STAFF PAPER

November 2016

Emerging Economies Group Meeting

Project	**IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***
Paper topic	Conceptual Framework

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Summary

The IASB has published an Exposure Draft of a revised *Conceptual Framework*.[1]

The *Conceptual Framework* is not a Standard and does not override specific Standards. Furthermore, the IASB will not automatically change existing Standards as a result of changes to the *Conceptual Framework*. If an existing Standard works well in practice, the IASB will not propose an amendment to that Standard simply because of an inconsistency with the revised *Conceptual Framework*.

However, if the IASB were to take on a project to amend aspects of a particular Standard, it would be guided by the revised *Conceptual Framework*. It is possible that the concepts proposed in the *Conceptual Framework* Exposure Draft could help the IASB to address some of the matters discussed in Agenda Paper 14B *Possible Problems with IAS 37*.

In the attached appendix, staff considered ways in which the concepts proposed in the *Conceptual Framework* Exposure Draft might guide the IASB's decisions if those concepts are finalised and if the IASB takes on a project to amend aspects of IAS 37.

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1 Exposure Draft *Conceptual Framework for Financial Reporting*, May 2015.

Staffs tentative conclusions were that:

1. the proposed concepts might lead the IASB to conclusions quite different from those it reached during its **previous project** to amend IAS 37.

2. the proposed concepts could be the basis of clearer general guidance on identifying liabilities. The guidance would reconcile, and could replace, seemingly contradictory statements in IAS 37. Application of the guidance:

    a. could lead to requirements for levies that are different from those in IFRIC 21 Levies, an interpretation of IAS 37. Liabilities for some levies would be recognised incrementally over the period of the activity that causes the amount potentially payable to increase, not at the possibly later point in time when a final activity triggers the requirement to pay the levy.

    b. could lead to requirements for restructuring costs that are expressed differently from those in IAS 37. There might be a different process for identifying liabilities, but possibly not major differences in the timing of recognition of many restructuring costs.

    c. would not necessarily change the time at which other liabilities are identified. (For example, there might be no change to the requirements for the specific type of waste disposal obligation addressed by IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment.)

3. the proposed concepts could support the existing recognition criteria in IAS 37. The 'probable outflows' threshold in IAS 37 has been criticised because it is not applied in some other Standards and its effect is that some liabilities, although disclosed in the notes to the financial statements, are excluded from the statements of financial position and financial performance. The Conceptual Framework Exposure Draft

proposes that recognition requirements may need to vary between Standards, and that in some cases the costs of recognition may outweigh the benefits. Liabilities within the scope of IAS 37 have characteristics that distinguish them from many other liabilities. In particular, they typically cannot be measured by reference to an observable transaction price—either current or historical. These characteristics might provide a basis for retaining the 'probable outflows' recognition threshold in IAS 37.

4. the proposed concepts could help the IASB if it decided to develop more specific measurement requirements for liabilities within the scope of IAS 37. In particular:

   a. the Conceptual Framework Exposure Draft proposes that in selecting a measurement basis for an asset or a liability, it is important to consider how that asset or liability contributes to future cash flows. Entities tend to settle most liabilities within the scope of IAS 37 by fulfilling the liabilities themselves. The predominance of fulfilment as the method of settlement could lead the IASB to focus on 'fulfilment value' when developing measurement requirements for IAS 37.

   b. the proposed concepts suggest that if the IASB were to specify a form of 'fulfilment value' measurement basis in IAS 37, it should consider whether, and if so how, to customise that basis to provide the most useful information about the liability and expenses, and to take into account the cost constraint. Previous stakeholder feedback suggests that if the IASB were to take this approach, it might consider:

      i. permitting or requiring entities to measure some liabilities by reference to the most likely outcome (with disclosure of information about other possible outcomes) instead the expected value (probability-weighted average) of all possible outcomes;

ii. excluding the effects of non-performance risk, and possibly excluding any risk adjustment; or

iii. requiring outflows of services to be measured at the cost of providing those services, ie without adding a service margin.

The attached appendix explains those conclusions in more detail.