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N°1

IFRS-IC - Mr Bruce Mackenzie
IFRS Interpretations Committee Chair
Columbus Building
7 Westferry Circus - Canary Wharf
London E14 4HD

Paris, 1 February 2024

November 2023 IFRS-IC - Tentative Agenda Decisions - ANC Comment Letter

Dear Mr Mackenzie,

The Autorité des Normes Comptables (ANC) welcomes the opportunity offered by the IFRS Interpretations Committee (the Committee) to comment on its two tentative agenda decisions taken at the 28-29 November 2023 meeting on climate-related commitments and disclosure of revenues and expenses for reportable segments.

The ANC agrees with the Committee's conclusions reached on climate-related commitments. However, the ANC suggests that the Committee be vigilant when drafting its final agenda decision to avoid the risk of the reader considering that the scope of the tentative agenda decision is broader than intended and may contain prescriptions relating to the accounting for carbon credits.

Besides, the ANC welcomes the Committee's efforts to address the difficulties in applying paragraph 23 of IFRS 8. However, the ANC believes that further clarifications are needed to ensure that the guidance provided is well understood by all constituents and consistently applied.

This comment letter is structured as follows:

- . Climate-related commitments (paragraphs 1-3);
- . Disclosure of revenues and expenses for reportable segments (paragraphs 4-9).

Should you wish to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

Robert Ophèle
ANC Chair

Appendix

ANC's comments on IFRS-IC's tentative agenda decisions in November 2023

Climate-related Commitments (IAS 37 Provisions, Contingent Liabilities and Contingent Assets)

1. The Committee received a request asking to clarify:

- (a) whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity;
- (b) whether a constructive obligation created by such a commitment meets the criteria in IAS 37 for recognising a provision; and
- (c) if a provision is recognised, whether the expenditure required to settle it is recognised as an expense or as an asset when the provision is recognised.

The Committee considered a fact pattern where an entity commits:

- (a) to reduce its greenhouse gas emissions; and
 - (b) to offset its remaining emissions by buying carbon credits and retiring them from the carbon market.
2. The ANC agrees with the conclusions reached by the Committee in its tentative agenda decision. However, since the acquisition and retirement of carbon credits are part of the considered fact pattern, the ANC considers that the decision should be drafted so as to avoid the risk of the reader considering that it also contains a prescription relating to the accounting for carbon credits. Indeed, the ANC believes the reader should not conclude that all or part of the previously held credits might have been recognised as assets.
3. Besides, the ANC noted that paragraphs 22 and 23 of AP02 on climate-related commitments suggested a series of factors that management could consider to determine if an entity has a constructive obligation. The ANC observes that the Committee decided not to retain such factors in the drafting of its tentative agenda decision and confirms its agreement with the Committee's choice of wording.

Disclosure of Revenues and Expenses for Reportable Segments (IFRS 8 Operating Segments)

4. The Committee received a request about how an entity applies the requirements in paragraph 23 of IFRS 8 to disclose for each reportable segment specified amounts related to segment profit or loss. The Committee observed that the request contained two main aspects to the questions asked:
 - (a) the requirements of paragraph 23 of IFRS 8 to provide, for each reportable segment, specified amounts included in segment profit or loss reviewed by the chief operating decision maker (CODM); and
 - (b) the meaning of “material items of income and expense” in the context of paragraph 97 of IAS 1 as referenced in paragraph 23(f) of IFRS 8.

The ANC focuses hereafter on the answer provided on aspect (b).

5. Among several issues related to aspect (b) of the request i.e., the meaning of “material items of income and expense”, the Committee was asked to clarify how an entity determines “material items” in paragraph 23(f) of IFRS 8 and in particular:
 - (a) whether “material items” include amounts that are an aggregation of individually quantitatively immaterial items; and
 - (b) whether the materiality assessment is performed at an income statement level, from an overall reporting entity perspective, or at a segment level.
6. In its tentative agenda decision, the Committee observed that, in applying paragraph 23(f) of IFRS 8, an entity identifies “material items” by applying:
 - (a) the requirements in paragraphs 30-31 of IAS 1 in considering how to aggregate information in the financial statements, **including in the notes**; and
 - (b) paragraph 7 of IAS 1 and assessing whether the disclosure of information is material in the context of its financial statements taken **as a whole**.
7. In order to ensure a common understanding and consistent application of the guidance provided, the ANC believes that the Committee could usefully clarify how the materiality assessment suggested in the tentative agenda decision should be performed in the context of segment reporting. For example, if materiality is determined solely in accordance with IAS 1, the second part of the tentative agenda decision seems to require an item of income and expense to be broken-down for each reportable segment, as soon as that item is disclosed in the notes, although it does not appear on the face of the statement of profit or loss, if it is included in the performance measure regularly reviewed by the CODM or regularly provided to him.
8. To assess the possible consequences of the second part of this tentative agenda decision, the ANC examined a fact pattern where an entity incurs expenses relating to short term leases. Such expenses are not sufficiently material at an income statement level to warrant separate presentation. As a consequence, the entity aggregates such expenses with other expenses within the “other expenses” row in the statement of profit or loss. The amount of expenses relating to short term leases is however sufficiently material to be disclosed in the notes as required by paragraph 53(c) of IFRS 16. The CODM does not review separately the expenses relating to short term leases for each reportable segment, but this expense is included in the performance measure regularly reviewed by him. The ANC is unsure to understand from the drafting of this second part of tentative agenda decision how the guidance provided should be applied in such circumstances: would the entity be required to disclose expenses relating to short term leases for each reportable segment, since such expenses are disclosed in the notes and included in the performance measure reviewed by the CODM?
9. In other words, the second part of the tentative agenda decision seems to result in a segment information much more detailed than that disclosed on the face of the statement of profit or loss. Such understanding of the tentative agenda decision, if confirmed, would depart from the generally accepted understanding of paragraph 23 of IFRS 8, be more akin to interpretation guidance and as such, would not be supported by the ANC.