Staff paper

ASAF Agenda reference: 1B
IASB Agenda reference: 22B

Accounting Standards Advisory Forum meeting

Date	**July 2025**
Project	**Provisions—Targeted Improvements**
Topic	**Exposure Draft feedback—Present obligation criterion—past-event condition**
Contacts	Joan Brown (jbrown@ifrs.org) Stefano Tampubolon (stampubolon@ifrs.org)

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

This paper was prepared for discussion at the International Accounting Standards Board's (IASB's) June 2025 meeting as Agenda Paper 22B. 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 *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. Agenda Paper 22A *Exposure Draft feedback—Present obligation criterion—overall* summarises overall feedback on the 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).

5. This paper supports Agenda Paper 22A. It summarises feedback on the proposed 'past-event' condition. Agenda Paper 22C *Present obligation criterion—other requirements* summarises feedback on other aspects of the present obligation criterion.

6. Between them, this paper and Agenda Papers 22A and 22C 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 application of the past-event condition to levies (paragraphs 16–33):

   (b) requirements for threshold-triggered costs (paragraphs 34–46); and

   (c) other comments on the past-event condition (paragraphs 47–57).

8. A question following paragraph 57 invites IASB members to ask questions and comment on the feedback summarised in this paper.

Exposure Draft proposals (paragraphs 14M–14R)

9. Paragraph 14A of the Exposure Draft proposes three conditions for meeting the present obligation criterion for recognising a provision:

    (a) an obligation condition—the entity has an obligation;

    (b) a transfer condition—the nature of the obligation is to transfer an economic resource; and

    (c) a past-event condition—the entity's obligation is a present obligation that exists as a result of a past event.

10. Paragraph 14B of the Exposure Draft defines the obligation condition. It states that for an entity to have an obligation, a mechanism must be in place that imposes a responsibility of the entity *if it obtains specific economic benefits or takes a specific action*. (Emphasis added)

The past event condition

11. Paragraphs 14M–14R of the Exposure Draft specify the past-event condition. Paragraph 14N explains that the past-event condition is met when the entity:

    (a) has obtained the specific economic benefits or taken the specific action referred to in the obligation condition; and

    (b) as a consequence, will or may have to transfer an economic resource it would not otherwise have had to transfer.

12. Paragraph 14O states that if the economic benefits are obtained, or the action is taken, over time, the past-event condition is met, and the resulting present obligation accumulates, over that time.

13. Paragraph 14Q specifies requirements for situations in which an entity has an obligation to transfer an economic resource only if it takes both (or all) of two (or more) separate actions. Paragraph 14Q specifies that the past-event condition is met when the entity has taken the first action (or any of the actions) and has no practical ability to avoid taking the second action (or all the remaining actions).

14. Paragraph 14R notes that a decision to prepare an entity's financial statements on a going concern basis implies that the entity has no practical ability to avoid taking an action it could avoid only by liquidating the entity or ceasing to trade.

15. Illustrative examples 13A–13C in the Guidance on Implementing IAS 37 illustrate how the past-event condition could apply to various levies.

Feedback—application to levies

Levies causing concern

16. Many respondents—primarily but not exclusively in Europe— raise questions or express concerns about the past-event condition. Many of those respondents focus on how the requirements would apply to specific European levies, including the French Cotisation Foncière des Entreprises (a business property tax), and three bank levies:
    (a) the EU Single Resolution Fund levy;
    (b) the Bank of England levy; and
    (c) a French levy on banks that funds payments to local authorities that have taken out 'toxic' loans.

17. Each of these levies is a recurring annual charge:

    (a) payable by entities engaged in a specified activity on a specified date at the start of or during 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 (the reference date) before the start of the levy year. In some cases, the reference date is more than a year before the start of the levy year.

Concerns expressed

The proposed requirements are unclear

18. Respondents express concern that, for levies like those described in paragraph 0, it is unclear when the past-event condition is met:

    (a) respondents say that to apply the requirements it is necessary to convert the features or conditions of a levy into actions taken by the entity. It is unclear which features should be converted into actions, precisely what these actions are, and what determines whether they are separate actions. These questions are described in more detail in:

        (i) paragraphs 17(a)–(g) of the comment letter from EFRAG; and

        (ii) Appendix B to the comment letter from the Autorité des Normes Comptables (ANC). The ANC explains the issues it encountered in trying to decide when the past-event condition is met for the French Cotisation Foncière des Entreprises, and the various views it thinks could be taken.

(b) some of these respondents specifically question whether holding the assets or liabilities used to measure the tax base should be identified as an 'action' that meets the past-event condition. Some respondents also ask whether, *if* holding those assets or liabilities *is* such an action, the entity takes that action:

   (i) on the reference date on which the assets or liabilities are measured, as specified in the legislation; or

   (ii) at an earlier date, when the entity acquires the assets or originates the liabilities that will be measured on the reference date (if it has no practical ability to sell or settle them before the date specified in the legislation).

(c) respondents say Illustrative Examples 13A–13C are not helpful because their conclusions are difficult to understand. Specifically, it is unclear:

   (i) why in Example 13A (A levy on revenue) generating revenue in a market in 20X0 and operating in the market in 20X0 are two separate actions.

   (ii) why there are two required actions identified in Example 13B (A levy on an entity operating as a bank on the last day of its annual reporting period). Respondents say they think the only action required to pay a levy is operating as a bank on the last day of an annual reporting period. They question why the dependence of the amount of the levy on the length of the accounting period (a measurement basis) is enough to identify a second action and invoke paragraph 14O.

   (iii) why in Example 13C (A property tax), the requirement to pay property tax is a result of only one action—why the earlier purchase of the property, or ownership of the property through the year, is not regarded as an action. It is unclear why the conclusion in Example 13C is different from that in 13B.

19. Respondents say that, if the IASB were to finalise the amendments as they are proposed in the Exposure Draft:

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

    (b) 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.

The resulting information would not be useful

20. Some respondents also express concern that, for bank and business property levies like those described in paragraph 0, the information provided by applying the proposed requirements (as interpreted in Illustrative Examples 13B–13C) would not be useful:

    (a) if holding assets or liabilities on reference date is an 'action' required to meet the past-event condition, the full amount of each year's levy would be recognised at a point in time *before* the year for which the levy is actually 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 the means through which a government appropriates a portion of the benefits an entity obtains from undertaking an activity or using an asset over the year for which the levy is charged. The legislation might specify the entities within the scope of the levy, and the amount each entity should pay, by reference the value of an entity's assets or liabilities at a point in time during, before or after the year for which the levy is charged. However, the legislation does so purely for administrative efficiency. The substance of a levy would be more faithfully represented by recognising the levy expense over the period in which the entity obtains the benefits the government is seeking to appropriate.

(b) some of the respondents express concerns that entities might need to recognise provisions for annual levies that will be charged for many years into the future, perhaps indefinitely. In some cases, this concern arises because the respondent has concluded that acquiring property or originating a liability could be a relevant action for meeting the past-event condition (as contemplated in paragraph 18(b)(ii))). So they suggest that on the date an entity acquires the property or originates the liability, it will need to recognise a provision for all future levies it expects to pay while it owns the property or holds the liability, if it has no practical ability to sell the property or settle the liability before then.

(c) a few respondents refute the IASB's assertion that a benefit of the proposed past-event condition is that it is more consistent than IFRIC 21 with the requirements of other IFRS Accounting Standards addressing obligations that are conditional on the entity's future actions—for example, with IFRS 2 *Share-based Payment* and IAS 19 *Employee Benefits*. Respondents say that requirements that provide useful information about reciprocal transactions (by recognising the costs when the reciprocal benefits are received) do not necessarily provide useful information about non-reciprocal transactions like levies.

21. A few respondents also note that provisions for levies would be recognised while the amount payable is still uncertain. They say recognising a provision so early would increase the subjectivity of the measures, reducing comparability and making amounts recognised susceptible to later revision.

Early recognition could be commercially damaging

22. One bank says that entities operating in a sector sometimes have an opportunity to influence government decisions on whether to continue charging a levy on that sector, and at what rates. The bank expresses a concern that recognising a levy in financial statements for periods before the levy becomes payable could undermine the entities' position in such negotiations. 'Governments could ask why entities should be worried about levies which have already been expensed.'

The problem lies in the interpretation of 'action'

23. A group representing European preparers of financial statements suggests that the problem is not necessarily with the requirements in paragraphs 14N–14Q—rather it is in the way the illustrative examples apply those requirements to levies:

> It seems to us that, in rectifying IFRIC 21, the IASB has unduly complicated the standard and made it quite uncertain in many cases. It is not so much the principle described in paragraph 14Q about the existence and timing of multiple actions leading to the generation of an obligation that poses an issue, but the application/interpretation of this by the IASB regarding taxes. Specifically, it seems that the arbitrary breakdown of taxes into multiple actions to fit the proposed model adds confusion and risks leading to conclusions that do not always make sense. We have had numerous discussions on several taxes, which show that there is currently no consensus on the interpretation of the text. Furthermore, there now seems to be confusion between an action triggering the obligation (the obligating event) and actions building the base of the evaluation. *CL18 ACTEO AFEP MEDEF*

24. This group suggests that the only 'action' giving rise to an obligation to pay a levy is the activity that a legislator is seeking to tax. Having a status that brings an entity into the scope of the legislation (usually defined at a point in time for simplicity) or holding a tax base on which the levy will be calculated should not be viewed as 'actions' that give rise to an obligation.

25. The group applies this concept to the illustrative examples and suggests that in each example there is only one action to consider:

    (a) in Example 13A (A levy on revenue)—the government is seeking to tax revenue, so the provision should be accumulated as the entity generates revenue.

    (b) in Example 13B (A levy on an entity operating as a bank on the last day of its annual reporting period)—the government is seeking to tax banking activity, so the levy charged at the end of each reporting period should be accumulated over the reporting period (the period in which the entity has been conducting banking activities).

(c) in Example 13C (A property tax)—although the tax base is specified at a single date, the objective is to tax transactions carried out using the property throughout the year, so the provision should be accumulated over the year.

26. Other respondents also say that terms of legislation that identify the tax base for a levy should affect only the measurement of the provision—they should not have a bearing on recognition (when the present obligation to pay the levy arises).

27. One respondent suggests that taking the first action required for the levy to be payable should trigger the recognition of a provision only if that event is 'effectively completed' (and the entity has no practical ability to avoid the remaining actions).

Suggestions for alternative requirements for levies

28. One group representing banks suggests specifying simpler application requirements (a 'single mechanism') for levies, to reduce complexity and the risk of diversity in practice. A few respondents suggest requiring all levies charged annually (or at other regular intervals) to be recognised progressively over the year (or other interval) for which they are being charged, as specified in the legislation. Such an outcome could be achieved by specifying that for levies, the 'action' that meets the past-event condition is the activity the government is seeking to tax (as described in paragraph 24).

29. However, a European banking industry body says it disagrees with those who suggest all annual levies should be spread over the year in which they are charged. It says that paying a levy does not entitle an entity to any benefits, and so concludes that there are no grounds for recognising a levy expense over a period from which the entity obtains benefits associated with the levy.

30. That body and a few other respondents suggest retaining the requirements of IFRIC 21 for levies, on the grounds that:

(a) the requirements of IFRIC 21 are clear, well-understood and objective; and,

(b) although stakeholders were dissatisfied with the IFRIC 21 when it was introduced, preparers and users of financial statements have largely grown accustomed to its requirements—the upheaval and cost required by a change in the requirements might outweigh the benefits that some might gain.

31. Some of these respondents suggest scoping levies out of IAS 37 and developing IFRIC 21 as a separate standard, on the grounds that:

(a) the requirements of IFRIC 21 are not consistent with those being proposed for IAS 37:

> We understand that leaving IFRIC 21 in place would be inconsistent with the amendments as currently drafted, so we would like the IASB to consider scoping levies out of IAS 37 and formalising IFRIC 21 as a new standard, rather than an interpretation of IAS 37. We appreciate there are some challenges in taking this course of action, but this is something we believe the IASB should reconsider. And yes, great care will be needed to define what is scoped out, especially due to the wide range of fact patterns and scenarios that can fall under the term levies internationally. *CL83 Grant Thornton International*

(b) IAS 37 is not a suitable standard for levies:

> Levies are recurring nonreciprocal costs rather than traditional provisions. IAS 37 defines a provision as a liability of *uncertain timing or amount*. *Timing* of levy payments is certain as payment dates are specified in the respective legislation. Regarding the *amount* there is not much uncertainty either. For example, if a bank levy is based on specific revenues or on average balance sheet amounts during (previous) year, based on the proposal in the ED, it would be recognised over that period as the actual amount generating the liability evolves. In this regard, IFRIC 21 says in paragraph 2 that it *also addresses the accounting for a liability to pay a levy whose timing and amount is certain*. I.e. IFRIC 21 scope goes beyond what should be addressed by IAS 37.
>
> *CL28 Erste Group Bank AG*

32. Some respondents suggest developing 'robust' requirements and guidance on applying the general requirements of IAS 37 to levies. Respondents say there is a particular need for:

(a) application requirements and guidance for levies in the body of IAS 37 (as opposed to in the *Guidance on Implementing IAS 37*), identifying underlying principles.

> Addressing the accounting for levies may require more than just illustrative examples (for instance, IFRIC 21 contained a definition of levies and some application requirements). At this stage, we see no reason why the IASB should not consider adding specific requirements directly in the Standard in order to clarify some of the issues related specifically to levies. *CL88 Forvis Mazars*

(b) guidance on specific matters, including on:

(i) what constitutes an 'action';

(ii) the factors that distinguish a single action that the entity takes over time from distinct actions that an entity considers separately; and

(iii) why an entity recognises a provision for one year's levy only, even if it has no practical ability to avoid operating and paying levies in the future. The reason is that although the entity has no practical ability to avoid levies that will be charged in future years, it has not yet taken any of the actions required for these levies to be payable (so has not yet met the requirement in paragraph 14Q that it has taken a first action).

(c) clarification that:

(i) the relevant actions are those specified in the terms and conditions of the mechanism imposing the responsibility (for example, owning an asset at a specified date, not acquiring it before that date); and

(ii) therefore, identifying these actions is not a question of management's judgement but an assessment of all the facts of the mechanism (as explained in paragraph BC36 of the Basis for Conclusions on the Exposure Draft).

(d) illustrative examples that more clearly explain the rationale for their conclusions, including:

(i) examples illustrating how variations in fact patterns could change the conclusions reached—to highlight the factors that might be particularly relevant to the analysis.

(ii) in Example 13B, emphasising the importance of the dependence of the amount of the levy on the length of the bank's reporting period. The conclusion depends on this feature.

(e) illustrative examples with fact patterns other than those illustrated in the Exposure Draft, including:

(i) fact patterns like those of the bank levies and business property tax described in paragraph 0.

(ii) levies commonly imposed in some jurisdictions when a change in zoning plans applicable to a property increases the existing building rights. These levies become payable when the owner sells the property or starts construction using the new rights, if earlier.

33. A national standard setter says that overcoming the application issues for levies could be challenging but may be achievable. It suggests attempting to refine the proposed requirements to overcome the issues, and testing any refinements on a wide range of levies. Is adds that, if these efforts prove unsuccessful, rule-based requirements for levies could be considered as a last resort.

Requirements for threshold-triggered costs

Exposure draft proposals (paragraph 14P)

34. Paragraph 14P specifies how to apply paragraphs 14M-14O to threshold-triggered costs—costs that will become payable only if a measure of the entity's activity in an assessment period exceeds a specific threshold.

35. Paragraph 14P specifies that the action that meets the past-event condition is the activity that contributes to the total activity on which the amount of the transfer is assessed. In other words, the past-event condition is met, and a present obligation starts to accumulate, as the entity's activity progresses towards the threshold. Paragraph 14P further clarifies that at any date within the assessment period, the present obligation is the portion of the total expected obligation attributable to the activity carried out to that date.

36. Paragraph 14P also reminds readers that, even though the present obligation criterion is met as the entity's activity progresses towards the threshold, an entity recognises a provision only if the other recognition criteria in IAS 37 are also met at that time, that is if:

    (a) it is probable that the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource; and

    (b) a reliable estimate can be made of the amount of the obligation.

37. The proposed requirements would change existing practice for threshold-triggered levies (and, by analogy, some other threshold-triggered costs within the scope of IAS 37). IFRIC 21 requires a provision for a threshold-triggered levy to be recognised only when the entity's activity exceeds the threshold.

Feedback

Overall views

38. Many of the respondents who comment specifically on the proposed requirements for threshold-triggered costs say they agree with adding these requirements to IAS 37. Most of those who give a reason say the proposed requirements would result in more relevant information about and/or a more faithful representation of the entity's obligations than the requirements currently in IFRIC 21—especially:

    (a) in interim financial statements; and

    (b) for costs triggered by exceeding greenhouse gas emissions thresholds:

> We welcome the proposed changes to recognise progressively, certain provisions for obligations that are activity-based over an assessment period, having in mind particularly obligations for carbon and other GHG emissions that exceed a stated threshold. Recognition of these based on activity to date will help avoid the back ended 'cliff' effect that may otherwise arise, whereby only activity after the threshold has been reached attracts an assessment period provision. Currently, it can be difficult to tell from company disclosure what their accounting policy is on such obligations, and we expect such obligations will increase in the future and therefore consistency and transparency of the accounting will be helpful to investors, who in turn have made clear the growing materiality of these issues.
>
> *CL86 Climate Accounting & Audit Project*

39. A regulator acknowledges that provisions recognised applying the proposed requirements will be subject to greater estimation uncertainty. But it notes that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine the usefulness of the information, if the estimates are clearly and accurately described and explained.

40. A few respondents say they disagree with the proposed requirements—they would prefer to retain the requirements in IFRIC 21. Some think a liability for a threshold-triggered cost arises only when the entity has exceeded the threshold and has a legal obligation to transfer an economic resource—until then the entity does not have a present obligation and suggesting otherwise could undermine the understandability of financial statements. A group of academics in Asia expresses concern that the estimates of the provision will be highly subjective, and says that the subjectivity would create practical challenges, especially in emerging markets where estimation techniques are less developed and highly subjective estimates may result in significant diversity in application.

Inconsistency with paragraph 14Q

41. A few respondents say that the requirements in paragraph 14P for threshold-triggered costs seem inconsistent with the requirements in 14Q for costs triggered when an entity takes two or more separate actions. They say the inconsistency adds a complication that could create application challenges and avoidance opportunities. They ask whether one requirement takes precedence over the other, or whether fulfilling either of the requirements would satisfy the past-event condition.

42. Respondents recommend aligning the two requirements. An accounting firm and an accountancy body suggest that conceptually a threshold-triggered cost could and should be viewed as an example of a transfer required when an entity takes two or more actions. In the case of a threshold-triggered cost, each unit (perhaps day) of activity that takes the entity closer to the threshold can be viewed as an action. The past-event condition would be satisfied as soon as the entity starts the first unit of activity, if it has no practical ability to avoid continuing the activity to the point of exceeding the threshold.

43. The accounting firm notes that if threshold-triggered costs are viewed in this way, the requirements of 14P could be written to be consistent with those of 14Q. IAS 37 could state that, for a threshold-triggered cost, the past-event condition is satisfied as soon as the entity has started making progress towards the threshold if the entity has no practical ability to avoid exceeding the threshold.

Location of requirements for threshold-triggered costs

44. A few respondents suggest moving the requirements for threshold-triggered costs from within the past-event condition section to a separate section (perhaps the 'Application of the recognition and measurement rules' section). Respondents note that the decision on whether to recognise a provision for a threshold-triggered cost is likely to require careful consideration of all the recognition criteria in IAS 37—not just the present obligation criterion—as evidenced by the cross reference in paragraph 14P to the probable transfer and reliable measurement criteria. A few respondents say it is confusing for those other two recognition criteria to be referred to in the section that is supposed to be focusing on the present obligation criterion section.

Measurement uncertainty

45. Noting that provisions recognised early in an assessment period could be subject to significant measurement uncertainty and so could be susceptible to later revision or even reversal:

(a) a few respondents ask for guidance on making a reliable estimate.

(b) a user of financial statements expresses concern that preparers might use the reliable measurement criterion as a reason for not recognising a provision. It suggests emphasising that reasonable estimates could be made on the basis of assumptions used in determining other amounts reported in the financial statements.

Requests for additional guidance

46. A few respondents ask for additional requirements and guidance on threshold-triggered costs, including:

    (a) requirements on when to recognise threshold-triggered costs if the threshold is:

        (i) a measure of the entity's assets or liabilities (rather than its activity in a period); or

        (ii) a ratio of the entity's activities (for example, its renewable energy usage rate) in a period; and

    (b) guidance on how to calculate the amount of the provision as it accumulates during the assessment period. Adding a calculation of the provision to the example following paragraph 14P could make that example easier to understand.

Other aspects of the past-event condition

Interaction between paragraphs 14O–14Q

47. Some respondents ask the IASB to clarify the interaction between paragraphs 14O (actions taken over time), 14P (threshold-triggered costs) and 14Q (two or more actions), because two or all of these paragraphs could apply to a single fact pattern. Specifically, respondents ask for clarification of:

    (a) whether paragraphs 14P and 14Q are intended to provide additional guidance to 14O for specific situations.

    (b) how paragraph 14O affects the application of 14Q, and whether paragraph 14O takes precedence over paragraph 14Q or vice versa. A respondent notes the answer could affect the outcomes for levies, like the French Cotisation Foncière des Entreprises, that require two actions, with the first occurring at a point in time and the second over a year. It could be argued that if paragraph

14Q takes precedence, the entity recognises a provision when it takes the first action; whereas, if paragraph 14O takes precedence, the entity recognises a provision over the year in which it takes the second action. The respondent suggests that paragraph 14O should take precedence: wherever a levy depends on the period of an entity's activity, the economic substance is that the obligation accumulates over that period.

48. A national standard setter asks for a more explicit statement of the implications of paragraph 14O—a statement that where a present obligation accumulates over time, progressive recognition of the provision is appropriate.

Obligations that depend on the actions of other parties

49. Some respondents ask for guidance on how to apply the past-event condition to transactions in which an entity's obligation to transfer an economic resource depends on its own activities combined with those of other entities. A national standard setter says mechanisms with these features are growing in number.

50. Some of these respondents refer to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Under this scheme, the airline sector is assigned a collective annual target for CO_2 emissions. If the sector's total emissions exceed the collective annual target, each airline is allocated a share of the surplus, proportional to its emissions within the sector. Each airline is required to offset its allocated surplus by purchasing and retiring carbon credits.

51. An accounting firm suggests clarifying that:

    (a) the *present obligation* criterion is assessed purely by reference to the entity's own emissions; and

    (b) the likelihood of the collective target being exceeded is considered in determining whether the *probable transfer* criterion is met.

Meaning of no practical ability to avoid (paragraph 14Q)

52. A few respondents say that judgements about an entity's practical ability to avoid remaining actions required to trigger a transfer would be subjective (especially if the time between the first and remaining actions is long) and so could lead to divergence in practice. Some respondents request guidance on the interpreting the term 'no practical ability to avoid'.

> This may be a matter that can be resolved only by professional judgement in specific circumstances rather than a rigid requirement, but Examples might illustrate how the issue could be assessed.
>
> CL13 *European Accounting Association*

53. Some respondents question the implications of the statement in paragraph 14R that preparing an entity's financial statements on a going concern basis implies the entity has no practical ability to avoid actions it could avoid only by liquidating the entity or ceasing to trade:

    (a) some interpret this statement to mean that the timeframe for recognising provisions is open-ended—so, for example, entities should recognise provisions for all levies they expect to pay while they remain a going concern. Others, recognising the risk of this interpretation, say it is important to more clearly link paragraph 14R to paragraph 14Q—so it is clearer that paragraph 14R is considered only when an entity has already taken the first action required to trigger a transfer.

    (b) some ask for clarification of the implications of that statement for actions that could be avoided by closing part of the entity's operations, disposing of specific assets, or liquidating a subsidiary within a group—without liquidating the whole entity or ceasing to trade completely.

54. Some respondents—mainly accounting firms— note that the Exposure Draft proposes to require an entity to apply the 'no practical ability to avoid' concept in two different contexts—first in assessing the strength of the mechanism imposing responsibilities on the entity (paragraph 14B(c)) and then in assessing the entity's ability to avoid taking the remaining actions required to trigger a transfer (paragraph 14Q):

   (a) some say it is unclear whether the entity would consider the same factors in assessing the entity's inability to avoid taking actions as it would consider in assessing the strength of the mechanism. Some think that paragraph 14R seems to set a higher threshold for the former than paragraph 14F sets for the latter.

   (b) some say the use of the same terminology for these 'subtly different' contexts may cause confusion. They suggest the IASB explains more directly within IAS 37 the difference between the two contexts and how the test should be applied in each case.

References to the amount of the obligation

55. A few respondents say that various requirements supporting the past-event condition appear to mix up recognition and measurement concepts. Respondents point to:

   (a) the statement in paragraph 14Q that an entity's present obligation for a threshold-triggered cost is the portion of the total expected obligation attributable to activity performed to date.

   (b) the statement in paragraph 14O that a present obligation might accumulate over time.

56. The respondents ask for the recognition and measurement concepts to be separated more clearly.

Wider implications

57. A few respondents say that the proposed past-event requirements could have implications for the timing of recognition of some costs that are outside the scope of IAS 37. They note that the timing of recognition for some costs—for example, payments for asset purchases that depend on future activity—is not specifically addressed in any IFRS Accounting Standard. Respondents express concerns that the past-event condition requirements in IAS 37 might be applied by analogy, with insufficient consideration having been given to the implications. Respondents ask the IASB to clarify whether it intends (or that it does not intend) the amendments to IAS 37 to change practice for transactions outside its scope.

Question for the IASB

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