IFRS Accounting

# Staff paper

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**IASB® meeting**

Date **September 2026**

Project **Provisions—Targeted Improvements**

Topic **Other matters**

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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 purpose of this session is to consider various other matters raised in the feedback on the Exposure Draft and not yet discussed by the IASB.

## Contents of this paper

4. This paper discusses three matters:

   (a) comments on the proposed definition of an executory contract (paragraphs 7–15);

   (b) a suggestion to remove from IAS 37 the scope exclusion for executory contracts (paragraphs 16–26); and

(c) requests for amendments to IAS 37 that would be beyond the scope of this project (paragraphs 27–30 and the appendix).

5. This paper asks the IASB to make decisions on the first two of these matters—the definition of an executory contract and the scope exclusion for executory contracts. The staff recommendations are in paragraphs 15 and 26. Questions for the IASB follow those paragraphs.

## Staff recommendations

6. We recommend:

(a) <u>on the definition</u>: retaining the Exposure Draft proposal to update the wording of the definition of an executory contract in IAS 37 to align it with the wording in the *Conceptual Framework for Financial Reporting (Conceptual Framework)*; and

(b) <u>on the scope exclusion</u>:

(i) retaining the scope exclusion for executory contracts in paragraph 3 of IAS 37; and

(ii) adding to that paragraph a sentence linking the scope exclusion to the explanation of the transfer condition proposed in paragraph 14L of the Exposure Draft.

## Definition of an executory contract

### *IAS 37 requirements*

7. Paragraph 3 of IAS 37 defines an executory contract. However, the wording of the definition is no longer consistent with that in the *Conceptual Framework*. The IASB updated the definition in the *Conceptual Framework* when it revised the *Conceptual Framework* in 2018.

8. The Glossary section of the Bound Volumes of IFRS Accounting Standards reproduces the *Conceptual Framework* version of the definition, not the IAS 37 version.

9. Paragraph 68 of IAS 37 states that 'if an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision'.

### *Exposure Draft proposals*

10. The Exposure Draft proposes to update the wording of the definition in IAS 37 to align it with the wording in the *Conceptual Framework* and Glossary:

> 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. …

### *Feedback*

11. A few respondents to the Exposure Draft (primarily preparers of financial statements) expressed concern that updating the definition in IAS 37 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.

### *Staff analysis and conclusion*

12. To apply the IAS 37 requirement to recognise a provision for an onerous contract, a preparer of financial statements might need to judge the most appropriate unit of account—whether it is a single contract, a group of similar contacts, or a portion of a contract.

13. We think that updating the wording of the definition of an executory contract to align it with the *Conceptual Framework* should not affect the judgement—the updated definition does not pre-judge the unit of account. Updating the definition might result in some entities changing their practices, but only if they have been applying the onerous contract requirements in IAS 37 at an individual contract level without considering alternative units of account.

14. We also think that aligning definitions throughout IFRS Accounting Standards makes the Standards clearer.

### *Staff recommendation*

15. For the reasons in paragraphs 12–14, we recommend retaining the Exposure Draft proposal to update the wording of the definition of an executory contract in IAS 37 to align it with the wording in the *Conceptual Framework*.

### *Question for the IASB*

| Definition of an executory contract | |
|---|---|
| 1 | Do you agree with the recommendation in paragraph 15? |

## Scope exclusion for executory contracts

### *IAS 37 requirements*

16. Executory contracts are excluded from the scope of IAS 37 unless they are onerous. The scope exclusion follows the definition of an executory contract in paragraph 3 of IAS 37:

> 3 … This Standard does not apply to executory contracts unless they are onerous.

### *Exposure Draft proposals*

17. The Exposure Draft proposes new requirements that would apply to all exchange transactions, including executory contracts. These new requirements would explain why no provision is recognised for an executory contract unless it is onerous.

18. The Exposure Draft uses concepts from the *Conceptual Framework* to explain that, unless the terms of an exchange transaction are unfavourable to an entity, the entity's obligations under the exchange transaction do not meet the 'transfer condition' for recognising a provision. Paragraph 14L of the Exposure Draft states that:

> 14L An obligation to exchange economic resources with another party is not an obligation to transfer an economic resource to that party unless the terms of the exchange are unfavourable to the entity. Accordingly, the obligations arising under an executory contract—for example, a contract to receive goods in exchange for paying cash—are not obligations to transfer an economic resource unless the contract is onerous.

19. When it was developing the Exposure Draft proposals, the IASB did not discuss the implications of this statement for the scope exclusion in paragraph 3 of IAS 37.

### *Feedback from respondents to the Exposure Draft*

20. A group of European academics questioned the retention of the scope exclusion for executory contracts. The group said it seemed clear from the proposed requirements that all executory contracts would be within the scope of IAS 37 but would fail the criteria for recognising a provision unless they were onerous.

### *Staff analysis and conclusion*

21. IAS 37 was issued before the IASB developed the concepts on exchange transactions that underpin the requirements proposed in the Exposure Draft. The IASB developed these concepts and added them to the *Conceptual Framework* only when it revised the *Conceptual Framework* in 2018.

22. Before these concepts were established, there was no consensus on whether executory contracts give rise to separate assets and liabilities for an entity and, if so, whether those assets and liabilities should be recognised separately or offset. So, the simplest way to clarify that IAS 37 did not require provisions to be recognised for obligations under a non-onerous executory contact was to exclude these contracts from the scope of IAS 37.

23. We think that when IAS 37 is amended, the scope exclusion will be redundant and so could be a source of confusion. Our failure to consider removing it when developing the Exposure Draft was an oversight rather than a conscious decision.

24. However, removing the scope exclusion would risk giving a false impression that the amendments to IAS 37 include requirements to recognise provisions for executory contracts that are not onerous. Although that risk could be mitigated by explaining the rationale clearly and prominently in the Basis for Conclusions, an explanation in the Basis for Conclusions might not be enough—not all preparers of financial statements read the Basis for Conclusions when applying IFRS Accounting Standards.

25. A possible solution could be to add a sentence to IAS 37, linking the scope exclusion to the explanation of the transfer condition. This approach could eliminate the risks associated with removing the scope exclusion, while also reconciling the exclusion to the other requirements in IAS 37:

> 3 … This Standard does not apply to executory contracts unless they are onerous. <u>As explained in paragraph 14L, the obligations arising under an executory contract are not obligations to transfer an economic resource unless the contract is onerous.</u>

### *Staff recommendations*

26. We can see reasons for and against removing from IAS 37 its scope exclusion for executory contracts. However, on balance, and for the reasons set out in paragraphs 24–25, we recommend:

    (a) retaining the scope exclusion for executory contracts in paragraph 3 of IAS 37; and

    (b) adding to that paragraph a sentence linking the scope exclusion to the explanation of the transfer condition proposed in paragraph 14L of the Exposure Draft.

### *Question for the IASB*

| Scope exclusion for executory contracts | |
|---|---|
| 2 | Do you agree with the recommendations in paragraph 26? |

## Amendments to IAS 37 that would be beyond the scope of this project

### *Feedback from respondents to the Exposure Draft*

27. Some respondents asked the IASB to consider amendments to IAS 37 that would be beyond the scope of this project. The requests are listed in the appendix to this paper.

### *Staff response*

28. None of the requests was made by more than a few respondents.

29. We have noted the requests for future consideration should the IASB decide to take on another project to amend aspects of IAS 37 in the future.

30. We will not raise any of these requests for discussion at the meeting unless asked to do so by an IASB member.

## Appendix—Amendments to IAS 37 that would be beyond the scope of this project

A1. Paragraphs 27–30 of this paper discuss requests for amendments to IAS 37 that would be beyond the scope of this project. Further details of the requests are set out below.

### *Clarification of the measurement objective*

A2. A few respondents asked the IASB to clarify the measurement objective in IAS 37, by deleting paragraph 37 of IAS 37. Respondents noted 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. The respondents said:

(a) this tension gives rise to practical application difficulties; and

(b) 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.

### *Enhanced disclosure requirements*

A3. A few respondents asked the IASB 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 said that investors need better information about:

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

(b) decommissioning and environmental rehabilitation obligations of entities operating in carbon-intensive sectors. As entities accelerate decarbonisation, they may have to settle some obligations earlier. Respondents said 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.

(c) off-balance sheet liabilities, including unrecognised asset decommissioning obligations. Respondents suggested entities should 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. Respondents said that providing more information about unrecognised obligations could help reduce the practice of non-recognition in sectors where it has become 'the norm'.

### *Other ad hoc requests*

A4. Respondents made a range of other ad hoc requests, asking the IASB:

(a) 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*.

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

(c) to improve the guidance on reflecting risk in measures of provisions. Respondents expressed a view that paragraphs 42–46 of IAS 36 *Impairment of Assets* give insufficient guidance on how to measure risk and that some of the statements made are not wholly accurate and balanced.

(d) to add further guidance on the intended meaning of the terms ‘probable’ and ‘reliable’ as they are used in IAS 37.

(e) to reconsider the asymmetry in the requirements for contingent liabilities and contingent assets.

(f) to 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.

(g) to reconsider the use of the term ‘virtually certain’, which is not used in the *Conceptual Framework*.