Staff paper

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IASB® meeting

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Project	**Provisions—Targeted Improvements**
Topic	**Transition**
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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. The IASB discussed a summary of the feedback on the Exposure Draft at its June 2025 meeting. Members of the Accounting Standards Advisory Forum (ASAF) provided their views on how the IASB should move forward in the light of that feedback at their July 2025 meeting.

3. Since September 2025, the IASB has been redeliberating and refining the proposed amendments in the light of the feedback on the Exposure Draft.

4. At this meeting, we will ask the IASB to redeliberate the transition requirements proposed in the Exposure Draft.

Staff recommendations

5. The staff recommend that the IASB:

   (a) retain the proposed general requirement for retrospective application (paragraph 40);

   (b) retain the Exposure Draft proposals for two exceptions to retrospective application:

      (i) a modified retrospective approach for changes in costs included in the measure of a provision (paragraph 43); and

      (ii) a simplified retrospective approach for changes in discount rates (paragraph 49); and

   (c) retain the proposed dates for applying the two exceptions to retrospective application (paragraph 55).

Contents of this paper

6. This paper contains:

   (a) background information on:

      (i) the requirements proposed in the Exposure Draft (paragraphs 7–20);

      (ii) feedback from respondents to the Exposure Draft (paragraphs 21–35); and

      (iii) feedback from ASAF members (paragraph 36);

   (b) our analysis of, and recommendations in response to, the feedback:

      (i) on the proposed general requirement for retrospective application (paragraphs 37–40);

      (ii) on the proposed modified retrospective approach for changes in costs included in the measure of a provision (paragraphs 41–43);

(iii) on the proposed simplified retrospective approach for changes in discount rates (paragraphs 44–49); and

(iv) suggesting that the IASB align the proposed dates for applying the exceptions to retrospective application (paragraphs 50–55); and

(c) our discussion on the feedback suggesting that the IASB add examples illustrating the proposed exceptions to retrospective application (paragraph 56).

Background information

Requirements proposed in the Exposure Draft

7. The Exposure Draft proposes targeted amendments 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.

8. Paragraph 94B of 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*. The proposed retrospective application is subject to two exceptions for the proposed amendments to the measurement requirements, as explained further in paragraphs 13–18 below.

Retrospective application for proposed amendments to the present obligation recognition criterion

9. The first set of amendments proposed in the Exposure Draft relates to the requirements supporting the present obligation criterion. Those amendments would lead to earlier recognition of some provisions, typically provisions for some levies.

10. The Exposure Draft proposes no specific transition requirements for those amendments, meaning entities would apply them retrospectively in accordance with IAS 8.

11. This proposal reflects the staff analysis as set out in paragraph 11 of Agenda Paper 22B for the June 2024 IASB meeting:

> We think that retrospective application of those amendments is likely to be practicable for most entities, and that the benefits of retrospective application are likely to exceed the costs. This view reflects our understanding that:
>
> (a) the types of costs for which a change in accounting policy is most likely to be required (levies and similar costs) are typically recurring charges—often recurring annually. With prospective application, an entity might recognise two annual charges as expenses the period of initial application of the amended requirements, and no charges as expenses in the comparative period. The income statements for the current and comparative periods would not be comparable and would not provide a faithful representation of the entity's financial performance in either period.
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> (b) the types of costs for which a change in accounting policy would be required are typically recognised as expenses when the provision is recognised, or included in the cost of inventory—they are typically not added to the costs of property, plant and equipment or other long-term assets. So retrospective application would not require an entity to gather information about transactions occurring long before the start of the comparative period.

12. As a result of the feedback on the proposed requirements supporting the present obligation criterion, the IASB has tentatively decided to refine aspects of the proposed requirements and to add application requirements for levies. However, these refinements and application requirements do not fundamentally change the requirements proposed in the Exposure Draft and raise no new transition issues. Therefore, the arguments made for retrospective application continue to apply.

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

13. The second set of amendments proposed in the Exposure Draft relates to the costs an entity includes in the measure of provisions. That proposal—which the IASB tentatively decided to retain when it redeliberated the proposals in December 2025—is to specify that the expenditure required to settle an obligation comprise the costs that relate directly to the obligation, which consist of both:

    (a) the incremental costs of settling that obligation; and

    (b) an allocation of other costs that relate directly to settling obligations of that type.

14. Paragraph 94D of the Exposure Draft proposes a *modified* retrospective approach for applying these amendments. Applying the modified retrospective approach, an entity would apply the change in accounting policy:

    (a) only to obligations it has not yet settled at the *date of initial application*—that is, the beginning of the annual reporting period in which the entity first applies the amendments; and

    (b) without restating comparative information. Instead, the cumulative effect of initially applying the amendments would be recognised as an adjustment to equity or to a related asset (if any) at the date of initial application.

15. Paragraphs BC90–BC91 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for proposing this approach. They explain that:

    (a) the IASB required this approach when it amended IAS 37 in 2020 by issuing *Onerous Contracts—Cost of Fulfilling a Contract*. That amendment specified the costs an entity includes in assessing whether a contract is onerous.

    (b) the Exposure Draft proposal followed from the 2020 amendment. In the IASB's view, the arguments made in support of the modified retrospective approach specified in the 2020 amendment (as described in paragraphs BC20–BC21 of the Basis for Conclusions on IAS 37[1]) also apply to the amendments being proposed now.

Simplified retrospective approach for changes in discount rates

16. The third set of amendments proposed in the Exposure Draft relates to the rate(s) an entity uses to discount future expenditure to its present value (discount rates). That proposal—which the IASB tentatively decided to retain when it redeliberated the proposal in September 2025—is to require an entity to discount a provision at a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for the effect of non-performance risk.

17. Paragraph 94E of the Exposure Draft proposes to permit a *simplified* retrospective approach for applying these amendments, similar to the approach permitted by IFRS 1 *First-time Adoption of International Financial Reporting Standards* for first-time adopters. This simplified retrospective approach would permit an entity to apportion the amount by which it adjusts the provision at the *transition date*—that is, the beginning of the first annual reporting period for which the entity provides comparative information—between the related asset and retained earnings:

[1] Paragraph BC20 of the Basis for Conclusions on IAS 37 explains the IASB's conclusion that 'it may be difficult and costly for an entity to obtain the information needed to restate comparative amounts, and the information provided by doing so was unlikely to be sufficiently useful to justify the costs that the entity might incur.'

(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.

18. Paragraphs BC92–BC98 of the Basis for Conclusions on the Exposure Draft explain the IASB's rationale for proposing this approach. They explain that:

(a) an entity that currently discounts an asset decommissioning or restoration provision at a rate that includes non-performance risk would need to change its accounting policy to use a lower rate, with a resulting increase in the measure of the provision; and

(b) the IASB concluded that retrospective application could be difficult if the corresponding debit is added to the cost of the related asset.

First-time adopters

19. IFRS 1 requires first-time adopters to apply the requirements retrospectively, with some exceptions. When the IASB makes significant changes to an IFRS Accounting Standard, it considers whether to remove any of those exceptions and whether to add more.

20. The Exposure Draft proposes no changes to the exceptions in IFRS 1 as a result of the proposed amendments. Paragraphs BC99–BC100 of the Basis for the Conclusions on the Exposure Draft explain that:

(a) IFRS 1 provides no exceptions to the requirements in IAS 37, other than the exemptions on which the proposed simplified retrospective approach for changes in discount rates are based; and

(b) the proposed amendments would not fundamentally change the requirements in IAS 37 or the procedures or judgements necessary to apply those requirements.

Feedback from respondents to the Exposure Draft

Agreement with the proposed transition requirements

21. Most respondents agreed with the transition requirements proposed in the Exposure Draft, including the two exceptions to retrospective application. Many of these respondents did not give reasons for their agreement or make additional comments. Those who gave reasons said the proposed transition requirements would:

    (a) *provide useful information for users of financial statements*—respondents (primarily standard-setters and accountancy bodies) said retrospective application would provide more useful information than prospective application and enhance comparability.

    (b) *not be costly or complex for preparers*—respondents (primarily standard-setters) said entities applying the proposed requirements might need to recognise provisions for some obligations earlier than they recognise them applying IAS 37. However, they would not need to gather an extensive amount of historical information, particularly given the proposed exceptions to retrospective application. Therefore, respondents said that, on balance, the costs of retrospective application, with simplifications, would not outweigh the benefits.

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

Disagreement with retrospective application

22. A few respondents (primarily preparers of financial statements) disagreed with retrospective application because they think it 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. Respondents said the resulting information would likely be meaningless for users of financial statements.

23. Most of these respondents suggested requiring, or permitting, prospective application.

24. A few respondents (primarily European preparers and a standard-setter in Europe) noted that no exception to retrospective application is proposed for earlier recognition of provisions resulting from the amendments to the present obligation recognition criterion. These respondents suggested 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.

Disagreement with the exceptions to retrospective application

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

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

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

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

Simplified retrospective approach for changes in discount rates

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

29. These respondents said:

    (a) *even with the simplifications proposed, retrospective application 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 to retrospective application would not be meaningful*—because the IASB did not similarly propose simplified retrospective approach for changes in costs included in the measure of a provision.

30. These respondents suggested 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, more in line with the exception set out in paragraph D21A of IFRS 1; and

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

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

Differences between the exceptions to retrospective application

32. Some respondents (including accountancy bodies, standard-setters and a body representing insurers) did not disagree with the two exceptions to retrospective application, but expressed 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 to obligations that exist at the *date of initial application*; whereas

    (b) for changes in discount rates, an entity would apply the simplified retrospective approach assuming that the discount rates and estimates of cash flows current at the earlier *transition date* had not changed since the provision was first recognised.

33. The respondents said that provisions affected by both changes would have to be adjusted over two different reporting periods. They said such adjustments would be complex and reduce comparability and understandability of the financial statements. The body representing insurers said it was likely that extensive disclosure would be required to communicate the effects.

34. The respondents suggested using the same date for both exceptions to retrospective application. Most of these respondents did not state a preference for using either the date of initial application or the transition date. However, one standard-setter (in Europe) suggested requiring an entity to apply both exceptions at the date of initial application.

35. A few other respondents (primarily accountancy bodies) expressed concerns about having two different exceptions to retrospective application. They said the differences could create complexity for entities and confusion for users of financial statements. Instead, they suggested:

    (a) aligning the two exceptions, such as by adopting a modified retrospective approach for changes in both costs included in the measure of a provision and in discount rates; or

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

Feedback from ASAF members

36. At the July 2025 ASAF meeting, two ASAF members—the Asian-Oceanian Standard-Setters Group and EFRAG representatives—said they supported requiring entities to apply the proposed amendments retrospectively. However, the EFRAG representative suggested that the IASB consider requiring that the two simplifying exemptions be applied from the same date.

Staff analysis and recommendation

Whether to retain the proposed general requirement for retrospective application

37. In this section, we analyse whether, in the light of the feedback as summarised in paragraphs 22–24, the IASB should retain the proposed general requirement for retrospective application.

38. We acknowledge the view of a few respondents (as summarised in paragraph 22) that, for some provisions, retrospective application could be costly and be complex to apply and would require significant efforts to avoid the use of hindsight.

39. However, we note that:

(a) in most cases, retrospective application results in more useful information for users than alternative forms of application (such as prospective application). With retrospective application, an entity presents its financial statements as if the amendments had always been effective, thereby enhancing faithful representation, comparability and understandability.

(b) notwithstanding the disagreements (as summarised in paragraphs 22–24), the balance of the feedback (including that summarised in paragraph 21) indicated widespread support for retrospective application. Some respondents said retrospective application—in combination with the two exceptions—would not be costly or complex for preparers.

(c) this feedback confirms the view we reached when developing the Exposure Draft proposals (as summarised in paragraph 11) that retrospective application is likely to be practicable for most entities, thereby providing no justification for the IASB to *require* prospective application. Although *permitting* prospective application might benefit entities with many levies and decommissioning provisions for which retrospective application could be difficult, it would risk reducing comparability of financial statements—which most respondents cited as their reason for supporting retrospective application.

(d) the Exposure Draft proposes retrospective application 'in accordance with IAS 8'. The requirements for retrospective application in paragraphs 22–27 of IAS 8 include simplifications for cases in which full retrospective application is impracticable. If an entity determines that applying the transition requirements proposed in the Exposure Draft would be impracticable, it could take advantage of the simplifications permitted by IAS 8.

40. We therefore recommend that the IASB retain the proposed general requirement for retrospective application.

Question for the IASB
1. Do you agree with the recommendation in paragraph 40?

Whether to retain the proposed modified retrospective approach for changes in costs included in the measure of a provision

41. In this section, we analyse whether, in the light of the feedback as summarised in paragraphs 25–27, the IASB should retain its proposal for a modified retrospective approach for changes in costs included in the measure of a provision—or whether it should require full retrospective application instead.

42. We agree that, because the proposed requirements were built on the requirements for identifying onerous contacts issued in 2020, entities might already have the information necessary to apply the proposed amendment to onerous contracts that had existed from that date. However, they would not necessarily have the information needed to apply the amendments retrospectively to other types of provisions to which the new measurement requirements will apply (that is, any provision that will be settled by providing goods or services rather than cash).

43. We therefore recommend that the IASB retain the Exposure Draft proposal for a modified retrospective approach for changes in costs included in the measure of a provision.

Question for the IASB
2. Do you agree with the recommendation in paragraph 43?

Whether to retain the proposed simplified retrospective approach for changes in discount rates

44. In this section, we analyse whether, in the light of the feedback as summarised in paragraphs 28–31, the IASB should retain the proposed simplified retrospective approach for changes in discount rates.

45. We acknowledge that, even with the simplifications proposed, applying the changes to the discount rate requirements retrospectively to asset decommissioning obligations could involve a significant amount of work. However:

    (a) because the simplified retrospective approach proposed in the Exposure Draft is the same as the approach specified in IFRS 1 for first-time adopters, the methods for applying the approach are already established.

    (b) few respondents, and only one preparer of financial statements, expressed concerns about the complexity of applying the approach, and none said it would be impracticable. Any entity that found the approach impracticable could apply the simplifications permitted by IAS 8 (as described in paragraph 39(d)).

46. Because any change in discount rates in this respect would result from an amendment to IFRS Accounting Standards, it would not be a change in accounting estimate. Applying IAS 8, an entity accounts for a change in an accounting policy resulting from the initial application of an IFRS Accounting Standard:

    (a) in accordance with the transition requirements set out in that Standard if it includes such requirements; or

    (b) retrospectively if the Standard has no transition requirements.

47. Where an amendment changes the rates used, there is precedent for the IASB to require retrospective application with exceptions or simplifications, such as those in the *Interest Rate Benchmark Reform* amendments.

48. The IASB proposed two different exceptions to retrospective application for changes in costs included in the measure of a provision and in discount rates because the difficulties arising from each are different (see paragraphs 15 and 18). As such, we think proposing an identical exception to both would not adequately respond to those difficulties.

49. We therefore recommend retaining the Exposure Draft proposal for a simplified retrospective approach for changes in discount rates.

Question for the IASB
3. Do you agree with the recommendation in paragraph 49?

Whether to align the proposed dates for applying the exceptions to retrospective application

50. In this section, we analyse whether, in the light of the feedback as summarised in paragraphs 32–34, the IASB should align the proposed dates for applying the two exceptions to retrospective application.

51. We acknowledge some respondents' concerns (as summarised in paragraph 33) that having different dates for applying the two exceptions could create complexity for entities and confusion for users of financial statements.

52. However, we think there are arguments against changing either of the dates:

    (a) the date used for the *modified retrospective approach* for changes in costs included in the measure of a provision is the essence of the simplification of the approach—if the date were changed from the date of initial application to the transition date, the requirement would effectively be for retrospective application. The date used is consistent with that used for the modified retrospective approaches required by the *Onerous Contracts—Cost of Fulfilling a Contract* amendment and other IFRS Accounting Standards—

in particular, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*.

(b) the date used for the *simplified retrospective approach* for changes in discount rates to date of initial application is consistent with that required for the simplified retrospective approach required by IFRS 1 for first-time adopters. Changing the date would mean departing from the practice established by the IFRS 1 requirements for first-time adopters on which the proposed simplification is based.

53. We therefore see no basis for making changes to the two exceptions—including the suggestion to align them further (as summarised in paragraph 35(a)). We note that the two proposed requirements are different in nature and would largely affect different types of provisions.

54. One type of provisions—long-term asset decommissioning provisions—could, in theory, be affected by both changes. However, we have been told that, in practice, asset decommissioning provisions are unlikely to be materially affected by the amendments to the requirements on the costs included in the measure of a provision.

55. For these reasons, we recommend that the IASB retain the proposed dates for applying the two exceptions to retrospective application.

Question for the IASB
4. Do you agree with the recommendation in paragraph 55?

Whether to add examples illustrating the proposed exceptions to retrospective application

56. We see no basis for adding examples to illustrate the application of the simplified retrospective approach (as summarised in paragraphs 31) or both exceptions to retrospective application (as summarised in paragraph 35(b)). We think:

(a) entities' application of the exceptions would depend on their specific facts and circumstances. As such, any illustrative example the IASB could develop would be of limited use to entities.

(b) the example referenced by respondents—from the appendix to Agenda Paper 22B for the June 2024 IASB meeting—was developed solely as a simplified illustration to assist the IASB in its deliberations and was not intended to provide guidance for entities. As such, we think it would be inappropriate to include that example in the eventual amendments.

Question for the IASB
5. Do you have any comments on the discussion in paragraph 56?