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—other requirements**
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Accounting Standards Advisory Forum, July 2025, Agenda Paper 1C

This paper was prepared for discussion at the International Accounting Standards Board's (IASB's) June 2025 meeting as Agenda Paper 22C. 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 some aspects of the proposed present obligation criterion—most notably, the proposed 'obligation' and 'transfer' conditions. Agenda Paper 22B *Present obligation criterion—past-event condition* summarises feedback on another aspect—the proposed 'past-event' condition.

6. Between them, this paper and Agenda Papers 22A and 22B 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) two conditions within the present obligation criterion:

      (i) the obligation condition (paragraphs 9–28);

      (ii) the transfer condition (paragraphs 29–41);

   (b) requirements that apply the present obligation criterion—those relating to:

      (i) future operating costs (paragraphs 42–45); and

      (ii) restructuring provisions (paragraphs 46–52).

8. A question following paragraph 52 invites IASB members to ask questions and comment on the feedback summarised in this paper.

Obligation condition

Exposure Draft proposals (paragraphs 14B–14H)

9. Paragraph 14B of the Exposure Draft proposes that the first condition for meeting the present obligation criterion is that the entity has an obligation:

   (a) a mechanism is in place that imposes a responsibility on the entity if it obtains specific economic benefits or takes a specific action;

   (b) the entity owes that responsibility to another party; and

   (c) the entity has no practical ability to avoid discharging the responsibility if it obtains the specific economic benefits or takes the specific action.

10. Paragraph 14F(a) of the Exposure Draft proposes to change the criteria for determining whether an entity has the practical ability to avoid discharging a *legal* responsibility:

    (a) at present, paragraph 17 of IAS 37 requires that 'settlement of the obligation can be enforced by law'; whereas

    (b) paragraph 14F of the Exposure Draft proposes to require more specifically that:

        (i) the counterparty has a legal right to act against the entity if the entity fails to discharge the responsibility—for example, to ask a court to enforce settlement, charge the entity a financial penalty or restrict the entity's access to economic benefits; and

        (ii) as a result of that right, the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it.

11. Paragraph 14F(b) proposes to retain the existing criterion for determining whether an entity has the practical ability to avoid discharging a *constructive* responsibility. It specifies that the entity's pattern of past practice, published policy or statement must have created valid expectations in other parties that the entity will discharge the responsibility.

12. Paragraph 14G of the Exposure Draft proposes to retain existing IAS 37 requirements relating to proposed new laws that have not yet been enacted.[1] It states that if details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted.

Feedback

Paragraph 14F(a)(ii)— criteria for identifying legal obligations

13. Many of the respondents commenting on the obligation condition raise concerns about the wording of the criteria in paragraph 14F(a) for determining whether an entity has no practical ability to avoid discharging a legal responsibility—specifically on the proposal in paragraph 14F(a)(ii) that the counterparty's legal right to act against the entity must be such that the economic consequences of not discharging the responsibility are expected to be significantly worse than the costs of discharging it.

The criteria would not capture all legal obligations

14. Respondents express concerns that, as worded, these criteria would not capture all legal obligations that should be captured (and that they think the IASB intends to capture):

[1] Paragraph 22 of IAS 37.

(a) they would fail to capture a legally enforceable responsibility if the penalty or compensation payable for failing to discharge the responsibility is lower than, or similar to, the cost of the discharging it. Respondents think that in these circumstances, an entity has an obligation—the question is not whether the entity has an obligation but the amount at which it should measure that obligation. Some say the entity should recognise the lower of the two amounts, consistent with the requirements for onerous contracts (paragraph 68 of IAS 37).

(b) the criteria would fail to capture responsibilities for which the economic consequences of failing to discharge a responsibility are worse, but not *significantly* worse, than the costs of discharging it. Respondents ask why the consequences must be significantly worse.

(c) by focusing on *economic* consequences, the criteria would fail to capture responsibilities an entity might not be able to avoid for other reasons—for example, because failing to discharge the responsibility could lead to imprisonment of the entity's directors or protracted litigation.

(d) by referring to *expected* consequences, the criteria would fail to capture legal obligations that the entity does not expect to be detected or stringently enforced. A few respondents—mainly accounting firms—say that uncertainties over detection or enforcement should not affect conclusions on whether the entity *has* an obligation. Instead, they should be considered in applying one of one of the other recognition criteria in IAS 37—the requirement in paragraph 14(b) of IAS 37 that it is probable that an outflow of economic resources will be required to settle the obligation (the probable outflows criterion)—and in the measurement of the obligation.

15. Many of these respondents suggest that, if a responsibility can be enforced by law, the conclusion on whether that responsibility is an obligation should not depend on an assessment of the expected economic consequences of failing to discharge the responsibility.

16. Respondents suggest ways of capturing all the obligations they think should be captured:

    (a) some respondents suggest changing the 'no practical ability to avoid' criteria so that it is sufficient that a responsibility is legally enforceable—that is, that the counterparty has the right to use the courts to force the entity to either discharge the responsibility or pay penalties or compensation for failing to discharge it. The requirement to consider the economic consequences of non-compliance would then apply only to laws and regulations that, although not legally enforceable, include other incentives to encourage or discourage particular behaviours—so called 'soft law'.

    (b) a few respondents instead suggest retaining the requirement in paragraph 17 of IAS 37 that settlement of a legal responsibility can be enforced by law (a key concept in many standards), but stating that assessing whether the requirement is met will require the exercise of judgement in some circumstances (for example, in relation to soft law). Respondents who advocate retaining the existing requirements argue that, although the IASB should follow developments like the emergence of soft law, it should monitor their effects before deciding in light of experience whether it is necessary to modify accounting standards.

The criteria would be difficult to apply

17. Respondents—including preparers of financial statements—also express concerns that the proposed criteria for identifying legal obligations would be difficult to apply in practice, increasing the costs and complexity of applying IAS 37 and the risks of inconsistent application. Respondents note that:

    (a) an entity would be required to evaluate the economic consequences of defaulting on each of its legal responsibilities. Predicting the economic consequences of failing to discharge some types of responsibilities could be difficult—for example, if the responsibilities are not due to be discharged until many years in the future.

(b) the term 'significantly worse' is unclear and judgements would be subjective.

(c) the term 'economic consequences' is not defined. There is a risk of it being interpreted too narrowly, as encompassing only items recognised as expenses in financial statements and not, for example, reputational damage or enhancement.

(d) it is unclear whether and how the term 'expected' differs in meaning from the term 'probable' used in the probable outflows criterion.

18. Respondents suggest a variety of changes to support consistent application. These include:

(a) omitting the term 'significantly'; using a term other than 'significant' (which is already over-used in IFRS Standards and interpreted in different ways in different contexts); or providing more guidance on the meaning of 'significantly worse' in the context of the proposed requirements. One respondent suggests adding the explanation in paragraph BC4.55 of the Basis for Conclusions on the *Conceptual Framework for Financial Reporting (Conceptual Framework)*—the adverse economic consequences of not discharging the responsibility would be so severe that the entity has no practical ability to avoid discharging it.

(b) adding guidance on the meaning of economic consequences.

(c) clarifying how uncertainties around detection and enforcement should be treated in applying the obligation condition.

(d) providing examples of circumstances in which an entity would be viewed as having the practical ability to avoid a responsibility. A few respondents note that the fact patterns of all the proposed illustrative examples assume the mechanism creating responsibilities for the entity is strong enough that the entity has no practical ability to avoid discharging these responsibilities.

Paragraph 14F(b)—Criteria for identifying constructive obligations

19. Some respondents question the proposed criteria for determining whether an entity has the practical ability to avoid a *constructive* responsibility (paragraph 14F(b)). They ask why the criteria do not match those for a *legal* responsibility (paragraph 14F(a))—specifically, why there is no requirement to consider the economic consequences of failing to discharge the responsibility. Some respondents note that those economic consequences are typically more relevant in identifying constructive obligations than in identifying legal obligations, because an entity's practical ability to avoid discharging a constructive obligation is not curtailed by the stronger constraint of legal enforceability.

20. A securities regulator says it thinks the need to consider economic consequences *is* present in the proposed criteria for constructive obligations—it is an implicit consequence of the requirement that the entity's actions have created 'valid expectations in other parties' that the entity will discharge its responsibility. The regulator asks the IASB to explain in the Basis for Conclusions how the requirements for constructive obligations embed a need to consider the economic consequences of failing to discharge a responsibility.

21. The comments of other respondents indicate that they do not see an implicit link between other parties' valid expectations and the economic consequences for the entity of failing to satisfy those expectations. One accounting firm describes the requirement to create valid expectations in other parties as less compelling than a requirement to assess the economic consequences of non-compliance. An accountancy body says that creating valid expectations in other parties is not enough to stop an entity from changing its practice, policy or statement.

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

> The definition of constructive obligation needs to have a consequence for not meeting the valid expectations – that is, paragraph 14F(b) should have something similar (or the same) as for paragraph 14F(a)(ii) being economic consequences that would make the entity significantly worse off. The absence of such consequences (for not meeting expectations) will likely result in the continued confusion as expressed in paragraph BC49 of people interpreting a "public announcement" being sufficient for an obligation.
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> *CL90 David Hartridge*

Paragraph 14G—Proposed new laws that have yet to be finalised

23. Some respondents ask the IASB to reconsider the existing 'virtually-certain' threshold for proposed new laws that have yet to be finalised:

    (a) some accounting firms, preparers of financial statements, accountancy bodies and standard-setters say that the political judgements required to conclude on whether legislation is virtually certain to be enacted as drafted are (increasingly) difficult and subjective, especially:

        (i) in jurisdictions where changes can be made until late in the lawmaking process; and

        (ii) in energy industries, where new laws and regulations may be proposed for political reasons, with doubt as to whether or when they will be enacted.

    These respondents say that reaching and documenting conclusions on this matter places a heavy burden on preparers and auditors and has led to diversity in practice:

> The legal obligations that underpin asset retirement and environmental obligations may come from a number of different legislative authorities. Many of our operations and facilities are subject to a variety of environmental requirements under federal, provincial, state and local laws, regulations, permits and approvals, all of which vary depending on the specific operation and location. Licenses, permits, and approvals at sites are obtained in accordance with applicable laws and regulations, which may regulate land, water, and raw material use and management, waste storage and disposal, emissions and other discharges. We must consider all of these legal requirements in determining our environmental remediation liability, and in more recent years, we have observed increased discussion on whether it is virtually certain that a law or change in law will be enacted. *CL15 Nutrien Ltd*

(b) some respondents refer to the requirements in IAS 12 *Income Taxes*:

(i) Paragraph 46 of IAS 12 requires entities to measure current tax assets and liabilities using tax rates and laws that have been 'enacted or substantively enacted';

(ii) Paragraph 48 of IAS 12 explains that in some jurisdictions, the announcement of a tax rate or law might have the substantive effect of actual enactment.

Respondents question the need for differences between IAS 37 and IAS 12 requirements, a national standard setter noting that some levies within the scope of IAS 37 are enacted via tax legislation. Two accountancy bodies suggest that determining the point of substantive enactment within a particular jurisdiction's legislative process is less subjective than judging when an individual piece of legislation is virtually certain to be enacted as drafted—views on the former are well-established. A standard setter notes that the IASB has provided guidance on the point of substantive enactment of tax legislation in eight named jurisdictions.[2]

[2] See page 4 of the February 2025 *IASB Update*, available on the IASB website.

(c) some respondents say that the virtually-certain threshold is inconsistent with the general requirement proposed in paragraph 14B(a) of the Exposure Draft. The general requirement is that the mechanism imposing a responsibility on the entity is 'in place'.

24. Respondents suggest alternatives:

(a) some respondents, including most of the preparers commenting on this matter, suggest amending paragraph 14G to state that an obligation arises only when legislation has been enacted. They say this approach would improve comparability, reduce subjectivity and lower the risk of recognising provisions for obligations that may never arise.

(b) others suggest:

(i) aligning the threshold in IAS 37 with the substantively-enacted threshold in IAS 12 (and providing more guidance on interpreting the substantively-enacted threshold).

(ii) providing more guidance on interpreting the virtually-certain threshold, including on whether and how it differs from the substantively-enacted threshold in IAS 12.

(iii) requiring entities to disclose management's judgements in reaching its conclusions on whether the virtually-certain threshold has been met.

Paragraph 14B(a)—the benefits or actions that give rise to a responsibility

25. Some respondents question the requirement in paragraph 14B(a) that a responsibility is imposed on the entity if it *obtains specific economic benefits or takes a specific action.*

26. Some respondents ask for more guidance on the meaning of 'action' to clarify that the term is intended to include:

    (a) passive states—for example ownership of a specific type of asset, or mere existence if that is the only condition required to trigger the mechanism;

    (b) continuation of an existing action; and

    (c) the failure to take a specific action.

27. An accountancy body says that the actions that give rise to obligations should not be confined to the entity's own actions. There may be situations in which an entity is held responsible for another party's actions, for example, an employee's embezzlement of customer funds. They suggest specifying that the action could be one taken by the entity 'or any party considered to represent the entity'.

28. A few respondents question the reference to responsibilities that arise from *obtaining economic benefits*:

    (a) a few respondents think the reference may be redundant. They note that if a responsibility arises from obtaining economic benefits, it arises from an exchange transaction, and they question whether IAS 37 applies to any exchange transactions. A national standard setter suggests either:

        (i) adding an example of a transaction in which the receipt of economic benefits results in an obligation within the scope of IAS 37; or

        (ii) if the reference to obtaining economic benefits is not directly relevant, removing it to avoid confusion and unnecessary complexity.

    (b) an accounting firm says it is unclear which economic benefits an entity should consider—is it the benefits obtained directly from the event giving rise to the responsibility or also those linked to the entity's wider operations? A preparer group thinks the reference could be used wrongly to argue that obligations to pay levies are linked to obtaining economic benefits (rights to operate in a market). It says obligations to pay levies arise from the entity's actions and have no associated benefits.

Transfer condition

Exposure Draft proposals (paragraphs 14I–14L)

29. Paragraph 14I of the Exposure Draft proposes that the second condition for meeting the present obligation criterion is that the nature of the entity's obligation is to transfer an economic resource. This requirement is not explicit in the current present obligation criterion in IAS 37, but it is implicit in the definition of a liability applied in IAS 37, which requires the entity to have an obligation that is 'expected to result in an outflow from the entity of resources embodying economic benefits'.

30. Applying paragraph 4.37 of the *Conceptual Framework*, paragraph14J of the Exposure Draft explains that to meet the transfer condition, it need not be certain or even likely that the entity will be required to transfer an economic resource—the transfer may, for example, be required only if a specified uncertain future event occurs.

31. Drawing on concepts in paragraphs 4.39 and 4.57 of the *Conceptual Framework*, paragraph 14L explains that an obligation to exchange economic resources with another party is not an obligation to transfer an economic resource unless the terms of the exchange are unfavourable to the entity. Accordingly, the obligations arising under an executory contract are not obligations to transfer an economic resource unless the contract is onerous.[3]

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[3] Paragraph 4.39 of the *Conceptual Framework* lists examples of obligations whose nature is to transfer an economic resource. The examples include obligations to exchange economic resources with another party on unfavourable terms.

Paragraph 4.57 of the *Conceptual Framework* explains that an executory contract establishes a combined right and obligation to exchange economic resources and that the combined right and obligation constitute a single asset or liability. The entity has an asset if the terms of the exchange are currently favourable; it has a liability if the terms of the exchange are currently unfavourable.

Feedback

Need for a transfer condition

32. A few respondents agree with adding an explicit transfer condition, and with the explanations supporting its application—including:

    (a) the explanation of the distinction between obligations to transfer and obligations to exchange, a distinction that one respondent describes as critical.

    (b) the analysis in the illustrative examples in the *Guidance on Implementing IAS 37*.

    > The clarification of the condition of transfer of economic resources is useful, as it helps to differentiate between a transfer and an exchange of economic resources, as well as to identify the tipping point between an exchange of economic resources under an executory contract and a transfer of economic resources under an onerous contract (draft paragraph 14L).
    >
    > *CL21 Autorité des Normes Comptables*

33. In contrast, a few respondents disagree with adding an explicit transfer condition. They suggest it adds unnecessary complexity to IAS 37:

    (a) one standard setter notes that assessing the transfer condition separately from other recognition criteria in IAS 37 has no affect on the decision on whether to recognise a provision. The ‘probable transfer’ recognition criterion in paragraph 14(b) of IAS 37 is enough—it means that a provision is recognised only if it is probable that the entity will be required to transfer an economic resource to settle its obligation.

    (b) a second standard setter acknowledges that the transfer condition plays a different role from the probable transfer criterion—the former is assessment of the nature of the obligation (whether a liability exists) and the latter an assessment of the probable outcome (whether the liability should be recognised as a provision or disclosed as a contingent liability). However, the standard setter says ‘it seems simply over-structured that transfer needs to be assessed twice’.

34. A third standard setter and an accountancy body question the need for the transfer condition, on the grounds that exchanges relating to executory contracts are scoped out of IAS 37 except where the contracts are onerous.[4]

The explanation of the transfer condition

35. A few respondents say the distinction between a transfer and an exchange needs fuller explanation and application guidance . Respondents note that the transfer condition uses the notion of 'transfer' in a way that is consistent with the *Conceptual Framework* but is new to IFRS accounting standards, and so is difficult to understand. In other IFRS Accounting Standards, the term transfer can be used in the context of exchanges (two way transfers) of economic resources.

> [The difficulty in assessing the difference between exchange and transfer] is made particularly complex by the fact that by the fact that the terms 'transfer' and 'exchange' are used widely in IFRS and not all usage seems consistent with the proposals in the ED. The ED seems to present the concept of transfer as a 'oneway' transaction, for which the entity gets nothing in return. …This use of the term transfer is different from how it is currently used elsewhere in IAS 37 and in other IFRS Accounting Standards where it has a simple, neutral meaning, and where a transfer is part of an exchange (e.g. see IAS 37 paragraph 37 and IFRS 15 *Revenue from Contracts with Customers* paragraph 2). *CL89 UK Endorsement Board*

36. To better explain the principle being applied in the proposed requirements, respondents suggest:

    (a) defining the terms 'transfer' and 'exchange' as they are used in IAS 37.

[4] Paragraph 1 of IAS 37.

(b) adding to IAS 37 more of the explanation of the transfer condition as it is described in paragraphs 4.36–4.41 of the *Conceptual Framework* and reflected in the Illustrative Examples 3,7 and 11B in the proposed *Guidance on Implementing IAS 37*. These paragraphs and examples clarify that that an obligation to exchange economic resources is one that combines an obligation to transfer one economic resource to another party with a right to receive another economic resource from that other party.

(c) better explaining the term 'economic resource'—including examples, clarifying that an economic resource can encompass both resources recognised as assets and resources (such as services) recognised as expenses when received, and explaining the need for the entity to receive a right, not just an expectation of future economic benefits.

(d) explaining the interaction between the transfer condition and the measurement requirements in IAS 37:

    (i) the transfer condition prevents the recognition of provisions for obligations to exchange economic resources—for example, obligations to pay for goods or services not yet received; but

    (ii) it does not prevent the costs of such goods or services from being included in the measurement of other provisions that will be settled using those goods or services.

Application questions—asset decommissioning and environmental rehabilitation obligations

37. A few respondents specifically question the implications of the transfer condition for asset decommissioning and environmental rehabilitation obligations:

(a) some of them say these obligations are (or could be argued to be) obligations to exchange economic resources, not obligations to transfer an economic resource. They say:

(i) asset decommissioning provisions are debited to the cost of the related PPE in the statement of financial position, not to expenses in the income statement—indicating that the entity receives an economic resource in exchange for carrying out the decommissioning or rehabilitation; and

(ii) rehabilitating land can produce economic benefits for an entity—the land will have greater amenity and potentially higher value. These economic benefits could be argued to be economic resources received in exchange for rehabilitating the land.

(b) some respondents think the conclusion might depend on how the entity will settle its obligation. For example, suppose an entity engages subcontractors to decommission PPE. Some respondents read the Exposure Draft as suggesting that until the subcontractors have carried out the decommissioning, the entity's obligation does not satisfy the transfer condition—it is an obligation to exchange economic resources (services for cash) with the subcontractor, not an obligation to transfer an economic resource.

38. Several accounting firms suggest that, to avoid such misunderstandings, IAS 37 needs to clarify why the transfer condition is met for asset decommissioning and environmental rehabilitation obligations—and why that conclusion is independent of the method of settlement. They suggest explaining (possibly by expanding Illustrative Examples 2 and 3 in the *Guidance on Implementing IAS 37*) that:

(a) once an entity has bought or constructed PPE, it already has the right to use the PPE. It will receive no further rights in exchange for settling its decommission obligation. The corresponding amount to the decommissioning provision is debited to the cost of the PPE because IAS 16 *Property, Plant and Equipment* requires the cost of an asset to include all directly attributable costs—not because the debit represents a right to receive an economic resource.

(b) an entity assesses an obligation (for example, an obligation to society to decommission assets) separately from any exchange transaction that it may decide to enter into to obtain the goods or services required to settle the obligation.

(c) an entity measures an asset decommissioning provision at an amount that includes the costs of the goods or services it will obtain to settle the obligation. In including those costs, an entity is not recognising a obligation to the suppliers of those goods or services (an obligation that does not yet exist)—rather it is measuring its obligation to society at an amount that reflects the expenditure that will be required to settle that obligation.

Application questions—levies

39. A few respondents question the implications of the transfer condition for the timing of recognition of levies. They note differences in views about whether a levy is:

(a) a transfer—the entity receives no new rights in exchange for paying the levy; or

(b) an exchange—paying a levy gives an entity access to a market and hence is akin to paying for an operating licence.

40. A respondent says that those who argue that a levy is an exchange transaction will recognise a provision over the period in which they view the associated benefits as being received, whereas those who argue the levy is transfer will recognise a provision when the entity takes the action(s) required for the levy to be payable.

41. Respondents ask for guidance on the circumstances in which a levy should be viewed as an exchange transaction. One respondent notes that the illustrative examples include a conclusion that the levies being illustrated are non-reciprocal transfers without explaining how such a conclusion might be reached. A few suggest simply stating that levies and fines are transfers, not exchanges, of economic resources.

Requirements that apply the present obligation criterion

Future operating costs

Exposure Draft proposals

42. The Exposure Draft proposes to replace all of the existing requirements supporting the present obligation criterion (paragraphs 17–22 of IAS 37) with new requirements. Among the requirements removed would be paragraph 18, which states that:

> 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future…

43. The requirements proposed in the Exposure Draft retain this objective, but express it in different terms:
    (a) the transfer condition prevents the recognition of provisions for future exchange transactions—in other words, future operating costs; and
    (b) the past-event condition limits provisions to obligations arising from past actions—effectively ruling out future operating costs.

44. However, the proposed requirements omit the simple statement of the underlying objective currently in paragraph 18 of IAS 37—that no provision is recognised for future operating costs.

Feedback

45. A range of respondents—mainly accountancy bodies, but also a few accounting firms, national standard setters and preparers of financial statements— ask the IASB to retain the statement that no provision is recognised for costs that need to be incurred to operate in the future. Respondents describe this statement as a clear and well-understood articulation of a key objective of IAS 37—an objective that remains

unchanged by the proposed amendments. They also say that both preparers and auditors of financial statements find the statement very useful in practice.

> We acknowledge that paragraphs 17-22 in the current version of IAS 37 were unclear and resulted in mixing the requirements for two conditions within the present obligation recognition criterion… However, in our view, the concept that no provision should be recognised for costs that need to be incurred to operate in the future is fundamental to the appropriate application of IAS 37. We encourage the Board to make this objective explicit in the final version.
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> *CL25 EY*

Restructuring provisions

Exposure Draft proposals (paragraphs 70–81)

46. Paragraphs 70–81 of IAS 37 sets out requirements for restructuring provisions and the *Guidance on Implementing IAS 37* includes two examples (5A and 5B) illustrating these requirements.

47. The Exposure Draft proposes refinements to the wording of these requirements and illustrative examples. As explained further in paragraphs BC48–BC52 of the Basis for Conclusions to the Exposure Draft, the refinements aim to eliminate misleading terminology and explain the requirements more clearly—to reduce the risk of inappropriate analogies being drawn—without changing the outcomes of applying the requirements.

48. The refinements remove the suggestion that an entity has ‘a constructive obligation to restructure’ and instead acknowledge that an entity might have obligations to discharge specific responsibilities *if* it restructures. These obligations could be legal or constructive and would meet the present obligation criterion if the obligations are a result of a past action of the entity and if the entity has no practical ability to avoid the restructuring.

Feedback

49. Only a few respondents comment on the proposed refinements to the restructuring requirements and guidance.

50. A few respondents say they agree the refinements. However, a national standard setter expresses concern that such limited refinements might not be enough to achieve the intended aims. It says that some of the wording remains inconsistent with that in the general requirements and could be confusing. As an example, it notes that paragraph 72 continues to refer to the announcement of a plan as the trigger for recognising a restructuring provision, so could be used to conclude that an announcement is enough to create a present obligation. The standard setter expresses a view that amending IAS 37 without further improving the wording of the requirements for restructuring provisions would be a missed opportunity.

51. A few respondents refer to proposed new paragraph 80A. This paragraph adds examples of costs that could be included in a restructuring provision. The examples include legal obligations to pay termination benefits to employees. Respondents note that accounting requirements for termination benefits are set out largely in IAS 19 *Employee Benefits*, which cross refers to the recognition criteria in IAS 37 (for termination benefits payable as part of a restructuring).[5] Respondents ask the IASB:

    (a) to add a cross reference from paragraph 80A in IAS 37 and illustrative example 5B to the applicable requirements in IAS 19—to remind readers that IAS 37 requirements for termination benefits are not applied in isolation; and

    (b) to clarify the interaction between the requirements of the two standards. A European standard-setter and a European securities regulator say that the differences between their recognition requirements are a recurring source of difficulties in practice.

[5] Paragraph 165(b) of IAS 19 *Employee Benefits*.

52. One standard setter says it does not agree with the proposed refinements. It expresses concern about legal obligations being included in the scope of the requirements for restructuring costs.

> We are concerned with this consequence and think that legal obligations should be excluded from the scope of the assessment. This is because the terms and conditions of the obligations are described in the laws or agreements, and it is reasonable to expect that an entity has already considered such terms and conditions to determine whether it should recognise relevant liabilities considering the possibilities of whether such conditions are met. CL103 *Accounting Standards Board of Japan*

Question for the IASB

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