IFRS Accounting

Staff paper

Agenda reference: 22B

IASB® meeting

Date	**September 2026**
Project	**Provisions—Targeted Improvements**
Topic	**Recognition—Other aspects of the past-event condition**
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Purpose of this session

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

3. The IASB has not yet discussed feedback on some aspects the 'past-event' condition for recognising a provision. The purpose of this session is to reach decisions on these aspects.

4. Most of the feedback on these aspects relates to the proposed requirements for 'threshold-triggered costs'—costs that will become payable only if a measure of an entity's activity in an assessment period exceeds a specified threshold.

Contents of this paper

5. This paper contains:

   (a) background information on:

      (i) the proposed past-event condition (paragraphs 8–13);

      (ii) feedback and subsequent tentative decisions on applying the past-event condition to levies (paragraphs 14–15); and

      (iii) feedback on other aspects of the past-event condition (paragraph 16);

   (b) staff analysis and recommendations on:

      (i) the requirements proposed for threshold-triggered costs (paragraphs 17–35); and

      (ii) the omission from the Exposure Draft of a statement regarding future operating costs (paragraphs 36–43); and

   (c) a discussion of ad hoc comments on other aspects of the past-event condition (paragraphs 44–46, Appendix A and Appendix B).

Staff recommendations

6. <u>On threshold-triggered costs</u>, we recommend making no changes to the requirements proposed in the Exposure Draft. Specifically, we recommend:

   (a) retaining the proposals:

      (i) to add to IAS 37 the requirements proposed in paragraph 14P of the Exposure Draft; and

      (ii) to locate these requirements in the section of requirements supporting the past-event condition; and

   (b) adding no further requirements or guidance on threshold-triggered costs.

7. On future operating costs, we recommend adding to the requirements proposed in the Exposure Draft a statement that no provision is recognised for costs that need to be incurred to operate in the future. This would retain a statement currently in paragraph 18 of IAS 37.

Background information

Exposure Draft proposals

The present obligation recognition criterion

8. The Exposure Draft proposes to update the wording of the present obligation criterion for recognising a provision, to align it with the definition of a liability in the IASB's *Conceptual Framework for Financial Reporting (Conceptual Framework).* Drawing further on the *Conceptual Framework*, the Exposure Draft also proposes to identify and explain three separate conditions within the present obligation criterion—an 'obligation' condition, a 'transfer' condition and a 'past-event' condition.

The past event condition

9. Paragraphs 14M–14R of the Exposure Draft explain the past-event condition.

10. Paragraph 14N states that the past-event condition is met when an entity:

    (a) has obtained specific economic benefits or taken a specific action; and

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

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

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

13. Paragraph 14Q proposed requirements for situations in which an entity has an obligation to transfer an economic resource only if it takes two (or more) separate actions.

Feedback and subsequent tentative decisions on applying the past-event condition to levies

14. Most of the feedback on the proposed past-event condition related to the application of paragraph 14Q to levies. The IASB has discussed that feedback at several previous meetings and, in May 2026, it tentatively decided to replace paragraph 14Q with new application requirements for levies, specifying that:

    (a) the past-event condition is met for a levy when an entity has obtained the economic benefit or conducted the activity required by the levy legislation for the levy to be payable (the 'relevant' economic benefit or activity); and

    (b) if two or more economic benefits or activities are required for a levy to be payable, the relevant economic benefit or activity is the one that best reflects the economic benefit or activity the government is seeking to levy.

15. Indicative drafting for the application requirements is set out in Agenda Paper 22D *Levies—Indicative Drafting* for this meeting.

Feedback on other aspects of the past event condition

16. Although most of the feedback on the proposed past-event condition related to the implications for levies, some of the feedback related to other matters:

    (a) the requirements for threshold-triggered costs proposed in paragraph 14P (see paragraphs 17–35);

    (b) the omission of a statement on future operating costs currently in paragraph 18 of IAS 37 (see paragraphs 36–43); and

    (c) other aspects of the past-event condition (see paragraphs 44–46).

Threshold-triggered costs

Introduction

17. This section discusses feedback on the proposed requirements for threshold-triggered costs. It covers:

    (a) comments on the requirements proposed in paragraph 14P of the Exposure Draft;

    (b) suggestions to relocate the requirements to another section of IAS 37; and

    (c) requests for additional requirements and guidance.

Exposure Draft proposals

18. Paragraph 14P proposes that:

    (a) the action that meets the past-event condition for a threshold-triggered cost is the activity that contributes to the total activity on which the amount of the transfer is assessed. This activity includes both activity below the threshold and activity above the threshold.

    (b) at any date within the assessment period, the present obligation is the portion of the total expected obligation attributable to the activity carried out to that date.

19. Paragraph 14P also reminds readers that, although an obligation for a threshold-triggered cost can meet the present obligation recognition criterion before the entity's activity reaches the threshold, an entity recognises a provision at that time only if the 'probable transfer' and 'reliable estimate' recognition criteria in IAS 37 are also met. For these criteria to be met, it must be probable that the entity's activity will exceed the threshold.

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

Feedback from respondents to the Exposure Draft

21. Many of the respondents commenting on the proposed requirements for threshold-triggered costs agreed with these requirements.

22. Most of those who gave a reason said the proposed requirements would result in more relevant information about and/or a more faithful representation of the entity's obligations than the requirements currently in IFRIC 21—especially:

   (a) in interim financial statements; and

   (b) for some common types of obligations, for example, levies and some obligations triggered by exceeding greenhouse gas emissions thresholds:

23. A regulator acknowledged that provisions recognised applying the proposed requirements (before a threshold is met) could be subject to greater estimation uncertainty than provisions recognised later applying IFRIC 21 (after the threshold is met). But the regulator noted that the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine the usefulness of the information, if the estimates are clearly and accurately described and explained.

24. A few respondents disagreed with the proposed requirements, saying they would prefer to retain the requirements in IFRIC 21. Of these respondents:

   (a) a few think a liability for a threshold-triggered cost arises only when the entity's activity has exceeded the threshold and the entity's obligation has become unconditional; and

   (b) a few said that the estimates of provisions recognised before a threshold has been reached could be highly subjective, and that the subjectivity would create practical challenges, especially in emerging markets where estimation techniques are less developed and highly subjective estimates may result in significant diversity in application.

25. A few respondents questioned the consistency of the requirements for threshold-triggered costs with the requirement proposed in 14Q for costs triggered when an entity takes two or more separate actions. An accounting firm and an accountancy body suggested that conceptually, a threshold-triggered cost could be viewed as an example of a transfer required when an entity takes two or more separate actions—

each unit (perhaps day) of activity that takes the entity closer to the threshold could be viewed as a separate action. The firm suggested that, to be consistent with paragraph 14Q, paragraph 14P should state that the past-event condition for a threshold-triggered cost would be satisfied when the entity conducts the first units of activity only if it has no practical ability to avoid the further units of activity that would take its total activity over the threshold. Respondents expressed concern that the inconsistencies they perceived between paragraph 14P and 14Q could create application challenges and avoidance opportunities.

Staff analysis and recommendation

26. The staff recommend retaining the proposal to add to IAS 37 the requirements for threshold-triggered costs proposed in paragraph 14P of the Exposure Draft.

27. Our recommendation is made on the basis that:

(a) many respondents agreed with the proposed requirements and the IASB's reasons for proposing them (paragraphs 21–23). Although a few respondents disagreed with the proposed requirements (paragraph 24), they disagreed for reasons considered by the IASB when it was developing the requirements.

(b) concerns about possible inconsistencies between the requirements for threshold-triggered costs and those proposed in paragraph 14Q of the Exposure Draft (paragraph 25) will not arise following the IASB's tentative decision to replace the requirement in paragraph 14Q with the application requirements for levies outlined in paragraph 14 of this paper.

Question for the IASB

Requirements for threshold-triggered costs	
1	Do you agree with our recommendation in paragraph 26?

Suggestions to relocate the requirements

Suggestions from respondents to the Exposure Draft

28. A few respondents suggested relocating the requirements for threshold-triggered costs from within requirements relating to the past-event condition to a separate section (perhaps the 'Application of the recognition and measurement rules' section), on the basis that:

    (a) the decision on whether to recognise a provision for a threshold-triggered cost is likely to require consideration of all three recognition criteria in IAS 37—not just the three conditions within the present obligation criterion—as evidenced by the cross reference in paragraph 14P to the other two recognition criteria (probable transfer and reliable measurement).

    (b) it is confusing for these other two recognition criteria to be referred to in the section that discusses the present obligation criterion.

Staff analysis and recommendation

29. We recommend retaining the Exposure Draft proposal to locate the requirements for threshold-triggered costs in the section of requirements supporting the past-event condition.

30. We make this recommendation on the basis that:

    (a) the primary purpose of the requirements for threshold-triggered costs is to clarify when the past-event condition is met for such costs;

    (b) the cross-reference to the other recognition criteria is just a helpful reminder of the need to consider these criteria, given that provisions for threshold-triggered costs are more likely to fail the 'probable transfer' criterion than are some other types of provisions; and

(c) the 'Application of the recognition and measurement rules' section would not be the best location for requirements relating to threshold-triggered costs. That section contains requirements for specific transactions—for example, restructurings, onerous contracts and levies. In contrast, the requirements for threshold-triggered costs are general requirements that would apply to any transaction (for example, a levy or climate-related cost) with the threshold feature described in paragraph 14P.

Question for the IASB

Location of requirements for threshold-triggered costs	
2	Do you agree with our recommendation in paragraph 29?

Requests for additional requirements and guidance

Requests from respondents to the Exposure Draft

31. A few respondents requested requirements for other types of threshold-triggered costs—those where the threshold is:

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

(b) a ratio of the entity's activities (for example, the renewable energy usage rate) in a period.

32. A few respondents noted that provisions recognised early in an assessment period (before a threshold has been met) could be subject to significant measurement uncertainty and so could be susceptible to later revision or even reversal. Of these respondents:

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

    (b) an investor expressed concern that preparers of financial statements might use the 'reliable measurement' recognition criterion as a reason for not recognising a provision. The investor suggested emphasising that reasonable estimates could be made on the basis of assumptions used in determining other amounts reported in the financial statements.

33. A few respondents asked for guidance on how to measure a provision for a threshold-triggered cost as it accumulates during the assessment period. One respondent said the example following paragraph 14P would be clearer if it included guidance on measuring the provision.

Staff analysis and recommendation

34. We recommend adding no further requirements or guidance on threshold-triggered costs.

35. We make this recommendation on the grounds that:

    (a) *regarding requests for requirements for other types of threshold-triggered costs (paragraph 31):* we think the requirements proposed in paragraph 14P aim to clarify only the basic principle that, if a charge is linked to an activity that occurs over a period, the past-event condition is met as that activity occurs over the period, irrespective of whether the activity for the total period must exceed a threshold. Thresholds take many forms and the aim is not to specify precise requirements for each form. Thresholds often apply to levies, for which IAS 37 will include more detailed application requirements (see Agenda Paper 22D *Levies—Application requirements*).

(b) *regarding requests for guidance on measurement uncertainty (paragraph 32):* the uncertainty in the estimate of a typical threshold-triggered obligation is likely to be less than the uncertainty in estimates of some other types of provisions. Threshold-triggered obligations are typically relatively short-term in nature and the inputs to estimates are likely to be the same as those required for short-term management forecasts and budgets. Other, longer-term provisions within the scope of IAS 37—for example, litigation provisions and long-term asset decommissioning provisions—can be subject much greater measurement uncertainty. We think it unlikely that preparers would seek to apply the 'reliable measurement' recognition criterion to avoid recognising a provision for a threshold-triggered cost when a reasonable estimate could be made, and that practice for making such estimates is well-enough established for no further guidance to be necessary.

(c) *regarding requests for guidance on measuring provisions for threshold-triggered costs (paragraph 33):* to measure a provision for a threshold-triggered cost, a preparer would determine the portion of the total expected obligation 'attributable to the activity carried out to date' and apply the measurement requirements in IAS 37 to that portion. Appropriate methods for apportioning the total expected obligation will depend on the facts and circumstances. We think preparers will be able to identify a method that is appropriate in their circumstances without further guidance.

Question for the IASB

Additional requirements or guidance on threshold-triggered costs	
3	Do you agree with our recommendation to add no further requirements or guidance on threshold-triggered costs?

Costs that need to be incurred to operate in the future

Exposure Draft proposals

36. The Exposure Draft proposes to replace all 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…

37. The requirements proposed in the Exposure Draft retain this concept, expressed in a different way:
    (a) the transfer condition prevents the recognition of provisions for obligations to exchange (as opposed to transfer) economic resources. The costs that need to be incurred to operate in the future will be incurred as part of exchange transactions.
    (b) the past-event condition limits provisions to obligations arising from past actions—effectively ruling out provisions for future operating costs.

38. However, the proposed requirements do not include the simple statement that no provision is recognised for costs that need to be incurred to operate in the future.

Feedback from respondents

39. Some respondents—mainly accountancy bodies, but also a few accounting firms, national standard setters and preparers of financial statements—asked the IASB to somehow retain in IAS 37 the statement that no provision is recognised for costs that need to be incurred to operate in the future.

40. Respondents described 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 said 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. *CL25 EY*

Staff analysis and recommendation

41. We recommend adding to the requirements proposed in the Exposure Draft a statement that no provision is recognised for costs that need to be incurred to operate in the future.

42. We recommend adding this statement on the grounds that, even if, technically, the requirements proposed in the Exposure Draft are sufficient without it, a range of stakeholders have said they find it a clear and well-understood articulation of a key objective of IAS 37.

43. We would consider in drafting where to locate the statement within the requirements supporting the present obligation recognition criterion.

Question for the IASB

Costs that need to be incurred to operate in the future	
4	Do you agree with our recommendation in paragraph 41?

Ad hoc comments on other aspects of the past-event condition

Comments on application requirements for restructuring provisions

44. The Exposure Draft proposes minor refinements to the wording the IAS 37 requirements for restructuring provisions. As detailed in Appendix A, a few respondents commented on these proposed refinements, some suggesting further refinements. In each case, we have concluded that either:

    (a) no changes are needed to the Exposure Draft proposals; or

    (b) the suggested refinements could be picked up in drafting the final amendments—we will consider them at that stage.

Other ad hoc comments and suggestions

45. As detailed in Appendix B, a few respondents made other ad hoc comments and suggestions on the requirements supporting the past-event condition. In each case, we have concluded that no further action is needed.

46. We will not raise any of the comments listed in Appendix A or Appendix B for discussion in the meeting unless asked to do so by an IASB member.

Appendix A—Comments on application requirements for restructuring provisions

Exposure Draft proposals

A1. Paragraphs 70–81 of IAS 37 set out application requirements for restructuring provisions and the *Guidance on implementing IAS 37* includes two examples (Examples 5A and 5B) illustrating those requirements.

A2. 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.

A3. The refinements remove references to an entity's 'constructive obligation to restructure'. They instead refer to an entity's obligations to discharge specific responsibilities *if* it restructures, noting that these obligations could be constructive or legal obligations, and would meet the present obligation criterion if the criteria set out in paragraph 72 of IAS 37 are met.

Feedback on the proposed refinements

Feedback

A4. Only a few respondents commented on the proposed refinements to the requirements and guidance on restructuring provisions.

A5. Some of these respondents said they agree with the refinements.

A6. One standard setter said it does not agree with the proposed refinements. It expressed 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*

Staff response

A7. The wording refinements proposed in the Exposure Draft do not bring legal obligations into the scope of the requirements for restructuring provisions, they simply clarify that some of the obligations already within the scope of these requirements are legal, not constructive, obligations.

Suggestions for refinements

Suggestions made

A8. A national standard setter suggested that the refinements should be more extensive. It said that, even with the proposed refinements, some of the wording of the requirements for restructuring provisions remains inconsistent with that in the general requirements and could be confusing. As an example, the standard-setter noted 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.

A9. A few respondents referred to proposed new paragraph 80A. This paragraph would add examples of costs that could be included in a restructuring provision. The examples include legal obligations to pay termination benefits to employees. The respondents noted 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.[1] Respondents asked 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 in 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.

Staff responses

A10. The suggestions for further refinements described in paragraphs A8 and A9(b) could be picked up in drafting the final amendments—we will consider them at that stage.

A11. The respondents requesting clarification of the interaction between the requirements in IAS 37 and IAS 19 (paragraph A((b)) did not say exactly what they think needs to be clarified. Furthermore, the interaction between IAS 19 and IAS 37 is specified in the requirements for termination benefits in IAS 19, and amendments to IAS 19 are beyond the scope of this project.

1 Paragraph 165 of IAS 19 specifies when to recognise a liability for a termination benefit. It specifies the circumstances in which an entity applies the recognition requirements in IAS 37.

Appendix B—Other ad hoc comments and suggestions

B1. This appendix lists other ad hoc comments and suggestions on the requirements supporting the past-event condition, along with our reasons for concluding that no further action is needed.

<table>
<tr><th></th><th>Respondent comment</th><th>Staff response</th></tr>
<tr><td>(a)</td><td>A national standard setter asked for a more explicit statement of the implications of paragraph 14O—a statement that where a present obligation accumulates over time, progressive recognition of the provision is appropriate.</td><td>Clarification of this point requires a reference to the role played by the other conditions and criteria in IAS 37 for recognising a provision. We think the clarification is best achieved in illustrative examples.

For indicative drafting see Appendix B to Agenda Paper 22D Levies—Indicative Drafting where:

• the introduction refers to an assumption that other conditions and criteria for recognising a provision are met; and

• Example 2—An energy windfall levy and Example 3—A digital services levy illustrate progressive recognition of a provision.</td></tr>
<tr><td>(b)</td><td>A few respondents said they thought that some of the proposed past-event condition requirements mix up recognition and measurement concepts.

Respondents pointed to:

• the statement in paragraph 14O that a present obligation might accumulate over time; and

• the statement in paragraph 14P that an entity’s present obligation for a threshold-triggered cost is the portion of the total expected obligation attributable to activity performed to date.</td><td>We disagree that any of the requirements supporting the past-event condition mix up recognition and measurement. The requirements clarify how the scale of an obligation can increase over time; they do not discuss how an obligation of that scale would be represented through measurement.</td></tr>
</table>

	Respondent comment	Staff response
(c)	Some respondents asked for guidance on how to apply the past-event condition to transactions in which an entity's obligation to transfer an economic resource depends on its own activities combined with those of other entities. A national standard setter noted that mechanisms with these features are growing in number. Some of the respondents referred to the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Under this scheme, the airline sector is assigned a collective annual target for CO2 emissions. If the sector's total emissions exceed the collective annual target, each airline is allocated a share of the surplus, proportional to its emissions within the sector. Each airline is required to offset its allocated surplus by purchasing and retiring carbon credits. An accounting firm suggested clarifying that: • the present obligation criterion is assessed purely by reference to the entity's own emissions; and • the likelihood of the collective target being exceeded is considered in determining whether the probable transfer criterion is met.	We think that the requirements, as refined by the replacement of paragraph 14Q with application requirements for levies, will be sufficiently clear without specific guidance on this matter. Respondents raised their questions in the context of the requirements proposed in paragraph 14Q, which proposed that, if an entity must take two or more actions to trigger a charge, the past-event condition is met when the entity has taken the first action if it has practical ability to avoid the others. The question was whether an entity can have the practical ability to avoid a collective threshold. We think that, without paragraph 14Q, the requirements will now be clearer: • as stated in paragraph 14N, the past-event condition is met when the entity takes the action (for example emitting CO2) that *it* must take to be liable for a charge; • if at this point, the obligation remains conditional on other uncertain future events (which would include meeting collective thresholds), the likelihood of these events occurring is considered in determining whether the probable transfer criterion is met. This requirement will be explicitly clarified for levies (see paragraph 83L of the indicative drafting in Agenda Paper 22D).

	Respondent comment	Staff response
(d)	A few respondents suggested that the proposed past-event requirements could have implications for the timing of recognition of some costs that are outside the scope of IAS 37. They noted that the timing of recognition for some costs—for example, payments for asset purchases that depend on future activity—is not specifically addressed in any IFRS Accounting Standard. The respondents expressed concerns that the past-event condition requirements in IAS 37 might be applied by analogy, with insufficient consideration having been given to the implications. Respondents asked the IASB to clarify *whether* it intends (or *that* it does not intend) the amendments to IAS 37 to change practice for transactions outside its scope.	All IFRS Accounting Standards have the same status—the requirements apply only to transactions within the scope of the Standard but might be considered in developing an accounting policy for a similar transaction if no IFRS Accounting Standard applies to that transaction (as detailed in paragraphs 10–12 of IAS 8 *Basis of Preparation of Financial Statements*).