



Project **Liabilities—amendments to IAS 37**

Topic **Amend IAS 37 or new IFRS?**

Paper overview

1. This paper considers whether the standard that replaces IAS 37 should be a revised IAS 37 or a new IFRS. The staff recommend an IFRS.

Relevant considerations

2. The costs of rewriting an IAS as an IFRS include:
 - (a) the costs to users of IFRS—additional time required to accustom themselves to a new layout.
 - (b) the costs to the Board—additional re-writing time for staff and reviewing time for staff, Board members and others.
3. The benefits include:
 - (a) an opportunity to make the requirements and guidance clearer.
 - (b) being one step closer to having a consistent (IFRS) layout for all standards in future.
4. The benefits are most likely to outweigh the costs if the existing IAS is unclear, the amendments are extensive and the new standard is likely to be in effect for a long time.

This paper has been prepared by the technical staff of the IASB for the purposes of discussion at a public meeting of the IASB.

The views expressed in this paper are those of the staff preparing the paper and do not purport to represent the views of any individual members of the Board or the IASB.

Decisions made by the Board are reported in IASB *Update*.

Official pronouncements of the IASB are published only after the Board has completed its full due process, including appropriate public consultation and formal voting procedures.

Arguments for issuing a revised IAS 37

5. The exposure draft proposed to revise IAS 37 rather than issue a new IFRS. This decision was due in part to time pressures—the exposure draft had to be published at the same time as the exposure draft of amendments to IFRS 3 *Business Combinations*. But the decision also reflected the limited scope of the project, the original aims of which were broadly limited to:
 - (a) aligning the liability definitions and recognition criteria with those in IFRS 3, and
 - (b) eliminating some differences between IAS 37 and FASB Statement No. 146 *Accounting for Costs Associated with Exit or Disposal Activities*.
6. It could be argued that the scope has remained limited. Much of the essence of IAS 37—including the measurement objective and disclosure requirements—will not change.

Arguments for issuing an IFRS

7. However, despite the original aims of the project being limited, significant redrafting will be required. Much of the terminology and guidance supporting the liability definition is changing. The changes proposed in the exposure draft were too extensive to be shown as marked amendments to IAS 37. And the Table of Concordance at the end of the exposure draft shows that the subject matter of approximately one third of the existing IAS 37 will not be carried forward into the revised standard.

IASB Staff paper

8. The Board has not made many further changes of substance since publishing the exposure draft. But it has decided tentatively to add more guidance on measurement, and to remove guidance and examples addressing obligations—such as warranty obligations—that in future will be within the scope of a revenue standard. The Board also has the opportunity to absorb three IFRIC interpretations into IAS 37¹. The standard will be clearer if all of this additional guidance is in an appendix. In which case, it would also be logical to move existing application guidance from the body of IAS 37 to the appendix.
9. Therefore, the time that users of financial statements will require to familiarise themselves with the new requirements and layout will be significant whichever format is chosen. The best way of minimising this time is to ensure that the wording and layout of the new requirements are as clear and logical as possible— not constrained by the existing layout.
10. This review of IAS 37 has turned out to be more time-consuming than originally expected—the revised standard will hopefully remain in place for some time.

Recommendation

The staff recommend that the Board replace IAS 37 with an IFRS, rather than a revised IAS 37.

Do you agree?

¹ IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*, IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*, IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*. Whether these Interpretations are absorbed into IAS 37 will be decided at a future meeting.