Asia are even higher at 85% versus 70% in EMEA[5].

Examples 1 and 4 refer to capital intensive industries, where the remaining useful life of assets can be affected by climate-related transition risks as well as higher physical risks. Assumptions on physical risk and related insurance coverage can have a direct impact on a CGU's recoverable and carrying amounts and should be woven into these examples given the high replacement costs in capital intensive industries. Insurance coverage is only mentioned in Example 6 on Disclosure about credit risk IFRS 7 in relation to flood risk insurance coverage on collateralised assets in corporate loan portfolios. Paragraph 6.4c should include assumptions on future insurance coverage of the underlying collateralised assets over the remaining term of the loans.

(iii) Disaggregation by jurisdiction and geolocation

Transition risks and physical risks differ by jurisdiction and geolocation respectively, and affect companies' assets and value chains to differing degrees. Example 3 mentions the jurisdiction specific nature of GHG regulations and the expectation of more widespread regulations in future, but does not mention disaggregation of information by jurisdiction based on dissimilar risk characteristics. Example

[3] As of the end of 2023, the NGFS consists of 134 members and 21observers, including central banks and supervisors from over 90 jurisdictions. The members collectively supervise 100% of the global systemically important banks and 80% of the Internationally Active Insurance Groups.
[4] European Insurance and Occupational Pensions Authority [EIOPA] (2023b): Dashboard on insurance protection gap for natural catastrophes
[5] Swiss Re (Mar 2024) How big is the protection gap from natural catastrophes where you are?

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4 could reflect that legal and regulatory developments differ across individual jurisdictions in 4.3a. Example 8 reflects disaggregation of information by technology, and this can be extended to include disaggregation of information by geolocation due to the different physical risk characteristics across operating locations.

Question 3—Other comments

Do you have any other comments on the Exposure Draft?

NBIM response

IASB should consider how to build capacity among preparers, auditors and regulators on the application of the IASB standards pertaining to climate-related risks in financial statements beyond publishing these illustrative examples. As chair of the ISSB Investor Advisory Group, NBIM recommends enhancing the collaboration of the IASB with the ISSB to strengthen connectivity of information in financial statements and sustainability-related financial disclosures. IASB and ISSB can explore working together to develop additional illustrative examples of connected information and hold joint workshops and webinars to build this capacity.

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