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IASB / IFRS Foundation
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Submitted by e-mail to: commentletters@ifrs.org

Dear IASB team,

CFA UK & CFA Institute's letter in response to the IASB's consultation on "Climate-related and Other Uncertainties in the Financial Statements - Proposed illustrative examples"

The CFA Society of the UK (CFA UK) and CFA Institute (CFAI) welcome the opportunity to respond to the IASB's consultation. CFA UK and CFAI consistently provide the perspective of the investment community as users of financial statements, to ensure that disclosures are useful for investment analysis and investor decision making.

We support your efforts to enhance the understanding and application of disclosures related to climate related and other risks. We acknowledge the various pieces of research over recent years, driven by the investor community, that there are already apparent gaps between companies' climate disclosures (and in particular their climate commitments) and their financial statements. We believe that the examples will help encourage improvements in this regard, though in many cases the issues could be addressed by companies moving from a purely quantitative approach to materiality to encompass qualitative aspects, as they already should

We set out below our responses to the questions posed.

Question 1—Providing illustrative examples
(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.

- We **agree that examples would help in embedding reporting discipline and practice** when strict IFRS compliance may be insufficient to convey material information on risks and uncertainties to investors.

- We **question the scope of "Climate related and other uncertainties"** given that seven examples are climate related and only one relates to other uncertainties. If the intention is to apply the cases across all other uncertainties, the current set does not offer a balanced overview of other risks and issues that companies need to consider outside of the IFRS ambit. We suggest either a) Retain only a narrow scope of climate related illustrations, or b) Add non-climate-related risk examples to the final standard, to improve entities' applications of overarching disclosure requirements (e.g., paragraphs 31, 125, and 129 of IAS 1) with respect to other risks and to ensure entities do not assume the proposal only applies to climate risks.

- Regarding **"other uncertainties", information is often insufficiently unaddressed in the financial statements**. It is difficult to identify the presence or size of these risks and uncertainties in an entity's financial statements because there isn't accounting literature covering them, reflecting the literature's legacy of historical cost-based recordkeeping. Note that some risks are explicitly covered outside and inside the financial statements, including credit risk, warranties, and litigation where risks are required to be recognized and/or disclosed.

- We note that while the illustrations are good at exemplifying how an entity applies a standard and reaches a disclosure outcome, they do not show the disclosure itself. We **recommend the inclusion of an example of (or "aspirational") disclosure** that would appear in the entity's notes to the statements in each illustration.

- We recommend that the illustrations set is caveated to ensure they are **not seen by users to be potential interpretations of the application of IFRS** requirements, nor seen as exhaustive guidance for all situations.

Question 1—Providing illustrative examples
(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.

- We agree that **"accompanying the standards" is a reasonable approach**, as they are not meant to be confused with the IFRS standards and, on the other hand, if located in separate guidance materials, may lose impact.

- While standards do not need to be updated frequently, the illustrative examples should be reviewed regularly to reflect developments in data availability, the underlying science, and market best practice. Given the risk that an example may become outdated far more quickly than a standard, we recommend that IASB implements **a mechanism for more frequent review and refresh of illustrations.**

Question 2—Approach to developing illustrative examples
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.

Ideally there would be a wider range of examples to cover key issues or patterns, but we recognise that expanding the cases could make the set unwieldy.

Our suggestions on CASE SELECTION are accordingly:

- Materiality, (Examples #1 and#2), Valuation & Impairment (Examples #3 and #4), Decommissioning (Example #7) and Climate Risks (Example #6 and #8) are **supported as core issues in relation to climate related disclosure.**

- Example #5 (Regulatory change) could however be more precise as to the regulation and the impact, and as presently drafted, **we find this case to be of less value and/or difficult to be understood** and applied. We also disagree with the illustration's emphasis on the entity's ability to recover the carrying amount of its deferred taxes and carry forward unused tax losses. Rather we feel that in such an event, investors' top concern is likely to be on how significant the change is for future cash flows and enterprise value and how significant the asset write-downs will be upon the entity's exit from the jurisdiction. We do agree that the issue of regulatory change and particularly the risk of "stop/go" policy changes is one on which a case would be useful.

- Regarding Example #6 (Credit risk), we think the case backdrop should be better explained to **clarify that the risks mentioned are climate change linked trends** that are likely to be persistent and severe. This is because natural event risks such as floods and drought are not necessarily new in sectors such as agriculture and real estate and may already be disclosed as less material weather related or seasonal risks. Hence it is important to emphasize that the additional disclosures being suggested relate to systemic climate change trends (not short-term weather phenomena) that could affect the borrowers' ability to repay their loans.

- We encourage the inclusion of **two more examples based on the recent IFRS agenda decision** about climate-related commitments:
  - An example of an entity with a climate-related commitment that, based on the provided facts and circumstances, does not recognize a liability on the financial statements
  - An example of an entity with a climate-related commitment that, based on the provided facts and circumstances, does recognize a liability

  The discussion of determinative factors in reaching the recognition decision would be most important.

- Significant climate related and non-climate related topical **issues that may also be considered for cases, were they to be expanded or some replaced**, include:

  <u>Climate Related</u>
  - Material changes to transition plans and emissions targets/trajectories, a trend seen more frequently
  - Transition risks related to potentially stranded assets in the future including considerations for the impact on decommissioning liabilities

- Biodiversity and nature-related risks (reflecting the need to act on climate change adaptation and not only mitigation)
- Plastic management and the enhancement of circular economy practices, given their large correlation and impacts with GHG emissions (as they account for close to 3% of the global GHG emissions[1])
- The increasing linkage of climate change with diseases and health issues[2]

Other Risks

- Unexpected changes in the macroeconomic environment
- Unexpected changes in the geopolitical environment
- Geopolitical risks to the supply chain, particularly the cost of replacement and diversification
- Competition in the markets for the entity's products or services (i.e., risk of market share loss)
- Competition in the markets for the entity's inputs including the recruitment and retention of talent

- **Risks that arise at the extreme** would be good to weave into at least one example. We know from experience that non-linear impacts and interlinkages (akin to the medical "co-morbidity) of risks can result in a materially higher combined risk, for example the global financial crisis of 2007/2008.

Our comments on the STRUCTURE AND CONTENT of the cases are:

- The illustrative **examples focus substantially on qualitative assessment**, which can be simplistic, especially in the area of carbon intensity and emissions modelling. We recommend balancing this with the disclosure of key metrics and data points, 3rd party data sources, internal models, the underlying science etc.

- An important point to convey via illustration would be the **difference between mitigation (actions) and impact (assessment), both of which are required**. The latter can face the challenge of scope, e.g. whether to consider wider societal impacts. Mitigation can also be by through adaptation of the business or operating model, which is itself an important disclosure.

- The first two illustrative examples #1 and #2 contain pointers on assessing the materiality of climate related risks. These would be even **more useful if materiality considerations are specifically emphasised** to indicate best practice. Indicators of materiality judgement could include (also considering the ICMA's Climate Transition Finance Handbook[3]):
  - Regulatory context and relevance for a firm's operations
  - Industry environmental context e.g. the type of industry a firm operates in
  - Investor perspective & expectation regarding environmental disclosure

[1] https://www.oecd.org/environment/plastics/increased-plastic-leakage-and-greenhouse-gas-emissions.htm
[2] https://www.who.int/news/item/02-11-2023-climate-change-and-noncommunicable-diseases-connections
[3] https://www.icmagroup.org/assets/documents/Sustainable-finance/2023-updates/Climate-Transition-Finance-Handbook-CTFH-June-2023-220623v2.pdf

- Existence of transition plans and / or emission reduction targets/trajectories (including scenario utilised and methodology applied)
- Capex roll-out plans and capex decision-making within the organisation
- Phase-out plan regarding activities/products incompatible with transition
- A qualitative and/or quantitative assessment of the potential locked-in GHG emission from an issuer's key assets and products
- Assumptions on the internal cost of carbon
- Disclosure on adverse impacts on the workforce, community and surrounding environment, and related mitigating strategies

- We note some similarities between risks of climate-related disruption and the impact created by a recent extraneous risk event, namely Covid-19. We recommend that **IASB consider any learnings from Covid-19 related disclosure** about the impact on operations, financials, clients etc. or possibly a related illustration under "other uncertainties". This would provide practical evidence on what was disclosed, cover a spectrum of cases from highly impacted sectors such as Aviation, to less impacted sectors e.g. Pharma, and also bring to life the 3rd order impacts of external risks, such as inflation (and rates), supply chains, business adaptation (e.g. to flexible working), and government support. We have **provided in Appendix 2 some examples related to additional disclosures** by companies during Covid-19.

Question 3—Other comments
Do you have any other comments on the Exposure Draft?

- We do not support long annual reports and disclosures, where the marginal utility of "more" disclosures in effect becomes "less". The guidance should emphasise that the illustrative disclosure cases are **meant to optimise and not drive a significant increase in the quantity of disclosure**, rather the focus is on quality and material information in line with the wider IFRS Accounting Standards. This would limit any potential push back by users or markets, considering there is currently a degree of sentiment from various actors to limit and/or reduce climate-related disclosures. There is also a regulatory trend to simplify reporting requirements, for example the recent POATR (replacing the prospectus regime) consultation and the amended Listing Rules in the UK (and now also in Europe by ESMA[4]).

- We also recommend IASB reviews a few **additional sources to inform the cases and their content**.

    - **Accounting for Carbon Allowances in Financial Statements[5], ESMA**
      Focuses on compliance carbon pricing programmes and the different accounting approaches observed to date for European listed issuers. It considers the IFRS Accounting Standards when including carbon allowances

[4] https://www.esma.europa.eu/press-news/esma-news/esma-makes-proposals-streamline-prospectus-area-and-seeks-stakeholder-input#:~:text=The%20Listing%20Act%20calls%20for,to%20be%20presented%20if%20relevant.
[5] https://www.esma.europa.eu/sites/default/files/2024-10/ESMA32-483087481-68_Statement_Clearing_the_smog_-_Accounting_for_Carbon_Allowances_in_the_FS.pdf

in the financial reports (mainly related to defining them as assets vs. expenses) and makes disclosure recommendations e.g. what to include in the notes to enable users to understand the main risks and assumptions – including sensitivity analyses – and how carbon allowances impact the financial position and performance.

- **Assessing Portfolio Exposures to Climate Physical Risks[6], ESMA**
  Provides insights on different assessment methodologies and data sources in relation to climate physical risks, the economic impact of which could range between 4-18% of the global GDP by 2050. For example, the mapping of climate physical climate risk exposures requires three main components - information on the financial dependency of portfolio investments to the physical assets, geospatial information, and information on the physical risk drivers that can impact assets or counterparties.
- **Network for Greening the Financial System (NGFS)[7]**
  Provides scenarios consisting of sets of climate-related and macro-financial variables and that have been currently used by central banks, supervisors, and other financial players.

We would be happy to meet and discuss our feedback to the questions raised, if helpful to the IASB. We consent to the publication of our Society's name.

Yours sincerely,

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With thanks for their contributions to: Adam Forsyth, ASIP and Jacopo Gadani, CFA, and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

[6] https://www.esma.europa.eu/document/trv-article-assessing-portfolio-exposures-climate-physical-risks
[7] https://www.ngfs.net/sites/default/files/medias/documents/ngfs_guidance_note_on_the_scenarios.pdf

APPENDIX 1
ABOUT CFA UK AND THE CFA INSTITUTE

CFA UK serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight.

Our role is to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. We advocate for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour.

We are not a lobby group or a trade body. We are an independent, professional association whose mission is to 'educate, connect and inspire the investment community to build a sustainable future.'

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/

CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials. The institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Its aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.

APPENDIX 2

Pandemic Exposure Accounting Disclosure Examples

Adam Forsyth, ASIP and Jacopo Gadani, CFA

We have picked companies based on the S&P Blog "Industries Most and Least Impacted by COVID-19 from a Probability of Default Perspective". This shows airlines as the most affected and pharmaceuticals as the least affected with the latter in fact having a positive exposure.

High negative exposure - IAG

IAG 2023 Annual report

Risk Description in both 2022 (p107) and 2023 (p125) reports:

"Public health concerns impacting populations at scale could see an adverse effect on the Group where governments choose to impose restrictions, as would any future pandemic outbreak, or other material event impacting operations or customers' ability to travel.

Mitigations:

Management has business continuity plans to mitigate this risk to the extent feasible, with focus on operational and financial resilience and customer and colleague safety and recovery."

COVID impact on government debt and consequential need to raise is in the risk register in 2022 (p113) but removed in 2023.

Perhaps the most comprehensive statements are in the Viability statement 2022 (p117) and similar in 2023 (p135)

"• future COVID-19 pandemic or other public health related restrictions do not result in further prolonged and substantial capacity reductions and groundings beyond 2022; and not to Q2 2020 levels, as governments do not have the appetite for the economic impact and stress that it would place on their respective economies;

• any new virus strain or threat to public health that emerges during the viability period can be managed within existing health and testing regimes without recourse to government regulations that significantly affect our airlines' operations.

In the event of another risk scenario resulting in an adverse liquidity impact in excess of the Downside case and other stresses it has considered, the Group would need to implement additional mitigation measures and would likely need to secure additional funding over and above that which is forecast on February 23, 2023."

High negative exposure - Marriot

Marriot 2020 Report https://marriott.gcs-web.com/static-files/c5e1faef-f1e5-40e3-bd70-5efbbb929a7f

Risks Relating to COVID-19

COVID-19 has had a material detrimental impact on our business and financial results, and such impact could continue and may worsen for an unknown period of time.

COVID-19 has subjected our business, operations, and financial condition to a number of risks, including, but not limited to, those discussed below:

• **Risks Related to Revenue:** COVID-19 has negatively impacted and will in the future negatively impact to an extent we are unable to predict, our revenues from managed and franchised hotels, which are primarily based on hotels' revenues or profits. In addition, COVID-19 and its impact on global and regional economies, and the hospitality industry in particular, has made it difficult for hotel owners and franchisees to obtain financing on attractive terms, or at all, and increased the probability that hotel owners and franchisees will be unable or unwilling to service, repay or refinance existing indebtedness. This has caused, and may in the future continue to cause, some lenders to declare a default, accelerate the related debt, foreclose on the property, or exercise other remedies, and some hotel owners or franchisees to declare bankruptcy. COVID-19 has also materially impacted, and could in the future materially impact, other non-hotel related sources of revenues for us, including for example our fees from our co-brand credit card arrangements, which have been and may continue to be affected by COVID-19's impact on spending patterns of cobrand cardholders and acquisition of new co-brand cardholders. Also, testing our intangible assets or goodwill for impairments due to reduced revenues or cash flows could result in additional charges, which could be material.

• **Risks Related to Owned and Leased Hotels and Other Real Estate Investments:** COVID-19 and its impact on travel has reduced demand at nearly all hotels, including our owned and leased hotels and properties owned by entities in which we have an equity investment. As a result, most of our owned and leased hotels and properties in which we have an investment are not generating revenue sufficient to meet expenses, which is adversely affecting our income and could in the future more significantly adversely affect the value of our owned and leased properties or investments. In addition, we have seen and could continue to see entities in which we have an investment experience challenges securing additional or replacement financing to satisfy maturing indebtedness. As a result of the foregoing, we have recognized, and may in the future be required to recognize, significant non-cash impairment charges to our results of operations.

• **Risks Related to Operations:** Because of the significant decline in the demand for hotel rooms, we have taken steps to reduce operating costs and improve efficiency, including furloughing a substantial number of our associates and implementing reduced work weeks for other associates, implementing a voluntary transition program for certain associates, eliminating a significant number of above-property and on-property positions, and modifying food and beverage offerings and other services and amenities. Such steps, and further changes we could make in the future to reduce costs for us or our hotel owners or franchisees (including ongoing property-level restructuring plans), may negatively impact guest loyalty, owner preference, or our ability to attract and retain associates, and our reputation and market share may suffer as a result. For example, loss of our personnel may cause us to experience operational challenges that impact guest loyalty, owner preference, and our market share, which could limit our ability to maintain or expand our business and could reduce our profits.

• **Risks Related to Expenses:** COVID-19 has caused us to incur additional expenses and will continue to cause us to incur additional expenses in the future which are not fully reimbursed or offset by revenues. For example, we have already incurred certain expenses related to furloughs, our voluntary transition program and position eliminations, and we expect additional charges related to our property-level restructuring activities discussed in Note 3 in future periods. In addition, COVID-19 could make it more likely that we have to fund shortfalls in operating profit under our agreements with some hotel owners or fund financial guarantees we have made to third-party lenders for the timely repayment of all or a portion of certain hotel owners' or franchisees' debt related to hotels that we manage or franchise, beyond the amounts funded or the additional guarantee reserves recorded in 2020. COVID-19 also makes it more likely our hotel owners or franchisees will default on loans we have made to them or will fail to reimburse us for guaranteed advances. As a result of COVID-19, we and our hotel owners and franchisees have experienced and could continue to experience other short or longer-term impacts on costs, for example, related to enhanced health and hygiene requirements. These effects have and could continue to impact our ability to generate profits even after revenues improve.

• **Risks Related to Growth:** Our growth has been, and may continue to be, harmed by COVID-19 and its various impacts as discussed above. Many current and prospective hotel owners and franchisees are finding it difficult or impossible to obtain hotel financing on commercially viable terms. COVID-19 has caused and may continue to cause some projects that are in construction or development to be unable to draw on existing financing commitments or secure additional or replacement financing to complete construction, and additional or replacement financing that is available may be on less favourable terms. COVID-19 has caused and may continue to cause construction delays due to government restrictions and shortages of workers or supplies. As a result, some of the properties in our development pipeline will not enter our system when we anticipated, or at all. We have seen, and may continue to see, opening delays and a decrease in the rate at which new projects enter our pipeline, and we may see an increase in the number of projects that fall out of our pipeline as a result of project cancellations or other factors. These effects on our pipeline have reduced and will continue to reduce our ability to realize fees or realize returns on equity investments from such projects. We expect we could potentially see more existing hotels exit our system as a result of COVID-19, and a significant number of such exits could negatively impact the overall growth of our system and our business prospects.

• **Risks Related to Liquidity:** In 2020, we made significant borrowings under our $4.5 billion Credit Facility and completed offerings of $3.6 billion aggregate principal amount of senior notes to preserve financial flexibility in light of the impact on global markets resulting from COVID-19. We may be required to raise additional capital again in the future to fund our operating expenses and repay maturing debt. In 2020, we raised $920 million of cash through amendments to agreements with the U.S. issuers of our co-brand credit cards associated with our Loyalty Program, and this option to raise capital will likely not be available again to us in the near future and will reduce the amount of cash we will receive in the future from these card issuers, which may increase the need for us to raise additional capital from other sources. In addition, we have seen increases in our cost of borrowing as a result of COVID-19 and such costs may increase even further for a time we are unable to determine. If we are required to raise additional capital, our access to and cost of financing will depend on, among other things, conditions in the global financing markets, the availability of sufficient amounts of financing, our prospects, our credit ratings, and the outlook for the hotel industry as a whole. As a result of COVID-19, credit agencies have downgraded our credit ratings

High positive exposure – Moderna

COVID gets a lot of discussion but only in relation to the impact of vaccine sales in current trading. Potential future pandemics are covered in the responsibility statement 2023 (pp23,24)

"Focusing on Global Public Health

In 2023, we continued to leverage our mRNA platform to address potential global public health threats and build pandemic preparedness, addressing priority pathogens that represent high disease burden, especially in low- and middle-income countries.

Moderna's global public health portfolio, launched in 2022, continues to evolve, with advanced clinical trials against diseases such as Zika, Mpox, HIV, and Nipah. Our focus has expanded to include other respiratory threats like pandemic influenza, with our mRNA-1018 program making strides in clinical testing. Through our mRNA Access program, we have increased collaborations and opened preclinical production capabilities to more academic institutions worldwide, decentralizing the research and development of mRNA vaccines. We are also developing new manufacturing sites in Australia, Canada, and the U.K. to enhance our ability to swiftly respond to potential regional and global pandemic outbreaks.

In October 2023, we entered into a strategic partnership with the Coalition for Epidemic Preparedness Innovations (CEPI) with the goal of harnessing Moderna's mRNA platform to accelerate the development of vaccines against viral disease outbreaks that threaten global health. The work undertaken as part of this partnership could expand the infectious disease targets for mRNA vaccine technology and strengthen pandemic preparedness and public health efforts in alignment with the 100 Days Mission, a global goal to compress vaccine development timelines to 100 days."

High positive exposure – Zoom

2020 AR: https://investors.zoom.us/static-files/a6b3b254-94ff-415f-bb3b-8c3146b061d4

RISK FACTORS

We do not control, or in some cases have limited control over, the operation of the co-located data center facilities we use and they are vulnerable to damage or interruption from human error, intentional bad acts, earthquakes, floods, fires, hurricanes, war, terrorist attacks, power losses, hardware failures, systems failures, telecommunications failures, disease, such as the COVID-19 virus, and similar events, any of which could disrupt our service. In the event of significant physical damage to one of these data centers, it may take a significant period of time to achieve full resumption of our services and our disaster recovery planning may not account for all eventualities. Despite precautions taken at these facilities, the occurrence of a natural disaster, an act of terrorism, or other act of malfeasance, a decision to close the facilities without adequate notice or other unanticipated problems at the facilities would harm our business.

Unlike traditional communications and collaborations technologies, our services depend on our users' high-speed broadband access to the internet, usually provided through a cable or digital subscriber line connection. Increasing numbers of users and increasing bandwidth requirements may degrade the performance of our platform due to capacity constraints and other internet infrastructure limitations. As our number of users grows and their usage of communications capacity increases, including increased usage stemming from the recent outbreak of the COVID-19 virus, we will be required to make additional investments in network capacity to maintain adequate data transmission speeds, the availability of which may be limited, or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our user base grows, our network may be unable to achieve or maintain sufficiently high-data transmission capacity, reliability, or performance. In addition, if internet service providers and other third parties providing internet services have outages or deteriorations in their quality of service, our users will not have access to our platform or may experience a decrease in the quality of our platform. Furthermore, as the rate of adoption of new technologies increases, the networks our platform relies on may not be able to sufficiently adapt to the increased demand for these services, including ours. Frequent or persistent interruptions could cause current or potential users to believe that our systems or platform are unreliable, leading them to switch to our competitors or to avoid our platform, and could permanently harm our business.

Neutral exposure – Smurfit Kappa

There is a single mention of pandemic in the Risk Report 2023 (p36)

"Risk Description:

Economic

If the current economic climate were to deteriorate, for example as a result of geopolitical events or uncertainty, trade tensions, and/or pandemic, it could result in an economic slowdown which, if sustained over any significant length of time, could adversely affect the Group's financial position and results of operations."

Neutral exposure – ArcelorMittal

2020 AR: https://corporate-media.arcelormittal.com/media/qecb1avu/arcelor-mittal-annual-report-2020.pdf

Risk Factors

A significant example of the impact of the macroeconomic trends on steel prices has been the ongoing COVID-19 pandemic and its economic ramifications. The overall effect in 2020 (subject to some specific geographic exceptions) was a decline which began towards the end of the first quarter of 2020 (after prices had generally improved in the beginning of the year) and which then began to improve during the third quarter of

2020. The impact on prices going forward will be determined by such factors as the duration of the pandemic, the industry supply response and any impacts on input costs, including potential changes in raw material input prices (the latter having increased in the second and third quarters of 2020 due to improved demand conditions (e.g., renewed economic activity in China) and supply constraints in Brazil due to the impact of COVID-19). The extent of the economic damage attributable to the COVID-19 pandemic is highly uncertain, differs from country to country due to the duration and scope of the restrictions put in place to reduce the rate of infections and hospitalizations, the development and spread of variants of COVID-19 and both health and regulatory dynamics until effective vaccines are widely available. While activity in steel consuming industries recommenced or increased during the second and third quarters due to the partial or complete lifting of restrictions (or the exception of industrial activity from them), new restrictions were implemented in the fourth quarter of 2020 due to second waves and are expected to continue or to be implemented in the first part of 2021. Nonetheless, the activity in steel consuming industries continued to strengthen in the fourth quarter. GDP and steel demand contracted in 2020. While GDP and steel demand are expected to improve in 2021 in most regions, uncertainty is high and the speed and duration of any recovery will depend on a number of factors beyond the Company's control, including the nature and duration of restrictions that remain in place or may be reinstituted, the effectiveness of vaccines as new variants of COVID-19 appear and spread, levels of unemployment, the decrease in wider corporate profitability as a result, and the level of fiscal policy support available. The Company has therefore made and will continue to need to make ongoing decisions to adjust production in various geographies in accordance with the level of steel demand and government requirements. A scenario of prolonged low steel and (to a lesser extent or if simultaneous) iron ore prices whether or not combined with low steel demand, including as a result of such macroeconomic trends described above and geopolitical issues, would have a material adverse effect on ArcelorMittal's results of operations and financial condition.