Staff paper

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Accounting Standards Advisory Forum meeting

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Project	**Provisions—Targeted Improvements**
Topic	**Exposure Draft feedback—Present obligation criterion—overall**
Contacts	Joan Brown (jbrown@ifrs.org) Stefano Tampubolon (stampubolon@ifrs.org)

Accounting Standards Advisory Forum, July 2025, Agenda Paper 1A

This paper was prepared for discussion at the International Accounting Standards Board's (IASB's) June 2025 meeting as Agenda Paper 22A. The agenda papers referred to in this paper are the other agenda papers for the IASB's June 2025 meeting.

Purpose of this 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. At this meeting, the IASB will discuss feedback on the Exposure Draft proposals. We are not asking the IASB to make decisions at this meeting. However, comments from IASB members will help us develop recommendations for the direction of this project.

3. Agenda Paper 22 *Provisions—Targeted Improvements—Exposure Draft feedback—Overview* provides an overview of the Exposure Draft proposals, the sources of feedback and the key messages in the feedback. It also explains the terms we have used to quantify the number of stakeholders expressing a view.

4. This paper summarises feedback on a group of proposals relating to one of the criteria in IAS 37 for recognising a provision—the requirement for the entity to have a present obligation as a result of a past event (present obligation criterion). The proposed amendments include proposals:

    (a) to amend aspects of IAS 37—the definition of a liability, the present obligation criterion and requirements that support that criterion;

    (b) to withdraw IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies*; and

    (c) to amend and expand the *Guidance on Implementing IAS 37*.

5. This paper summarises overall feedback on this group of proposals as a whole. Agenda Paper 22B *Present obligation criterion—past-event condition* and Agenda Paper 22C *Present obligation criterion—other requirements* support this paper. They report in more detail feedback on specific aspects of the proposed requirements—most notably on the proposed ‘obligation’, ‘transfer’ and ‘past-event’ conditions within the present obligation criterion.

6. Between them, the three papers summarise the main matters raised by respondents on the proposed present obligation criterion. We will include feedback on more minor and drafting matters in papers we prepare for future IASB discussions.

Contents of this paper

7. This paper summarises feedback on:

   (a) the proposed amendment to IAS 37, including the withdrawal of IFRIC 6 and IFRIC 21 (paragraphs 9–20); and

   (b) the proposed amendments to the *Guidance on implementing IAS 37*, including:

      (i) the decision tree (paragraphs 21–27); and

      (ii) the illustrative examples (paragraphs 28–38).

8. A question following paragraph 38 invites IASB members to ask questions and comment on the feedback summarised in this paper.

Amendments to IAS 37

Exposure Draft proposals (paragraphs 10, 14–16 and 108)

9. The proposed amendments to IAS 37 include:

   (a) updating the definition of a liability in IAS 37 and the wording of the present obligation recognition criterion, to align them with the definition of a liability in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*.

   (b) amending the requirements that support the present obligation recognition criterion, drawing on concepts from the *Conceptual Framework*:

      (i) removing the term 'obligating event' and instead identifying three conditions (obligation, transfer and past-event conditions) within the present obligation criterion;

      (ii) redefining the past-event condition;

      (iii) adding requirements for threshold-triggered costs; and

(iv) improving the wording of the requirements for restructuring costs without changing the substance of those requirements.

(c) withdrawing IFRIC 6 and replacing it with an illustrative example in the *Guidance on implementing IAS 37*.

(d) withdrawing IFRIC 21 *Levies*, whose requirements are not consistent with those proposed in the Exposure Draft, and replacing it with illustrative examples in the *Guidance on implementing IAS 37*.

Feedback

Respondents expressing broad agreement

10. Many respondents—from all stakeholder groups and regions—express outright or broad agreement with the proposed amendments to the present obligation criterion, including the withdrawal of IFRIC 6 and IFRIC 21.

11. Of those who give reasons for their agreement:

(a) some refer to the benefits of updating the definition of a liability to align it with the *Conceptual Framework* definition*:*

(b) some focus on the proposal to replace the requirement for an obligating event with requirements to meet the three conditions (obligation, transfer and past-event conditions) embedded within present obligation criterion. Respondents say that separating these conditions provides a clearer framework to analyse obligations.

> While the proposals seem to increase the number of aspects that preparers need to evaluate, we believe that these changes are positive and do not add significant complexity to the analysis. In practice, it may not be necessary to evaluate all conditions, as the failure to meet at least one condition would be sufficient to conclude that the current recognition criterion for the obligation is not met. *CL53 Bancolombia*

(c) some respondents focus on the changes to the past-event condition, including the application requirements for threshold-triggered costs and consequential withdrawal of IFRIC 21. They say the outcomes—earlier and more progressive recognition of some levies and climate-related obligations—will provide users of financial statements with a more faithful representation of, and relevant information about, such obligations (especially in interim financial statements). The examples respondents cite include digital services taxes and energy windfall taxes—revenue-based taxes that are charged only on entities whose revenue exceeds a specified threshold and/or only on entities operating in a market on a date *at* or *after* the end of the period of charge.

12. However, many of the respondents who express broad agreement with the proposed requirements overall go on to disagree with, and suggest changes to, specific aspects of the requirements—most frequently aspects of the obligation and past-event conditions. Their concerns and suggestions are explained in more detail in Agenda Papers 22B and 22C.

Respondents expressing broad disagreement

13. Some respondents express such major concerns about aspects of the proposed amendments to the present obligation criterion that we have classified them as disagreeing with these amendments as a whole. These respondents are primarily European— banks and their representative bodies, standard setters and accountancy bodies. They also include some of the global accounting firms responding.

14. The European respondents' disagreement stems at least in part from their concerns about the implications of the proposed past-event condition for levies with terms like those of some European levies—including European Union and UK bank levies and a French business property tax. Each of these levies is a recurring annual charge:

(a) payable by entities engaged in a specified activity on a specified date within one year (the levy year); and

(b) with the amount each entity pays being calculated by reference to a measure of specific assets or liabilities held by the entity (the tax base) as at a specified date (or over a specified period) in an *earlier* year.

15. As explained in more detail in Agenda Paper 22B, these respondents (among others) express concern that:

(a) for levies like those described in paragraph 14, it is unclear when the past-event condition is met. Consequently, if the IASB were to finalise the amendments as they are proposed in the Exposure Draft:

(i) the costs of complying with IAS 37 would increase—working out when to recognise a levy would require undue time and effort, with long discussions between entities and their auditors; and

(ii) there would be a risk of diversity in practice—if some entities and auditors reached different conclusions from others, some entities might recognise levies earlier than others, making financial statements less comparable.

(b) the information provided would not be useful:

(i) it is possible that the full amount an annual levy would be recognised at a point in time *before* the year of operation for which the levy is being charged. Respondents say that recognising a recurring annual levy at a point in time, especially before the year of charge, does not faithfully represent the substance of a levy. They say that in substance, a levy is a means through which a government appropriates a portion of the benefits an entity obtains from undertaking an activity or using an asset over the levy year.

(ii) some levies would be recognised while the amount payable remains uncertain, increasing the subjectivity of the measures, reducing comparability and making amounts recognised susceptible to later revision.

(c) recognising a levy in financial statements for periods before the levy becomes payable could undermine entities' position in negotiations with levying authorities.

16. These concerns about the past-event condition, among other concerns about the present obligation criterion (as summarised in Agenda Paper 22C), lead the respondents to conclude that overall:

(a) the proposed amendments do not achieve the project objectives:

(i) the proposed amendments do not clarify the recognition criteria in IAS 37—although they answer some application questions, they raise new ones; and

(ii) the proposed requirements would not result in better accounting outcomes for all levies.

(b) the proposed requirements will result in increased judgement and estimation uncertainty, making compliance, audit and enforcement harder.

(c) replacing the current requirement for an obligating event with requirements to meet three separate conditions would add unnecessary complexity without significant benefits and with possibly unforeseen consequences. A few respondents say the current requirements of IAS 37 have been applied 'without any real difficulties'.

17. Other respondents that we have classified as disagreeing with the amendments—primarily some of the global accounting firms—also express concerns about the implications of the proposed past-event condition for levies. In addition:

    (a) as discussed further in Agenda Paper 22C, they question detailed aspects of the proposed obligation condition (most notably, the criteria in paragraph 14F for determining whether an entity has a legal obligation) and the clarity of the proposed transfer condition; and

    (b) they express concern about the overall complexity of the proposed new requirements, referring to the replacement of six existing paragraphs (paragraphs 17–22 of IAS 37) with 21 new ones (paragraphs 14A–14U of the Exposure Draft) and to the three new conditions embedded within the present obligation criterion.

Suggestions for alternatives to the amendments proposed in the Exposure Draft

18. Respondents who express concerns about the implications of the proposed requirements for levies suggest various solutions:

    (a) some respondents suggest improving the requirements proposed in the Exposure Draft:

        (i) specifying simpler application requirements for levies, for example by specifying that for levies, the 'action' that satisfies the past-event condition is the activity the government is seeking to tax (as explained further in Agenda paper 22B); or

        (ii) developing 'robust' application requirements and guidance for levies.

    (b) a few respondents suggest the IASB continue its work to finalise the proposed amendments but exclude levies (and other non-reciprocal transactions) from the scope of IAS 37, and either:

(i) leave IFRIC 21 in place; or

(ii) develop a separate Standard for levies (and other non-reciprocal transactions). Respondents advocating a separate Standard argue that requirements proposed in paragraphs 14P and 14Q of the Exposure Draft ‘appear to introduce rules to accommodate the non-reciprocal nature of levies and taxes’ that could conflict with other requirements in IAS 37. They say that because these requirements are not confined to levies and taxes, they could lead to diversity in practice for other types of transactions.

(c) a few respondents suggest abandoning the proposed amendments to IAS 37, some saying the IASB could address the current weaknesses in levy accounting by reviewing the requirements of, or adding disclosure requirements to, IFRIC 21.

Need for further work

19. Some respondents ask the IASB to do more work on the proposed amendments and revise them as necessary to ensure the final requirements have no unintended consequences and are operational in all jurisdictions—especially given their increased reliance on management judgement. These respondents include some of those we have classified as agreeing with the proposed amendments, and many we have classified as disagreeing.

20. Respondents refer to the need to test the proposals against a range of fact patterns that exist in practice, or to carry out a ‘robust impact analysis’ or field tests. A few standard setters offer to assist the IASB in their jurisdictions.

Guidance on Implementing IAS 37—Decision tree

Exposure Draft proposals (Section B)

21. Section B of the *Guidance on Implementing IAS 37* contains a decision tree illustrating the process an entity follows in applying the three recognition criteria in IAS 37 (the present obligation, probable transfer and reliable measurement criteria).

22. The Exposure Draft proposes to expand this decision tree to:

    (a) reflect the changes proposed to the present obligation criterion—splitting the existing single decision (whether an obligating event has occurred) into three decisions (whether each of the three new conditions is met).

    (b) clarify the consequence of failing to meet the present obligation criterion—the entity has neither a provision *nor a contingent liability*.

    (c) incorporate the decisions required if unclear facts and circumstances mean it is unclear whether all conditions within the present obligation criterion are met.

23. The proposed new decision tree has more steps and branches than the existing decision tree. It would not readily fit on a single page within the printed version of IFRS Accounting Standards, so the Exposure Draft proposes to split it into three connecting parts that span three pages.

Feedback

24. Many respondents comment on the expanded decision tree, with almost all of these respondents saying it is helpful in understanding the proposed recognition criteria, and would be helpful in applying them.

25. A few respondents highlight aspects of the decision tree they think are particularly useful:
    (a) the illustration of the consequence of failing to meet the present obligation criterion;
    (b) the illustration of the point in the decision process at which an entity should consider the probability of a transfer of an economic resource; and
    (c) the splitting of the decision tree into three parts, which they say helps distinguish the present obligation criterion from the other recognition criteria.

26. A few respondents have spotted a logic error in the first part (B1) of the decision tree. That part wrongly indicates that, if it is unclear whether *one* of the obligation, transfer or past-event conditions is met (due to unclear facts or circumstances), the entity proceeds to the second part (B2) of the tree to decide whether it has a provision or a contingent liability—bypassing *other* conditions within the present obligation criterion. The decision tree should instead require the entity to consider these other conditions before moving to part B2, because if *any one* of them is not met, the entity has neither a provision nor a contingent liability and should not proceed to part B2.

27. Respondents suggest various refinements to make the decision tree clearer. The most common suggestions are:
    (a) consolidating the three connecting parts into a single tree; and
    (b) for each decision, adding a cross reference to the applicable paragraphs of IAS 37.

Guidance on Implementing IAS 37—Illustrative examples

Exposure Draft proposals (Section C)

28. Section C of the *Guidance on Implementing IAS 37* contains examples illustrating the application of the present obligation criterion. The Exposure Draft proposes to expand the examples by:

    (a) adding more analysis to support the conclusions. The proposed analysis includes tables explaining whether, for each fact pattern illustrated, each of the obligation, transfer and past-event conditions is met, and why or why not.

    (b) adding new examples with fact patterns similar to those in:

        (i) IFRIC 6;

        (ii) illustrative examples accompanying IFRIC 21;

        (iii) IFRS Interpretations Committee Agenda Decision *Negative Low Emissions Vehicle Credits*; and

        (iv) IFRS Interpretations Committee Agenda Decision *Climate-related Commitments*.

General feedback

29. Many respondents say the expanded illustrative examples are helpful—they say the examples aid understanding of the proposed new requirements ('demystifying the mechanics') and would support consistent application.

30. Some respondents highlight aspects of the expanded examples they find especially helpful, including:

(a) the structured table-based layout and the individual analysis of each of the three conditions within the present obligation criterion.

(b) the consolidation of the agenda decisions, so their guidance is not lost;

(c) the examples illustrating current climate-related issues. Respondents say:

  (i) these examples are topical and there is there is considerable stakeholder demand for application guidance in this area; and

  (ii) the climate-related commitments example clearly illustrates the application of the present obligation criterion to such commitments, including the underlying reasons.

(d) the comprehensiveness of the examples—the wide variety of transactions and concepts they illustrate.

> The revised and additional examples provide practical insights into complex provisions, which are particularly useful for African businesses dealing with regulatory and environmental obligations.
>
> The updated and expanded examples address common areas of confusion, such as threshold-triggered costs, restructuring obligations, and climate-related provisions. African businesses, often operating in dynamic and resource-constrained environments, will benefit from the simplified and structured approach to liability recognition and measurement.
>
> *CL6 Pan African Federation of Accountants*

31. Some respondents suggest ways of enhancing the illustrative examples. Recurring suggestions include:

(a) starting each example with a statement of its objective and the specific paragraph(s) of IAS 37 to which it relates. One respondent refers to the examples in Exposure Draft *Climate-related and Other Uncertainties in the Financial Statements* where it says such a statement has been added 'to good effect'.

(b) reviewing the existing examples (which were developed to illustrate the existing requirements) and deleting those that will be less useful in illustrating the amended requirements. For example, one respondent suggests deleting Example 6 (Legal requirement to fit smoke filters), which it says conflates two concepts, both of which are covered by other examples.

(c) specifying whether the entity would recognise a provision at interim dates within the annual reporting period and if so, how the provision would accumulate during the annual reporting period—especially in Examples 13A–13C (various levies) and Example 14 (Negative low-emission vehicle credits).

(d) expanding the examples so they also illustrate issues that can arise in:

    (i) applying the probable outflows and reliable measurement recognition criteria; and

    (ii) measuring provisions—especially climate-related obligations.

(e) expanding the examples to illustrate how variations in the fact pattern could change the conclusions reached.

(f) in examples where either the first (obligation) or second (transfer) condition is not met (Examples 6, 7, and 11) omitting any analysis of the remaining conditions because:

    (i) omitting the analysis of those remaining condition(s) would be more consistent with the decision tree in Section B. The decision tree indicates that if the entity concludes any one condition is not met, it does not consider the other conditions—it has neither a liability to recognise nor a contingent liability to disclose.

(ii) the analysis of the remaining conditions in these examples is confusing. If the obligation or transfer condition is not met, the analysis of the remaining condition(s) has to start by identifying an alternative obligation that would meet the obligation or transfer condition, for example, one that will arise later in the transaction being illustrated. That alternative obligation is typically outside the scope of IAS 37—in Examples 6, 7 and 11, the alternative obligation is a trade payable (within the scope of IFRS 9 *Financial Instruments*). Referring to such obligations in the *Guidance on Implementing IAS 37* implies they are within the scope of IAS 37.

32. A few respondents suggest locating the illustrative examples in IAS 37 itself rather than in the guidance that accompanies IAS 37. They say that:

(a) the examples are so important they are likely to take on the weight of authoritative requirements and so they should be given an appropriate level of prominence and authoritative status;

(b) other IFRS Accounting Standards—for example IFRS 9—have set a precedent of giving authoritative status to application guidance; and

(c) website access to the *Guidance on Implementing IAS 37* requires a paid subscription, which may be cost-prohibitive for some subscribers and so pose a barrier to access. Consequently, the IASB's efforts to improve the Illustrative Examples might not realise the maximum possible benefit.

Feedback on individual examples

33. Many respondents comment on aspects of individual illustrative examples. The examples attracting the most comment are:

    (a) Examples 6,7, 11A and 11B—existing examples in which the conclusion is that the present obligation criterion is not met. The Exposure Draft proposes new reasoning to explain the conclusions. Respondents do not disagree with the conclusions but question aspects of the analysis (especially the analysis of the alternative obligations described in paragraph 0.)

    (b) Examples 13A–13C—new examples illustrating various levy fact patterns. Many respondents commenting on these examples question the identification of the actions that need to have occurred to satisfy the past-event condition. Some respondents use the examples to reinforce their comments about the lack of clarity of past-event condition as it would apply to levies (as discussed further in Agenda Paper 22B).

34. A few respondents disagree with the conclusion that the present obligation criterion is met in Example 14 (Negative low-emission vehicle credits). However, most of the comments on Example 14 are requests for clarification of how the entity would *measure* its present obligation to surrender credits, given that it expects to generate these credits as a by-product of its operations (rather than by buying them).

35. We will provide more analysis of the comments on individual examples in papers we prepare for future IASB discussions of the *Guidance on Implementing IAS 37*, and we will consider the comments in detail when we get to the stage of refining the drafting of the illustrative examples.

Requests for additional examples

36. Some respondents request examples to illustrate specific types of transactions not covered by the examples proposed in the Exposure Draft.

37. Many of those requests relate to specific levies—typically bank levies and property taxes—and climate-related charges discussed further in Agenda Paper 22B.

38. Other requests include requests for examples illustrating:

    (a) a lessee or service concession operator's obligations to restore assets to a specified condition at the end of a lease or a service concession arrangement; and

    (b) types of transactions that might give rise to unusual application questions not specifically addressed by IAS 37—for example, unconditional commitments to make donations (for example, to provide community support) over an extended period or indefinitely. Each of these examples is requested by only one or two respondents.

Question for the IASB

Question for the IASB
Do you have any questions or comments on the feedback reported in this paper?