



**Organismo Italiano di Contabilità – OIC
(The Italian Standard Setter)**

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Re: EFRAG DCL/ IASB Exposure Draft Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples

Dear Wolf,

We are pleased to have the opportunity to provide our comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements – Proposed illustrative examples* issued by the IASB on 31 July 2024 (the 'ED').

We discussed the IASB proposals with our stakeholders and this letter summarises the feedback received.

In general, we support the objective of strengthening the connection between information reported in financial statements and information reported outside the financial statements, such as sustainability reports. In our view, the examples proposed by the IASB are useful and may be a valuable support to improve climate risk disclosures especially for entities less accustomed to providing sustainability information. However, many of our stakeholders consider these examples as just a first step towards meeting their expectations.

Regarding the IASB decision to use the format of examples, we observe that, since the examples will not be endorsed by the EU, thus they will not be mandatory for European companies. However, in practice, companies that apply IFRS will be obliged to apply them. This, combined with the fact that the examples explain how to apply current IFRSs, could create litigation risks if, for example, an entity in its 2023 financial statements provided information that was not aligned with the examples. For this reason, we suggest the IASB to include the examples in an appendix that is an integral part of the IFRS, so they will be endorsed by EU and will have an effective date.

In our view, this is particularly important for Example 4, which makes an interpretation of paragraph 125 of IAS 1. As recognised by the IASB itself, in paragraph BC36 of the ED, in practice there are different interpretations of paragraph 125 of IAS 1. Should the IASB decide to confirm its interpretation, we suggest to amend IAS 1 to clarify that an entity should provide disclosures about uncertainties that will be resolved after the end of the next financial year, if there is a significant risk that a change in those assumptions within the next financial year, would result in a material adjustment to the carrying amount of assets or liabilities. This amendment would avoid the risk of disputes.

As mentioned above, many of our stakeholder consider the proposed examples as a first step. In order to strengthen the connection between financial statements and sustainability reports, the IASB should consider to update recognition and measurement requirements in IFRS standards. In particular, the following issues have been raised:

- revise the criteria in IAS 38 *Intangible Assets* to assess whether internally generated intangible assets qualify for recognition. The distinction between research phase and development phase is very judgemental, and some companies are incurring significant costs in order to reduce emissions (eg carbon capture and storage projects) and it is not clear whether these costs qualify for recognition;
- clarify how to account for carbon pricing schemes, because divergence in practice exists, some companies consider carbon allowances as inventories others as intangible assets;
- clarify how to incorporate climate change risks into the expected credit loss measurement under IFRS 9, because current impairment models do not include long-term forecasts as sustainability reporting requires;
- clarify how to incorporate climate risks into the determination of fair value under IFRS 13, because climate change risks may have an impact on it.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Michele Pizzo
(OIC Chair of the Board of Directors)