IFRS Accounting

Staff paper

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IASB® meeting

Date	**June 2025**
Project	**Provisions—Targeted Improvements**
Topic	**Exposure Draft feedback—Other matters**
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Purpose of paper

1. The International Accounting Standards Board (IASB) published Exposure Draft *Provisions—Targeted Improvements* (Exposure Draft) in November 2024, with a comment deadline of 12 March 2025. The Exposure Draft proposes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

2. 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 matters other than those covered in Agenda Papers 22A–22E. It summarises the more significant matters raised. We will include feedback on more minor and drafting matters in papers we prepare for future IASB discussions.

Contents of this paper

5. The paper summarises feedback on the proposals on:

   (a) transition requirements (paragraphs 7–27); and

   (b) disclosure requirements proposed for subsidiaries without public accountability (paragraphs 28–35);

   (c) other matters (paragraphs 36–44).

6. A question following paragraph 44 invites IASB members to ask questions and comment on the feedback summarised in this paper.

Transition requirements

Exposure Draft proposals

7. The Exposure Draft proposes that an entity applies the proposed amendments retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*—with two simplifying exceptions.

8. The first exception would specify a *modified* retrospective approach for changes in the costs included in measuring the expenditure required to settle a provision. An entity would apply the change in accounting policy:

   (a) only to obligations it has not yet settled at the date of initial application[1]; and

   (b) without restating comparative information. Instead, the cumulative effect of the change would be recognised as an adjustment to equity or to a related asset (if any).

[1] The *date of initial application* is the beginning of the annual reporting period in which the entity first applies the amendments.

9. The second exception would permit a *simplified* retrospective approach for changes in discount rates, similar to the approach permitted by IFRS 1 *First-time Adoption of International Financial Reporting Standards* for first-time adopters. It would permit an entity to apportion the amount by which it adjusts the provision at the transition date[2] between the related asset and retained earnings:

   (a) assuming the current discount rate(s) and estimates of cash flows used in measuring the provision have not changed since the provision was first recognised; and

   (b) using current estimates of the useful life of the related asset.

10. The Exposure Draft does not propose an effective date but asks respondents whether there are any factors the IASB should consider in assessing the time needed to prepare for the proposed amendments.

Feedback

Agreement with the proposed transition requirements

11. Most respondents agree with the proposed transition requirements, including the two simplifying exceptions. Many of these respondents do not provide reasons for their agreement or additional comments. Those who do give reasons say the proposed transition requirements would:

   (a) *provide useful information for users*—respondents (primarily national standard-setters and accountancy bodies) say retrospective application would provide more useful information and enhance comparability.

   (b) *not be costly or complex for preparers*—respondents (primarily national standard-setters) say entities applying the proposed requirements might need to recognise provisions earlier than they recognise them applying IAS 37.

[2] The *transition date* is the beginning of the first annual reporting period for which the entity provides comparative information.

However, they would not need to gather an extensive amount of historical information, particularly given the two proposed simplifying exceptions. Therefore, on balance, respondents say the costs of applying the transition requirements would not outweigh the benefits of doing so.

(c) *be consistent with the requirements in IAS 8*.

Disagreement with retrospective application

12. A few respondents (primarily preparers of financial statements) disagree with applying the proposed amendments retrospectively. They say retrospective application would:

(a) *be costly and complex to apply*—particularly for entities that have numerous provisions and operate in multiple jurisdictions.

(b) *require significant efforts to avoid the use of hindsight*—particularly when reassessing contingent liabilities and provisions for comparative periods. They say the resulting information would likely be meaningless for users of financial statements.

13. In the light of their views, most of these respondents suggest requiring, or permitting, prospective application.

Disagreement with the simplifying exceptions

Variations in the simplifying exceptions

14. Some respondents (including accountancy bodies, national standard-setters and preparers) do not disagree with the two simplifying exceptions, but express concern that an entity would apply them at two different dates:

(a) for changes in costs included in the measure of a provision, an entity would apply the modified retrospective approach at the *date of initial application*; and

(b) for changes in discount rates, an entity would apply the simplified retrospective approach at the *transition date*.

15. The respondents suggest using the same date for both simplifications.

16. A few other respondents (primarily accountancy bodies) express concerns about having two different simplifying exceptions. They say this could create complexity for entities and confusion for users of financial statements. Instead, they suggest:

(a) aligning the two simplifying exceptions, such as by adopting a modified retrospective approach for both; or

(b) providing examples to illustrate how an entity should apply both simplifying exceptions.

Modified retrospective approach for changes in costs included in the measure of a provision

17. A few respondents disagree with the modified retrospective approach proposed for changes in costs included in the measure of a provision. These respondents include an accounting firm and two national standard-setters (in Asia-Oceania and Europe).

18. The accounting firm and the European national standard-setter note that entities would already have obtained the necessary information when applying the previous *Onerous Contracts—Cost of Fulfilling a Contract* amendment; therefore, a full retrospective application would not be costly or complex for them.

19. The respondents suggest removing the exception entirely or, at least, providing an option of full retrospective application.

Simplified retrospective approach for changes in discount rates

20. A few respondents disagree with the proposed simplified retrospective approach for changes in discount rates. These respondents include an accounting firm, two national standard-setters (both in Asia-Oceania) and a preparer of financial statements (in the oil and gas industry in South America).

21. These respondents say:

(a) *even with the simplifications proposed, the retrospective approach could be difficult to apply and lead to different accounting outcomes*—particularly for entities operating in multiple jurisdictions that require different numbers of comparative periods.

(b) *a retrospective approach is inappropriate for changes in discount rates*—because changes in discount rates are generally treated as changes in accounting estimates.

(c) *the information resulting from the combination of the two exceptions proposed in the Exposure Draft will not be meaningful*—because the IASB did not similarly propose retrospective application for changes in costs to include.

22. In the light of their views, these respondents suggest changes, including:

(a) a simpler approach that would permit an entity to recognise directly in retained earnings any adjustment to a decommissioning provision for changes in discount rates, in line with the exception set out in paragraph D21 of IFRS 1.

(b) specifying a modified retrospective approach, like that proposed for changes in the costs included in the measure of a provision.

23. Some respondents (including accounting firms, preparers and standard-setters) ask for an example illustrating the application of the simplified retrospective approach. Some suggest including the example set out in the appendix to Agenda Paper 22B for the June 2024 IASB meeting.

Other suggestions

24. A few respondents (primarily European preparers and a national standard-setter in Europe) note that no simplifying exception is provided for earlier recognition of provisions resulting in the amendments to the past-event condition (paragraphs 14N–

14R) in the present obligation recognition criterion. These respondents suggest providing expedients, such as:

(a) specifying a modified retrospective approach; or

(b) requiring entities to assume that the estimates relevant to the provision at the latest reporting date have always been relevant estimates for the provision.

Factors the IASB should consider in deciding an effective date

25. Nearly half of the respondents provide comments on whether there are any factors the IASB should consider in assessing the time needed to prepare for the proposed amendments.

26. These respondents emphasise the need for sufficient time to apply the proposed amendments, with suggestions ranging from a minimum of 18 months to three years. Respondents say that:

(a) the proposed amendments would cause significant change in practice for many entities, particularly those subject to levies or with decommissioning obligations. An accountancy body (in Europe) says 'a considerable number of entities may need time to assess the impact of the changes on their going concern status, renegotiate covenants with providers of finance and to source appropriate discount rates.'

(b) entities are currently implementing, and expecting to implement, recently-issued and forthcoming IFRS Accounting Standards and narrow-scope amendments, including IFRS 18 *Presentation and Disclosure in Financial Statements*.

27. A few respondents suggest allowing early adoption of the proposed amendments.

Discount rates disclosure for subsidiaries without public accountability

Exposure Draft proposal

28. The Exposure Draft proposes to add disclosure requirements to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. It proposes to add one, but not both, of the disclosure requirements it proposes to add to IAS 37. It proposes:

    (a) to require subsidiaries applying IFRS 19 to disclose the discount rate (or rates) used in measuring a provision; but

    (b) not to require them to disclose the approach used to determine that rate (or those rates).

Feedback

Agreement with the proposed disclosure requirement

29. Only some respondents (less than half) comment on the disclosure requirements proposed for IFRS 19. Most of these respondents agree with the proposed requirements, and many do not explain their reasons for agreeing or provide any additional comments.

30. Of the respondents who explain their reasons:

    (a) a few respondents say the IASB's approach in developing the proposal reflects the six broad principles that guided the IASB in developing IFRS 19, as set out in paragraph BC33 of the Basis for Conclusions on that Standard. A national standard-setter (in Europe) says the approach 'strikes the right balance between ensuring transparency and reducing the administrative burden' for subsidiaries eligible to apply IFRS 19 (eligible subsidiaries).

(b) a few respondents say the proposal, though simplified, would provide useful information to users of financial statements. In particular, a national standard-setter (in Europe) says the discount rate is 'the most critical' information for users in analysing an eligible subsidiary's provisions.

(c) a few respondents say disclosing the discount rate used would not be 'overly onerous'—the benefits to users would outweigh the costs of providing the information.

31. While agreeing with the proposed disclosure requirement, a regional standard-setter (in Europe) says the Exposure Draft does not explain how the IASB has applied the six broad principles underpinning IFRS 19 in arriving at its conclusions. The respondent suggests the IASB explains how it has done so.

Disagreement with aspects of the proposal

32. A preparer group (in Asia-Oceania) disagrees that entities applying IFRS 19 should be required to disclose the rate(s) they have used to discount provisions. This group also disagrees that entities applying IAS 37 should be required to disclose this information (see paragraph 39 of Agenda Paper 22E *Exposure Draft feedback—Discount rates*).

33. An accountancy body says that, although it does not object to requiring entities applying IFRS 19 to disclose discount rates for provisions, it would like the IASB to consider 'equivalence exemptions', whereby information would not be required if there is sufficient information included within the parent's publicly available IFRS consolidated financial statements:

34. A few respondents disagree that entities applying IFRS 19 should not be required to disclose the approach they have used to determine the discount rate(s) for a provision. The respondents say this information is relevant to the users of eligible subsidiaries' financial statements. An accountancy body (in Africa) say:

> Understanding the methodology behind the discount rate is essential for users to evaluate its appropriateness and reliability. Including both the

> discount rate and the methodology would offer a more comprehensive view, fostering comparability across entities and jurisdictions. This additional disclosure is especially vital for subsidiaries without public accountability, as users of their financial statements often depend on clear and transparent reporting to assess financial performance. *CL6 Pan African Federation of Accountants*

35. In the light of their disagreement with the omission of a requirement to disclose the approach used to determine discount rates), the respondents suggest:

    (a) requiring an entity applying IFRS 19:

        (i) to disclose a 'basic explanation' of the approach used to determine the discount rates; or

        (ii) to disclose the approach used unless its parent already does so in the consolidated financial statements; or

    (b) encouraging an entity applying IFRS 19 to disclose the information if it has material amounts of provisions.

Other matters

Scope of IAS 37—executory contracts

Exposure Draft proposal

36. The Scope section of IAS 37 defines an executory contract and states that IAS 37 does not apply to executory contracts unless they are onerous.

37. The Exposure Draft proposes to align the definition of an executory contract used in IAS 37 with the definition in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*:

> 3 An executory contract is a contract, or a portion of a contract, that is equally unperformed—~~Executory contracts are contracts under which~~ neither party has fulfilled ~~performed~~ any of its obligations, or both parties have partially fulfilled ~~performed~~ their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

Feedback

38. A few respondents (primarily preparers of financial statements) express concern that the amended definition could require entities to disaggregate contracts into 'portions' for the purpose of recognising and measuring onerous contract provisions—recognising an onerous contract provision for a loss-making portion of a contract even if the contract as a whole is profitable.

39. A group of European academics question the retention of the scope exclusion for executory contracts. The group says it seems clear that executory contracts *are* within the scope of IAS 37 but meet the criteria for recognising a provision only if they are onerous. Unless an executory contract is onerous, the obligations will fail to meet the proposed transfer condition (as discussed in paragraphs 29–41 of Agenda Paper 22C *Exposure Draft feedback—Present obligation criterion—other requirements*).

Requirements for joint and several liabilities

Requirements in IAS 37

40. Paragraph 29 of IAS 37 clarifies how an entity applies IAS 37 to joint and several liabilities:

> 29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is

probable, except in the extremely rare circumstances where no reliable estimate can be made.

Feedback

41. A few respondents ask the IASB to clarify that, in applying paragraph 29, an entity considers the risk of non-performance by the parties with whom the entity is jointly and severally liable. In other words, the respondents ask the IASB to clarify that the proposed requirement to exclude the effects of non-performance risk from the measure of a provision applies only to the risk that *the entity* will not settle *its* obligations.

Requests for amendments beyond the scope of this project

42. Some respondents ask the IASB to make amendments to IAS 37 that would be beyond the scope of this project. Respondents ask the IASB:

(a) to clarify the measurement objective in IAS 37 (by deleting paragraph 37 of IAS 37). Respondents note that, whereas paragraph 36 of IAS 37 indicates that the measurement objective in IAS 37 is an (entity-specific) fulfilment value, paragraph 37 indicates it is a (market-participant) transfer value. This tension gives rise to practical application difficulties. Furthermore, a requirement to discount provisions at a rate that excludes non-performance risk (as proposed in the Exposure Draft) seems inconsistent with the notion of a transfer value.

(b) to strengthen (make more specific) the requirements to disclose information about the possible amount and timing of cash flows required to settle provisions and contingent liabilities. Respondents state that investors need better information about:

(i) joint and several liabilities—the events that would trigger the joint liability, expectations about those events and their financial consequences.

(ii) decommissioning and environmental rehabilitation obligations of entities operating in carbon-intensive sectors. As entities accelerate decarbonisation, they may have to settle some obligations earlier. Investors need to know all the assumptions and estimates (not only the discount rates) used in measuring the provisions, including estimates of costs, expectations about the timing of outflows and inflation assumptions.

(iii) off-balance sheet liabilities, including unrecognised asset decommissioning obligations —entities should also be required to disclose more information about the reasons for not recognising provisions for some of their obligations, and about the possible amount and timing of the expenditure required to settle those obligations. Requiring more information about unrecognised obligations could help reduce the practice of non-recognition in sectors where it has become 'the norm'.

(c) to clarify the scope of IAS 37

(i) whether penalties for early cancellation of a lease agreement are within the scope of IAS 37.

(ii) where the boundary lies between IAS 37 and IFRS 9 *Financial Instruments*.

(d) to clarify how the requirements of IAS 37 dovetail with those of the various sustainability reporting requirements being implemented around the world.

(e) to review other aspects of IAS 37:

(i) update the language used in the 'reliable measurement' recognition criterion. The *Conceptual Framework* now refers to faithful representation, not reliable measurement as a qualitative characteristic of useful financial information.

(ii) improving the guidance on reflecting risk in measures of provisions. Paragraphs 42–46 of IAS 36 *Impairment of Assets* give insufficient guidance on how to measure risk, the terms 'risks' and 'uncertainties' are used in a 'somewhat casual' manner and some of the statements made are not wholly accurate and balanced.

(iii) reconsidering the asymmetry in the requirements for contingent liabilities and contingent assets.

(iv) reconsidering the use of the term 'virtually certain', which is not used in the *Conceptual Framework*.

(v) adding further guidance on the intended meaning of the terms 'probable' and 'reliable' used in IAS 37.

43. Noting that the Exposure Draft proposes to absorb two IFRS Interpretations Committee agenda decisions into the *Guidance on implementing IAS 37*, a standard-setter asks the IASB to establish a more formal process for withdrawing agenda decisions and to consider formalising the process in its Due Process Handbook. It says that agenda decisions play a crucial role in practice and often have an impact like that of authoritative guidance, so the process for withdrawing them should be 'formal and consistent'.

44. A group of academics asks the IASB to take on a project to develop comprehensive accounting requirements for variable consideration. It says the starting point could be the thinking underpinning the amended present obligation criterion proposed in the Exposure Draft.

Question for the IASB

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