

Accounting Standards Advisory Forum—1 April 2019

Provisions (Agenda Paper 6)

Aligning liability definition with the *Conceptual Framework*

60. Most ASAF members (FRC, EFRAG, ASBJ, FASB, PAFA, KASB, OIC, AcSB, ARD and AOSSG) expressed support for aligning the liability definition and supporting guidance in IAS 37 with the *Conceptual Framework*. The ASBJ and AcSB members expressed particular support for amendments that would result in the Board withdrawing IFRIC 21 *Levies*.
61. The FRC, EFRAG and FASB members cautioned that aligning IAS 37 with the *Conceptual Framework* was unlikely to be straightforward and should not be viewed as a narrow-scope project. In particular, applying the ‘no practical ability to avoid’ concept to the broad range of transactions covered by IAS 37 could require substantial thought.
62. The EFRAG member noted the Board had previously suggested that one outcome of its project on Financial Instruments with Characteristics of Equity could be further amendments to the liability definition in the *Conceptual Framework*. She suggested that, if the Board still regards this outcome as possible, it should not amend IAS 37 in the meantime.

Clarifying which costs to include

63. The FRC, FASB, OIC, ARD and AOSSG members expressed support for clarifying which costs to include in the measure of a provision. The AOSSG and ARD members suggested that if the Board clarifies which costs to include in the measure of a provision for onerous contracts, it should also clarify which *economic benefits* to include. The FASB and ANC members suggested that deciding which economic benefits to include can be an issue for entities that enter into a loss-making contract (for example, to sell a vehicle) in the expectation that the contract will lead to future profitable contracts (for example, to maintain the vehicle).

Clarifying whether discount rate should reflect own credit risk

64. The FRC, FASB, KASB, AcSB, ARD and AOSSG members expressed support for clarifying whether rates used to discount provisions should reflect the entity’s own credit risk. However, the FRC, FASB, KASB and AcSB members suggested this issue should not be addressed in isolation—it should be considered as part of a broader review of the requirements for risk adjustments (as described in section B1 of Agenda Paper 6).
65. The PAFA member suggested requiring entities to disclose information about how they selected discount rates used. He thought such information could be particularly useful in jurisdictions without deep financial markets, where there may be greater diversity in practice.

Other topics

66. ASAF members suggested including other topics within the scope of the project. Suggestions included:
- (a) undertaking a more comprehensive review of IAS 37, exploring all the topics discussed in the staff paper, if resources allow (OIC).
 - (b) specifying the measurement objective more precisely, as discussed in section C2 of the Agenda Paper—a more precise measurement objective would provide a clearer basis for decisions on which costs to include, whether and how to reflect risk etc (FRC).
 - (c) adding a requirement to disclose information about the assumptions used in measuring the ‘best estimate’ of a provision. Although IAS 1 *Presentation of Financial Statements* requires disclosure of assumptions made and other sources of estimation uncertainty, this requirement is not always applied rigorously (AOSSG).
 - (d) clarifying whether the measure of a provision should take into account the probability of no outflow being required (KASB).
 - (e) reviewing the requirements for reimbursement rights to ensure they are consistent with those in IAS 16 *Property, Plant and Equipment* (KASB).
 - (f) aligning the recognition thresholds for contingent assets and contingent liabilities, on the grounds that the existence of a higher threshold for contingent assets than for contingent liabilities contradicts the concept of neutrality (KASB).
67. The ARD member cautioned against making the requirements for reimbursement rights less prudent or removing the requirement to adjust provisions for risk.
68. The ASBJ member noted that the ASBJ would not support any change in the recognition criteria for provisions.

Capital Markets Advisory Committee—21 March 2019

IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Agenda Paper 5)

Aligning liability definition and guidance with the *Conceptual Framework*

42. Several CMAC members expressed support for aligning the IAS 37 liability definition and supporting guidance with the *Conceptual Framework*, including replacing IFRIC 21 *Levies* with new application guidance. They reasoned that levies that accumulate over a period should be recognised on an accrual basis (ie progressively) rather than at the point in time when an entity takes the action that triggers payment of the levy. In response to a question from a Board member, some CMAC members said even levies of fixed amounts should be accrued over the period to which they relate.
43. A CMAC member questioned some of the terminology. The staff clarified that the phrase ‘no practical ability to avoid’ in the *Conceptual Framework* is intended to have a similar meaning to ‘no realistic alternative’ in IAS 37. If the Board decides to align the IAS 37 liability definition and supporting guidance with the *Conceptual Framework*, it would consider whether to also align the terminology.
44. In response to questions from CMAC members, the staff clarified that, if IAS 37 requirements are aligned with the *Conceptual Framework*, liabilities for some types of levies might continue to be recognised at a point in time, rather than progressively over a period. In some of those cases, the entity might also need to recognise an asset and amortise the asset over a subsequent period. The accounting could vary depending on the facts and circumstances.

Clarifying which costs to include in the measure of a provision

45. A CMAC member asked about current practices for measuring provisions. The staff said they were aware that some companies include only incremental costs; other companies also included an allocation of other directly related costs, but the Board does not have data on how prevalent the different practices are.
46. CMAC members had no other comments on this topic.

Specifying whether discount rate includes own credit risk

47. CMAC members expressed support for excluding an entity’s own credit risk from the rates used to discount provisions. They reasoned that including an entity’s own credit risk:
- (a) would produce a counter-intuitive result—higher risk entities would record smaller provisions;
 - (b) could create volatility; and
 - (c) would not provide useful information if an entity is a going concern.
48. Two CMAC members suggested specifying more precisely in IAS 37 the discount rates that should be used to measure provisions.

Global Preparers Forum—22 March 2019

Provisions (Agenda Paper 4)

Aligning liability definition and guidance with the *Conceptual Framework*

12. Members expressed some support for aligning the IAS 37 liability definition and supporting guidance with the *Conceptual Framework*. When asked, the staff said that they thought the only likely change in outcome would be for levies within the scope of IFRIC 21.
13. Some members suggested the outcome seemed like that of applying a matching concept.

Clarifying which costs to include in the measure of a provision

14. Members had discussed in an earlier session (Agenda Paper 3) the Board's proposals for clarifying which costs to include in assessing whether a contract is onerous. They provided no further comments in this session. A member suggested that if the Board clarifies which costs to include in measuring onerous contract provisions, it should also clarify which economic benefits to include.

Specifying whether the discount rate should include or exclude own credit risk

15. Some members expressed support for requiring entities to exclude their own credit risk from the rates they use to discount provisions. They stated that including an entity's own credit risk is incompatible with the going concern assumption and that requiring entities to exclude it would promote consistency.
16. Some members suggested the Board should not address the question of own credit risk in isolation. The Board should first clarify the objective of discounting in IAS 37, and in IFRS Standards more generally. One member suggested that preparers should be permitted to apply judgement in determining the most appropriate rate for discounting their provisions.