
IASB[®] meeting

Date **June 2025**
Project **Provisions—Targeted Improvements**
Topic **Measurement—Costs to include**
Contacts Stefano Tampubolon (stampubolon@ifrs.org)
Joan Brown (jbrown@ifrs.org)

This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

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 feedback received.
4. This paper asks for decisions on one of the proposals relating to the measurement of a provision—the proposal to add a requirement clarifying that the costs an entity includes in estimating the future expenditure required to settle an obligation (the ‘costs to include’ requirement).

Staff recommendations

5. The staff recommend:
- (a) retaining the Exposure Draft proposal to add to IAS 37 a requirement clarifying that the expenditure required to settle an obligation comprises the costs that relate directly to the obligation—and that the costs that relate directly to an obligation consist of both:
 - (i) the incremental costs of settling that obligation; and
 - (ii) an allocation of other costs that relate directly to settling obligations of that type;
 - (b) restricting the scope of this requirement to obligations to transfer goods or services, and clarifying that the requirement applies to the measurement of those goods or services; and
 - (c) adding no application or illustrative examples on the types of costs to include in measuring a provision.

Contents of this paper

6. This paper starts with background information on:
- (a) the measurement requirements in IAS 37 and questions that can arise in applying those requirements (paragraphs 8–11); and
 - (b) the proposed ‘costs to include’ requirement (paragraphs 12–13).
7. The paper then analyses and provides staff recommendations on the main matters raised by respondents to the Exposure Draft:
- (a) views on the proposed requirement (paragraphs 14–28);
 - (b) questions about ancillary costs (paragraphs 29–41); and
 - (c) requests for application guidance and other suggestions (paragraphs 42–48).

Background information

IAS 37 requirements and their application in practice

8. Paragraph 36 of IAS 37 requires an entity to measure a provision at the best estimate of the expenditure required to settle its present obligation.
9. Three questions can arise in identifying the expenditure required to settle an obligation:
 - (a) what is the ‘expenditure’ required to settle an obligation to transfer goods or services (rather than cash)—for example, to fulfil an onerous sales contract, or to rectify environmental damage? Does this expenditure include only the *incremental* costs of providing (producing and delivering) the goods or services, or does it also include an *allocation* of other costs that relate directly to providing the goods or services—for example, an allocation of the depreciation charge for an item of equipment used in producing goods?
 - (b) does the expenditure ‘required to settle’ an obligation include only the economic resources (cash, goods or services) the entity will transfer *to the counterparty*, or does it also include ‘ancillary’ costs—costs the entity will incur *on its own behalf* in settling the obligation—for example, the legal or other professional fees the entity will incur in negotiating settlement of a legal claim against the entity?
 - (c) *if* the expenditure required to settle an obligation includes ancillary costs, do these ancillary costs include only *incremental* ancillary costs (for example, external legal fees) or also an *allocation* of other ancillary costs (for example, an allocation of the salaries of the entity’s in-house legal department)?
10. IAS 37 requires an entity to recognise provisions for onerous contracts, including onerous sales contracts. In 2020, the IASB amended IAS 37 to clarify the costs an entity would consider in assessing whether a sales contract is onerous. That amendment specifies that, *in assessing whether a contract is onerous*, an entity

considers both the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant or equipment used in fulfilling contracts.

11. This amendment can be read as implying an answer to the question posed in paragraph 9(a). It can be read as implying that in *measuring* an onerous contract provision—and, by analogy, any obligation that will be settled by delivering goods or services to a counterparty—an entity includes both the incremental costs of settling that individual obligation and an allocation of other directly-related costs. However, without an explicit requirement to this effect, questions remain.

Requirement proposed in the Exposure Draft (paragraph 40A)

12. The ‘costs to include’ requirement proposed in the Exposure Draft would explicitly clarify that, in measuring onerous contract and other provisions, an entity includes the same costs as it includes in assessing whether a contract is onerous. The Exposure Draft proposes to state that:

40A The expenditure required to settle an obligation comprises the costs that relate directly to the obligation. Costs that relate directly to an obligation consist of both:

- (a) the incremental costs of settling that obligation; and
- (b) an allocation of other costs that relate directly to settling obligations of that type.

13. The proposed requirement was developed to answer the question described in paragraph 9(a)—how to measure provisions the entity will settle by transferring goods or services to a counterparty. The IASB did not discuss ancillary costs in developing the proposed requirement—in other words, it did not seek to answer the questions described in paragraphs 9(b) and 9(c).

Proposed 'costs to include' requirement

Feedback from respondents to the Exposure Draft

Agreement with the proposed requirement

14. Most respondents commenting on the proposed 'costs to include' requirement agreed with adding it to IAS 37.
15. Of the respondents who gave reasons for their agreement (approximately half), many referred to the alignment of requirements *within* IAS 37:
 - (a) many respondents agreed that entities should use the same types of costs in *assessing* whether a contract is onerous and in *measuring* an onerous contract provision.
 - (b) a few respondents said the clarification would ensure that entities measure onerous contract provisions consistently with other types of provisions.
16. A few respondents also said they agreed with the proposal because it would help align requirements *across* IFRS Accounting Standards. In particular, two national standard-setters (in Europe) said the proposed requirement is consistent with those in IFRS Accounting Standards that require the inclusion of all directly related costs (both incremental and allocated) when recognising an asset.
17. Respondents said the alignments described in paragraphs 15–16 would improve comparability and reduce diversity in practice. In addition, two accountancy bodies (in Africa and Europe) expressed a view that a provision that includes all directly-related costs provides a more faithful representation of the magnitude of an entity's obligation than one that includes only incremental costs.

-
18. A few respondents who agreed with the proposed requirement commented on its practicability:
- (a) two national standard-setters (in Asia-Oceania and Europe) described the proposed requirement as ‘reasonable and applicable to a wide range of provisions’ and ‘workable in practice’.
 - (b) a preparer (an insurer) said that entities might need to obtain additional information to determine costs that relate directly to settling an obligation. However, the preparer said doing so would not be ‘overly complex or cost-prohibitive’.
19. A few respondents—accounting firms and an accountancy body (in Europe)—noted that the proposed requirement reflects prevailing current practice. They said that, in general, most entities already include the same costs in both *assessing* whether a contract is onerous and in *measuring* the related provision.
20. Despite agreeing with the proposed requirement, the national standard-setter (in Asia-Oceania) and the preparer referred to in paragraph 18 noted that ‘a high level of judgement’ would be required in applying the proposed requirement, thereby potentially resulting in diversity in practice.

Disagreement with the proposed requirement

21. A few respondents disagreed with the proposed ‘costs to include’ requirement:
- (a) a group of preparers in the banking industry and a preparer (both in North America) questioned the need to align the types of costs an entity should include in *assessing* whether a contract is onerous and in *measuring* an onerous contract provision. In the view of the group:

Costs considered in an onerous contract assessment are those that are necessary to fulfil a contract (including an allocation of “fixed costs”). However, a provision should include the unavoidable costs to settle the obligation. Therefore, we believe the existing guidance provided in paragraph 36 in IAS 37 is appropriate. *CL55 Canadian Bankers Association*

- (b) a group of academics (in Europe)—which had previously disagreed with the *Onerous Contracts—Cost of Fulfilling a Contract* amendment—said neither the *Conceptual Framework* nor other IFRS Accounting Standards provide sufficient guidance on the nature of costs, particularly in the context of provisions. The respondent suggested the IASB undertake conceptual work on the subject before clarifying the required treatment.

22. Some respondents expressed concern specifically about requiring an entity to include an ‘allocation of costs that relate directly to settling obligations of that type’ in the measurement of a provision. Respondents said this aspect of the proposal would:

- (a) *be costly and difficult to apply.*

Some preparers of financial statements said it would be difficult to estimate the costs for settling some (especially long-term) obligations, citing examples of internal staff costs (in settling a litigation or internal restructuring provision) and depreciation costs (in settling an asset decommissioning provision). These respondents questioned whether the benefits of applying the proposed requirement would outweigh the costs and requested ‘practical expedients that could ease the burden of applying the proposed amendments’. Two groups of preparers (in the banking and financial services industry) said entities might need to acquire analytical tools to identify and allocate costs accurately.

- (b) *increase diversity in practice and reduce comparability.*

A few respondents (mainly preparers) said the allocation would require a high level of judgement. They said that, in the absence of more specific guidance, entities might need to develop their own policies, which could undermine comparability and usefulness of information.

- (c) *not provide useful information.*

A few respondents (mainly preparers) expressed concern about bringing forward the recognition of costs that will be required to operate in the future. They said that including these costs is tantamount to recognising provisions for future operating costs (or for obligations to exchange economic resources)—contrary to the fundamental objectives (and specific requirement in paragraph 18) of in IAS 37.

These respondents said that including future operating costs could distort current period financial performance, fail to reflect the economic reality of those costs, and inadvertently lead to double counting. One preparer questions the usefulness of the proposal, describing it as ‘a reclassification exercise’.

23. A few respondents agreed with requiring entities to include the same types of costs in *assessing* whether a contract is onerous and *measuring* an onerous contract provision. Nonetheless, they expressed concern that requirements that should apply specifically to onerous contracts would now apply to other types of provisions. For example, a group of preparers (in Europe) said the costs of settling an onerous contract provision have a different nature from those of settling other types of obligations. The respondent said, for other types of provisions, unless there is a contract in place, including allocated costs is tantamount to recognising provisions for future operating expenses, and the amounts could be subject to a high degree of measurement uncertainty. Therefore, for these other types of provisions, the respondent suggested including only incremental costs.

Feedback from ASAF members

24. At their meeting in July 2025, ASAF members said they continued to support the addition of the proposed ‘costs to include’ requirement.

Staff analysis

25. The feedback suggests that the proposed requirement:
- (a) *would improve comparability and reduce diversity in practice.*
Many respondents cited improved comparability and reduced diversity in practice as their reasons for agreeing with the proposed requirement (paragraph 17). Few respondents disagreed.
 - (b) *would provide more useful information.*
No user of financial statements expressed disagreement with the proposed ‘costs to include’ requirement—and a few respondents (of other types) explicitly said the proposed requirement would result in a more faithful representation (paragraph 17). Few respondents disagreed.
26. Although some respondents expressed concern about the difficulty of allocating some costs (paragraph 22):
- (a) *they represent only a minority of respondents.*
Feedback on the proposed requirement does not indicate widespread problems in determining which costs to include. Feedback in general suggests widespread agreement with the proposed requirement despite an acknowledgement that judgement would be required—in particular, a few respondents explicitly confirmed that it is ‘workable’ and reflects prevailing current practice.

- (b) *some of these respondents might have misunderstood the proposed requirement.*

The comments of some preparers indicate that they might have misunderstood how the requirement would apply in measuring activities (for example, asset decommissioning activities) they expect to outsource to subcontractors. In such cases, an entity would be required to estimate the amounts it will pay to the subcontractors. However, the comments of some preparers indicate they think they would be required to estimate either the expenditure they would incur if they were to fulfil the obligations themselves, or the expenditure the subcontractors will incur. We could help to clarify the requirement by expanding the asset decommissioning example in the *Guidance on implementing IAS 37*—the IASB could consider whether to do so when it redeliberates the transfer condition at a future IASB meeting.

- (c) *some respondents were referring to ancillary costs.*

Some respondents referred specifically to the difficulty of allocating ancillary costs, for example legal fees. We discuss these concerns further in the next section of this paper (see paragraphs 29–41).

27. As noted in paragraph 22(c), a few respondents argued that including an allocation of future operating costs in the measure of a provision is inconsistent with the principle in IAS 37 that no provision should be recognised for future operating costs. This argument was also made by some stakeholders when the IASB was developing its 2020 amendment to IAS 37 (to specify the costs to include in assessing whether a contract is onerous). The IASB rejected the argument at that time, on the grounds that the requirement would be to measure a present obligation at an amount that reflects the future costs of settling that obligation, *not* to recognise a provision *for* those future costs.¹

¹ See paragraph BC12 of the Basis for Conclusions accompanying IAS 37

Staff recommendations

28. For the reasons in paragraph 25–27, we recommend that the IASB retain the Exposure Draft proposal to add to IAS 37 a requirement clarifying that the expenditure required to settle an obligation comprises the costs that relate directly to the obligation—and that the costs that relate directly to an obligation consist of both:
- (a) the incremental costs of settling that obligation; and
 - (b) an allocation of other costs that relate directly to settling obligations of that type.

Question for the IASB

1 Proposed clarification
Do you agree with our recommendation in paragraph 28?

Ancillary costs

Exposure Draft proposal

29. As explained in paragraph 13, the IASB developed the proposed ‘costs to include’ requirement in the context of obligations to transfer goods or services, with the intention that it would apply in measuring the cost of those goods or services. The IASB did not discuss whether and, if so how, the requirement would apply to ancillary costs—the costs of goods or services the entity expects to procure *on its own behalf* in settling an obligation.

Feedback from respondents to the Exposure Draft

30. Some respondents—including accounting firms, national standard setters and preparers of financial statements—asked the IASB to clarify the implications for ancillary costs of the proposed requirement, especially the implications for legal costs expected to be incurred in settling a litigation provision.
31. Some of these respondents asked for clarification of the *scope* of the proposed requirement. They asked whether the requirement would apply to all provisions including cash-settled provisions (as suggested by the wording in the Exposure Draft) or only to provisions settled by providing goods or services (as suggested in a staff webcast accompanying the Exposure Draft).
32. Other respondents concluded that the requirement would apply to *all* provisions and asked the IASB to clarify its implications for ancillary costs—especially legal costs:
- (a) whether the requirement to include the costs that ‘relate directly’ to an obligation means entities would be required to include expected legal costs in the measure of a litigation provision; and
 - (b) if so, whether that requirement would encompass both external legal fees and an allocation of other legal costs that relate directly to the litigation (such as salaries paid to staff working in the entity’s internal legal department).
33. A few respondents also referred to existing diversity in practice:

It would also be beneficial to specify whether ‘costs that relate directly to an obligation’ in paragraph 40A of the Exposure Draft include any associated goods or services that must be procured in the future to settle the obligation. For example, (a) whether the anticipated future legal fees directly related to a legal case might be included in the measurement of the provision, and (b) whether anticipated legal fees directly related to an employee redundancy as part of a restructuring might be included in a restructuring provision. We note that practice today is mixed in this regard. We can see conceptual merit for either approach, but we think that diversity in practice would be eliminated if

the Board decided which of the two approaches should be followed, as part of the update to the measurement requirements. CL3 PwC

34. Some respondents expressed concerns about a possible requirement to include legal costs in the measure of a litigation provision—especially a requirement to include costs beyond *external* legal fees. A few noted that such a requirement would require some entities to change their existing accounting policies.

Feedback from ASAF members

35. At their meeting in July 2025, a few ASAF members made suggestions relating to the scope of the requirement:
- (a) the UK Endorsement Board representative expressed support for the suggestion that the IASB clarify whether the proposed amendment would apply to all provisions or only to those that would be settled by transferring goods or services.
 - (b) the Asian-Oceanian Standard-Setters Group (AOSSG), the European Financial Reporting Advisory Group (EFRAG) and the Group of Latin American Accounting Standard Setters (GLASS) representatives expressed support for the suggestion that the IASB clarify whether ancillary costs should be included in the measure of a provision. The EFRAG representative said only incremental ancillary costs should be included to avoid recognising future operating costs. The GLASS representative expressed the view that ancillary costs should only be included if they are necessary to settle the obligation and suggested the IASB provide guidance to help determine which costs would qualify for inclusion.

Staff analysis

36. The IASB did not discuss legal and other ancillary costs when it developed the proposed ‘costs to include’ requirement. However, we can now see that the requirement, as drafted, could be read as applying to those costs.
37. We are aware of diversity in practice for ancillary legal costs at present—some entities include expected legal fees in the measure of a litigation provision while others do not. Therefore, if the proposed requirement is read as applying to ancillary costs, questions may arise about its implications for practice.
38. The IASB could clarify the proposed new requirement in either of two ways:
- (a) it could specify in IAS 37 whether the costs that ‘relate directly’ to a provision include ancillary costs, such as legal fees, and, if so, which ancillary costs (external only, or also internal); or
 - (b) it could restrict the scope of proposed ‘costs to include’ requirement to obligations to transfer goods or services, and clarify that it applies to the measurement of those goods or services.
39. In favour of the first option—specifying whether and, if so, which ancillary costs ‘relate directly’ to a provision—it could be argued that specific requirements could:
- (a) make IAS 37 clearer and easier for preparers of financial statements to apply—it would answer the questions that currently arise in practice as described in paragraphs 9(b) and 9(c); and
 - (b) promote consistent application and hence comparability for users of financial statements—it could reduce the diversity that exists in current practice.

40. In favour of the second option—restricting the scope of the ‘costs to include’ requirement to obligations to transfer goods or services, and clarifying that it applies to the measurement of those goods or services—it could be argued that:
- (a) specifying requirements for ancillary costs is beyond the scope of this project—the intention was solely to clarify how to measure an obligation that will be settled by delivering goods or services;
 - (b) expanding the scope of the project could add significantly to the work and time required to complete the project. Although we are aware of diversity in practice at present, we do not have detailed knowledge of the range of policies adopted in practice or of the reasoning entities have applied in developing their policies. We would need to conduct further research and consultation before developing proposals for ancillary costs.

Staff recommendation

41. For the reasons in paragraph 40, we recommend that the IASB restrict the scope of the ‘costs to include’ requirement to obligations to transfer goods or services, and clarify that the requirement applies to the measurement of those goods or services.

Question for the IASB**2 Ancillary costs**

Do you agree with the recommendation in paragraph 41?

Requests for application guidance

Feedback from respondents to the Exposure Draft

42. Some respondents—of various types and from various jurisdictions—requested additional guidance and illustrative examples to clarify which types of costs should be included in the measuring a provision. Most of these respondents asked how an entity should include ‘an allocation of other costs that relate directly’ to settling an obligation.
43. A few respondents (mainly preparers of financial statements) asked for guidance on specific matters:
- (a) whether to include the costs of an item of property, plant and equipment (PPE) used in settling an obligation (such as environmental rehabilitation) and, if so, whether those costs should comprise:
 - (i) the cash flows involved in purchasing the item of PPE; or
 - (ii) the depreciation charge relating to using the item of PPE.
 - (b) whether to allocate the depreciation charge for an item of PPE if that item is also used for purposes beyond settling the obligation. A few of these respondents said entities currently do not perform such an allocation.
44. Furthermore:
- (a) a national standard-setter (in Asia-Oceania) and an accounting firm asked for guidance on whether to deduct cash recoveries (such as those earned from reprocessing and selling waste).
 - (b) a national standard-setter (in South Africa) suggested clarifying whether to include all costs in real terms (adjusted for inflation) or nominal terms (not adjusted for inflation).

Feedback from ASAF members

45. 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

46. Regarding the specific matters for which respondents requested application guidance or illustrative examples (paragraphs 43–44), we note that:
- (a) *there is insufficient evidence of major problems in practice.*
Developing application guidance would expand the scope of the project, requiring further research, analysis and consultation with stakeholders. Requests for application guidance were made by only a few respondents and without any describing widespread problems in practice, suggesting that the matters raised are not significant enough to warrant expanding the scope of the project to address them.
 - (b) *the questions raised by respondents already arise in practice.*
IAS 37 already requires an entity, in *assessing* whether a contract is onerous, to consider both the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling contracts in assessing whether a contract is onerous (paragraph 10). Therefore, questions relating to which costs an entity should include in the measure of a provision already arise in practice and do not result from the proposed requirement.
 - (c) *the proposed requirement do not make practice more difficult.*
The proposed requirement would explicitly clarify that, in measuring onerous contracts and other provisions, an entity includes the *same* costs as it would include in assessing whether a contract is onerous (paragraph 12). The proposed requirement would only make explicit what IAS 37 already implies and what entities already apply in practice (paragraph 18(a)).

Staff recommendations

47. Based on our analysis of the feedback in paragraph 46, we recommend that the IASB add no application guidance or illustrative examples on the types of costs to include in measuring a provision.

Question for the IASB**3 Application guidance**

Do you agree with our recommendation in paragraph 47?

Other suggestions

48. The appendix to this paper lists other suggestions, including drafting suggestions, from respondents to the Exposure Draft and from ASAF members, and our responses to these suggestions. We do not intend to discuss these suggestions in the meeting unless asked to do so by an IASB member.

Appendix—other suggestions

A1. This appendix lists other suggestions, including drafting suggestions, from respondents to the Exposure Draft and ASAF members, and our responses to those suggestions.

	Respondent suggestion	Staff response
(a)	<p>A national standard-setter in Europe suggested permitting an entity to measure a provision at either its 'fulfilment value' or 'transfer value' to maintain alignment with the existing requirements in paragraph 37 of IAS 37.</p> <p>At the ASAF meeting in July 2025, the AcSB representative suggested clarifying that the proposed requirement would apply only for provisions measured by reference to fulfilment costs.</p>	<p>No further action proposed.</p> <p>The conclusion that an entity may measure a provision at either its fulfilment value or its transfer value is an interpretation of IAS 37. Adding such an interpretation is beyond the scope of this project and would require further research and consultation.</p>

Respondent suggestion	Staff response
<p>(b) A few respondents noted the ‘lower of’ notion in the the definition of an onerous contract in IAS 37—the definition refers to the unavoidable costs under a contract being ‘the lower of the costs of fulfilling the contract and any compensation or penalties arising from failure to fulfil it’. These respondents suggested clarifying whether the same ‘lower of’ notion applies in measuring a provision.</p>	<p>No further action proposed.</p> <p>Specifying whether the ‘lower of’ notion applies in measuring a provision would add a requirement to IAS 37. Adding such a requirement is beyond the scope of this project and it would require further research and consultation.</p>
<p>(c) A group of regulators (in Europe) suggested requiring an entity to disclose material components of the costs included in the measure of a provision. The group said this information might be useful to users of financial statements.</p>	<p>No further action proposed.</p> <p>Adding such a disclosure requirement is beyond the scope of this project and would require further research and consultation.</p>

Respondent suggestion	Staff response
<p>(d) Some respondents suggested fully aligning the wording of the proposed ‘costs to include’ requirement with that in paragraph 68A of IAS 37. Paragraph 68A includes examples of (a) incremental costs of fulfilling a contract and (b) other costs that relate directly to fulfilling contracts.</p>	<p>We will consider this suggestion in drafting.</p>
<p>(e) A national standard-setter (in Asia-Oceania) suggested incorporating into IAS 37 paragraph BC66 of the Basis for Conclusions on the Exposure Draft, which explains the IASB’s views underlying the proposal.</p>	<p>No further action proposed.</p> <p>Paragraph BC66 highlights the parallels between the requirement for assessing whether a contract is onerous (paragraph 68A) and that proposed for measuring the resulting onerous contract provision (paragraph 40A). We think these parallels are evident from the consistency in the wording used in paragraphs 68A and 40A.</p>
<p>(f) At the ASAF meeting in July 2025, the EFRAG representative suggested clarifying the measurement objective in IAS 37.</p>	<p>No further action proposed.</p> <p>Clarifying the measurement objective in IAS 37 is beyond the scope of this project and would require further research and consultation.</p>

Respondent suggestion	Staff response
<p>(g) At the ASAF meeting in July 2025, the AOSSG representative suggested clarifying whether an entity facing a range of possible outcomes should measure the provision based on the most likely outcome or on a weighted average of those outcomes</p>	<p>No further action proposed.</p> <p>Clarifying how an entity facing a range of possible outcomes should measure the provision is beyond the scope of this project and would require further research and consultation.</p>