IFRS Accounting

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Exposure Draft

IFRS® Accounting Standard

Provisions—Targeted Improvements

Proposed amendments to IAS 37

Comments to be received by 12 March 2025

International Accounting Standards Board

IASB/ED/2024/8

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Introduction

What is the IASB proposing?

IN1 In this exposure draft, the International Accounting Standards Board (IASB) is proposing to make targeted improvements to three aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*:

(a) one of the criteria for recognising a provision—the requirement for the entity to have a present obligation as a result of a past event (the present obligation recognition criterion); and

(b) two aspects of the requirements for measuring a provision—those relating to:

  (i) the costs an entity includes in estimating the future expenditure required to settle its present obligation; and

  (ii) the rate an entity uses to discount that future expenditure to its present value.

IN2 The IASB is also proposing amendments to the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets (*Guidance on implementing IAS 37*). These amendments would update the guidance on applying the present obligation recognition criterion to reflect the proposed amendments to the requirements.

Amendments to the present obligation recognition criterion

What are the main aims of the proposed amendments?

IN3 The proposed amendments to the present obligation recognition criterion aim:

(a) to clarify the requirements, which have led to questions from stakeholders to the IFRS Interpretations Committee.

(b) to change the timing of recognition of some provisions. The amendments would affect provisions for costs, often levies, that are payable only if an entity takes two separate actions or if a measure of its activity in a specific period exceeds a specific threshold. Provisions for some of these costs would be accrued earlier and progressively instead of at a later point in time, to provide more useful information to users of financial statements.

IN4 The IASB started by developing a new definition of a liability and new concepts to support that definition, adding them to the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*) in 2018. The amendments proposed in this exposure draft apply those concepts and would align the requirements of IAS 37 with the *Conceptual Framework*.

What amendments are proposed to achieve the main aims?

IN5 The proposed amendments to the present obligation recognition criterion include:

(a) updating the definition of a liability in IAS 37 and the wording of the present obligation recognition criterion to align them with the definition of a liability in the *Conceptual Framework*;

(b) amending the requirements that support the present obligation recognition criterion, drawing on concepts from the *Conceptual Framework*;

(c) withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and replacing it with an illustrative example in the *Guidance on implementing IAS 37*;

(d) withdrawing IFRIC 21 *Levies*, whose requirements are not consistent with those proposed in this exposure draft, and replacing it with illustrative examples in the *Guidance on implementing IAS 37*; and

(e) making other amendments to the *Guidance on implementing IAS 37*:

   (i) adding examples to illustrate fact patterns that have been the subjects of IFRS Interpretations Committee agenda decisions; and

   (ii) expanding the decision tree and updating the analysis in existing illustrative examples to align it with the proposed requirements.

Who would be affected by the amendments?

IN6 The proposed amendments to the present obligation recognition criterion would have widespread applicability. This criterion affects decisions about whether and when to recognise all types of provisions. Entities that are subject to levies and similar government-imposed charges are among those that are likely to be most significantly affected by the proposed amendments.

Amendments relating to the costs to include in measuring a provision

IN7 IAS 37 requires an entity to measure a provision at the best estimate of the expenditure required to settle its present obligation. The IASB proposes to specify that this expenditure comprises the costs that relate directly to the obligation, which include both the incremental costs of settling that obligation and an allocation of other costs that relate directly to settling obligations of that type.

IN8 The aim of this amendment is to clarify that an entity uses the same assessment of costs in measuring a provision as IAS 37 already requires it to use in determining whether a contract is onerous.

Amendments to the discount rate requirements

What is the main aim of the proposed amendments?

IN9 The main aim of the proposed amendments to the discount rate requirements is to reduce diversity in, and increase the transparency of, the discount rates entities use in measuring provisions, thereby improving the comparability of their financial statements.

IN10 Currently, some entities use risk-free rates whereas others use rates that include 'non-performance risk'—the risk that the entity will not settle the liability. Rates that include non-performance risk are higher than risk-free rates and result in smaller provisions. If two entities measure provisions using discount rates calculated on different bases, users of their financial statements might find it difficult to compare the entities' financial performance and financial position, especially if the entities disclose little information about the rates they have used.

What amendments are proposed to achieve the main aim?

IN11 The IASB proposes to specify that an entity discounts a provision using a risk-free rate—that is, a rate that excludes non-performance risk. The IASB proposes not to specify how an entity determines an appropriate risk-free rate, acknowledging that various approaches might be appropriate. The IASB instead proposes to require an entity to disclose the discount rates it has used and the approach it has used to determine those rates.

Who would be affected by the amendments?

IN12 The proposed amendments to the discount rate requirements would affect entities with provisions discounted to reflect the effect of the time value of money. The entities most affected are likely to be those with large long-term asset decommissioning or environmental rehabilitation provisions—typically entities operating in the energy generation, oil and gas, mining and telecommunications sectors.

Next steps

IN13 The IASB will consider comments it receives on the proposals in this exposure draft and will then decide whether and, if so, how to amend IAS 37.

Invitation to comment

Introduction

The IASB invites comments on the proposals in this exposure draft, particularly on the questions set out below. Comments are most helpful if they:

(a) respond to the questions as stated;

(b) indicate the specific paragraph(s) to which they relate;

(c) contain a clear rationale;

(d) identify any wording in a particular proposal that is not clear or would be difficult to translate; and

(e) identify any alternative the IASB should consider, if applicable.

The IASB requests that comments be confined to the questions asked in this exposure draft. However, respondents need not answer all the questions in this invitation to comment.

Questions for respondents

Question 1—Present obligation recognition criterion

The IASB proposes:

- to update the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to align it with the definition in the *Conceptual Framework for Financial Reporting* (paragraph 10);
- to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));
- to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and
- to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).

The proposals include withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies* (paragraph 108).

Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

Question 2—Measurement—Expenditure required to settle an obligation
The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A).
Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal.
Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?

Question 3—Discount rates
The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk (paragraphs 47–47A).
The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)).
Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals.
Do you agree with:
(a) the proposed discount rate requirements; and
(b) the proposed disclosure requirements?
Why or why not? If you disagree, what would you suggest instead?

Question 4—Transition requirements and effective date
4(a) Transition requirements
The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E).
Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals.
Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?
4(b) Effective date
If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements.
Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

Question 5—Disclosure requirements for subsidiaries without public accountability
The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B). Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal. Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?

Question 6—*Guidance on implementing IAS 37*
The IASB proposes amendments to the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets. It proposes: (a) to expand the decision tree in Section B; (b) to update the analysis in the illustrative examples in Section C; and (c) to add illustrative examples to Section C. Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals. Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not? Do you have any other comments on the proposed decision tree or illustrative examples?

Question 7—Other comments
Do you have comments on any other aspects of the proposals in the Exposure Draft?

Deadline

The IASB will consider all comments received in writing by 12 March 2025.

How to comment

Please submit your comments electronically:

Online	https://www.ifrs.org/projects/open-for-comment/
By email	commentletters@ifrs.org

Your comments will be on the public record and posted on our website unless you request confidentiality and we grant your request. We normally grant such requests only if they are supported by a good reason, for example, commercial confidence. Please see our website for details on this policy and on how we use your personal data. If you would like to request confidentiality, please contact us at commentletters@ifrs.org before submitting your letter.

[Draft] Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

Paragraphs 14A–14U, 40A, 47A, 80A, 94B–94E and 106–108 are added, along with the example below paragraph 14P and the headings above paragraphs 14B, 14I, 14M, 14S, 15, 40A and 108. Paragraphs 17–22, the heading above paragraph 17 and the footnote to paragraph 10 are deleted. Paragraphs 3, 10, 14, 15–16, 47, 72–77, 79–80, 81 and 85 are amended, along with the heading below paragraph 14. Paragraphs 1, 36, 42–46, 70–71 and 78 are not amended, but are included for ease of reference. New text is underlined, deleted text is struck through and paragraphs that are not amended but are included for ease of reference are shown in grey.

Scope

1 **This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:**

(a) **those resulting from executory contracts, except where the contract is onerous; and**

(b) [deleted]

(c) **those covered by another Standard.**

...

3 An executory contract is a contract, or a portion of a contract, that is equally unperformed—~~Executory contracts are contracts under which~~ neither party has fulfilled ~~performed~~ any of its obligations~~,~~ or both parties have partially fulfilled ~~performed~~ their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

Definitions

10 **The following terms are used in this Standard with the meanings specified:**

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity to transfer an economic resource as a result of ~~arising from~~ past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.~~[1]~~

~~An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.~~

A *legal obligation* is an obligation that derives from:

(a) **a contract (through its explicit or implicit terms);**

~~1 The definition of a liability in this Standard was not revised following the revision of the definition of a liability in the *Conceptual Framework for Financial Reporting* issued in 2018.~~

(b) legislation; or

(c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity's actions where:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and

(b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

...

Recognition

Provisions

14 **A *provision* shall be recognised when three criteria are met:**

(a) an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event (paragraphs 14A–16);

(b) it is probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation (paragraphs 23–24); and

(c) a reliable estimate can be made of the amount of the obligation (paragraphs 25–26).

If any of these criteria ~~conditions~~ are not met, no provision shall be recognised.

Present obligation recognition criterion

14A The first criterion for recognising a provision (paragraph 14(a)) is that an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event. This criterion (the present obligation recognition criterion) comprises three conditions:

(a) an obligation condition—the entity has an obligation (paragraphs 14B–14H);

(b) a transfer condition—the nature of the entity's obligation is to transfer an economic resource (paragraphs 14I–14L); and

(c) a past-event condition—the entity's obligation is a present obligation that exists as a result of a past event (paragraphs 14M–14U).

Obligation condition (paragraph 14A(a))

14B The first condition for meeting the present obligation recognition criterion is that the entity has an obligation. An entity has an obligation if:

(a) a mechanism is in place that imposes a responsibility on the entity if it obtains specific economic benefits or takes a specific action;

(b) the entity owes that responsibility to another party; and

(c) the entity has no practical ability to avoid discharging the responsibility if it obtains the specific economic benefits or takes the specific action.

14C The mechanism imposing a responsibility could be:

(a) legal—a contract (through its explicit or implicit terms), legislation or other operation of law; or

(b) constructive—the entity's established pattern of past practice, its published policies or a sufficiently specific current statement.

14D The economic benefits the entity obtains could be, for example, cash, goods or services. The action the entity takes could be, for example, operating in a specific market, causing environmental damage or other harm to another party, owning specific assets on a specific date, or constructing an asset that will need to be decommissioned at the end of its useful life.

14E [Derives from first part of former paragraph 20] An obligation is always owed to another party. It is not necessary for an entity to know the identity of the party to whom the obligation is owed. The other party could be a person or another entity, a group of people or other entities, or society at large.

14F An entity has no practical ability to avoid discharging a responsibility:

(a) in the case of a legal obligation, if:

(i) the other party has a legal right to act against the entity if the entity fails to discharge the responsibility—for example, to ask a court to enforce settlement, charge the entity a financial penalty or restrict the entity's access to economic benefits; and

(ii) as a result of that right, the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it; or

(b) in the case of a constructive obligation, if the entity's pattern of past practice, published policy or sufficiently specific current statement creates valid expectations in other parties that the entity will discharge the responsibility.

14G [Derives from former paragraph 22] If details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. In this Standard, such an obligation is treated as a legal obligation. Variations in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

14H [Derives from second part of former paragraph 20] An obligation requires an entity to have no practical ability to avoid discharging a responsibility. Therefore, a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to create a valid expectation in those affected that the entity will discharge its responsibility.

Transfer condition (paragraph 14A(b))

14I The second condition for meeting the present obligation recognition criterion is that the nature of the entity's obligation is to transfer an economic resource. To meet this condition, the obligation must have the potential to require the entity to transfer an economic resource to another party.

14J For that potential to exist, it does not need to be certain, or even likely, that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if a specified uncertain future event occurs.

14K Consequently, the probability of a transfer does not affect whether an obligation meets the present obligation recognition criterion—an obligation can meet that criterion even if the probability is low. However, the probability of a transfer could affect:

(a) whether the obligation meets one of the other criteria for recognising a provision—a provision is recognised only if it is probable (more likely than not) that the entity will be required to transfer an economic resource to settle the obligation (see paragraphs 14(b) and 23); and

(b) whether the entity discloses a contingent liability if the obligation does not meet all the criteria for recognising a provision (see paragraph 23).

14L An obligation to exchange economic resources with another party is not an obligation to transfer an economic resource to that party unless the terms of the exchange are unfavourable to the entity. Accordingly, the obligations arising under an executory contract—for example, a contract to receive goods in exchange for paying cash—are not obligations to transfer an economic resource unless the contract is onerous.

Past-event condition (paragraph 14A(c))

14M The third condition for meeting the present obligation recognition criterion is that the entity's obligation is a present obligation that exists as a result of a past event.

14N An entity's obligation becomes a present obligation that exists as a result of a past event when the entity:

(a) has obtained specific economic benefits or taken a specific action, as described in paragraphs 14B and 14D; and

(b) as a consequence of having obtained those benefits or taken that action, will or may have to transfer an economic resource it would not otherwise have had to transfer.

14O If the economic benefits are obtained, or the action is taken, over time, the past-event condition is met, and the resulting present obligation accumulates, over that time.

14P In some situations, an entity has an obligation to transfer an economic resource only if a measure of its activity in a period (the assessment period) exceeds a specific threshold. In such situations, the action that meets the past-event condition is the activity that contributes to the total activity on which the amount of the transfer is assessed. At any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period. It is the portion attributable to the activity carried out to date. The entity recognises a provision if the recognition criteria in paragraphs 14(b) and 14(c) are met—that is, if:

(a) it is probable that the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource (see paragraph 14(b)); and

(b) a reliable estimate can be made of the amount of the obligation (see paragraph 14(c)).

Example
Legislation imposes on an entity a responsibility to pay a levy of two per cent of the revenue it generates above a specific threshold in a calendar year. Management judges that this responsibility meets both the obligation condition (paragraph 14A(a)) and the transfer condition (paragraph 14A(b)). The action that meets the past-event condition (paragraph 14A(c)) is generating revenue in the calendar year. Accordingly, a present obligation accumulates as the entity generates that revenue. At any date within the calendar year, the present obligation is the portion of the total expected obligation for the year attributable to the revenue generated to date. The entity recognises a provision if: (a) it is probable that the entity's revenue will exceed the threshold and the entity will be required to pay the levy (see paragraph 14(b)); and (b) a reliable estimate can be made of the amount of the obligation (see paragraph 14(c)).

14Q In some situations, an entity has an obligation to transfer an economic resource only if it takes two (or more) separate actions, and the requirement to transfer an economic resource is a consequence of taking both (or all) these actions. In such situations, the past-event condition is met when the entity has taken the first action (or any of the actions) and has no practical ability to avoid taking the second action (or all the remaining actions).

14R A decision to prepare an entity's financial statements on a going concern basis implies that the entity has no practical ability to avoid taking an action it could avoid only by liquidating the entity or by ceasing to trade.

Interactions between the obligation and past-event conditions

14S The enactment of a new law is not in itself sufficient to create a present legal obligation for an entity. A present legal obligation arises only if, as a consequence of obtaining the economic benefits or of taking the action to which the law applies, the entity will or may have to transfer an economic resource it would not otherwise have had to transfer (see paragraph 14N).

14T Similarly, having an established pattern of past practice, publishing a policy or making a statement is not in itself sufficient to create a present constructive obligation for an entity. A present constructive obligation arises only if, as a consequence of obtaining the economic benefits or of taking the action to which the practice, policy or statement applies, the entity will or may have to transfer an economic resource it would not otherwise have had to transfer (see paragraph 14N).

14U [Derives from former paragraph 21] An action of the entity that does not give rise to a present obligation immediately might do so at a later date, because a mechanism is introduced that imposes new responsibilities on the entity—a new law might be enacted, an existing law might be changed or the entity might establish a pattern of practice, publish a policy or make a statement that gives rise to a constructive obligation. For example, if an entity causes environmental damage, it might have no obligation to remedy the damage at the time of causing it. However, the causing of the damage will be the past event that has created a present obligation if, at a later date, a new law requires the existing damage to be rectified, or if the entity accepts responsibility for rectification in a way that creates a constructive obligation.

Uncertainty about whether the present obligation recognition criterion is met

15 **In rare cases it is not clear whether there is a present obligation to transfer an economic resource as a result of a past event. In these cases, such an obligation is deemed to exist ~~a past event is deemed to give rise to a present obligation~~ if, taking account of all available evidence, it is more likely than not that the ~~a present~~ obligation exists at the end of the reporting period.**

16 In almost all cases it will be clear whether a past event has given rise to a present obligation to transfer an economic resource. In rare cases, it is not clear—for example in a lawsuit, it may be disputed either whether specific ~~certain~~ events have occurred or whether those events result in a present obligation to transfer an economic resource. In such a case, an entity determines whether such an ~~a present~~ obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:

(a) where it is more likely than not that a present obligation to transfer an economic resource exists as a result of a past event at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and

(b) where it is more likely that no such ~~present~~ obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of the entity being required to transfer an economic resource ~~an outflow of resources embodying economic benefits~~ is remote (see paragraph 86).

~~Past event~~

17–22 [Deleted]

~~17~~ [Replaced by paragraph 14F] ~~A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:~~

~~(a)~~ ~~where the settlement of the obligation can be enforced by law; or~~

~~(b)~~ ~~in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.~~

~~18~~ ~~Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the end of the reporting period.~~

~~19~~ [Replaced by paragraphs 14N–14R] ~~It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.~~

~~20~~ [Renumbered as paragraphs 14E and 14H with edits] ~~An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management~~

~~or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.~~

~~21~~ [Renumbered as paragraph 14U with edits] ~~An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.~~

~~22~~ [Renumbered as paragraph 14G] ~~Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.~~

...

Measurement

Best estimate

36 **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**

...

<u>Costs to include</u>

<u>40A</u> <u>The expenditure required to settle an obligation comprises the costs that relate directly to the obligation. Costs that relate directly to an obligation consist of both:</u>

<u>(a)</u> <u>the incremental costs of settling that obligation; and</u>

<u>(b)</u> <u>an allocation of other costs that relate directly to settling obligations of that type.</u>

...

Risks and uncertainties

42 **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

45 **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47 **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s)<u>:</u>**

<u>(a)</u> current market assessments of the time value of money<u>, represented by a risk-free rate;</u> and

<u>(b)</u> <u>risks surrounding the amount or timing of the expenditure required to settle the obligation (as described in paragraphs 42–43) if those risks are not reflected in the estimates of the future cash flows</u> ~~the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted~~.

<u>47A</u> <u>The discount rate (or rates) does (do) not reflect non-performance risk—the risk that the entity will not settle the obligation.</u>

...

Application of the recognition and measurement rules

...

Restructuring

70 The following are examples of events that may fall under the definition of restructuring:

(a) sale or termination of a line of business;

(b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;

(c) changes in management structure, for example, eliminating a layer of management; and

(d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.

71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.

72 A present ~~constructive~~ obligation for the costs of a restructuring ~~to restructure~~ arises only when an entity:

(a) has a detailed formal plan for the restructuring identifying at least:

(i) the business or part of a business concerned;

(ii) the principal locations affected;

(iii) the location, function, and approximate number of employees who will be compensated for terminating their services;

(iv) the expenditures that will be undertaken; and

(v) when the plan will be implemented; and

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by:

(a) dismantling plant or selling assets; or

(b) ~~by~~ the public announcement of the plan, ~~the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only~~ if it is made in such a way and in sufficient detail (ie setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.

74 For a plan ~~to be sufficient~~ to give rise to such expectations ~~to a constructive obligation when communicated to those affected by it~~, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a present ~~constructive~~ obligation at the end of the reporting period unless the entity has, before the end of the reporting period:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under IAS 10 *Events after the Reporting Period*, if information about the restructuring is material and non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

76 Although a present ~~constructive~~ obligation is not created solely by a management decision, a present ~~an~~ obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a present ~~constructive~~ obligation for restructuring costs ~~to restructure~~, if the conditions of paragraph 72 are met.

77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (eg employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a present ~~constructive~~ obligation for restructuring costs ~~to restructure~~.

78 **No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.**

79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on

acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under IAS 36. When a sale is only part of a restructuring, a present ~~constructive~~ obligation can arise for the costs of the other parts of the restructuring before a binding sale agreement exists.

80 **A restructuring provision shall include only present obligations for the direct expenditures arising from the restructuring, which are those that are both:**

(a) **necessarily entailed by the restructuring; and**

(b) **not associated with the ongoing activities of the entity.**

80A A restructuring provision could include such obligations as:

(a) statutory, contractual or constructive obligations to pay termination benefits to employees whose roles are made redundant by the restructuring, to the extent that the obligations relate to past employment; or

(b) contractual obligations to pay penalties for cancelling executory supply contracts the entity entered into before the end of the reporting period.

81 A restructuring provision does not include such costs as:

(a) retraining or relocating continuing staff;

(b) marketing; or

(c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not present obligations to transfer an economic resource ~~liabilities for restructuring~~ at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

...

Disclosure

...

85 **An entity shall disclose the following for each class of provision:**

(a) **a brief description of the nature of the obligation and the expected timing of any resulting transfer ~~outflows~~ of economic resources ~~benefits~~;**

(b) **an indication of the uncertainties about the amount or timing of that transfer ~~those outflows~~. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48;~~ and~~**

(c) **the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement; and~~.~~**

(d) **if a provision is discounted, the discount rate (or rates) used in measuring the provision and the approach used to determine that rate (or those rates).**

...

Transitional provisions

...

94B *Provisions—Targeted Improvements*, issued in [Month, Year], amended IAS 37 (see paragraph 106). An entity shall apply those amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (see paragraph 94C), except as required by paragraph 94D and as permitted by paragraph 94E. For the purposes of applying paragraphs 94C–94E:

(a) the transition date is the beginning of the first annual reporting period for which the entity provides comparative information; and

(b) the date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments.

94C To apply the amendments described in paragraph 94B retrospectively, an entity shall at the transition date:

(a) identify, recognise and measure provisions as if the entity had always applied the amendments;

(b) re-measure the carrying amount of related assets (for example, items of property, plant and equipment or right-of-use assets), if any, as if the entity had always applied the amendments; and

(c) recognise any resulting net difference in retained earnings or other component of equity, as appropriate.

94D If an entity changes its accounting policy for the costs it includes in the measure of a provision to comply with paragraph 40A, the entity shall apply the change in accounting policy:

(a) only to obligations the entity has not yet settled at the date of initial application; and

(b) without restating comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of a related asset (if any), retained earnings or other component of equity, as appropriate, at the date of initial application.

94E If an entity changes its accounting policy for determining discount rates to comply with the amendments to paragraphs 47–47A, the entity is not required to comply with the requirements in IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* for changes in the measurement of a provision that occurred before the transition date. An entity that uses this exemption shall:

(a) apply the amended requirements to restate the provision at the transition date; and

(b) apportion the amount by which it adjusts the provision at the transition date between the related asset and retained earnings:

(i) assuming the current discount rate(s) and estimates of cash flows used in measuring the provision have not changed since the provision was first recognised; and

(ii) using current estimates of the useful life of the related asset.

Effective date

...

106 *Provisions—Targeted Improvements*, issued in [Month, Year]:

(a) added paragraphs 14A–14U, 40A, 47A, 80A, 94B–94E and 106–108;

(b) deleted paragraphs 17–22; and

(c) amended paragraphs 3, 10, 14, 15–16, 47, 72–77, 79–80, 81 and 85.

107 An entity shall apply the amendments listed in paragraph 106 for annual reporting periods beginning on or after [Day, Month, Year]. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Withdrawal of IFRIC 6 and IFRIC 21

108 *Provisions—Targeted Improvements*, issued in [Month, Year], supersedes IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies*.

Appendix A—[Draft] Minor amendments to IAS 37

This appendix lists [draft] minor amendments to other paragraphs in IAS 37 that include words or phrases from the definition of a liability in paragraph 10.

Paragraphs 10, 13, 23–24, 28–30, 39, 59 and 86 and the subheading before paragraph 23 are amended. New text is underlined and deleted text is struck through.

Definitions

10 **The following terms are used in this Standard with the meanings specified:**

...

A *contingent liability* is:

...

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

...

Relationship between provisions and contingent liabilities

...

13 This Standard distinguishes between:

(a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer economic resources to settle the obligations; and

(b) contingent liabilities – which are not recognised as liabilities because they are either:

(i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to the transfer of an economic resource ~~an outflow of resources embodying economic benefits~~; or

(ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

...

Recognition

Provisions

...

Probable transfer of an economic resource ~~outflow of resources embodying economic benefits~~

23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of the entity transferring an economic resource ~~an outflow of resources embodying economic benefits~~ to settle that obligation. For the purpose of this Standard,[footnote not included] a transfer of an economic resource ~~an outflow of resources~~ or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of the entity transferring an economic resource ~~an outflow of resources embodying economic benefits~~ is remote (see paragraph 86).

24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that a transfer ~~an outflow~~ will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of a transfer ~~outflow~~ for any one item may be small, it may well be probable that some transfers ~~outflow of resources~~ will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

...

Contingent liabilities

...

28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ is remote.

29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ is probable, except in the extremely rare circumstances where no reliable estimate can be made.

30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether a transfer of an economic resource ~~an outflow of resources embodying economic benefits~~ has become probable. If it becomes probable that the entity ~~an outflow of future economic benefits~~ will be required to transfer an economic resource for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

...

Measurement

Best estimate

...

39 ...

Example
An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of repair costs ~~an outflow~~ for the warranty obligations as a whole. The expected value of the cost of repairs is: (75% of nil) + (20% of 1m) + (5% of 4m) = 400,000

...

Changes in provisions

59 **Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that the entity ~~an outflow of resources embodying economic benefits~~ will be required to transfer an economic resource to settle the obligation, the provision shall be reversed.**

...

Disclosure

...

86 **Unless the possibility of any transfer of economic resources ~~outflow~~ in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:**

(a) an estimate of its financial effect, measured under paragraphs 36–52;

(b) an indication of the uncertainties relating to the amount or timing of any transfer ~~outflow~~; and

(c) the possibility of any reimbursement.

Appendix B—[Draft] Amendments to other IFRS Accounting Standards

This appendix sets out the [draft] amendments to other IFRS Accounting Standards proposed as a consequence of the proposed amendments to IAS 37.

IFRS 3 *Business Combinations*

Paragraphs 21, 22 and 23 and the subheading after paragraph 21 are amended. Paragraphs 21A–21C and the subheading before paragraph 21A are deleted. Paragraph 64S is added. New text is underlined and deleted text is struck through.

The acquisition method

...

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

...

Exceptions to the recognition or measurement principles

21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs 22 ~~21A~~–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs 22 ~~21A~~–31A, which will result in some items being:

(a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.

(b) measured at an amount other than their acquisition-date fair values.

Exception ~~Exceptions~~ to the recognition principle

~~**Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21**~~

21A–21C [Deleted]

~~21A~~ ~~Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.~~

~~21B~~ ~~The *Conceptual Framework for Financial Reporting* defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past~~

~~events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.~~

~~21C~~ ~~A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.~~

Contingent liabilities and contingent assets

22 IAS 37 defines a contingent liability as:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

(b) a present obligation that arises from past events but is not recognised because:

(i) it is not probable that <u>the entity</u> ~~an outflow of resources embodying economic benefits~~ will be required <u>to transfer an economic resource</u> to settle the obligation; or

(ii) the amount of the obligation cannot be measured with sufficient reliability.

23 The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that <u>the entity</u> ~~an outflow of resources embodying economic benefits~~ will be required <u>to transfer an economic resource</u> to settle the obligation. Paragraph 56 of this IFRS provides guidance on the subsequent accounting for contingent liabilities.

...

Effective date and transition

Effective date

...

<u>64S</u> <u>*Provisions—Targeted Improvements*, issued in [Month, Year], which amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, also amended paragraphs 21, 22 and 23 of this Standard and deleted paragraphs 21A–21C. An entity shall apply the amendments to this Standard when it applies the amendments to IAS 37.</u>

IFRS 19 *Subsidiaries without Public Accountability: Disclosures*

Paragraphs 258 and 259 are amended and paragraph A6 is added. New text is underlined and deleted text is struck through.

Disclosure requirements

...

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

...

258 An entity shall also disclose, for each class of provision (comparative information is not required):

(a) a brief description of the nature of the obligation and the expected timing of any resulting transfer ~~outflows~~ of economic resources ~~benefits~~.

(b) an indication of the uncertainties about the amount or timing of that transfer ~~those outflows~~. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48 of IAS 37.

(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

(d) if a provision is discounted, the discount rate (or rates) used in measuring the provision.

259 Unless the possibility of any transfer of economic resources ~~outflow~~ in settlement is remote, an entity shall disclose, for each class of contingent liability at the end of the reporting period, a brief description of the nature of the contingent liability and, where practicable:

(a) an estimate of its financial effect, measured under paragraphs 36–52 of IAS 37;

(b) an indication of the uncertainties relating to the amount or timing of any transfer ~~outflow~~; and

(c) the possibility of any reimbursement.

...

Appendix A—Effective date and transition

...

Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

A6 *Provisions—Targeted Improvements*, issued in [Month, Year], amended IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and paragraphs 258 and 259 of this Standard. An entity shall apply the amendments to paragraphs 258 and 259 when it applies the amendments to IAS 37.

Other consequential amendments

Table B1 lists paragraphs of other IFRS Accounting Standards and accompanying guidance for which minor consequential amendments would be required to align the wording of references to IAS 37 with the revised wording in IAS 37.

Table B1—Other consequential amendments

Type of amendment	IFRS Accounting Standard or guidance	Paragraphs
Updated references to requirements in IAS 37 to maintain consistency with the amended wording of the definition of a liability and recognition criteria in IAS 37.	*Illustrative Examples on IAS 34* Interim Financial Reporting	B3–B4
	IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*	3–4
Updated wording of references to the IAS 37 requirements on discount rates.	IFRS 1 *First-time Adoption of International Financial Reporting Standards*	D21(b)
	Guidance on implementing IFRS 1 First-time Adoption of International Financial Reporting Standards	IG Example 201 (after paragraph IG203)
	IFRIC 1	3–4

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The Exposure Draft *Provisions—Targeted Improvements* was approved for publication by all 14 members of the International Accounting Standards Board.

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