Staff paper

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IASB® meeting

Date	**April 2024**
Project	**Provisions—Targeted Improvements**
Topic	**Present obligation recognition criterion**
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Session overview

1. The International Accounting Standards Board (IASB) is developing proposals for targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

2. In this session we will ask the IASB to decide whether to propose amendments to:

   (a) the definition of a liability applied in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*;

   (b) the wording of the recognition criterion applying that definition—the requirement for an entity to have a present obligation as a result of a past event (the present obligation recognition criterion); and

   (c) requirements and illustrative examples supporting that recognition criterion.

3. In this paper we:

(a) remind IASB members of our initial suggestions for possible amendments, which they discussed in April 2023 (paragraph 4–8);

(b) report the outcomes of subsequent consultation with stakeholders—feedback from stakeholders and our responses to that feedback (paragraphs 9–30);

(c) consider suggestions for further amendments from stakeholders commenting on the IFRS Interpretations Committee's tentative Agenda Decision *Climate-related Commitments* (paragraphs 31–42);

(d) present recommendations for proposed amendments. Our recommendations are set out in paragraphs 44–45 and explained further in the tables in the appendix to this paper.

IASB discussion of initial suggestions for possible amendments—April 2023

4. In April 2023, the IASB discussed initial staff suggestions for possible amendments to the IAS 37 definition of a liability, and to the requirements and illustrative examples supporting the present obligation recognition criterion.

5. In the staff paper for that meeting, Agenda Paper 22 *Provisions—Liability definition and 'present obligation' recognition criterion* we provided IASB members with background information explaining:

   (a) problems experienced with the existing requirements and illustrative examples; and

   (b) progress the IASB had already made towards developing possible amendments—revisions to the *Conceptual Framework for Financial Reporting (Conceptual Framework)* in 2018.

6. Our suggestions for possible amendments included:

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

   (b) *changes to* some requirements supporting the present obligation recognition criterion, using concepts added to the *Conceptual Framework* in 2018. These changes would include the withdrawal of IFRIC 21 *Levies* and would affect the timing of recognition of some provisions.

   (c) *clarification of* other requirements supporting the present obligation recognition criterion, by identifying three distinct conditions within the criterion and explaining each one in a separate section. Separating the conditions in this way would disentangle requirements relating to the enforceability of an obligation from those relating to the timing of the event that gives rise to the obligation.

   (d) *improved explanations of the reasons for:*

      (i) application requirements for restructuring provisions; and

      (ii) conclusions in illustrative examples; and

   (e) *absorption of* IFRIC Interpretations and agenda decisions.

7. To help the IASB members understand the implications of the amendments, and how they would all fit together, we included with the staff paper two appendices containing our initial suggestions for:

   (a) drafting of our suggested amendments to IAS 37—Agenda Paper 22 (Appendix A); and

   (b) drafting of our suggested additions and amendments to the illustrative examples accompanying IAS 37—Agenda Paper 22 (Appendix B).

8. We did not ask the IASB for any decisions but invited comments from IASB members. We have taken these comments into account in developing our staff recommendations.

Consultation with stakeholders—June–November 2023

9. After the IASB discussed the initial staff suggestions for possible amendments, we sought views on the suggestions from various groups of shareholders. In this section we summarise the feedback and explain how our recommendations respond to that feedback.

Who we consulted and how

10. The groups of stakeholders we consulted included:

    (a) users of financial statements—via the IASB's Capital Markets Advisory Committee (CMAC) and other informal groups;

    (b) preparers of financial statements—via the IASB's Global Preparers Forum (GPF) and other informal groups;

    (c) national standard-setters—via the IASB's Accounting Standards Advisory Forum (ASAF); and

    (d) members of the IFRS Interpretations Committee (Interpretations Committee).

11. We invited members of the ASAF and Interpretations Committee to comment on the detailed staff papers the IASB discussed at its April 2023 meeting, including our initial suggestions for drafting the possible amendments to IAS 37 and for additions and amendments to the illustrative examples accompanying IAS 37.

12. We invited members of the CMAC and GPF to comment on summaries of the main changes discussed in the staff papers.

Summary of feedback

13. Members of all the groups we consulted expressed broad support for the overall direction of the possible amendments. Some said they especially welcomed:

    (a) the elimination of differences between IAS 37 and the *Conceptual Framework;*

    (b) the amendments that would result in a change in the timing of recognition of provisions for some levies; and

    (c) the disentangling of requirements relating to the enforceability of an obligation from those relating to the timing of the event that gives rise to the obligation.

14. Some ASAF and IFRS Interpretations Committee members thanked us for the illustrative drafting. They said it had helped them understand the extent and possible implications of the suggested amendments.

15. Some stakeholders expressed concerns about aspects of the possible amendments, or suggested ways of improving their presentation or drafting. We have taken these comments into account in developing our staff recommendations. The main concerns and suggested improvements are explained further in paragraphs 16–30 below.

Concerns and suggestions for improvements

Possible implications for some levies

16. Of the stakeholders expressing concerns about the amendments, the main concern related to the possible implications for the timing of recognition of some levies—most notably some levies that become payable only if an entity takes both (or all) of two (or more) specified actions.

17. Applying concepts from the *Conceptual Framework*, we suggested specifying in IAS 37 that an entity has a present obligation when it has taken the first action if it has no practical ability to avoid the other action (or actions).

18. Some stakeholders suggested it was not sufficiently clear what actions would be relevant to the assessment. Some noted that some annual levies (for example, property taxes or levies to build funds to compensate deposit holders in the event of a bank collapse) are measured by reference to a past valuation of an entity's assets or liabilities—possibly a past valuation that is updated only every few years. Stakeholders expressed concern that, although such levies are intended to impose a charge on the entity for its activity in the year of charge, the amended requirements might mean the entity has to recognise a provision at the earlier valuation date—and perhaps a provision for several years' levies if the valuation is not updated annually.

19. We think this concern might be misplaced. We have looked at some examples of levies that involve measurement by reference to past valuations. We have found that in those examples, it appears that an entity is liable for a levy for its actions in the year of charge irrespective of whether it held the assets or liabilities at the past valuation date. In other words, holding assets or liabilities at the past valuation date is not a condition for paying the levy—it is not one of the actions whose consequence is that the entity will or may have to pay a levy it would not otherwise have had to pay. So it would not be the trigger for recognising a provision. In one example we considered, it appears that the valuation attaches to the asset, whoever owned it at the past valuation date. In another example we considered, it appears that an entity that did not have chargeable liabilities at the past valuation date is charged a levy by reference to a more recent valuation. In other words, the holding of assets or liabilities at the past valuation date is not one of the actions required for a levy to become payable—it no more than a means of measuring the amount of the levy.

20. We intend to develop more examples illustrating the types of actions that would be considered in assessing whether the timing condition is met, to clarify why a present obligation does not necessarily arise at the valuation date of assets or liabilities by reference to which the levy is measured. The present obligation to pay a levy arises only if the entity takes an action as a consequence of which it will have to pay a levy *it would not otherwise have had to pay*.

Need for clearer distinction between enforceability and timing conditions

21. Some stakeholders said that, while welcoming our suggestions to disentangle requirements relating to the enforceability of an obligation from requirements relating to the timing of the event that gives rise to the obligation, they thought the disentangling was not evident enough in the drafting. Although the drafting identified three distinct conditions within the present obligation criterion, and explained each one in a separate section, the differing purposes of these conditions was not clear.

22. We found that stakeholders understood the differing purposes of the three conditions more readily when we labelled them. We started to label them as:

    (a) a 'strength' condition—a condition relating to the strength of the mechanism (whether legal or constructive) constraining the entity's practical ability to avoid a responsibility;

    (b) a 'nature' condition—requiring the obligation to be an obligation to transfer an economic resource; and

    (c) a 'timing' condition—requiring the obligation to be a present obligation arising from a past event, and specifying the event that turns an obligation into a present obligation.

23. We have suggested using these labels in drafting the amendments.

Need for a flow chart or decision tree

24. Some IASB members and stakeholders suggested that a flow chart or decision tree could help readers navigate the amended recognition criteria. Some noted that IAS 37 already has three recognition criteria, and the suggested amendments would divide the first of these criteria (the present obligation criterion) into three separate conditions. So, effectively, there would be five conditions to satisfy before a provision is recognised, and varying consequences if one or more of these conditions is not met—in some cases, the entity discloses a contingent liability but in other cases it does not. A flow chart or decision tree could ease application by providing a step-by-step process to follow, and clarify the consequences of meeting or failing to meet each condition.

25. The Guidance on Implementing IAS 37 that accompanies the Standards already has a basic decision tree for recognition decisions. We suggest expanding this basic tree to create a more comprehensive one. Agenda Paper 22F *Indicative drafting—decision tree* illustrates the possible content and format of an expanded decision tree.

Better explanation of the conclusions in illustrative examples

26. To accompany the amendments to the requirements supporting the present obligation recognition criterion, we suggested also amending the supporting illustrative examples. As shown in Agenda Paper 22 (Appendix B) for the IASB's April 2023 meeting, we suggested adding examples using the fact patterns of:

    (a) IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*;

    (b) IFRIC 21;

    (c) IFRS Interpretations Committee Agenda Decision *Negative Low Emission Vehicle Credits*; and

    (d) commitments an entity makes to reduce or offset its future greenhouse gas emissions (net zero transition commitments).

27. We also suggested updating the explanations for the conclusions in some of the existing examples accompanying IAS 37 (without changing those conclusions).

28. IASB members and stakeholders welcomed the suggested new examples and the updating of the existing examples. However, many said they thought the conclusions in some of the new and existing examples—especially the levies examples—were not explained fully enough. In particular, they said it was unclear in some examples why the timing condition was met—in other words, it was not clear what the past event was that had given rise to a present obligation.

29. Some IASB members and stakeholders suggested expanding the conclusions to explain for each example whether and why the entity had an obligation that satisfied each one of the three conditions within the present obligation recognition criterion—the strength, nature and timing conditions.

30. We are now revising the illustrative examples to reflect these suggestions. We intend to present revised examples for IASB members to review as part of the balloting process.

Agenda Decision *Climate-related Commitments*

31. In this section, we consider whether to propose additional requirements for IAS 37 in response to suggestions from stakeholders commenting on the IFRS Interpretations Committee's Agenda Decision *Climate-related Commitments*.

Background

32. As discussed further in Agenda Paper 12A *Climate-related Commitments—Finalisation of Agenda Decision* for this meeting, the IFRS Interpretations Committee has considered a request asking it to clarify how IAS 37 applies to a net zero transition commitment. Specifically, the request asked for clarification of whether such a

commitment gives rise a to constructive obligation and if so, whether that obligation meets the criteria for recognising a provision.

33. The Committee concluded that the principles and requirements in IAS 37 provide an adequate basis for an entity to answer these questions and accordingly decided not to add a standard-setting project to the work plan. In December 2023, the Committee published for comment its tentative agenda decision, setting out its conclusion and the technical analysis supporting that conclusion.

Suggestions for additional requirements and guidance in IAS 37

34. As noted in paragraph 11 of Agenda Paper 12A, some stakeholders commenting on the tentative agenda decision also commented on climate-related matters outside the scope of the agenda decision. Comments included requests for the IASB to add requirements to IAS 37 as part of this Provisions project. We discuss these requests below.

Factors to consider in judging whether a net zero transition commitment gives rise to a constructive obligation

35. Some stakeholders commenting on the tentative agenda decision requested guidance on the factors management would consider in judging whether an entity's statement of its net zero transition commitment creates a constructive obligation to fulfil the commitment. They said that such guidance could support consistent application.

36. Most of these stakeholders asked for the guidance to be included in the agenda decision or published as educational material. But some acknowledged that it might not be possible to publish the guidance in either of these ways—the guidance could add to the requirements in IAS 37 and, if it did, the IASB would need to develop it within a project to amend IAS 37. These stakeholders asked the IASB to consider adding application requirements as part of this Provisions project.

37. We think the IASB should not propose application requirements on factors to consider in assessing net zero transition commitments as part of this project:

    (a) we think the requirements would be of limited practical use because at the time an entity makes a net zero transition commitment, the existence or not of a constructive obligation has no bearing on the accounting treatment. As explained in the agenda decision, no provision is recognised for a net zero transition commitment until the event has occurred to which the commitment applies—for example, until the entity has emitted greenhouse gases it has committed to offset—which could be many years after the entity makes its commitment. By the time that event has occurred, the judgement about whether the entity has a constructive obligation to offset its emissions is likely to be more straightforward.

    (b) among the stakeholders commenting on the tentative agenda decision there was disagreement on the factors that ought to be considered. As explained further in paragraph 24 of IFRS Interpretations Committee March 2024 meeting Agenda Paper 2A *Climate-related Commitments—Comment letter analysis*:

        (i) a previous staff paper (for the Interpretation Committee's November 2023 meeting) had set out examples of factors that might be considered. Examples included the language used in the statement, the specificity and status of plans supporting the statement, the timing of the actions required to fulfil the commitment and publicly available evidence of progress to date. While some commentators agreed with these examples, others disagreed. A climate policy adviser cautioned that there are many and varied reasons why an entity might have no alternative but to follow through with a climate target and any guidance could be 'over-interpreted'. One stakeholder said it thought that the actions an entity takes to affirm its commitment are more important than the language it uses in its statement.

(ii) there were conflicting views on whether guidance should refer to the criteria set out in paragraphs 72–74 of IAS 37 for concluding that an entity has a constructive obligation for the costs of restructuring a business. A few stakeholders suggested clarifying that management could refer to those criteria by analogy. But another stakeholder said that, in a real-world case it had been working on, it had found that restructuring provisions criteria were 'not necessarily a good fit'.

(c) even if the IASB can obtain consensus on the factors that should be considered in today's environment, these factors are likely to change over time as social attitudes, climate-related risks and regulations evolve.

Additional disclosure requirements

38. Some stakeholders commenting on the tentative agenda decision suggested adding to IAS 37 requirements for entities making climate-related commitments to disclose three types of information about those commitments:

(a) how management determined whether the commitment creates a constructive obligation;

(b) how management judged whether a provision should be recognised for that commitment; and

(c) how the entity's financial statements reflect the effects of the commitment.

39. We think the IASB should not propose to add to IAS 37 requirements to disclose how management determined either whether a commitment creates a constructive obligation or whether a provision should be recognised. IFRS Accounting Standards require financial statements to report the outcomes of applying the Standards, not factors management considered in deciding how to apply them. In other words, if the outcome of applying a Standard is a conclusion that an asset or liability is not

recognised, or no information need be disclosed, the entity does not need to explain how management arrived at that conclusion.

40. We also think the IASB should not propose to add to IAS 37 a requirement to disclose how the entity's financial statements reflect the effects of a net zero transition commitment:

   (a) existing disclosure requirements in IAS 37 would lead to information about how the provisions and contingent liabilities recognised and disclosed in the entity's financial statements reflect effects of the commitment, if any; and

   (b) it is not the place of IAS 37 to require information about how other aspects of an entity's financial performance and financial position (those within the scope of another IFRS Accounting Standard) reflect such effects.

Illustrative examples

41. Some stakeholders commenting on the tentative agenda decision suggested the IASB add application guidance or illustrative examples to IAS 37 to explain how the amended requirements would apply to net zero transition commitments like those discussed in the Agenda Decision. One stakeholder also suggested including examples illustrating more complex fact pattens—for example, those in which an entity has a present obligation for costs that become payable only if a measure of its activity (for example, its greenhouse gas emissions) exceeds a specified threshold.

42. We intend to include such examples among those we suggest adding to the Illustrative Examples accompanying IAS 37. We intend to present our suggestions for IASB members to review as part of the balloting process.

Staff recommendations

43. The staff recommendations for proposed amendments are set out in paragraph 44.

> **Note**:
> Each recommendation is explained further in one of the tables in the appendix to this paper, to help IASB members understand the scope of the recommendations. These tables refer to indicative drafting and suggestions for new illustrative examples. The decisions requested at this meeting do not encompass either drafting or choice of illustrative examples. The IASB will be asked to review and approve drafting and illustrative examples as part of the drafting and balloting process.

44. The staff recommend that the IASB propose:

(a) to update the liability definition applied in IAS 37, and the wording of the present obligation recognition criterion, aligning them with the definition in the *Conceptual Framework* (Tables 1 and 2);

(b) to clarify the requirements supporting the present obligation recognition criterion by:

(i) disentangling three distinct conditions within that criterion—strength, nature and timing conditions—by identifying and explaining each one separately; and

(ii) expanding the decision tree in the Implementation Guidance accompanying IAS 37 to demonstrate the process an entity could follow in determining whether to recognise a provision, disclose a contingent liability or do neither (Table 3);

(c) to replace the existing requirements supporting the present obligation recognition criterion with new requirements based on concepts in the *Conceptual Framework*, and withdraw IFRIC 21 (Tables 4–6):

(d) to improve the explanations of the application requirements for restructuring provisions, without changing those requirements (Table 7); and

(e) to add new examples to the illustrative examples accompanying IAS 37 and update the explanation of the conclusions for some of the existing examples (without changing those conclusions) (Table 8).

45. For the reasons set out in paragraphs 37 and 39 of this paper, the staff recommend that the IASB does propose to add to IAS 37 requirements relating specifically to net zero transition commitments.

Questions for the IASB

Questions for the IASB
1. Do you agree with the recommendation to propose the amendments to IAS 37 listed in paragraph 44 of this paper? 2. Do you agree with the recommendation in paragraph 45 not to propose adding requirements relating specifically to net zero transition commitments?

Appendix—Further information on the amendments recommended by staff in paragraph 44 of this paper

Table 1

Recommendation 44(a)	**Update the definition of a liability**
How	Replace the definition of a liability in IAS 37 with the new definition added to the *Conceptual Framework* in 2018: 'a present obligation of the entity to transfer an economic resource as a result of past events'.
Why	IAS 37 is the only IFRS Accounting Standard that uses the old definition. Updating the definition will improve the cohesiveness of IFRS Accounting Standards. In particular, it could help preparers of financial statements who are developing an accounting policy for a transaction that is not specifically addressed by any Standard—preparers would not have to make a judgement about which of two definitions to apply. The new definition is clearer, and provides the wording on which to hook the amendments to the requirements supporting the present obligation recognition criterion.
Implications	We think that updating the definition would not, in itself, change the outcome of applying IAS 37 to any transaction.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37*, paragraph 10.

Table 2

Recommendation 44(a)	**Align the wording of the present obligation recognition criterion with the updated liability definition**
How	Add to the present obligation recognition criterion a requirement for the obligation to be an obligation 'to transfer an economic resource'.
Why	The present obligation recognition criterion is essentially a requirement for the entity to have an obligation that meets the definition of a liability. This requirement is clearer if the wording of the criterion is aligned with that definition. Adding a reference to the nature of the obligation (to transfer an economic resource) also provides a hook for a new explicit 'nature' condition, the importance of which is explained in Table 5.
Implications	See Table 5.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37* Paragraph 14(a)

Table 3

Recom-mendation 44(b)	**Clarify the requirements supporting the present obligation recognition criterion**
How	• Delete the requirement for, and definition of, an obligating event. Replace with requirements to satisfy three distinct conditions—a strength condition, a nature condition and a timing condition—and explain each condition in a separate section. • Expand the decision tree in section B of the implementation guidance accompanying IAS 37.

Recom-mendation 44(b)	**Clarify the requirements supporting the present obligation recognition criterion**
Why	Identify three conditions: The present requirements focus on identifying an obligating event, but as explained further in paragraphs 11 – 15 of IASB April 2023 Agenda Paper 22, the definition of an obligating event entangles the strength criterion with the timing criterion. This entangling has been the source of difficulties in identifying when to recognise some provisions. It was at least part of the reason for the questions to the Interpretations Committee that resulted in IFRIC 6, IFRIC 21 and the Agenda Decision *Negative Low Emission Vehicle Credits*, and for the difficulties the Interpretations Committee had in answering those questions. Expand decision tree: There would be five conditions to satisfy before a provision is recognised, and varying consequences if one or more of these conditions is not met—in some cases, the entity discloses a contingent liability but in other cases it does not. A decision tree could make process for applying the conditions easier to follow, and the consequences of meeting or failing to meet each condition easier to identify. NB The proposed decision tree clarifies that if the entity does not have an obligation (or possible obligation) that satisfies the present obligation recognition criterion, the entity has neither a provision nor a contingent liability. This clarification should help correct a widespread misunderstanding that any obligation that fails any of the criteria for recognising a provision should be disclosed as a contingent liability.
Implications	Because these changes would clarify the existing requirements, they could reduce diversity in application.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37,* paragraphs 10,14A Agenda Paper 22F *Indicative Drafting—decision tree*

Table 4

Recom-mendation 44(c)	**Amend requirements supporting the strength condition—the requirement for an obligation**
How	Amend paragraphs 17 and 20 of IAS 37. The most substantive change would be to replace the existing requirement that settlement of a legal obligation 'can be enforced by law' with broader criteria for identifying a legal obligation that an entity has no practical ability to avoid.
Why	The requirement that a legal obligation can be enforced by law has proved difficult to apply to (increasingly common) situations in which a counterparty cannot use the courts to force an entity to comply with legal requirements but can take other forms of action against entities that fail to comply, and the threat of that action might be sufficient to leave the entity with no practical ability to avoid complying. The Interpretations committee had to consider this question in reaching its conclusions in Agenda Decision *Negative Low Emission Vehicle Credits*. It concluded that it is sufficient that the counterparty can take some form of legal action against a non-compliant entity and the consequences of that action are such that the entity is left with no realistic alternative to settling the obligation. The proposed amendments would reflect this conclusion, and be more consistent with the *Conceptual Framework.*
Feedback	Stakeholders we consulted welcomed this change. But some questioned the meaning of 'take action against the entity', so we have added some examples of actions.
Implications	Because this change would clarify the existing requirements, they could reduce diversity in application.
Drafting	Agenda Paper 22E *Indicative Drafting—IAS 37,* paragraphs 14B–14G

Table 5

Recommendation 44(c)	**Add explicit requirements to support the nature condition—the requirement for an obligation to transfer an economic resource**
How	Add an explicit requirement that the obligation must be an obligation to transfer an economic resource and a clarification (based on concepts in the *Conceptual Framework*) that an obligation to exchange resources is not an obligation to transfer a resource unless the exchange is unfavourable for the entity. Update the explanations of the conclusions in Illustrative Examples 6, 11A and 11B to clarify that in these examples the entity does not recognise a provision because its obligation is to exchange, not transfer, economic resources.
Why	The notion that an obligation to exchange resources is not an obligation to transfer a resource is implicit in the requirements of IAS 37 but not stated explicitly. Because the conclusions in the illustrative examples use other reasoning, they can be confusing and difficult to apply by analogy. For example, stakeholders found it difficult to understand the Interpretations Committee's conclusion that an entity does not have a liability in these examples but does have a liability in the fact pattern of Agenda Decision *Negative Low Emission Vehicle Credits*. Several stakeholders commented on how helpful it was for the conclusions in the illustrative examples to be clarified.
Implications	These clarifications do not change the requirements of IAS 37 but should make them easier to apply.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37,* paragraphs 16A–16C

Table 6

Recom-mendation 44(c)	**Amend requirements supporting the timing condition—the requirement for a present obligation as a result of a past event**
How	Delete paragraph 19 from IAS 37 and replace it with concepts identifying the 'past event' from paragraphs 4.43–4.47 of the *Conceptual Framework.* Withdraw IFRIC 21, which is inconsistent with these concepts.
Why	As explained further in paragraphs 16–18 of IASB April 2023 Agenda Paper 22, paragraph 19 of IAS 37 and its interpretation in IFRIC 21 have been widely criticised by stakeholders because they result in some periodic levies being recognised at a point in time, an outcome that they think does not faithfully represent the impact of the levy. Furthermore, these requirements are inconsistent with those in other IFRS Accounting Standards for similar types of transactions, such as cash-settled share-based payments subject to vesting conditions. The IASB has developed new concepts for identify the 'past event' that gives rise to a present obligation and added these to the *Conceptual Framework*. Although the IASB designed these concepts to have general applicability, it developed them with the problems of IAS 37 in mind.
Implications	The amended requirements would change the timing of recognition of some provisions. Obligations for payments triggered only if an entity takes two (or more) actions would be recognised when the entity has taken the first action if the entity has no practical ability to avoid the other action (or actions). At present, no provision is recognised until the entity has taken the last action.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37,* paragraphs 19A–19C and 21A

Table 7

Recom-mendation 44(d)	**Improve the explanation of the requirements for restructuring obligations**
How	Amend the wording of the requirements for restructuring obligations to avoid saying anywhere that an entity has a 'constructive obligation to restructure'. Consider adding examples of restructuring obligations that arise from past events (eg past employment) that might be included in a restructuring provision.
Why	As explained further in paragraphs 52–56 of IASB April 2023 Agenda Paper 22, the wording of the requirements for restructuring provisions causes misunderstanding. An entity does not have a constructive obligation to restructure its business. A more correct analysis is that an entity may have a variety of (legal or constructive) obligations to pay specific costs **if** it restructures its business, and announcing or starting to implement a restructuring plan is evidence that the entity no longer has the practical ability to avoid these obligations, so should recognise a provision for those that arise from past events (eg redundancy costs attributable to past employment). Clarifying the reasoning is important because it explains why an entity recognises a provision for restructuring costs (attributable to past events) when it announces a restructuring plan, but does not recognise a provision for a net zero transition commitment (to incur costs in future) when it announces that commitment. Examples might help too.
Implications	The requirements for restructuring costs are unchanged.
Drafting illustration	Agenda Paper 22E *Indicative Drafting—IAS 37* Paragraphs 72–81

Table 8

Recom-mendation 44(e)	**Add new illustrative examples and update existing examples**
How	Add new examples to the illustrative examples accompanying IAS 37 and update the explanation of the conclusions for some of the existing examples (without changing those conclusions). The new examples could include examples based on the fact patterns of: a. IFRIC 6; b. various levies, including fact patterns like those in the illustrative examples accompanying IFRIC 21; c. Interpretations Committee Agenda Decision *Negative Low Emission Vehicle Credits*; and d. Interpretations Committee Agenda Decision *Climate-related Commitments*. For each of the new and existing illustrative examples, explain whether and how each of the three conditions (the strength, nature and timing conditions) are met—and in particular identify the 'past event' that gives rise to a present obligation. Withdraw IFRIC 6 and the two agenda decisions.
Why	To help stakeholders apply the amended requirements. To consolidate IAS 37-related requirements into IAS 37, making them more accessible.
Drafting illustration	Not included in the papers for this meeting. We intend to present revised examples for IASB members to review as part of the balloting process.