
Accounting Standards Advisory Forum meeting

Date	July 2024
Project	Provisions—Targeted Improvements
Topic	Project update
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Purpose of this session

1. To update ASAF members on the IASB's proposals for three targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, including on
 - the IASB's tentative decisions on each of the three topics
 - the next steps and timetable.
2. To hear ASAF members' views on the tentative decisions before the IASB begins its drafting and balloting process.

Note: This paper contains references and hyperlinks to IASB meeting Agenda Papers that provide further information. Most of the references are to April 2024 IASB meeting Agenda Papers 22A–22F. For your convenience we are providing copies of these papers with this one. They are renumbered as ASAF Agenda Papers 3A–3F.

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Project overview

Objectives—targeted improvements to IAS 37

1. **Criteria for recognising a provision—amendments to ‘present obligation’ criterion** (IAS 37.14(a))
 - Clarifications—easier application, fewer questions to the IFRS Interpretations Committee
 - Changes—earlier and progressive recognition of some annual levies—more useful information
2. **Measurement—tighter discount rate requirements** (IAS 37.47)
 - less diversity in practice
3. **Measurement—costs to include** (IAS 37.36)
 - clarify the meaning of ‘expenditure’

Stage

IASB currently developing proposals

Exposure draft expected H2 2024

Present obligation recognition criterion

Present obligation recognition criterion

[Agenda paper 22A: Present obligation recognition criterion](#)

[Agenda paper 22E: Indicative drafting—IAS 37](#)

[Agenda paper 22F: Indicative drafting—decision tree](#)

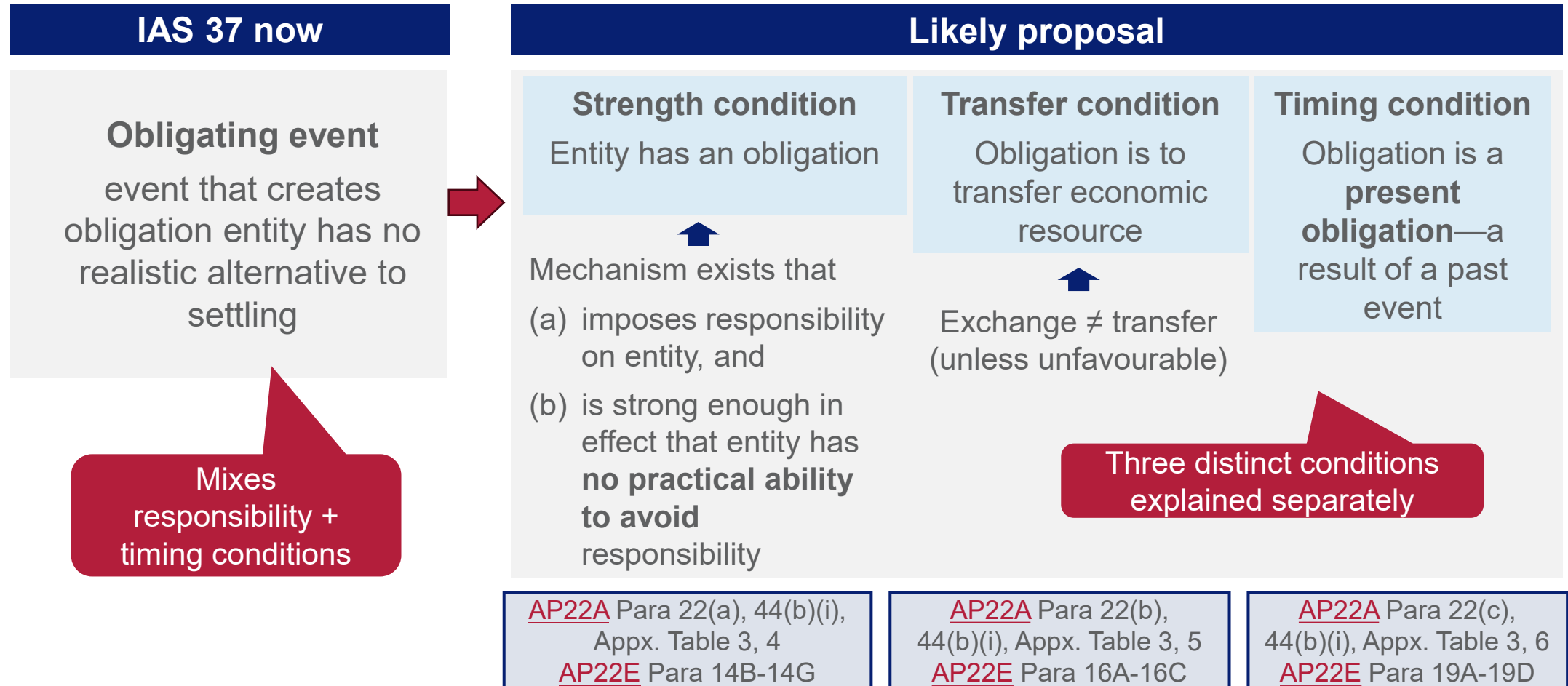
**Tentative
decisions
(April 2024)**

- Update the ‘liability’ definition and the wording of the present obligation recognition criterion applied in IAS 37 to align them with the *Conceptual Framework*
- clarify the requirements supporting the present obligation recognition criterion by:
 - i) separating out and explaining three conditions within the criterion; and
 - ii) expanding the decision tree in the Guidance on implementing IAS 37
- replace the requirements supporting the present obligation recognition criterion with new requirements based on the *Conceptual Framework*, and withdraw IFRIC 21 *Levies*;
- improve the wording of the explanations of the application requirements for restructuring provisions; and
- add new examples to the Guidance on implementing IAS 37 and update the explanation of the conclusions for some of the existing examples

Present obligation recognition criterion—clarifications

	IAS 37 now		Likely proposal	
Present obligation recognition criterion	Present obligation (legal or constructive) as a result of a past event	→	Present obligation (legal or constructive) to transfer an economic resource as a result of a past event	AP22A Para 44(a), Appx. Table 1, 2 AP22E Para 10, 14(a)(b), 14A, 22B(b)
Legal obligation	Settlement can be enforced by law	→	<ol style="list-style-type: none"> 1. Other party has legal right to take action against entity if entity fails to settle obligation, and 2. as a result, economic consequences of not settling are significantly more adverse than those of settling 	AP22A Para 44(c), Appx. Table 4 AP22E Para 14E(a)(i)(ii)

Present obligation recognition criterion—clearer supporting requirements



Meaning of ‘present obligation’—changes

IAS 37 now

Paragraph 19 in IAS 37

Obligation exists independently of entity’s future actions

+

IFRIC 21 *Levies*

Obligating event is event that triggers payment of levy



Likely proposal

- Present obligation arises when:
 - entity has obtained economic benefits or taken an action, and
 - as a consequence, will or may have to transfer an economic resource it would not otherwise have had to transfer
- If transfer will be required only if entity takes two (or more) separate actions, present obligation arises when entity takes first action if it has no practical ability to avoid taking other action (or actions)

[AP22A](#) Para 44(a), Appx. Table 1, 2
[AP22E](#) Para 10

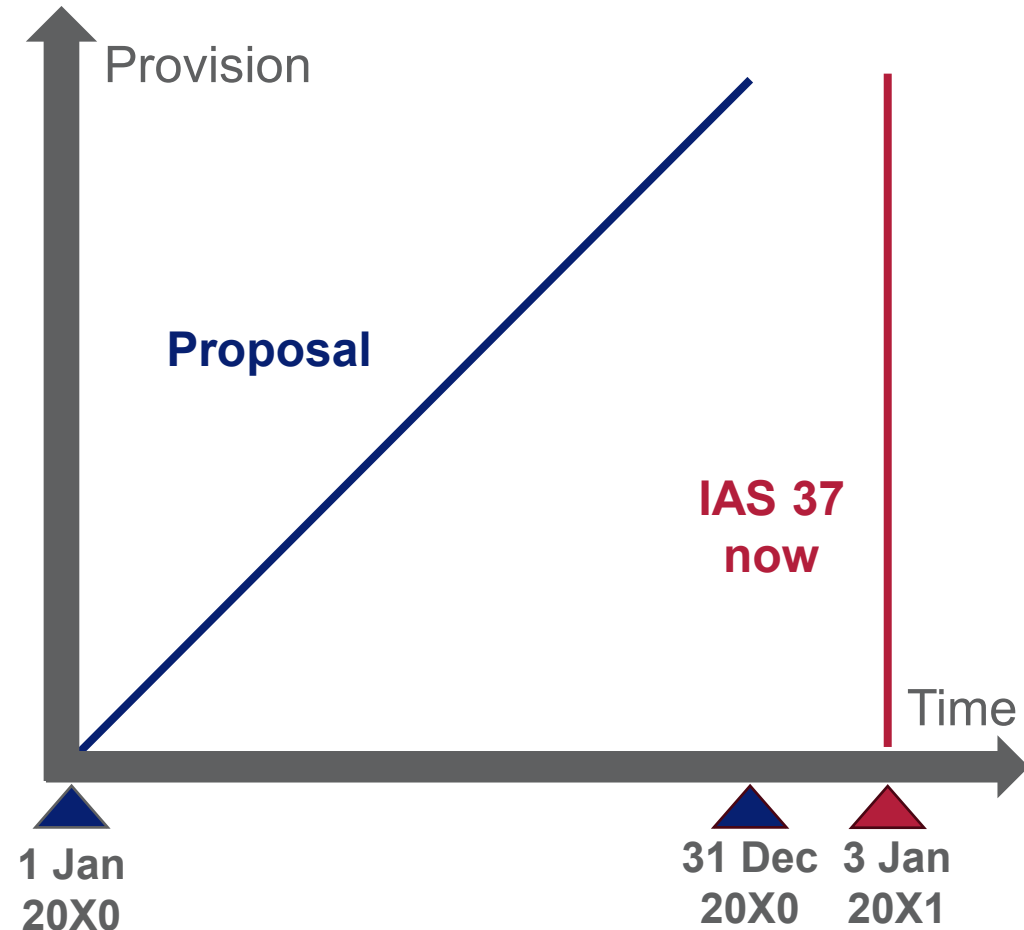
[AP22A](#) Para 44(c), Appx. Table 6
[AP22E](#) Para 19C

Earlier and progressive recognition of some levies

Meaning of ‘present obligation’—illustration

- Levy triggered when entity generates revenue in a market in 20X1
- Levy is 1% of revenue generated in 20X0
- Entity generates revenue evenly throughout 20X0, and in 20X1 starts to generate revenue on 3 January 20X1
- Throughout 20X0, management judges entity has no practical ability to exit market before 20X1

Two separate actions of entity:
 1. Generate revenue in 20X0
 2. Start to generate revenue in 20X1



Threshold-triggered costs

[Agenda paper 22B: Threshold-triggered costs](#)
[Agenda paper 22E: Indicative drafting—IAS 37](#)

Add application requirements to IAS 37 for threshold-triggered costs, specifying that:

- a present obligation for a threshold-triggered cost arises as the entity carries out the activity that contributes to the total amount of activity on which the cost is measured; and
- at any date within the measurement period, the amount of the present obligation is a portion of the total estimated cost for the measurement period—the portion being the amount attributable to the activity carried out to that date.

**Tentative
decision
(April 2024)**

Likely proposal

Provision is recognised if other recognition criteria are met:

1. probable transfer—ie probable that activity will exceed threshold, and
2. amount can be reliably estimated

Examples of threshold-triggered costs

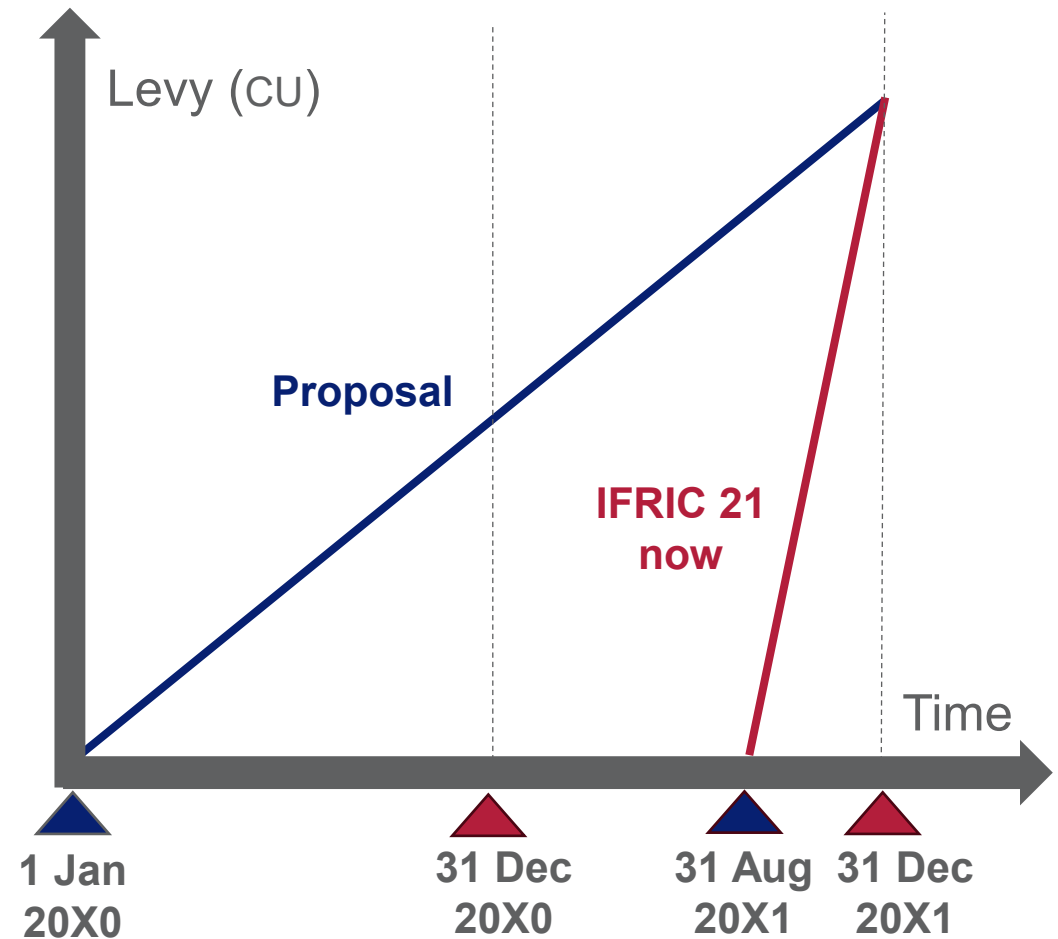
- Levy payable by entity whose annual revenue exceeds specified monetary amount
- Maintenance costs **lessee** pays if condition of leased asset at end of lease falls below specified threshold
- Penalties imposed on entity whose **greenhouse gas emissions** in specified period exceed allocated quota

Threshold-triggered costs—example

- Entity will pay levy if revenue exceeds CU200 million in two-year period—1 Jan 20X0 to 31 Dec 20X1
- Levy = 1% of revenue above threshold
- Management forecasts entity will generate revenue of CU10 million / month (CU240 million in 2-year period)
- Actual revenue equals forecast—crossing threshold on 31 August 20X1

Complications in practice

Actual revenue likely to differ from forecasts and forecasts could change over time—catch up adjustments would be required



Additional illustrative examples

Proposals could include new examples based on the fact patterns of:



- IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment*
- Various levies, including fact patterns like those in the examples accompanying IFRIC 21
- Interpretations Committee [Agenda Decision Negative Low Emission Vehicle Credits](#)
- Interpretations Committee [Agenda Decision Climate-related Commitments](#)

[AP22A](#) Para
44(e), Table 8

Discount rates

Discount rates

Tentative decision
(November 2023)

Agenda paper 22: Discount rates

Specify that an entity uses a rate that reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk.

Tentative decision
(April 2024)

Agenda paper 22C: Discount rates—application guidance

- Clarify that the time value of money reflected in the discount rate for a provision is represented by a risk-free rate
- Provide no further application guidance on estimating the time value of money.

Agenda paper 22D: Discount rates—disclosure requirements

Require an entity to disclose, for each class of provision:

- the rate or rates used in measuring the provision; and
- the approach used to determine those rates.

Discount rate



a rate that reflects the time value of money represented by a risk-free rate

with no adjustment for non-performance risk

Costs to include in measuring a provision

Costs to include in measuring a provision

[Agenda paper 22B: Costs to include in measuring a provision](#)

**Tentative
decision
(July 2023)**

The expenditure required to settle an obligation comprises the costs that relate directly to settling the obligation; and

The costs that relate directly to settling an obligation consist of *both*:

- the incremental costs of settling the obligation; and
- an allocation of other costs that relate directly to settling obligations of that type

**The expenditure
required to settle an
obligation**

=

The costs that relate directly to settling an obligation

the incremental costs

+

an allocation of other costs

Questions for ASAF members

Questions for ASAF members

- Question 1— Do you have any comments or questions on the tentative decisions or indicative drafting relating to the present obligation recognition criterion (slides 6–13)?
- Question 2— Do you have any comments or questions on the tentative decisions on discount rates (slide 15)?
- Question 3— Do you have any comments or questions on other aspects of the project?

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