

IFRS Developments

IASB proposes amendments to requirements for non-financial liabilities

What you need to know

- On 12 November 2024, the IASB published the Exposure Draft *Provisions – Targeted Improvements, Proposed amendments to IAS 37*.
- The proposed amendments are intended to clarify requirements of the 'present obligation' criterion.
- The proposed amendments add guidance on the rate used to discount future expenditure to its present value and costs to include in measuring a provision.
- The *Guidance on implementing IAS 37* would be revised and expanded to reflect the proposed amendments.
- The comment period for the exposure draft closes on 12 March 2025.

Highlights

On 12 November 2024, the International Accounting Standards Board (the IASB) published the Exposure Draft *Provisions – Targeted Improvements, Proposed amendments to IAS 37*. The proposed amendments are in response to stakeholder feedback about challenges in applying certain aspects of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The exposure draft proposes targeted improvements to three aspects of IAS 37:

- The present obligation recognition criterion
- The costs to include in measuring a provision
- The discount rate requirements

In addition, the IASB has proposed amendments to the *Guidance on implementing IAS 37* (Implementation Guidance), new disclosure requirements for discount rates, and proposed consequential amendments to other IFRS accounting standards.

Proposed amendments to the present obligation recognition criterion

The IASB's proposed amendments aim to clarify the requirements for the present obligation criterion, and to change the timing of the recognition of some provisions, in particular, levies.

The IASB has proposed to update the definition of a liability to match the 2018 *Conceptual Framework for Financial Reporting* (Conceptual Framework). The updated wording would replace the current requirement for an obligating event with three distinct conditions: obligation, transfer and past-event. The proposed amendments include separate sections of requirements to support each of the conditions.

The proposed amendments would also replace the requirements in IFRIC 21 *Levies*, which would be withdrawn. The accounting for levies would be aligned with the general requirements for provisions. However, new requirements are proposed for levies when they are triggered only after two or more specific actions (or events) or once a specific threshold is exceeded. Entities would need to recognise a provision after the first action or event if they have no practical ability to avoid the second event.

The proposed amendments would supersede the requirements in IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*, which would be withdrawn.

The proposed amendments would clarify the requirements for restructuring provisions in order to eliminate potentially misleading terminology. Nevertheless, they are not intended to change the outcome of applying the requirements for restructuring provisions.

Proposed amendments to the costs to include in measuring a provision

IAS 37 requires an entity to measure a provision at the best estimate of the expenditure required to settle its present obligation. The IASB proposes to specify that this expenditure comprises the costs that relate directly to the obligation, which include both the incremental costs of settling that obligation and an allocation of other costs that relate directly to settling obligations of that type.

The aim of this proposed amendment is to clarify that an entity considers the same costs in measuring a provision as already required by IAS 37 in determining whether a contract is onerous.

Proposed amendments to the discount rate requirements

The proposed amendments to the discount rate are aimed at reducing diversity in the discount rates entities use when measuring provisions. This would increase the transparency and comparability of the financial statements. The IASB proposes to specify that an entity discounts a provision using a rate that reflects: (i) the time value of money as represented by a risk-free rate; and (ii) the risks in expenditure required to settle the obligation, if not already reflected in expected cash flows. The proposed amendments also clarify that the discount rate does not include non-performance risk. The IASB decided not to propose how an entity determines an appropriate risk-free rate, acknowledging that various approaches might be appropriate. The IASB instead proposes to require an entity to disclose the discount rates it has used and the approach it has used to determine those rates.

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Proposed amendments to the Implementation Guidance

The IASB proposes amendments to the Implementation Guidance by:

- Replacing the diagram summarising the main recognition requirements of the standard with a three-part decision tree that summarises the process to apply the three distinct conditions for recognising a provision, and the consequences of meeting or failing to meet each criterion
- Amending existing examples by expanding the analysis of the conditions within the present obligation recognition criterion
- Adding further examples to illustrate the application of the recognition criteria to fact patterns similar to those in IFRIC 6, IFRIC 21, and the IFRS Interpretations Committee agenda decisions, *Negative Low Emission Vehicle Credits*¹ and *Climate-related Commitments*²

Proposed amendments to other IFRS accounting standards

As a result of the proposals to amend IAS 37, the IASB also proposes to amend other IFRS accounting standards:

- IFRS 3 *Business Combinations* – to remove an exception to the initial recognition principle for liabilities and contingent liabilities within the scope of IAS 37
- Other IFRS standards – amendments to align the wording of the references in those other standards with the amended wording in IAS 37.

Proposed transition requirements

The IASB has proposed that the final amendments are applied retrospectively, i.e., from the beginning of the first annual reporting period for which the entity provides comparative information as if the entity had always applied the amendments. There would be two exceptions to this proposed requirement for: costs included in the measure of a provision; and discount rates.

Next Steps

The comment period ends on 12 March 2025. The IASB will consider comment letters and other feedback from its consultations on the proposals and will then decide whether and, if so, how to amend IAS 37.

How we see it

We support the IASB's efforts to resolve a number of the application issues that arise when recognising a provision. While many of the proposals are intended to clarify the existing requirements, some (e.g., those related to levies) could represent a change. We encourage stakeholders to provide feedback to the IASB on the proposed amendments.

¹ *IFRIC Update*, June 2022, available on the IFRS Foundation's website

² *IFRIC Update*, March 2024, available on the IFRS Foundation's website