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**International
Accounting Standards
Board**

This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.

These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: Wednesday 16 April 2008, London

Project: IAS 37 Short-term convergence amendments

Subject: Cover paper (Agenda Paper 5)

Introduction

- 1 This set of papers addresses amendments proposed to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* arising from the Board's short-term convergence project. Specifically, it considers whether the proposed amendments should be revised in the light of comments received on the Exposure Draft.¹

Background

- 2 In September 2002 the Board decided to add a short-term convergence project to its active agenda. The objective of the project is to reduce differences between IFRSs and US generally accepted accounting principles (US GAAP) that are capable of resolution in a relatively short time and can be addressed outside current and planned major projects. The project is a joint project with the FASB.

1 Exposure Draft of proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*, published June 2005.

- 3 The two boards agreed to review each other's deliberations on each of the selected possible convergence topics and to choose the higher quality solution as the basis for convergence. It was expected that whichever board had more recently deliberated the topics under consideration would have the higher quality solution.
- 4 As part of the review of topics recently considered by the FASB, the Board considered the requirements of FASB Statement No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*, which was issued in June 2002. It noted significant differences between the requirements of SFAS 146 and:
- (a) the general requirements for restructuring costs in IAS 37; and
 - (b) the specific requirements for employee termination benefits in IAS 19.
- 5 The Board noted that differences between the requirements of SFAS 146 and IAS 37 were such that restructuring costs would, in many cases, be recognised at an earlier point under IFRSs than under US GAAP.
- 6 The Board considered the reasons for the differences and concluded that IAS 37 required the recognition of restructuring provisions that did not necessarily satisfy the definition of a liability.
- 7 Accordingly, the Board decided to amend IAS 37 and IAS 19 to align their requirements more closely with those of SFAS 146. Specifically, the Exposure Draft proposed:
- (a) amending the definition of a constructive obligation in IAS 37 and providing additional guidance to assist in determining whether such an obligation exists;
 - (b) substantially revising the requirements in IAS 37 for liabilities for costs associated with a restructuring and adding guidance on applying the requirements to specific costs that are often associated with a restructuring;
 - (c) adding to IAS 37 an additional recognition criterion for some liabilities for onerous contracts; and
 - (d) amending the requirements for employee termination benefits in IAS 19.

8 The Exposure Draft invited comments on each of the proposed changes. Comments on the proposed amendments to the definition of, and guidance on, constructive obligations have already been considered by the Board.² This set of papers considers the comments on two of the other three proposals:

Paper 5A Proposed amendments to IAS 37 — general requirements for restructuring costs and specific guidance for contract termination costs

Paper 5B Proposed amendments to IAS 37 — onerous contracts

9 At a future meeting, the Board will be asked to consider comments on the third of the proposals, i.e the proposal to amend the requirements for employee termination benefits in IAS 19.

² Discussed most recently in Agenda Paper 10C for July 2007 Board meeting.