

STAFF PAPER

May 2019

IASB[®] Meeting

Project	Provisions
Paper topic	Education session—scope of possible project to amend IAS 37
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Purpose of session

1. The purpose of this session is to discuss stakeholder feedback on the scope of a possible project to amend aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. This session is for education only. The Board will not be asked to make any decisions. Board members will be invited to comment on the stakeholder feedback and identify any further information they need before deciding the project scope at a future meeting.

Recent activity

3. The staff have been gathering evidence of possible problems with IAS 37, and ways in which those problems could be addressed.
4. The Board is already undertaking a narrow-scope project to address one problem it has judged to be more urgent than the others—that is, a need for more clarity in IAS 37 on which costs to include in assessing whether a contract is onerous. In December 2018, the Board published a proposal to add to IAS 37 a requirement to include both the incremental costs of fulfilling the contract and an allocation of other costs that relate

directly to contract activities.¹ Feedback on this proposal is discussed in Agenda Paper 12 *Onerous Contracts—Cost of Fulfilling a Contract—Feedback summary* for this meeting.

5. In March and April this year, the staff sought stakeholder views on:
 - (a) whether the Board should undertake a project to amend other aspects of IAS 37 and;
 - (b) if so, which aspects of IAS 37 it should consider amending.

6. The Board sought views from national standard-setters and users and preparers of financial statements, by discussing the project at meetings of its Accounting Standards Advisory Forum (ASAF), Capital Markets Advisory Committee (CMAC) and Global Preparers Forum (GPF). The staff also sought informal views from provisions specialists at IFRS desks of large accounting firms.

7. All these stakeholders were asked to comment on tentative staff plans to recommend a project focusing on three targeted improvements to IAS 37, namely:
 - (a) aligning the IAS 37 liability definition and supporting guidance with those in the *Conceptual Framework*. The alignments could include withdrawing IFRIC 21 *Levies* and replacing it with new requirements and illustrative examples.
 - (b) clarifying which costs to include in the measure of a provision. This addition would be considered if the Board progresses its proposal to clarify which costs to include in assessing whether a contract is onerous. The staff envisage the Board would require the same costs to be included in the measure of a provision.
 - (c) specifying whether the rate at which an entity discounts a provision for the time value of money should include or exclude the entity's own credit risk.

¹ [Exposure Draft *Onerous Contracts—Cost of fulfilling a contract*, December 2018](#)

8. The staff prepared papers for each of the stakeholder meetings. The ASAF meeting paper was the most comprehensive version.² It is reproduced as Agenda Paper 22A for this meeting.

Stakeholder feedback

9. Agenda Paper 22B reproduces notes of the discussions of the Provisions project at the ASAF, CMAC and GPF meetings.

Feedback on the three targeted improvements suggested by staff

10. Participants at all meetings generally agreed that the Board should undertake a project to amend aspects of IAS 37 and that the project should include the three targeted improvements described in paragraph 7 of this paper.
11. Some participants expressed reservations about clarifying which costs to include in the measure of a provision. Their comments reflected concerns they had also expressed about the Board's current proposal for onerous contracts (see Agenda Paper 12 for this meeting).
12. Some participants expressed strongest support for aligning the IAS 37 liability definition and supporting guidance with those in the *Conceptual Framework*, especially if alignment included withdrawing IFRIC 21. However, a few of these participants cautioned that the Board should not underestimate the work required to develop requirements in this area—it would not be a narrow-scope project.
13. Several CMAC members commented on discount rates. All expressed a view that entities should be required to discount provisions using rates that *exclude* the entities' own credit risk.

² Shorter versions were prepared for the CMAC meeting ([CMAC Agenda Paper 5](#)) and GPF meeting ([GPF agenda Paper 4](#)).

Suggestions for other improvements to IAS 37

14. Some meeting participants noted that, as discussed in section C2 of Agenda Paper 22A for this meeting, IAS 37 lacks a precise measurement objective. They suggested that, without a clear measurement objective to refer to, the Board might have difficulty deciding which costs an entity should include in the measure of a provision and whether the rate at which an entity discounts a provision should include or exclude the entity's own credit risk. Some participants suggested broadening the scope of the project to include specifying a clearer measurement objective.

15. Several ASAF and GPF members suggested that, if the Board decides to clarify which *costs* to include in assessing whether a contract is onerous, it should also clarify which *economic benefits* to include. Their suggestions reflected feedback to the Board's proposals for onerous contracts, as described in paragraphs 43–47 of Agenda Paper 12 for this meeting.

Staff response

16. In the light of the views expressed by stakeholders, the staff intend to investigate further:
 - (a) the feasibility of clarifying the measurement objective in IAS 37 (within a reasonable timescale and without absorbing significant amounts of resource) and the possible benefits of doing so; and
 - (b) whether there is a need to clarify which economic benefits to include in assessing whether a contract is onerous.

17. The staff do not think a clearer measurement objective is necessary for the Board to decide which costs an entity should include in the measure of a provision, or whether the rate at which an entity discounts a provision should include or exclude the entity's own credit risk. The staff think that without the constraint of a tightly-defined measurement objective, the Board could reach decisions on these two matters by

considering what requirements would provide users of financial statements with the most useful information.

18. However, the the measurement concepts added to the *Conceptual Framework* in March 2018 (in particular the concepts around ‘fulfilment value’) might provide a basis for rewording the measurement requirement in IAS 37 to clarify the underlying objective and resolve a perceived tension within the supporting requirements, without requiring major amendments to the Standard or imposing significant changes in practice.

Discussion topics

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The staff would be interested to hear your comments, including:

- how the stakeholder feedback might affect your views on whether the Board should undertake a project to amend IAS 37, and what the scope of that project should be.
- your views on the staff response to the stakeholder feedback.
- what further information, if any, would you like to receive before deciding the project scope.