
IASB[®] meeting

Date **December 2025**
Project **Provisions—Targeted Improvements**
Topic **Recognition—Constructive obligations**
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Purpose of paper

1. The International Accounting Standards Board (IASB) published Exposure Draft [*Provisions—Targeted Improvements*](#) (Exposure Draft) in November 2024, with a comment deadline of 12 March 2025. The Exposure Draft proposes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. The IASB discussed feedback on the Exposure Draft at its [June 2025 meeting](#), Members of the Accounting Standards Advisory Forum (ASAF) provided their views on how the IASB should move forward in the light of that feedback at their [July 2025 meeting](#).
3. At this meeting, we will ask the IASB to redeliberate aspects of the proposals in the light of the feedback received.
4. This paper asks for decisions on an aspect of the proposals relating to the recognition of a provision—the requirement for the entity to have a present obligation to transfer an economic resource as a result of a past event (present obligation criterion).

5. The present obligation criterion comprises three conditions—‘obligation’, ‘transfer’ and ‘past-event’ conditions. This paper asks for decisions on aspects of the ‘**obligation**’ condition—those relating to **constructive obligations**.

Staff recommendations

6. The staff recommend:
- (a) retaining the criterion proposed in the Exposure Draft for concluding that an entity has no practical ability to avoid discharging a constructive responsibility—not adding a reference to the economic consequences of failing to discharge the responsibility; and
 - (b) adding no further guidance on the factors to consider in determining whether an entity’s public statement of its climate-related commitments gives the entity a constructive obligation to fulfil these commitments.

Contents of this paper

7. This paper discusses feedback on:
- (a) the proposed criterion for identifying a constructive obligation (paragraphs 8–23); and
 - (b) guidance on climate-related commitments (paragraphs 24–36).

Criterion for identifying a constructive obligation

Exposure draft proposals (paragraph 14F(b))

8. Paragraph 14B of the Exposure Draft defines the obligation condition. It proposes that an entity has an obligation if:
 - (a) a mechanism is in place that imposes a responsibility on the entity if it obtains specific economic benefits or takes a specific action;
 - (b) the entity owes that responsibility to another party; and
 - (c) the entity has no practical ability to avoid discharging the responsibility if it obtains the specific economic benefits or takes the specific action.
9. Paragraph 14F of the Exposure Draft specifies the criteria for concluding that an entity has no practical ability to avoid discharging a responsibility:

14F An entity has no practical ability to avoid discharging a responsibility:

 - (a) in the case of a legal obligation, if:
 - (i) the other party has a legal right to act against the entity if the entity fails to discharge the responsibility—for example, to ask a court to enforce settlement, charge the entity a financial penalty or restrict the entity's access to economic benefits; and
 - (ii) as a result of that right, the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it; or
 - (b) in the case of a constructive obligation, if the entity's pattern of past practice, published policies or sufficiently specific current statement creates valid expectations in other parties that the entity will discharge the responsibility.

10. The criterion proposed for constructive obligations carries forward the existing criterion, which is embedded within two definitions in IAS 37:
- (a) *the definition of an obligating event.* Paragraph 17 of IAS 37 states that, in the case of a constructive obligation, an obligating event is an event that ‘creates valid expectations in other parties that the entity will discharge the obligation’.
 - (b) *the definition of a constructive obligation.* Paragraph 10 of IAS 37 states that:

A constructive obligation is an obligation that derives from an entity’s actions where:

 - (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
 - (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Stakeholder feedback

Feedback on the Exposure Draft

11. As explained further in paragraphs 13–15 of Agenda Paper 22A *Recognition—Legal obligations* for this meeting:
- (a) many respondents to the Exposure Draft expressed outright or broad agreement with the proposals to amend the requirements supporting the present obligation criterion; but
 - (b) some expressed concerns about aspects of the proposals, with one of the main concerns about the obligation condition being the criterion proposed in paragraph 14F(b) of the Exposure Draft for identifying a constructive obligation.

12. Respondents asked why the proposed criterion for identifying a *constructive* obligation (in paragraph 14F(b)) is not the same as that for identifying a *legal* obligation (in paragraph 14F(a))—specifically, why for a constructive obligation there is no requirement to consider the economic consequences of failing to discharge an obligation.
13. Some respondents noted that these economic consequences are more likely to be relevant in identifying constructive obligations than in identifying legal obligations, because an entity’s practical ability to avoid discharging a constructive obligation is not curtailed by the stronger constraint of legal enforceability.
14. A securities regulator suggested that the need to consider the economic consequences of failing to discharge a constructive responsibility is implicit in the criterion for identifying a constructive obligation—it is implicit in the need for other parties’ expectations to be ‘valid’ that failure to meet those expectations would have adverse economic consequences for the entity. The regulator asked the IASB to explain in the Basis for Conclusions how the requirements for constructive obligations embed a need to consider the economic consequences of failing to discharge a responsibility.
15. The comments of other respondents indicated that they do not necessarily view the existing criterion for identifying a constructive obligation as embedding a need to consider the economic consequences of failing to discharge a responsibility. One accounting firm said a requirement for the entity’s actions to create a ‘valid expectation’ that it will discharge its responsibilities is less compelling than a requirement to assess the economic consequences of failing to do so. An accountancy body said it thought that that creating a ‘valid expectation’ in other parties was not enough to prevent an entity from changing a practice, policy or statement.

16. An accounting firm and an individual suggested adding an explicit link between other parties' valid expectations and the economic consequences for the entity of failing to meet those expectations:

The definition of constructive obligation needs to have a consequence for not meeting the valid expectations – that is, paragraph 14F(b) should have something similar (or the same) as for paragraph 14F(a)(ii) being economic consequences that would make the entity significantly worse off. The absence of such consequences (for not meeting expectations) will likely result in the continued confusion as expressed in paragraph BC49 of people interpreting a “public announcement” being sufficient for an obligation.

CL90 David Hartridge

Feedback from ASAF members

17. At their meeting in July 2025, ASAF members did not comment on how the IASB should respond to the feedback on this matter.

Staff analysis

18. Respondents have suggested supplementing the criterion for identifying a constructive obligation—stating that, as a result of the other parties' valid expectations, the economic consequences of failing to discharge the responsibility would be significantly worse than the costs of discharging it.
19. On the basis of views expressed by respondents, it could be argued that supplementing the criterion in this way would:

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- (a) clarify (without substantively changing) the existing requirement, making it more robust and thereby promoting consistent application. From time to time over the years—and most recently in relation to climate-related commitments—stakeholders have told us the existing criterion can be difficult to apply. Stakeholders tend to refer specifically to the difficulty of interpreting and applying the requirement to determine other parties' expectations and the validity of those expectations.
 - (b) emphasise the alignment of the criterion for identifying a constructive obligation with:
 - (i) the criteria for identifying a legal obligation; and
 - (ii) the meaning of 'no practical ability to avoid' described in paragraph 4.34 of the *Conceptual Framework* (as reproduced in paragraph 19 of Agenda Paper 22A for this meeting).
20. However, it could alternatively be argued that supplementing the existing criterion with a reference to adverse economic consequences would amend (as opposed to clarify) the existing criterion. At present, IAS 37 does not explain the term 'valid expectations', and practice has developed in the absence of any explicit requirement to consider the economic consequences of failing to discharge a constructive responsibility.
21. The scope of this project does not include revisiting the criterion for identifying a constructive obligation (and as a consequence, the definition of a constructive obligation in paragraph 10 of IAS 37). Expanding the scope of the project to revisit this criterion would require research into current practice, and any proposal to amend the criterion would require further consultation, potentially delaying the completion of this project.

22. The requests for the IASB to supplement the criterion for identifying a constructive obligation have been triggered by the proposal to amend the criterion for identifying a legal obligation. These requests reflect the desirability of consistency, but they do not provide evidence of specific problems in practice that could be solved by explicitly aligning the criteria.

Staff recommendation

23. For the reasons in paragraphs 20–22, we recommend retaining the criterion proposed in the Exposure Draft for concluding that an entity has no practical ability to avoid discharging a constructive responsibility—not adding a reference to the economic consequences of failing to discharge the responsibility.

Question for the IASB**Criterion for identifying a constructive obligation**

Do you agree with the recommendation in paragraph 23?

Guidance on climate-related commitments

Exposure draft proposals

24. In April 2024, the IFRS Interpretations Committee (Committee) published [Agenda Decision *Climate-related Commitments*](#) (Agenda Decision) The analysis in that Agenda Decision considers:
- (a) whether an entity's commitment to reduce or offset its greenhouse gas emissions creates a constructive obligation for the entity; and
 - (b) whether and when a constructive obligation created by such a commitment meets the criteria in IAS 37 for recognising a provision.
25. On the first question, the Agenda Decision states that:
- ... whether an entity's statement of its commitment to reduce or offset its emissions creates a valid expectation that it will fulfil the commitment—and hence creates a constructive obligation to do so—depends on the facts of the commitment and the circumstances surrounding it, including any actions the entity has taken that publicly affirm its intention to fulfil the commitment. Management would apply judgement to reach a conclusion at each reporting date considering all relevant facts and circumstances existing at that date
26. The Exposure Draft proposes to add an example on climate-related commitments to the *Guidance on implementing IAS 37*.¹ This example uses the fact pattern described in the Agenda Decision and reaches consistent conclusions to those in the Agenda Decision. Adding the example to the *Guidance on implementing IAS 37* will ensure that the guidance provided by the Agenda Decision is consolidated with other guidance on IAS 37, allowing the Agenda Decision to be withdrawn.

¹ See Example 15 in the [Proposed amendments to Guidance on implementing IAS 37](#) section of the Exposure Draft.

Feedback on the tentative agenda decision

27. Before issuing the Agenda Decision, the Committee published a tentative agenda decision for comment. Some respondents to the tentative agenda decision asked for more guidance on the ‘facts of the commitment and circumstances surrounding it’ that would create a constructive obligation for an entity. Respondents suggested the IASB should consider adding such guidance to IAS 37 as part of this project to make targeted improvements to IAS 37.
28. As detailed in [Agenda Paper 2A Climate-related commitments—Comment letter analysis](#) for the Committee’s March 2024 meeting, the requests included requests for:
- (a) guidance on:
 - (i) the factors to consider;
 - (ii) how to judge whether a statement is ‘sufficiently specific’; and
 - (iii) whether a transition plan is sufficient or necessary; and
 - (b) examples illustrating both facts and circumstances in which there *would* be an obligation, and facts and circumstances in which there *would not* be an obligation.
29. However, other respondents to the tentative agenda said they thought the IASB should not identify specific factors to consider. One respondent said there are many and wide-ranging reasons why a company may have no realistic alternative but to follow through with a climate target—guidance that identified some possible factors could be over-interpreted in a way that leads to liabilities not being recognised.

30. Some respondents' comments also indicated that they would disagree on what the guidance should be:
- (a) some respondents referred to the examples of factors to consider discussed at the Committee's November 2023 meeting. These factors included the language used in the entity's public statement, the specificity and status of plans supporting the statement, the timing of the actions required to fulfil the commitment and publicly available evidence of progress to date ². However:
 - (i) whereas some respondents said the examples were useful;
 - (ii) other respondents disagreed. One respondent disagreed that the language used in the statement should be a factor. That respondent argued that more important are the actions the entity has taken to affirm its commitment and actions other parties have taken that indicate they expect the entity to fulfil its commitment.
 - (b) respondents expressed conflicting views on whether guidance should refer by analogy to criteria in IAS 37 for concluding that an entity has a constructive obligation for the costs of restructuring a business.

Feedback on the Exposure Draft

31. Many respondents to the Exposure Draft expressed support for the proposal to expand the *Guidance on implementing IAS 37*, with some respondents specifically welcoming the proposal to add an example based on the Agenda Decision on climate-related commitments.

² See paragraph 23 of [Agenda Paper 2 Climate-related Commitments \(IAS 37\)—Initial consideration](#) for the Committee's November 2023 meeting.

32. Some respondents suggested refinements to that example, which we will consider when we revisit the proposed *Guidance on implementing IAS 37*. However, very few of these suggestions related to the factors that might affect the conclusion on whether the entity has a constructive obligation to fulfil its commitment (one respondent suggested expanding the example to cover multi-year commitments under evolving regulatory pressures). In contrast, some respondents suggested that the fact pattern should make no assumptions about the conclusion management had reached—the example should instead leave the conclusion open, noting only that management would apply judgement considering all relevant facts and circumstances.

Staff analysis

33. This project to make targeted improvements to IAS 37—including to add an illustrative example on climate-related commitments to the *Guidance on implementing IAS 37*—would be an opportunity to add to IAS 37 guidance on the factors to consider in determining whether a public statement of a commitment (for example, a climate-related commitment) gives an entity a constructive obligation to fulfil that commitment.
34. However, although some respondents to the *Agenda Decision* requested such guidance, few respondents to the *Exposure Draft* repeated these requests. And, as one respondent to the *Agenda Decision* noted, there are many and wide-ranging reasons why an entity may have no practical ability to avoid discharging a publicly stated commitment. The assessment will always require judgement. Any guidance that identified some possible factors could lead to too much emphasis being placed on those factors and too little on others.
35. We note that an entity applying IFRS S2 *Climate-related disclosures* would be required to disclose information about its climate-related targets irrespective of management's conclusion on whether the entity has a constructive obligation to fulfil its publicly stated commitment to these targets.

Staff recommendation

36. For the reasons in paragraph 34, we recommend adding no further guidance on the factors to consider in determining whether an entity's public statement of its climate-related commitments gives the entity a constructive obligation to fulfil these commitments.

Question for the IASB**Guidance on climate-related commitments**

Do you agree with the recommendation in paragraph 36?