

IASB[®] meeting

Date	December 2023
Project	Provisions—Targeted Improvements
Topic	Project direction
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Session overview

1. The International Accounting Standards Board (IASB) has on its work plan a project in which it is considering three targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. The next milestone shown on the work plan is a decision on the direction of the project. We said we would ask the IASB to take this decision once it had discussed the possible amendments in enough detail to form a view on whether to proceed towards publishing proposals for comment.

Project objectives

3. The three amendments being considered in this project would:
 - (a) amend and clarify requirements supporting one of the criteria for recognising a provision—the requirement for an entity to have a present obligation as a result of a past event (the present obligation recognition criterion); and

- (b) specify more precisely two aspects of the requirements for measuring a provision:
 - (i) the costs an entity includes in estimating the future expenditure required to settle the entity's present obligation; and
 - (ii) the rate an entity uses to discount that future expenditure to its present value.

Progress to date

4. The IASB has now made tentative decisions on possible amendments to the measurement requirements:
 - (a) in July 2023, it tentatively decided that the expenditure required to settle the entity's present obligation should be the costs that relate directly to settling that obligation, which consist of both:
 - (i) the incremental costs of settling the obligation; and
 - (ii) an allocation of other costs that relate directly to settling obligations of that type.¹
 - (b) in November 2023, it tentatively decided that an entity should discount the estimated future expenditure at a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk.²

¹ July 2023 IASB meeting [Agenda Paper 22B Provisions—Targeted Improvements—Costs to include in measuring a provision](#) and the [July 2023 IASB Update](#).

² November 2023 IASB meeting [Agenda Paper 22 Provisions—Targeted Improvements—Discount rates](#) and the [November 2023 IASB Update](#).

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5. The IASB has not yet made decisions on amendments to the requirements supporting the present obligation recognition criterion. However, at its meeting in April 2023, the IASB discussed detailed staff suggestions for possible amendments, including illustrative drafting. The staff papers for that meeting identified only one major open issue—whether the amendments should include application requirements for charges triggered if a measure of an entity’s performance (for example its revenue or its greenhouse gas emissions) exceeds a specified threshold.
 6. Since that meeting the IASB has also discussed the staff suggestions and open issue with various groups of stakeholders including:
 - (a) preparers and users of financial statements—via the IASB’s Global Preparers Forum and the Capital Markets Advisory Committee;
 - (b) national-setters and regional standard-setting bodies—via the IASB’s Accounting Standards Advisory forum; and
 - (c) members of the IFRS Interpretations Committee.
 7. Feedback from all these groups has been generally positive, and stakeholders have provided useful suggestions for improving the structure and drafting of the amended requirements. Furthermore, stakeholders have expressed consistent views on requirements for charges triggered by exceeding a threshold. Most stakeholders commenting on this matter:
 - (a) agreed that the IASB should add to IAS 37 application requirements for such charges; and
 - (b) thought that liabilities for the charges could arise as progress is made towards the threshold, not only after the threshold has been met.³

³ See [June 2023 Joint CMAC-GPF Meeting Summary](#) and [July 2023 Accounting Standards Advisory Forum Meeting Summary](#).

Staff analysis and conclusions

8. On the basis of the progress the IASB has made on this project, we think it can now start to make plans for publishing proposals for wider comment.
9. This project is a maintenance project that will make only targeted amendments to specific requirements in IAS 37, so the IASB is not required to consider publishing a discussion paper before developing an exposure draft. Paragraph 5.5 of the IFRS Foundation's *Due Process Handbook* requires the IASB to consider publishing a discussion paper only before proposing to develop a new IFRS Accounting Standard or to make major amendments to an existing Standard.
10. Nevertheless, we have considered the need for a discussion paper because the amendments resulting from this project would be broader in scope than those resulting from most maintenance projects. Many entities could be affected, and the effects could be significant for some of those affected. And, as shown in the illustrative drafting presented to the IASB in April 2023, the amendments are likely to require significant redrafting of one section of the recognition requirements in IAS 37.
11. However, we have concluded that the IASB and stakeholders would gain little incremental benefit from a discussion paper:
 - (a) the only conceptual changes are those affecting the requirements supporting the present obligation recognition criterion. The concepts on which those changes are based were developed as part of the IASB's project to revise its *Conceptual Framework for Financial Reporting*. The concepts underwent full due process as part of that project—being included in both a discussion paper and an exposure draft that explained their implications for IAS 37. This project to amend IAS 37 involves importing those existing concepts into IAS 37, not developing new concepts.

- (b) the amendments being proposed in this project are sufficiently detailed in nature that stakeholders are likely to find it easier to understand their implications if they can see how the amendments would be drafted. Stakeholders would see the drafting in an exposure draft but not in a discussion paper.
12. We envisage that the IASB will be able to complete its technical decisions and start the balloting process for an exposure draft in the first half of 2024, with a view to publishing the exposure draft in the second half of 2024.

Staff recommendation

13. The staff recommend that the IASB continue developing proposed amendments to IAS 37 and make the next project milestone the publication of an exposure draft for stakeholder comment.

Question for the IASB

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Do you agree with the staff recommendation in paragraph 13?