Draft Comments on the Exposure Draft: Climate-related and Other Uncertainties in Financial Statements

We appreciate the IASB's efforts to improve transparency around climate-related risks by aligning them with financial reporting requirements. This Exposure Draft provides valuable guidance for companies to better integrate climate-related risks into their financial statements, particularly through the illustrative examples. However, while the initiative addresses critical areas of concern, there are both positive and negative aspects that should be considered.

Positives:

1. Improved Transparency and Alignment:

- The Exposure Draft fosters a better connection between financial reporting and sustainability disclosures, ensuring consistency across all forms of corporate reporting. This is crucial for providing stakeholders with a holistic view of climate-related risks.

2. Guidance on Materiality Judgments:

- The focus on materiality helps companies determine which climate-related uncertainties should be disclosed in their financial statements, allowing for more focused and relevant reporting.

3. Harmonization with Sustainability Reporting:

- By working in conjunction with the ISSB's sustainability standards, the draft aligns the financial impact of climate risks with existing ESG frameworks, reducing the risk of fragmented or inconsistent reporting across different parts of corporate disclosures.

4. Long-term Risk Management:

- Encouraging companies to integrate long-term climate risks into their financial reporting promotes proactive risk management, helping companies anticipate potential impacts on their financial position.

Negatives:

1. Additional Compliance Burden:

- Companies already subject to sustainability standards and ESG audits may experience duplication of effort and increased costs, particularly in reconciling climate-related disclosures across financial and sustainability reports. The risk of reporting fatigue and overlapping obligations should be considered.

2. Complexity in Materiality Judgments:

- The subjective nature of materiality judgments in relation to climate risks may introduce uncertainty and expose companies to potential legal liabilities if investors or regulators perceive under-reporting of key risks. Clearer guidelines on this aspect would be beneficial.

3. Misalignment with Financial Reporting Objectives:

- Climate-related risks are often long-term and uncertain, while financial statements typically focus on near-term performance. This could lead to misalignment in reporting objectives and clutter in financial reports due to the inclusion of speculative, long-term risks.

4. Potential for Over-Disclosure:

- There is a risk that companies might feel pressured to over-disclose climate-related risks to avoid scrutiny, leading to information overload and making it harder for investors to focus on material financial data.

5. Regulatory Overlap:

- For multinational companies operating in jurisdictions with existing climate-related disclosure mandates, the Exposure Draft could result in regulatory overlap, further increasing compliance complexity and costs.

Conclusion:

While the Exposure Draft takes positive steps toward improving the disclosure of climate-related risks in financial statements, it is important to balance these improvements against the potential burdens of compliance and increased complexity for companies already adhering to sustainability standards. We recommend refining the guidance on materiality judgments and addressing the risk of over-disclosure to ensure that the implementation of the standards does not result in reporting fatigue or duplication of efforts.