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commentletters@ifrs.org

IFRS Foundation

7 Westfery Circus – Canary Wharf
London E14 4HD
United Kingdom

Reference: Tentative Agenda Decision – Climate-related Commitments (IAS 37)

The Comitê de Pronunciamentos Contábeis - CPC (Brazilian Accounting Pronouncements Committee)¹ welcomes the opportunity to respond to the Tentative Agenda Decision – Climate-related Commitments (IAS 37).

We are a standard-setting body engaged in studying, developing, and issuing accounting standards, interpretations, and guidance for Brazilian companies.

If you have any questions about our comments, please do not hesitate to contact us at operacoes@cpc.org.br.

Yours sincerely,



Rogério Lopes Mota
Chair of International Affairs
Comitê de Pronunciamentos Contábeis (CPC)

¹The Brazilian Accounting Pronouncements Committee (CPC) is a standard-setting body engaged in the study, development and issuance of accounting standards, interpretations and guidances for Brazilian companies. Our members are nominated by the following entities: ABRASCA (Brazilian Listed Companies Association), APIMEC Brasil (National Association of Capital Market Investment Professionals and Analysts), B3 (Brazilian Stock Exchange and Mercantile & Future Exchange), CFC (Federal Accounting Council), FIPECAFI (Financial and Accounting Research Institute Foundation) and IBRACON (Brazilian Institute of Independent Audit).

CPC Response

The CPC would like to express its appreciation to the IFRS Interpretations Committee ("Committee") for providing us with the opportunity to share our comments on the TAD concerning climate-related commitments.

Specifically, we would like to address voluntary commitments to reduce or offset greenhouse gas emissions ("GHG"), which may create expectations among third parties² and consequently necessitate the inclusion of provisions in the balance sheet to reflect the financial impact required to fulfill such environmental business strategies.

The CPC believes that it is essential to undertake the task of reviewing or providing clearer guidance on how to assess IAS 37 in such cases. This is necessary to reduce the variability in accounting treatment practices. This is particularly crucial because, in some instances, the accounting analysis is still based on a superficial consideration of the sixth case presented in IAS 37 - Example 6: Legal requirement to fit smoke filters. It is worth noting that this example logically concluded that no provision was needed for the forecasted acquisition of capital expenditure ("CAPEX") related to smoke filters. The CPC maintains its position that there should be no provision or recognition of liabilities for CAPEX under the commands of IAS 37. However, the CPC acknowledges that assessing the need for provisions in the context of voluntary commitments to reduce or eliminate GHG emissions is not comparable to the situation outlined in Example 6.

Considering the economic rationale behind the voluntary business decision to mitigate GHG emissions, there is an expectation of potential economic benefits from this voluntary choice. These benefits may include: (i) an increase in market share through

² We refer to voluntary commitments to offset GHG that meet all the criteria in IAS 37 (present obligation as a result of past event whose outflow of economic resources to settle the obligation can be reliably measured).



higher revenues from products/services; (ii) a reduction in the cost of debt or equity by accessing different funding channels; and (iii) an enhancement in brand valuation.

Hence, given that the environmental decision to voluntarily reduce and/or offset GHG emissions is closely tied to the pursuit of economic gains, the CPC agrees that it is important to reflect the potential cash-flow impacts of implementing this green strategy in the financial statements.

Furthermore, the staff paper prepared to support this TAD, Agenda Paper 2, paragraph 23, offers some examples that should be considered in management's analysis when determining the existence of constructive obligations. Consequently, such guidance could be valuable if incorporated into IAS 37 to provide clarity on the judgment required in these situations.

The CPC would also like to suggest that there be guidance from this TAD regarding the disclosure and monitoring, in technical notes, of forecasted CAPEX investments related to climate-related commitments, as well as their evolution over the years. It is relevant to mention that paragraph (c) of item 74 of IAS 16 already establishes that contractual commitments related to the acquisition of property, plant, and equipment should be disclosed. Therefore, it would be relevant for such disclosures to be made indicating which of these contractual commitments are linked to climate-related commitments.

Abstract: The provided document is about the discussion of the IFRS Interpretations Committee regarding the recognition of provisions for an entity's commitment to reduce or offset its greenhouse gas emissions. The document explains the criteria for recognizing a constructive obligation, the circumstances in which a provision is recognized, and the treatment of expenditure required to settle the provision. It concludes by stating that the principles and requirements in the IFRS Accounting Standards are sufficient for determining the recognition and measurement of provisions in this context.