
Accounting Standards Advisory Forum meeting

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Project	Provisions—Targeted Improvements
Topic	Discount rates—disclosure requirements
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Accounting Standards Advisory Forum, July 2024, Agenda paper 3D

This paper was discussed at the International Accounting Standards Board's (IASB's) April 2024 meeting as [Agenda Paper 22D](#). Agenda papers referred to in this paper are other agenda papers for the IASB's April 2024 meeting, unless otherwise noted.

Session overview

1. The International Accounting Standards Board (IASB) is developing proposals for targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. In this session, we will ask the IASB to decide:
 - (a) whether to propose requirements for an entity to disclose information about the discount rate or rates it has used in measuring a provision; and
 - (b) if so, what requirements to propose.

3. The staff recommend proposing to require an entity to disclose for each class of provision:
 - (a) the discount rate or rates used in measuring the provision; and
 - (b) the approach used to determine those rates.

Background

Reasons for considering disclosure requirements

4. IAS 37 requires an entity to measure a provision by estimating the future expenditure required to settle the entity's present obligation. IAS 37 requires the entity to discount this future expenditure to its present value if the effect of the time value of money is material.
5. As discussed further in Agenda Paper 22C *Discount rates—application guidance* for this meeting, the IASB has tentatively decided to propose specifying in IAS 37 that the rate an entity uses to discount a provision reflects the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk.
6. The IASB reached this decision after consulting various groups of stakeholders on whether discount rates should reflect non-performance risk. While giving their views on this matter, stakeholders often said that comparability is impaired not only by diversity in rates used, but also by inadequate disclosure. They noted that IAS 37 requires disclosure of less information about discount rates than other IFRS Accounting Standards require. Some stakeholders—including some users of financial statements—suggested that in addition to, or instead of, specifying more precise requirements for determining the discount rate, the IASB strengthen the requirements to disclose information about the rates used.

Existing disclosure requirements

7. IAS 37 contains no requirements for an entity to disclose information about the rate or rates it has used to discount a provision. Accordingly, an entity is required to disclose such information only if management judges disclosure as being necessary to meet overarching requirements of IAS 1 *Presentation of Financial Statements*, for example the requirements to disclose:
- (a) information about the assumptions an entity makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
 - (b) other judgements that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.
 - (c) material accounting policy information. Among the examples given of information that management is likely to view as material is information about accounting policies whose application requires the assumptions or judgements described in bullets (a) and (b).
 - (d) information that is not presented elsewhere in the financial statements, but is relevant to an understanding of any of them.¹

¹ IAS 1 *Presentation of Financial Statements*, paragraphs 112(c), 117, 117B(d), 122 and 125.

8. Several other IFRS Accounting Standards permit or require entities to measure assets or liabilities by estimating the present value of uncertain future cash flows. Unlike IAS 37, those Standards require entities to disclose (among other inputs or assumptions) the discount rates used in estimating the present value of the cash flows. Standards requiring disclosure of the discount rates used include:
- (a) IFRS 2 *Share-based Payment*;
 - (b) IFRS 13 *Fair Value Measurement*;
 - (c) IFRS 14 *Regulatory Deferral Accounts*;
 - (d) IFRS 17 *Insurance Contracts*;
 - (e) IAS 19 *Employee Benefits*; and
 - (f) IAS 36 *Impairment of Assets*.²
9. Of these Standards:
- (a) IFRS 17 also requires an entity to disclose the approach used to determine discount rates³;
 - (b) none has any other requirements relating specifically to the discount rates used; and
 - (c) none requires an entity to disclose the undiscounted cash flows.

² IFRS 2 *Share-based Payment*, paragraph 47(a)(i).
IFRS 13 *Fair Value Measurement*, paragraph 93(d) and Illustrative Example 17.
IFRS 14 *Regulatory Deferral Accounts*, paragraph 33(b).
IFRS 17 *Insurance Contracts*, paragraphs 120.
IAS 19 *Employee Benefits*, paragraph 144.
IAS 36 *Impairment of Assets*, paragraph 134(d)(v).

³ IFRS 17 *Insurance Contracts*, paragraphs 117(c)(iii).

Stakeholder views

10. Because our early meetings with users of financial statements identified concerns about disclosure, we specifically asked stakeholders for views on disclosure when holding later meetings about discount rates. We included questions on disclosure when meeting:
- (a) the IASB's Capital Markets Advisory Committee (CMAC) in October 2022;
 - (b) the IASB's Global Preparers Forum (GPF) in November 2022; and
 - (c) other groups of users and preparers of financial statements.
11. We asked users of financial statements what types of information they would find useful, and preparers of financial statements whether it would be practicable for them to disclose those types of information. The feedback we received is summarised below.

Users of financial statements

12. CMAC members suggested that:
- (a) the basic information provided should include the discount rates used, and a description of the basis used to determine the rates.
 - (b) information about the undiscounted amount and timing of the cash flows assumed in estimating the provision would be particularly useful.
 - (c) additional information is needed if the rates used are not risk-free rates, that is, if the rates are adjusted for other factors, such as non-performance risk. This information might include:
 - (i) the reasons for adjusting the rates, the logic followed in calculating the adjustments, and the effect of the adjustments; and

- (ii) a sensitivity analysis, to allow analysts to adjust the amount of the provision if they want to use rates other than those used by the entity.⁴
- 13. Other users of financial statements we consulted tended to agree with the list of disclosure requirements suggested by CMAC members.

Preparers of financial statements

- 14. The preparers of financial statements expressed a general willingness to disclose the types of information requested by CMAC members. Several of them said that they already disclose much or all of that information, including sensitivity analyses. However:
 - (a) a few preparers queried the value of providing information about an asset decommissioning or environmental rehabilitation provision's sensitivity to discount rates (as opposed to its sensitivity to other assumptions). These preparers said that the assumptions about the amount and timing of the future cash outflows are sources of much greater uncertainty.
 - (b) one preparer expressed concern that providing all the information requested by users could be costly and lead to disclosure overload.

Staff analysis and conclusions

- 15. We think there are strong arguments for requiring an entity to disclose the discount rate or rates it has used in measuring a provision and the approach it has used to determine those rates:

⁴ Page 12 and 13 of [Meeting summary of the CMAC meeting held on 6 October 2022](#)

- (a) even if the IASB amends IAS 37 to specify more precise requirements for determining discount rates (as described in paragraph 5 of this paper), management will need to apply judgement in determining the rate to use—for example, in identifying an appropriate market-based proxy for a risk-free rate and in deciding whether and how to adjust that rate for factors such as differences between the duration of the risk-free investment and that of the obligation. Even in estimating a risk-free rate, there is scope for varying approaches and, especially for large long-term provisions, information about the rates an entity has used and the approach it has used to determine these rates is likely to be material.
 - (b) as explained in paragraph 0 of this paper, other IFRS Accounting Standards that permit or require entities to measure assets or liabilities by discounting estimates of future cash flows require disclosure of the discount rates used. IAS 37 is an outlier in not requiring this information.
 - (c) users of financial statements have described information about the rates used and the basis for determining those rates as the basic information they expect to find in financial statements.
16. We think the IASB should not as part of this project propose to require disclosure of other information suggested by users of financial statements—for example, the amount and timing of the undiscounted cash flows, or sensitivity analyses:
- (a) this project to amend IAS 37 is limited in its scope. Its objectives are to make three targeted improvements, none of which relate to reviewing disclosure requirements. While a strong case can be made for closing an obvious gap in the disclosure requirements in IAS 37, it is beyond the scope of this project to propose disclosure requirements for IAS 37 that are not required by other IFRS Accounting Standards.

- (b) those suggesting more extensive information (as described in paragraph 12) have done so in the context of the existing discount rate requirements in IAS 37, which are at present less precise than those in other IFRS Accounting Standards. If the IASB amends IAS 37 to require entities to determine rates on a more standardised basis that excludes subjective entity-specific adjustments for non-performance risk (as described in paragraph 5), the arguments for more extensive disclosure requirements diminish.
17. The disclosure requirements for provisions are in paragraph 85 of IAS 37. They apply to each class of provision. The IASB could add to this paragraph a requirement to disclose the discount rate or rates used in measuring the provision and the approach used to determine those rates.

Staff recommendations and questions for the IASB

18. The staff recommend proposing to require an entity to disclose for each class of provision:
- (a) the discount rate or rates used in measuring the provision; and
 - (b) the approach used to determine those rates.

Questions for the IASB

1. Do you agree that the proposed amendments to IAS 37 should include a requirement to disclose for each class of provision the rate or rates used in measuring the provision?
2. Do you agree that the proposed amendments to IAS 37 should include a requirement to disclose the approach used to determine those rates?