

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (March 2011)

Inclusion of own credit risk in discount rate

The Interpretations Committee received a request for interpretation of the phrase ‘the risks specific to the liability’ and whether this means that an entity’s own credit risk (performance risk) should be excluded from any adjustments made to the discount rate used to measure liabilities. The request assumed that future cash flow estimates have not been adjusted for the entity’s own credit risk.

The Committee observed that paragraph 47 of IAS 37 states that ‘risks specific to the liability’ should be taken into account in measuring the liability. The Committee noted that IAS 37 does not explicitly state whether or not own credit risk should be included. The Committee understood that the predominant practice today is to exclude own credit risk, which is generally viewed in practice as a risk of the entity rather than a risk specific to the liability.

The Committee also noted that this request for guidance would be best addressed as part of the Board’s project to replace IAS 37 with a new liabilities standard, and that the Board is already considering the request for additional guidance to be incorporated into this new standard. For this reason, the Committee decided not to add this issue to its agenda.