
Project	Liabilities—IFRS to replace IAS 37
Topic	Recognition—overview of papers

Meeting objectives

- 1 The IASB is developing an IFRS to replace IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
- 2 The purpose of the meeting is to consider possible revisions to the draft recognition requirements in the light of comments received on the [working draft IFRS](#)¹, which the IASB posted to its website in February 2010.

Reasons for reconsidering the recognition requirements at this stage

- 3 The IASB prepared the working draft IFRS to accompany the exposure draft *Measurement of Liabilities in IAS 37*. Some respondents to the exposure draft also commented on aspects of the working draft IFRS, especially the draft recognition requirements.
- 4 By considering comments on the draft recognition requirements first, the Board can reach tentative decisions on *which* liabilities should be recognised before it considers comments on *how* those liabilities should be measured.

¹ Accessed from 'Related Information' links on the Liabilities project page: <http://go.iasb.org/liabilities>

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

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

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRS Interpretations Committee or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in IASB *Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

Background

Existing IAS 37 recognition requirements

- 5 At present, IAS 37 specifies three criteria that must all be satisfied before an entity recognises a liability:
- Criterion 1: it is probable (more likely than not) that a liability exists, ie that the entity has a present obligation;
 - Criterion 2: it is probable (more likely than not) that the liability will result in a future outflow of economic benefits; and
 - Criterion 3: a reliable estimate can be made of the amount of the liability. IAS 37 envisages that criterion 3 will be satisfied in all but extremely rare cases.

Draft recognition requirements in working draft IFRS

- 6 The Board has tentatively decided to make two changes to the IAS 37 recognition criteria:
- (a) *to amend* criterion 1, the ‘probably exists’ criterion, removing the explicit more-likely-than-not threshold. Instead of applying this threshold, management would be required to consider all available evidence and ‘judge whether an obligation exists’; and
 - (b) *to remove* criterion 2, the ‘probable outflows’ criterion. As a result of removing criterion 2, any liability judged to exist (applying the amended criterion 1) would be recognised if it could be measured reliably.
- 7 The decision trees below summarise the processes required to apply the existing and proposed recognition criteria when it is possible, but not certain, that the entity has an obligation:

Papers for this meeting

- 8 The papers for this meeting consider three matters raised by those commenting on the draft recognition requirements:
- (a) Paper 8A considers a concern that the judgement about whether a liability exists (criterion 1) cannot be applied without an explicit probability threshold. The staff recommend that the Board reverses its previous tentative decision, ie that it keeps the existing IAS 37 more-likely-than-not threshold in the IFRS.
 - (b) Paper 8B considers a request for more guidance on judging whether a liability exists (criterion 1) if an entity is defending a lawsuit. The staff have drafted guidance and illustrative examples for the Board's consideration.
 - (c) Paper 8C considers comments on the tentative decision to remove the 'probable outflows' recognition criterion (criterion 2). The staff recommend that the Board:
 - (i) tentatively re-affirms its previous decision to remove the probable outflows criterion; and
 - (ii) engages with constituents to explain, and seek feedback on, the reasons for this tentative decision.
- 9 The papers for this meeting do *not* address comments on the 'reliable measurement' recognition criterion (criterion 3). These comments are linked to the revised measurement proposals, so will be considered at a future meeting.

Next steps

- 10 After the Board has reached tentative decisions on recognition, the next step will be to consider comments on the revised measurement proposals. The staff plan to start with comments on the proposal to require entities to measure litigation liabilities using expected values.