Staff paper

Agenda reference: 22

IASB® meeting

Date	**September 2025**
Project	**Provisions—Targeted Improvements**
Topic	**Cover paper**
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Purpose of meeting

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 its June 2025 meeting, the IASB discussed a summary of feedback on the Exposure Draft. The IASB was not asked to make any decisions at that meeting.

3. At this meeting, the IASB will start to redeliberate the proposed amendments in the light of the feedback it received on the Exposure Draft.

Contents of this paper

4. This paper contains:

   (a) a reminder of:

      (i) the Exposure Draft proposals (paragraphs 5–6); and

      (ii) key messages in the feedback (paragraphs 7–15);

(b) an outline of the staff's plans for redeliberating the proposals in the light of that feedback (paragraphs 16–19);

(c) an introduction to the papers for discussion at this meeting (paragraph 20); and

(d) an explanation of the terms we have used in quantifying the number of stakeholders expressing a view (Appendix).

Exposure Draft Proposals

5. The Exposure Draft proposes targeted improvements to three aspects of IAS 37:

   (a) one of the criteria for recognising a provision—the requirement for the entity to have a present obligation as a result of a past event (the present obligation criterion); and

   (b) two aspects of the requirements for measuring a provision—those relating to:

      (i) the costs an entity includes in estimating the future expenditure required to settle an obligation; and

      (ii) the rate an entity uses to discount that future expenditure to its present value. The Exposure Draft proposes to require entities to use a rate that reflects the time value of money—represented by a risk-free rate—and excludes the effect of non-performance risk (the risk that the entity will not settle its obligation).

6. The proposed amendments to the present obligation criterion include:

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

   (b) amending the requirements that support the present obligation recognition criterion, including:

(i) identifying three conditions (obligation, transfer and past-event conditions) within the present obligation criterion; and

(ii) redefining the past-event condition;

(c) withdrawing IFRIC 21 *Levies*, whose requirements are not consistent with the past-event condition proposed in the Exposure Draft, replacing it with illustrative examples in the *Guidance on implementing IAS 37*; and

(d) expanding and amending other aspects of the *Guidance on implementing IAS 37*.

Key messages in the feedback

7. The feedback on the Exposure Draft is summarised in the staff papers for the IASB's June 2025 meeting. Paragraphs 8–15 below set out the key messages in that feedback.

Present obligation criterion

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

9. However, many of the respondents who expressed broad agreement *overall* went on to disagree with, and suggest changes to, *aspects* of the proposed amendments—most frequently aspects of the proposed obligation and past-event conditions.

10. Some respondents expressed such major concerns about aspects of the proposed amendments to the present obligation criterion that we classified them as disagreeing with these amendments as a whole. These respondents' disagreement stemmed at least in part from their concerns about the proposed past-event condition as it would apply to levies with terms like those of European bank levies and some business property taxes.

11. Respondents expressed concerns about:
    (a) the difficulty of applying the past-event condition to such levies; and
    (b) the possible outcome—the full amount of an annual levy being recognised at a point in time *before* the year of operation for which the levy is being charged.

12. These concerns led some respondents to suggest:
    (a) specifying simpler application requirements for levies; or
    (b) excluding levies from the scope of IAS 37 and either leaving IFRIC 21 in place or developing a separate IFRS Accounting Standard for levies (and other non-reciprocal transactions).

Costs to include

13. Most respondents agreed with the proposed requirements specifying the costs to include in the measure of a provision. However, some respondents questioned the scope of the proposed requirements—specifically, whether and how the requirements would apply to the costs of ancillary services (for example, legal services) an entity might procure on its own behalf in settling an obligation.

Discount rates

14. Many respondents commented on the proposal to require an entity to measure a provision using a discount rate that excludes the effect of non-performance risk.

15. Most of these respondents agreed with this proposal. However, preparers from Canadian oil and gas companies disagreed with it. They expressed concerns that, if they were required to measure provisions using a rate that excluded the effect of non-performance risk, they might face a competitive disadvantage when raising capital in the US market. The disadvantage would stem from measuring asset decommissioning obligations using a lower discount rate than that used by peers applying US Generally Accepted Accounting Principles (US GAAP).

Approach to redeliberations

Recognition requirements for levies

16. As explained in paragraphs 10–12, respondents raised significant concerns about the implications of the proposed requirements for some levies. In the light of these concerns, the staff are now exploring ideas for possible application requirements for levies that:

    (a) would be clear and straight-forward to apply, and

    (b) provide accounting outcomes for all levies that faithfully represent the way in which liabilities for these levies arise.

17. When we have developed ideas for possible requirements, we will present our ideas for the IASB to discuss at a future meeting.

Other aspects of the proposed amendments

18. Concurrently with our work on levies, we are analysing the feedback on other aspects of the proposed amendments, with a view to asking the IASB to redeliberate these other aspects over the coming months.

19. We hope that by the end of 2025, the IASB will be in a position to decide on the project direction—whether to proceed towards issuing amendments to IAS 37.

Topics for redeliberation at this meeting

20. At this meeting, we will ask the IASB to redeliberate the proposals relating to the discount rate an entity uses to discount future expenditure to its present value. There are three papers for discussion:

(a) Agenda Paper 22A *Discount rates—required rates* analyses feedback on the proposal to require an entity to discount provisions at a rate that excludes the effect of non-performance risk. The staff recommend:

(i) clarifying in IAS 37 that the effect of non-performance risk is excluded from both the discount rate *and the estimates of cash flows* used in measuring a provision.

(ii) making no other changes to the Exposure Draft proposals.

(b) Agenda Paper 22B *Discount rates—interaction with IFRS 3* considers an unintended consequence of the proposals—the 'day-two' adjustments an entity might need to recognise on provisions assumed in a business combination. These adjustments would be a consequence of a difference between the discount rate required by IAS 37 and that required by the initial measurement principle in IFRS 3 *Business Combinations*. The staff recommend amending IFRS 3, by adding an exception to its initial measurement principle, to prevent these day-two adjustments.

(c) Agenda Paper 22C *Discount rates—disclosure* analyses feedback on the proposals to require an entity to disclose specific information about the discount rate(s) it has used to measure provisions. The staff recommend making no changes to the Exposure Draft proposals.

Appendix—Terminology used in quantifying stakeholder feedback

A1. In the papers for this meeting, we use:

(a) the term 'respondent' for any stakeholder who commented on an Exposure Draft proposal, whether via a comment letter or in a meeting; and

(b) standard IASB terminology to quantify the number of stakeholders within an identified population:

Term	Meaning
Almost all	All except a very small minority
Most	A large majority, with more than a few exceptions
Many	A small majority or large minority
Some	A small minority, but more than a few
A few	A very small minority