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International Accounting Standards Board®

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Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

- Tentative decisions to date
- Contact information

Objective

1. The objective of this project is to revise IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 primarily addresses the accounting for liabilities that are not within the scope of standards.

2. In June 2005, the Board issued an Exposure Draft: *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. Click here for a copy of the exposure draft.

3. The Board's objectives in issuing the exposure draft were:

   (a) to converge the application guidance for accounting for costs associated with restructuring in IAS 37 with the more recent and conceptually superior requirements in SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities.* (As a consequence, the Board made complementary amendments to the termination benefit requirements in IAS 19.)

   (b) to analyse some items currently described as 'contingent assets' and 'contingent liabilities' in terms of assets and liabilities (ie in line with the *Framework*). The initial prompt for reanalysing these items was the reconsideration of the treatment of acquired contingencies in Phase II of the Business Combination project. However, the proposed amendments affect all liabilities previously described as contingent liabilities (and assets previously described as contingent) not just those acquired in a business combination.

4. The main effect of the proposed amendments would be to require an entity to recognise items that meet the definition of a liability (unless they cannot be measured reliably). Uncertainty about the amount or timing of the economic benefits required to settle a liability would be reflected in the measurement of that liability.

Next Steps

5. The redeliberation phase of the project began in February 2006 when the Board approved the staff's provisional project timetable. The timetable gives priority to:

   (a) addressing the scope of the project early in the redeliberation process, and

   (b) tackling the more fundamental issues first.

6. The project plan envisages that redeliberations will continue to until 2008.

7. As part of its due process procedures, and with the objective of learning from an open exchange of views, the Board held five round-table discussions in three locations in November and December 2006. 75+ organisations from 12 different countries took part.

8. The main objective of the discussions was to hear participants' views on the tentative conclusions reached by the Board after its redeliberation of issues associated with the liability recognition and measurement principles proposed in the ED. The discussions provided the Board with an opportunity to further explain the principles underpinning the proposed amendments to IAS 37 and to outline developments in its thinking since the ED was published. The agenda also allowed time to discuss participants' views on other amendments proposed in the ED.

9. The Board will consider the input from all the round-table discussions at its Board meeting in January 2007. The discussions are expected to aid the Board in planning the next steps in this project.

10. Click here for more information about the round-table discussions.

Background

11. Work on the project commenced in 2002, initially as part of its short-term convergence project. The original objective of the project was to eliminate, as far as possible, the differences in the recognition of liabilities for restructuring costs under IFRSs and US GAAP. More specifically, to eliminate the differences between the recognition requirements of (a) paragraphs 70-83 of IAS 37, addressing restructurings, and paragraphs 132-143 of IAS 19, addressing termination benefits, and (b) SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities.*

12. In 2003, the project scope was widened to reconsider the existing accounting model for contingent assets and contingent liabilities. The Board decided that it needed to reconsider the accounting for these items as a result of considering (in its Business Combinations II project) their treatment by an acquirer in a business combination.

13. Specifically, the Board observed that many items that are currently considered to be contingent assets and contingent liabilities in IAS 37 satisfy the definition of an asset or liability in the IASB *Framework* and therefore should be separately recognised as such in a business combination. However, contingent assets and (some) contingent liabilities are currently defined as *possible* assets and liabilities in IAS 37. Hence, by definition, they are not assets and liabilities. Accordingly, in the absence of amendments to the definitions of contingent assets and contingent liabilities in IAS 37, they would fail to qualify for recognition in a business combination under the working principle that the Board had adopted in the business combinations project,

namely that an acquirer recognises the *assets* acquired and *liabilities* assumed at the date control is obtained.

14. As a result of reconsidering items currently described as contingent liabilities, the Board also observed that it would need to reconsider the application of the probability recognition criterion in IAS 37 as well as some of the Standard's measurement requirements.

Exposure Draft

15. In June 2005 the Board issued an exposure draft *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. Click here for a copy of the exposure draft.

16. The comment period for the exposure draft ended on 28 October 2005. Click here to view a summary of the comment letters and copies of the original comment letters received.

17. The redeliberation phase of the project began at the February 2006 Board meeting. At that meeting the Board affirmed the project objectives stated above. It also affirmed its December 2005 conclusion that the project is precedential to other current and potential projects. Therefore, the Board decided that the project should be repositioned as a standalone project, rather than as accompanying the Business Combinations project

Other Related Information

18. On 30 September 2005, the FASB issued an invitation to comment *Selected Issues Relating to Assets and Liabilities with Uncertainties*. Click here for a copy of the invitation to comment. In the invitation to comment, the FASB seeks the views of its constituents on aspects of the IASB's amendments to IAS 37. The FASB comment period closed on 3 January 2006. Click here to view the comments letters received by the FASB. These were discussed by the FASB on 5 April 2006.

Project history: Tentative Decisions to Date

Decisions leading to the exposure draft

19. A summary of the main changes to IASs 37 and 19 proposed in the exposure draft is included in the exposure draft. Click here for a copy of the exposure draft.

Tentative decisions – redeliberations

20. The Board began the redeliberation phase of this project in February 2006. Click here for a comparison of the exposure draft and the current proposals of the Board following redeliberations.

21. The Board's decisions arising from its redeliberations are summarised below and are grouped as follows:

    - Strategy for redeliberations
    - Scope of IAS 37 & project scope
    - Recognition
    - Contingent assets
    - Measurement
    - Constructive obligations
    - Short term convergence amendments
    - Termination benefits
    - Other issues

Strategy for redeliberations

22. In February 2006 the Board discussed its strategy for redeliberating the proposed amendments to IAS 37 and IAS 19.

23. The Board affirmed the project objectives (as stated above) and its decision in December 2005 that this project is precedential to other current and potential projects. Therefore, the Board decided that the project should be repositioned as a standalone project, rather than as accompanying the Business Combinations project.

24. In light of some of the points raised in the comment letters, the Board decided to hold roundtable discussions in the fourth quarter of 2006. Details are provided in the 'Next Steps' section, above.

25. The Board considered the staff's initial analysis of the 123 comment letters received. The Board noted that the staff plans to bring back all of the proposals for redeliberation at future Board meetings. However, the amount of research and analysis they expect to undertake on each issue will vary.

26. The Board also approved the staff's provisional timetable for the redeliberations. The timetable envisages that some of the more fundamental issues will be discussed before the round-table discussions. It also envisages that redeliberations will continue until 2008. Therefore, a final Standard will not be issued in 2006, as the exposure draft had suggested. The Board will discuss the effective date and transitional requirements of the Standard towards the end of the redeliberation process.

Scope of IAS 37 & Project Scope

27. In March 2006 the Board reconsidered the scope of IAS 37 and considered whether to include additional issues in the project.

Scope of IAS 37

28. The Board affirmed the proposal in the IAS 37 Exposure Draft that an entity should apply IAS 37 to all liabilities not within the scope of other Standards. In response to commentators' concerns about the relationship between IAS 18 *Revenue* and IAS 37, the Board decided to modify the proposed scope requirements in the exposure draft to clarify that performance obligation measured in accordance with IAS 18 on the basis of consideration received (ie deferred revenue) would not be within the scope of the Standard.

Withdrawing the term 'provision' and using the term 'non-financial liability'

29. The Board affirmed its decision not to use 'provision' as a defined term in IAS 37. However, rather than using the term 'non-financial liability', as proposed in the exposure draft, the Board decided to use the term 'liability' both as the title and in the text of the Standard

Project scope

30. In light of the suggestions by commentators, the Board considered whether the following additional issues should be included in the project:

- recognition and measurement requirements in IAS 38 *Intangible Assets* (in particular for assets currently described as contingent assets in IAS 37)
- measurement of reimbursement rights
- onerous contracts (except for contracts that become onerous as a result of an entity's own actions)
- application of the IAS 19 post-employment benefit model to early retirement arrangements (such as the German *Altersteilzeit* and similar arrangements)

31. The Board decided measurement of reimbursement rights should be added to the project scope but concluded that addressing the other issues was not necessary in order to meet the project objectives.

32. The Board noted that some commentators had requested further guidance on applying the measurement requirements proposed in the exposure draft. The Board will consider whether to provide additional measurement guidance when it redeliberates the measurement proposals (see below).

Recognition

33. In May, June and July 2006 the Board discussed the following issues associated with the recognition principle proposed in the exposure draft:

(a) the meaning of the phrase ‘expected to’ in the definition of a liability (May);

(b) determining whether an entity has a liability when the existence of a present obligation is uncertain (May, June and July);

(c) stand ready obligations (May);

(d) omitting the probability recognition criterion (June); and

(e) eliminating the term ‘contingent liability’ (July).

The meaning of the phrase ‘expected to’ in the definition of a liability

34. The definition of a liability in the *Framework* includes the phrase ‘expected to result in an outflow from the entity of resources embodying economic benefits’. The Board noted that some respondents to the exposure draft argued that this phrase implies that a particular degree of certainty about the outflow of resources associated with a present obligation is required before the obligation meets the definition of a liability. Hence, some argued that obligations with a remote or low likelihood of future settlement would not meet the definition of a liability.

35. In the light of these comments, the Board decided to clarify that ‘expected to’ is *not* intended to imply that there must be a particular degree of certainty that an outflow of benefits will occur before an item meets the Framework’s definition of a liability. The Board also noted that its view was consistent with the use of the word ‘probable’ in the definition of a liability in the FASB’s Concept Statements.

Determining whether an entity has a liability when the existence of a present obligation is uncertain

36. The Board noted that many respondents argued that the exposure draft provided insufficient guidance on determining whether a liability exists (and hence should be recognised), particularly in cases in which the existence of a present obligation is uncertain. The Board agreed with these respondents and decided to include additional guidance in any final Standard.

37. The Board noted that paragraph 15 of the current IAS 37 specifies a ‘more likely than not’ threshold for determining whether a present obligation exists. However, the Board noted that the question it was trying to address was does a liability exist, rather than is it more likely than not a liability exists? Accordingly, the Board directed the staff to see if it is possible to develop a list of indicators to assist an entity in determining whether a liability exists. The Board acknowledged that a list of indicators alone may not provide sufficient guidance to ensure consistent application.

38. Further consideration of the nature and form of any additional guidance is scheduled for discussion at the April 2007 Board meeting.

39. In June the Board discussed element uncertainty in the context of litigation. In particular, the Board reconsidered the conclusions in Example 1 (disputed lawsuit) and Example 2 (potential lawsuit) in the illustrative examples accompanying the ED.

40. The Board noted respondents’ arguments that the ED provides insufficient guidance on how to address element uncertainty in the context of litigation and that the conclusions in Examples 1 and 2 are contradictory.

41. After reconsidering the conclusions in Examples 1 and 2, the Board concluded that:

- Examples 1 and 2 in the ED are contradictory.
- the conclusion in Example 2 is correct. The likelihood that an external party will detect an entity's violation of the law or breach of contract is not relevant in determining whether the definition of a liability is satisfied (but it would affect the measurement of the liability).
- the conclusion in Example 1 is incorrect. The start of legal proceedings, in itself, does not obligate an entity. Rather, the start of legal proceedings is another piece of evidence that may be relevant when an entity evaluates whether a liability exists.

42. The Board also decided that the illustrative examples accompanying any final Standard should include additional guidance on how to address element uncertainty in the context of litigation (and similar regulatory actions).

43. The Board also considered respondents' concerns that recognising such a liability can prejudice the entity's position in the litigation.

44. The Board concluded that it would not be possible to accommodate concerns about the operation of different legal jurisdictions in one standard. Furthermore, it noted that any such accommodation would compromise the usefulness of information provided in the financial statements. The Board observed that it had proposed retaining the existing prejudicial disclosure exemption (paragraph 92 of IAS 37) and concluded that no further exemptions were required.

Stand ready obligations

45. The exposure draft proposed introducing the notion of a stand ready obligation into IFRSs. The Board noted that many respondents argued that the explanation of a stand ready obligation in the exposure draft is too broad and would lead to the recognition of an almost limitless number of items (including items currently considered to be general business risks, not liabilities).

46. The Board began by confirming that a stand ready obligation must satisfy the *Framework's* definition of a liability. The Board then discussed some examples that the staff had developed to assist in distinguishing a liability from a general business risk.

47. The Board instructed the staff to work with the conceptual framework project team to develop further examples to clarify the exposure draft's explanation of a stand ready obligation and to distinguish between a stand ready obligation and a general business risk.

48. Further discussion scheduled at the March 2007 Board meeting.

Omitting the probability recognition criterion

49. The Board noted that many respondents to the ED disagreed with the proposal to omit the probability recognition criterion from IAS 37. In particular, respondents noted that the criterion is derived from the *Framework* and hence viewed its omission as being inconsistent with the *Framework*.

50. In reconsidering this proposal, the Board noted the following points:

- The *Framework* does not explain what recognition threshold is meant by 'probable': the 'more likely than not' threshold exists only in standards-level guidance. Furthermore, a 'more likely than not' threshold in the Framework would result in the flawed conclusion that a performance obligation arising from a guarantee, a warranty or an insurance contract should not be recognised until it is probable that a claim will arise.

- The probability recognition criterion as articulated in the *Framework* and IAS 37 is not related to determining whether a liability exists. The Board acknowledged that probability may have a role when it is uncertain whether a liability exists (ie in resolving element uncertainty). However, that role would be similar to paragraph 15 of IAS 37 (ie is it probable that a liability exists?) rather than paragraph 14(b).

- Liabilities are identified using the liability definition. Once a liability has been identified, the probability recognition criterion in IAS 37 would in almost all cases not be a determinant for recognition, because some outflow of resources would be probable.

- A probability recognition criterion is inconsistent with the measurement requirements proposed in the ED (and, indeed, is largely inconsistent with the measurement requirements of IAS 37). This is because the ED proposed that the measurement of a liability should incorporate all possible outcomes, regardless of whether they are more likely than not. If a liability exists and it can be measured reliably, the effect of the probability recognition criterion is to delay the inclusion of decision-useful information in the balance sheet. The Board acknowledged that measurement uncertainty may preclude recognition and, in due course, it will consider whether additional guidance about measurement uncertainty is required.

51. The Board noted that its final conclusions about the probability recognition criterion would depend on affirming the measurement proposals and its continuing work on element uncertainty. However, the Board directed the staff to proceed on the basis that the revised IAS 37 should not include a probability recognition criterion.

Eliminating the term 'contingent liability'

52. The exposure draft clarifies that only present obligations (not possible obligations) give rise to liabilities. To emphasise this point, the exposure draft proposes eliminating the term 'contingent liability'.

53. The Board noted that some respondents disagreed with the proposal, arguing that the term 'contingent liability' is well understood and consistently applied in practice. But other respondents agreed with the Board's earlier analysis of issues associated with the term, as explained in the exposure draft. Namely that:

- The current definition of a 'contingent liability' is confusing because it is used to describe two distinct notions: an unrecognised present obligation and a possible obligation.

- Describing a present obligation as a contingent liability is contradictory.

- It is misleading to describe possible obligations as liabilities, even with the modifier 'contingent'. This is because the Framework states that the existence of a present obligation is an essential characteristic of a liability.

54. Additionally, the Board noted that the term creates tension between IAS 37 and other standards that address liabilities. Items that are deemed to be liabilities in other standards (and recognised as such) would be described as contingent liabilities (and therefore not recognised) following the guidance in IAS 37. Therefore, the Board affirmed its proposal to eliminate the term 'contingent liability'.

55. The Board also considered respondents' concerns that eliminating the term 'contingent liability' would result in a loss of disclosure about items that do not meet the definition of a liability at the balance sheet date.

56. The Board observed that the current disclosure requirements for contingent liabilities that are possible obligations are narrower than suggested by some respondents. This is because they capture only possible obligations existing at the balance sheet date, rather than all business risks.

57. The Board discussed the possibility of developing a disclosure principle that would allow users to evaluate an entity's determination of whether a liability exists in cases in which there is uncertainty about that determination. The Board, however, was concerned that such a principle would be impracticable. Therefore, the Board directed the staff to explore more specific disclosure requirements, for example to capture asserted legal claims for which the entity concludes that it has no present obligation. Further discussion scheduled at the September 2007 Board meeting.

Contingent assets (including reimbursement rights)

58. Scheduled for discussion at the October 2007 Board meeting.

Measurement

59. In September and October 2006 the Board began its redeliberating issues associated with the measurement principle proposed in the exposure draft. The proposed measurement principle would require an entity to measure a liability at the amount that it would rationally pay to settle the obligation or to transfer it to a third party at the balance sheet date

Scope of the proposed amendments

60. The exposure draft explains that the Board previously decided to limit the scope of its amendments to clarifying the existing IAS 37 measurement principle and aspects of the accompanying guidance. Therefore, the exposure draft emphasises that the IAS 37 measurement principle is based on a current settlement notion—ie the amount to settle or transfer a present obligation *on the balance sheet date*.

61. However, the Board noted that many respondents to the exposure draft do not share its understanding. Rather, they understand the IAS 37 measurement principle to be an ultimate settlement notion—ie the amount estimated to be required to extinguish the obligation *in the future*. Consequently those respondents regarded the amendments proposed in the exposure draft as more significant than the Board intended.

62. In the light of these comments, the Board began its redeliberations by affirming its understanding that the existing IAS 37 measurement principle is based on a current settlement notion and therefore its decision to limit the scope of amendments to the measurement principle in this project In reaching this conclusion, the Board

acknowledged that the wording of the existing IAS 37 measurement principle and accompanying guidance was not always clear. In particular the Board noted that the term 'best estimate' might be read to imply that a single point estimate rather than an expected cash flow approach could be used to measure a liability within the scope of IAS 37.

Further clarification

63. The Board noted respondents' concerns that the proposed measurement principle (i) would permit a choice; (ii) did not provide useful information about liabilities within the scope of IAS 37; and (iii) could not be applied in practice (even if the conceptual merits of a current settlement notion were accepted).

Choice

64. The Board noted that some respondents perceive that the proposed measurement principle permits choice. This is because the principle includes two phrases—'amount to settle' and 'amount to transfer'. The Board did not believe that more than one measurement attribute was intended. Consequently, the Board expressed a preference for removing one phrase.

65. The Board debated the relative merits of the two phrases. It noted that 'amount to settle' is broader than 'amount to transfer' and may be interpreted in different ways. Moreover, the counterparty might demand more than the rational economic value of a liability to 'settle' the liability on the balance sheet date. However, the Board was concerned that using 'amount to transfer' might imply that it was specifying fair value as the IAS 37 measurement objective—a decision that is beyond the scope of the project. The Board did not reach a conclusion on this issue.

66. The Board directed the staff to develop an example illustrating how an entity would measure a liability using the following draft guidelines:

   a. The proposed measurement principle is 'the amount an entity would rationally pay to settle an obligation on the balance sheet date'—a current settlement notion. An entity may settle a liability on the balance sheet date in one of two ways: paying the counterparty to release the entity from its obligation or paying a third party to assume its obligation.

   b. An entity should give precedence to market information when available. In the absence of market information, entity-specific information is consistent with the measurement principle provided there is no indication it is inconsistent with information the market would use.

67. Further discussion scheduled at the June and July 2007 Board meetings.

Useful information

68. The Board tentatively decided that the Basis for Conclusions accompanying any final Standard should include an explanation of how a measurement principle based on a current settlement notion provides useful information about liabilities within the scope of IAS 37. In particular, the Board noted that:

- many respondents equate 'reliability' with how close an entity's estimate was to the actual cash flow required to settle an obligation. However, a difference between an entity's estimate and the actual cash flow required to settle an obligation normally does not mean that an entity's estimate was 'wrong'.

- the subjectivity required to measure a liability based on a current settlement notion is no greater than the subjectivity required to measure a liability based on an ultimate settlement notion.

69. The Board also directed the staff (i) to include issues associated with the probability recognition criterion (currently in IAS 37) in any explanation; and (ii) to consider the extent of disclosure needed to assist users to understand liabilities measured using more uncertain estimates.

Application

70. The Board tentatively decided that any final Standard should include more guidance on how to apply a measurement principle based on a current settlement notion than is presently in IAS 37.

71. The Board then discussed how to balance its tentative decision to limit the scope of amendments to the existing IAS 37 measurement principle and guidance in this project with the need to provide more guidance on how to apply the measurement principle. The Board directed the staff to focus on clarifying the measurement guidance in the exposure draft and explaining the attributes of the information required to estimate a liability on the basis of a current settlement notion.

72. Further discussion scheduled at the June and July 2007 Board meetings.

Constructive obligations

73. Scheduled for discussion at the November 2007 Board meeting.

Short term convergence amendments

74. Scheduled for discussion at the November and December 2007 Board meetings.

Termination benefits (IAS 19)

75. Scheduled for discussion at the December 2007 Board meeting.

Other issues

50. Scheduled for discussion at the February and March 2008 Board meetings. In accordance with the IASB Due Process Handbook these meetings will include a discussion of the cost-benefit analysis of the proposed amendments and the need to undertake field tests.

Meeting chronology

76. The main topics discussed at each of the Board meetings at which the project has been discussed are listed in the table below. Click here to view the decision summaries and the observer notes for each meeting.

Meeting	**Main topics discussed**
Redeliberations	
Oct 2006	Does the proposed measurement principle permit choice?
Sep 2006	Approach to redeliberating the issues associated with the measurement principle proposed in the ED Scope of the proposed amendments to the IAS 37 measurement principle Reconsidering the existing IAS 37 measurement principle Will the proposed measurement principle provide useful information about liabilities within the scope of IAS 37? Is more guidance on the IAS 37 measurement principle required?
Jul 2006	Eliminating the term ‘contingent liability’ Can recognition of a liability prejudice the outcome of legal proceedings Project planning update
Jun 2006	Reconsidering the probability recognition criterion Revisiting lawsuits
May 2006	Approach to redeliberating the issues associated with the recognition principle proposed in the exposure draft The meaning of the phrase “expected to” in the definition of a liability Determining whether an entity has a liability when the existence of a present obligation in uncertain Stand ready obligations
Mar 2006	Scope of IAS 37 Whether to include additional issues in the project scope
Feb 2006	Affirmation of the project objectives Initial staff analysis of the comment letters Provisional project timetable for the redeliberations
Deliberations leading to the exposure draft	
May 2005	Withdrawing the terms provision, contingent asset and contingent liability from IAS 37 Scope of IAS 37 Transition and first-time adoption
Dec 2004	Measurement of termination benefits
Nov 2004	Confirming the scope of the project and the style of the exposure draft
Oct 2004	Reconsidering the requirements for constructive obligations and aspects of the measurement guidance
Sep 2004	Application of the probability recognition criterion in IAS 37
May 2004	Recap of decisions to date

Apr 2004	Recognition of items currently labelled contingent liabilities in a business combination
Mar 2004	Recognition of items currently labelled contingent assets and contingent liabilities
Oct 2003	Recognition of items currently labelled contingent assets in a business combination
Sep 2003	Discussion of the terms contingent assets and contingent liabilities
May 2003	Reconsidering the requirements in IAS 37 for onerous contracts, constructive obligations and aspects of the measurement guidance Consideration of a proposal to withdraw the terms contingent assets and contingent liabilities
Feb 2003	Converging the requirements for termination benefits in IAS 19 and US GAAP
Dec 2002	Initial consideration of proposal to converge the requirements of IASs 37 and 19 with SFAS 146

Contact information

77. Staff contacts:

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APPENDIX A: A comparison of the exposure draft and the current proposals of the Board following redeliberations

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
[Draft] International Accounting Standard 37 **NON-FINANCIAL LIABILITIES**	The title of any final Standard will be 'Liabilities' rather than 'Non-financial Liabilities' (March 2006).
Objective	
1 The objective of this [draft] Standard is to establish principles for recognising, measuring and disclosing non-financial liabilities. Those principles require an entity to recognise a non-financial liability unless it cannot be measured reliably. Uncertainty about the amount or timing of the economic benefits that will be required to settle a non-financial liability is reflected in the measurement of that liability. The principles also require an entity to disclose sufficient information to enable users of the financial statements to understand the amount and nature of an entity's non-financial liabilities and the uncertainty relating to the future outflows of economic benefits that will be required to settle them.	Objectives affirmed (February 2006).
Scope	
2 An entity shall apply this [draft] Standard in accounting for all non-financial liabilities, except:	Affirmed that an entity should apply IAS 37 to all liabilities not within the scope of other Standards (March 2006).

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
(a) those resulting from executory contracts, unless the contract is onerous; and **(b) those within the scope of another Standard.**	The text of any final Standard will refer to 'liabilities' rather than 'non-financial Liabilities' (March 2006). This amendment will apply throughout the remaining text of the exposure draft (but has not been noted for the purposes of this appendix)
3 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.	
4 When a specific type of non-financial liability is within the scope of another Standard, an entity applies that Standard instead of this [draft] Standard. For example, some types of non-financial liabilities are within the scope of Standards on: (a) construction contracts (see IAS 11 *Construction Contracts*). (b) income taxes (see IAS 12 *Income Taxes*). (c) employee benefits (see IAS 19 *Employee Benefits*). (d) insurance contracts (see IFRS 4 *Insurance Contracts*). However, this [draft] Standard applies to non-financial liabilities of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of IFRS 4.	An additional scope exclusion for financial liabilities as defined by IAS 32 *Financial Instruments: Presentation* will be included following the decision to change the title of any final Standard to 'Liabilities' (March 2006).
5 An entity shall apply this [draft] Standard to the following	

EXPOSURE DRAFT		CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	contractual obligations only if they are onerous: **(a) obligations under operating leases to which IAS 17 *Leases* applies; and** **(b) loan commitments excluded from the scope of IAS 39 *Financial Instruments: Recognition and Measurement*.**	
6	Because IAS 17 contains no specific requirements for operating leases that are onerous, this [draft] Standard applies to such leases. Similarly, because IAS 39 excludes some loan commitments from its scope, this [draft] Standard applies to such loan commitments if they are onerous.	
7	Some amounts treated as non-financial liabilities may relate to the recognition of revenue, for example when an entity issues a product warranty in exchange for a fee. This [draft] Standard does not address the recognition of revenue. IAS 18 *Revenue* identifies the circumstances in which revenue is recognised and provides guidance on the application of the recognition criteria. This [draft] Standard does not change the requirements of IAS 18.	In response to commentators' concerns about the relationship between IAS 18 *Revenue* and IAS 37, the text will be modified to clarify that performance obligation measured in accordance with IAS 18 on the basis of consideration received (ie deferred revenue) will not be within the scope of any final Standard (March 2006).
8	Other Standards specify whether the corresponding amount recognised for a non-financial liability is included as part of the cost of an asset or recognised as an expense. This issue is not addressed in	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
this [draft] Standard.	
9 In some jurisdictions, some classes of liabilities are described as provisions, for example those liabilities that can be measured only by using a substantial degree of estimation. Although this [draft] Standard does not use the term 'provision', it does not prescribe how entities should describe their non-financial liabilities. Therefore, entities may describe some classes of non-financial liabilities as provisions in their financial statements.	Affirmed that 'provision' will not be a defined term in IAS 37 (March 2006).
Definitions	
10 The following terms are used in this [draft] Standard with the meanings specified: **A *constructive obligation* is a present obligation that arises from an entity's past actions when:** **(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and** **(b) as a result, the entity has created a valid expectation in those parties that they can reasonably rely on it to discharge those responsibilities.** **A *legal obligation* is a present obligation that arises from the following:**	The term 'non-financial liability' will be withdrawn and replaced with 'liability' (March 2006). Affirmed the proposal to eliminate the term 'contingent liability' (July 2006).

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
(a) a contract (through its explicit or implicit terms); **(b) legislation; or** **(c) other operation of law.** **A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.** **A *non-financial liability* is a liability other than a financial liability as defined in IAS 32 *Financial Instruments: Disclosure and Presentation*.** **A contract is *onerous* when the unavoidable costs of meeting its obligations exceed its expected economic benefits.**	
Recognition	
11 **An entity shall recognise a non-financial liability when:** **(a) the definition of a liability has been satisfied, and** **(b) the non-financial liability can be measured reliably.**	Subject to redeliberating the ED's measurement requirements, the Board affirmed its previous conclusion that the probability recognition criterion should be omitted from IAS 37 (June 2006)
Satisfying the definition of a liability	
12 Items are recognised as non-financial liabilities in accordance with this [draft] Standard only if they satisfy the definition of a liability in the	The definition of a liability in the *Framework* includes the phrase 'expected to

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
Framework.	result in an outflow from the entity of resources embodying economic benefits'. Some respondents to the exposure draft argued that this phrase implies that a particular degree of certainty about the outflow of resources associated with a present obligation is required before the obligation meets the definition of a liability. Hence, some argued that obligations with a remote or low likelihood of future settlement would not meet the definition of a liability. The Board clarified that 'expected to' is *not* intended to imply that there must be a particular degree of certainty that an outflow of benefits will occur before an item meets the Framework's definition of a liability. The Board also noted that its view was consistent with the use of the word 'probable' in the definition of a liability in the FASB's Concept Statements (May 2006).
13 An essential characteristic of a liability is that the entity has a present obligation arising from a past event. For a past event to give rise to a present obligation, the entity must have little, if any, discretion to avoid settling it. A past event that creates a present obligation is sometimes referred to as an obligating event.	
14 Because most liabilities arise from legal obligations, settlement can be enforced by a court. Some liabilities arise from constructive obligations, in which the obligation is created by, or inferred from, an entity's past actions rather than arising from an explicit agreement with another party or from legislation. In some jurisdictions, constructive obligations may also be enforced by a court, for example	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
in accordance with the legal principle known in the United States as promissory estoppel or principles having the same effects under other legal systems.	
15 In the absence of legal enforceability, particular care is required in determining whether an entity has a present obligation that it has little, if any, discretion to avoid settling. In the case of a constructive obligation, this will be the case only if: (a) the entity has indicated to other parties that it will accept particular responsibilities; (b) the other parties can reasonably expect the entity to perform those responsibilities; and (c) the other parties will either benefit from the entity's performance or suffer harm from its non-performance.	
16 In determining whether a liability exists at the balance sheet date, an entity takes into account all available evidence, for example the opinion of experts. The evidence considered includes any additional information provided by events after the balance sheet date, but only to the extent that the information provides evidence of circumstances that existed at the balance sheet date.	The Board decided to include additional guidance on determining whether a liability exists (and hence should be recognised), particularly in cases in which the existence of a present obligation is uncertain (May 2006). The staff are currently considering if it is possible to develop a list of indicators to assist an entity in determining whether a liability exists. The Board acknowledged that a list of indicators alone may not provide sufficient guidance to ensure consistent application (May 2006).

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
17 Only present obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) result in liabilities. For example, an entity has a liability for its obligation to decommission an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. Regardless of its future actions, the entity has little, if any, discretion to avoid settling that obligation.	
18 An intention to incur an outflow of economic resources embodying economic benefits in the future is not sufficient to give rise to a liability, even if the outflow is necessary for the continuation of the entity's future operations. For example, because of commercial pressures or legal requirements, an entity may intend or need to incur expenditure to operate in a particular way in the future (for example, by installing smoke filters in a particular type of factory). Because the entity has the discretion to avoid the future expenditure by its future actions, for example by changing its operations, it has no present obligation for that future expenditure and a liability does not exist.	
19 A present obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the specific party to whom the obligation is owed—indeed, the obligation may be to the public at large. Because a liability always involves an obligation to another party, it follows that a decision by the management of an entity does not normally give rise to a present obligation at the balance sheet date. A present obligation arises only	

EXPOSURE DRAFT		CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	if the decision has been communicated before the balance sheet date to those it affects in a sufficiently specific manner to raise a valid expectation in them that they can reasonably rely on the entity to perform.	
20	An event that does not give rise to a present obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no present obligation to remedy the consequences. However, a present obligation arises if a new law requires the existing damage to be rectified or if the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.	
21	When a new law is proposed, a present obligation under the operation of that law arises only when the law is substantively enacted, which is when the remaining steps in the enactment process will not change the outcome. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make legislation substantively enacted in all jurisdictions. In some cases, substantive enactment does not occur until the legislation is actually enacted.	
Contingencies		

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
22 In some cases, an entity has a liability even though the amount that will be required to settle that liability is contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. In such cases, an entity has incurred two obligations as a result of a past event—an unconditional obligation and a conditional obligation.	
23 When the amount that will be required to settle a liability is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability arising from the unconditional obligation is recognised independently of the probability that the uncertain future event(s) will occur (or fail to occur). Uncertainty about the future event(s) is reflected in the measurement of the liability recognised.	
24 Liabilities for which the amount that will be required in settlement is contingent on the occurrence or non-occurrence of a future event are sometimes referred to as 'stand ready' obligations. This is because the entity has an unconditional obligation to stand ready to fulfil the conditional obligation *if* the uncertain future event occurs (or fails to occur). The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits.	Confirmed that a stand ready obligation must satisfy the *Framework's* definition of a liability (May 2006).
25 An example of a stand ready obligation is a product warranty. The issuer of a product warranty has an unconditional obligation to stand	The staff are currently working with the conceptual framework project team to develop further examples to clarify the exposure draft's explanation of a

EXPOSURE DRAFT		**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
	ready to repair or replace the product (or, expressed another way, to provide warranty coverage over the term of the warranty) and a conditional obligation to repair or replace the product if it develops a fault. The issuer recognises its liability arising from its unconditional obligation to provide warranty coverage. Uncertainty about whether the product will require repair or replacement (ie the conditional obligation) is reflected in the measurement of the liability.	stand ready obligation and to distinguish between a stand ready obligation and a general business risk (May 2006).
26	Similarly, an entity that is involved in defending a lawsuit recognises the liability arising from its unconditional obligation to stand ready to perform as the court directs. Uncertainty about the possible penalties the court may impose (ie the conditional obligation) is reflected in the measurement of the liability.	The start of legal proceedings by itself does *not* obligate an entity. Rather, the start of legal proceedings in another piece of evidence that may be relevant when determining whether a liability exists (June 2006). This conclusion will also result in an amendment to the conclusion in Example 1 in the illustrative examples accompanying the ED. The Board also agreed that the illustrative examples accompanying any final Standard need to include additional guidance on how to determine whether an entity has a liability when the existence of a present obligation is uncertain.
Reliable measurement		
27	In many cases, the amount of a non-financial liability must be estimated. The use of estimates is an essential part of the preparation of financial statements and does not of itself undermine the reliability of the statements. Except in extremely rare cases, an entity will be able to determine a reliable measure of a liability.	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
28 In the extremely rare case in which an entity cannot measure reliably a non-financial liability, the liability does not qualify for recognition in accordance with this [draft] Standard. In such cases, the entity discloses information about the non-financial liability in accordance with paragraph 69. The non-financial liability is recognised initially in the period in which it can be measured reliably.	
Measurement	
Amount that an entity would rationally pay to settle or transfer the obligation	
29 An entity shall measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date.	The Board affirmed its understanding that the both IAS 37 measurement principle and the proposed measurement principle are based on a current settlement notion – ie the amount an entity would pay to settle or transfer a liability *on the balance sheet date*, not in the future. (September 2006) The Board expressed a preference for removing either 'amount to settle' or 'amount to transfer' from the measurement principle. The Board debated the relative merits of the two phrases but did not reach a conclusion on this issue. (October 2006)
30 In some cases, contractual or other market evidence can be used to determine the amount that would be required to settle or transfer the obligation on the balance sheet date. However, in many cases, observable market evidence of the amount that the entity would rationally pay to settle the obligation or to transfer it to a third party will	The Board agreed that an explanation of how a measurement principle based on a current settlement notion provides useful information about liabilities within the scope of IAS 37. (September 2006)

EXPOSURE DRAFT		CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	not exist and the amount must be estimated.	
31	The basis of estimating many non-financial liabilities will be an expected cash flow approach, in which multiple cash flow scenarios that reflect the range of possible outcomes are weighted by their associated probabilities. An expected cash flow approach is an appropriate basis for measuring both liabilities for a class of similar obligations and liabilities for single obligations. This is because it is likely to be the basis of the amount that an entity would rationally pay to settle the obligation(s) or to transfer the obligation(s) to a third party on the balance sheet date. In contrast, a liability for a single obligation measured at its most likely outcome would not necessarily represent the amount that the entity would rationally pay to settle or to transfer the obligation on the balance sheet date.	The Board tentatively decided that any final Standard should include more guidance on how to apply a measurement principle based on a current settlement notion than is presently in provided in the exposure draft. (September 2006)
32	The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience with similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional information provided by events after the balance sheet date, but only to the extent that the information relates to the obligation existing at the balance sheet date.	The Board tentatively agreed that an entity should give precedence to market information when available. In the absence of market information, entity-specific information is consistent with the measurement principle provided there is no indication it is inconsistent with information the market would use. (October 2006)
33	When an entity is estimating the amount of a non-financial liability that is contingent on the occurrence (or non-occurrence) of one or more	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
uncertain future events, the measurement of the liability reflects the uncertainty about the future event(s). For example, in estimating a liability for a product warranty obligation, an entity considers the likelihood of claims under the warranty occurring and the amount and timing of the cash flows that would be required to meet those claims.	
34 The non-financial liability is measured before tax, because the tax consequences of the liability, and changes in it, are accounted for in accordance with IAS 12.	
Risks and uncertainties	
35 In measuring a non-financial liability in accordance with paragraph 29, an entity shall include the effects of risks and uncertainties.	
36 Risk describes variability of outcome. A risk adjustment typically increases the amount at which a liability is measured relative to a measurement that does not include a risk adjustment, all other things being equal. This is because it reflects the price that entities demand for the uncertainties and unforeseeable circumstances inherent in the liability. Caution is needed in making judgements under conditions of uncertainty, so that liabilities are not understated. However, uncertainty does not justify deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are	

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estimated at the high end of the range of those reasonably expected, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a non-financial liability.	
37 The uncertainties about the amount or timing of the outflow of economic benefits are disclosed in accordance with paragraph 68(c).	
Present value	
38 When an entity measures a non-financial liability using an estimation method that involves projections of future cash flows, it shall discount the cash flows using a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.	
39 Because of the time value of money, estimated cash outflows that arise soon after the balance sheet date are more onerous than those of the same amount that arise later. Therefore, cash flows are discounted.	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
40 When an entity reflects the effects of risks and uncertainties by adjusting the discount rate rather than by adjusting the estimated cash flows, the resulting discount rate is typically lower than a risk-free rate.	
Future events	
41 When measuring a non-financial liability, an entity shall reflect the effects of future events that may affect the amount that will be required to settle the obligation.	
42 Only the effects of future events that may affect the amount that will be required to settle an obligation without changing the nature of the obligation are reflected in the measurement of a non-financial liability. For example, an entity's past experience may indicate that the cost of cleaning up a site at the end of its life may be reduced by future changes in technology. Accordingly, when measuring the liability, the entity reflects an assessment of both the assumed effects of the future technology on the cost of cleaning up the site and the likelihood that such technology will be available. In contrast, the effects of future events that create new obligations (or change or discharge existing obligations) are not reflected in the measurement of a liability. For example, the effects of possible new legislation are not reflected in the measurement of a liability because they create or change the	

EXPOSURE DRAFT		CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	obligation itself.	
Subsequent measurement		
43	**An entity shall review the carrying amount of a non-financial liability at each balance sheet date and adjust it to reflect the current amount that the entity would rationally pay to settle the present obligation or to transfer it to a third party on that date.**	
44	An entity subsequently remeasures a non-financial liability in accordance with paragraphs 30-42. Therefore, remeasurement reflects any changes in: (a) the expected amount and timing of the economic benefits that will be required to settle the obligation; (b) the risks and uncertainties surrounding the obligation; and (c) the discount rate used to measure the liability.	
45	Changes in the carrying amount of a non-financial liability resulting from the passage of time are recognised as a borrowing cost.	

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Reimbursements		
46	**When an entity has a right to be reimbursed by a third party for some or all of the economic benefits that will be required to settle a non-financial liability, it recognises the reimbursement right as an asset if the reimbursement right can be measured reliably. The amount recognised for the reimbursement right shall not exceed the amount of the non-financial liability.**	The Board decided that the final Standard should also include measurement guidance for reimbursement rights (March 2006).
47	Sometimes, an entity has a right to look to another party to provide part or all of the economic benefits that will be required to settle a non-financial liability (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the entity or settle the amounts directly. Although the reimbursement itself is a conditional right, the unconditional right to receive reimbursement satisfies the definition of an asset and is recognised if it can be measured reliably.	
48	**An entity shall not offset against the non-financial liability the amount recognised for the reimbursement right.**	
49	Because the reimbursement is receivable from a third party, there would not be a legally enforceable right of set-off and, therefore, the	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
non-financial liability and the reimbursement right are recognised separately. However, if the entity will not be liable for the amounts required to settle the obligation if the third party fails to pay, the entity has no liability for these amounts and they are not reflected in the measurement of the liability.	
50 In the income statement, the expense relating to a non-financial liability may be presented net of the income resulting from the reimbursement right.	
Derecognition	
51 An entity shall derecognise a non-financial liability when the obligation is settled, is cancelled or expires.	
Application of the recognition and measurement requirements	
Future operating losses	
52 An entity shall not recognise a liability for future operating losses.	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
53 Future operating losses do not satisfy the definition of a liability because there is no present obligation arising from a past event.	
54 An expectation by the entity of future operating losses is an indication that some assets of the entity may be impaired or that some of its contracts may be onerous. An entity tests these assets for impairment in accordance with IAS 36 *Impairment of Assets* and accounts for its onerous contracts in accordance with paragraphs 55-59.	
Onerous contracts	
55 If an entity has a contract that is onerous, it shall recognise as a liability the present obligation under the contract. If the contract will become onerous as a result of the entity's own actions, the entity shall not recognise the liability until it has taken the action.	
56 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party and, therefore, there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. If events or circumstances make such a contract onerous, the contract is within the scope of this [draft] Standard and a liability exists that is	

EXPOSURE DRAFT		CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	recognised. Executory contracts that are not onerous are outside the scope of this [draft] Standard.	
57	In some cases, contracts become onerous as a result of events outside the entity's control. For example, a contract that requires an entity to make specified payments regardless of whether it takes delivery of contracted products or services may become onerous if the market price of the products or services declines below the contracted price. In other cases, the event that makes the contract onerous is an action of the entity. In such cases, the liability for the onerous contract is not recognised until the entity has taken the action. For example, a contract may become onerous because the entity ceases to use the right conveyed by that contract, but continues to incur costs for its obligations under the contract. Therefore, in this example the entity does not recognise a liability until it ceases using the right conveyed by the contract.	
58	A contract is onerous when the unavoidable costs of meeting its obligations exceed its expected economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. If the contract is an operating lease, the entity determines the unavoidable cost by reference to the remaining lease rentals payable, reduced by estimated sublease rentals that could be reasonably obtained for the property, even if the entity does not intend to enter into a sublease.	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
59 Before an entity recognises a liability for an onerous contract, it recognises any impairment loss that has occurred on assets related to that contract (see IAS 36).	
Restructurings	
60 The following are examples of events that are typically described as a restructuring: (a) sale or termination of a line of business; (b) closure of business locations in a country or region or relocation of business activities from one country or region to another; (c) changes in management structure, for example, eliminating a layer of management; and (d) reorganisations that affect the nature and focus of the entity's operations.	
61 An entity shall recognise a non-financial liability for a cost associated with a restructuring only when the definition of a liability has been satisfied.	
62 A liability involves a present obligation to others that leaves the entity with little, if any, discretion to avoid settling the obligation. A decision	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
by the management of an entity to undertake a restructuring does not create a present obligation to others for costs expected to be incurred during the restructuring. Accordingly, a decision by the management of an entity to undertake a restructuring is not the requisite past event for the recognition of a liability. A cost associated with a restructuring is recognised as a liability on the same basis as if that cost arose independently of the restructuring. Paragraphs 63-65 provide additional guidance for applying the definition of a liability to specified costs that are often associated with a restructuring.	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
Termination benefits 63 An entity shall apply the requirements in paragraphs 132-147 of [draft] IAS 19 to benefits that are provided in connection with the termination of an employee's employment.	
Contract termination costs 64 An entity shall apply the requirements in paragraphs 55-59 to costs to terminate a contract before the end of its term and to costs that will continue to be incurred under a contract for its remaining term without equivalent economic benefit to the entity. Accordingly, a liability for costs to terminate a contract that was not previously determined to be an onerous contract before the end of its term shall be recognised when the entity terminates the contract in accordance with the contract terms. For example, termination would occur when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty. Similarly, a liability for costs that will continue to be incurred under a contract that was not previously determined to be onerous for its remaining term without economic benefit to the entity shall be recognised when the entity ceases using the right conveyed by the contract. For example, any additional liability for payments to be made under an operating lease for a factory that will no longer be	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
used is recognised when the entity ceases to use the leased factory.	
Other associated costs 65 Other costs associated with a restructuring include, but are not limited to, such costs as: (a) retraining or relocating continuing staff; (b) consolidating or closing facilities; or (c) investing in new systems and distribution networks. An entity shall recognise liabilities for such costs when the liability is incurred (generally, when goods or services associated with the activity are received).	
66 If an entity starts to implement a restructuring plan or announces its main features after the balance sheet date, disclosure is required in accordance with IAS 10 *Events after the Balance Sheet Date*.	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
Disclosure	
67 For each class of recognised non-financial liability, an entity shall disclose the carrying amount of the liability at the period-end together with a description of the nature of the obligation.	
68 For any class of recognised non-financial liability with estimation uncertainty, an entity shall also disclose: **(a) a reconciliation of the carrying amounts at the beginning and end of the period showing:** **(i) liabilities incurred;** **(ii) liabilities derecognised;** **(iii) changes in the discounted amount resulting from the passage of time and the effect of any change in the discount rate; and** **(iv) other adjustments to the amount of the liability (eg revisions in estimated cash flows that will be required to settle it).** **(b) the expected timing of any resulting outflows of economic benefits.** **(c) an indication of the uncertainties about the amount or timing of those outflows. If necessary to provide adequate information, an entity shall disclose the major assumptions**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
made about future events, as described in paragraph 41. **(d) the amount of any right to reimbursement, stating the amount of any asset that has been recognised for that right.**	
69 **If a non-financial liability is not recognised because it cannot be measured reliably, an entity shall disclose that fact together with:** **(a) a description of the nature of the obligation;** **(b) an explanation of why it cannot be measured reliably;** **(c) an indication of the uncertainties relating to the amount or timing of any outflow of economic benefits; and** **(d) the existence of any right to reimbursement.**	The Board discussed the possibility of developing a disclosure principle that would allow users to evaluate an entity's determination of whether a liability exists in cases in which there is uncertainty about that determination. The Board, however, was concerned that such a principle would be impracticable. Therefore, the Board directed the staff to explore more specific disclosure requirements, for example to capture asserted legal claims for which the entity concludes that it has no present obligation. (July 2006)
70 In determining which non-financial liabilities may be aggregated to form a class, an entity considers whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 67-69. Thus, it may be appropriate to treat as a single class of non-financial liabilities amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts subject to legal proceedings.	

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71 **In extremely rare cases, disclosure of some or all of the information required by paragraphs 68 and 69 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the non-financial liability. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**	The Board considered whether recognition of a liability may prejudice the outcome of legal proceedings. The Board observed that it had proposed retaining the existing prejudicial disclosure exemption (paragraph 92 of IAS 37) and concluded that no further exemptions are required. (July 2006)
Transition and effective date	
72 **An entity shall apply this [draft] Standard from the beginning of its first annual period commencing on or after [1 January 2007]. Comparative information shall not be restated. Earlier application is encouraged. However, an entity shall apply this [draft] Standard only from the beginning of an annual period commencing on or after [date the [draft] Standard is issued]. If an entity applies this [draft] Standard before the effective date, it shall disclose that fact.**	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
Withdrawal of IAS 37 (issued 1998) 73 This [draft] Standard supersedes IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (issued in 1998).	
Proposed Amendments to ***International Accounting Standard 19***	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
EMPLOYEE BENEFITS For ease of reference, paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. Proposed new paragraphs are not underlined.	
Definitions Paragraph 7 is amended as follows. **7 The following terms are used in this Standard with the meanings specified:** **…** ***Termination benefits*** **are employee benefits ~~payable as a result of~~ <u>provided in connection with the termination of an employee's employment. They may be</u> either:** **(a) <u>involuntary termination benefits, which are benefits provided as a result of</u> an entity's decision to terminate an employee's employment before the normal retirement date; or** **(b) <u>voluntary termination benefits, which are benefits offered for a short period in exchange for</u> an employee's decision to accept voluntary ~~redundancy~~ <u>termination of employment</u>**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
~~in exchange for those benefits~~. **<u>The *minimum retention period* is the period of notice that an entity is required to provide to employees in advance of terminating their employment. The notice period may be specified by law, contract or union agreement, or may be implied as a result of customary business practice.</u>** **…**	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
Termination benefits Paragraph 132 is amended; paragraph 135 is moved, amended and renumbered as 133; paragraphs 134 and 135 are added; and paragraph 136 is moved and amended as follows. 132 This Standard deals with termination benefits separately from other employee benefits because, except as described in paragraphs 139 and 140, the event ~~which~~ that gives rise to an obligation is the termination of employment rather than employee service. ~~135~~133 ~~An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits.~~ Termination benefits are typically lump-sum payments, but sometimes also include: (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity. 134 Involuntary termination benefits are often provided in accordance with	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
the terms of an ongoing benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing similar benefits. In other cases, they are provided at the discretion of the entity and are incremental to what an employee would otherwise be entitled to, for example because the entity has no ongoing benefit plan or provides benefits in addition to those specified by an ongoing benefit plan. 135 Some entities offer benefits to encourage employees to accept voluntary termination of employment before normal retirement date. For the purpose of this [draft] Standard, such benefits are termination benefits only if they are offered for a short period. Other benefits offered to encourage employees to accept voluntary termination of employment (for example, those available under the terms of an ongoing benefit plan) are post-employment benefits because the benefits are payable in exchange for the employees' service. **136 Some employee benefits are ~~payable~~ provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some ~~countries~~ jurisdictions as termination indemnities, or termination gratuities, they are post-employment benefits~~, rather than termination benefits and an entity accounts for them as post-employment benefits~~. Some entities provide a lower level of benefit for**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
voluntary termination <u>of employment</u> at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination <u>of employment</u> is a termination benefit.	
Recognition Paragraphs 133, 134, 137 and 138 are deleted and paragraphs 137-142 are added as follows. **137 An entity shall recognise a liability and expense for voluntary termination benefits when the employee accepts the entity's offer of those termination benefits.** **138 Except as specified in paragraph 139, an entity shall recognise a liability and expense for involuntary termination benefits when it has a plan of termination that it has communicated to the affected employees, and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The plan shall:** **(a) identify the number of employees whose employment is to be terminated, their job classifications or functions and their locations, and the expected completion date; and** **(b) establish the benefits that employees will receive upon**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
termination of employment (including but not limited to cash payments) in sufficient detail to enable employees to determine the type and amount of benefits they will receive when their employment is terminated. 139 **If involuntary termination benefits are provided in exchange for employees' future services, an entity shall recognise the termination benefits as a liability and an expense over the period of the employees' future services (ie from the date specified in paragraph 138 to the date that employment is terminated).** 140 In some cases, involuntary termination benefits are provided in exchange for employees' future services. For the purpose of this [draft] Standard, this is the case if those benefits: (a) are incremental to what the employees would otherwise be entitled to receive (ie the benefits are not provided in accordance with the terms of an ongoing benefit plan); (b) do not vest until the employment is terminated; and (c) are provided to employees who will be retained beyond the minimum retention period. 141 In some cases, employers provide involuntary termination benefits that are expressed as an enhancement of the existing terms of an ongoing benefit plan. Examples are a doubling of benefits specified by employment legislation and an increase in retirement benefits to be provided through a post-employment benefit plan. If the termination benefits that are attributable to the enhancement of the ongoing benefit plan do not represent a change to the terms of the ongoing plan (and therefore would not apply to employees leaving service in	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
the future) and satisfy the criteria in paragraph 140(b) and (c), they shall be recognised in accordance with paragraph 139. 142 When termination benefits are provided through a post-employment benefit plan, the liability and expense recognised initially include only the value of the additional benefits that arise from providing those termination benefits. Other changes in any defined benefit obligation for the post-employment benefit plan resulting from employees leaving employment at a date earlier than originally assumed should be recognised either as actuarial gains or losses or as a curtailment.	

EXPOSURE DRAFT	**CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS**
Measurement Paragraphs 139 and 140 are amended and renumbered as 143 and 145, and paragraph 144 and the illustrative example are added as follows. ~~139~~143 **~~Where~~ When termination benefits ~~fall~~ are due more than 12 months after the balance sheet date, ~~they~~ an entity shall ~~be~~ discount~~ed~~ them using the discount rate specified in paragraph 78 and shall subsequently follow the recognition and measurement requirements for post-employment benefits.** 144 Accordingly, when termination benefits are provided through a post-employment benefit plan, their initial measurement and subsequent recognition and measurement are consistent with the requirements of IAS 19 for the underlying post-employment benefit plan. ~~140~~145 **~~In the case of an offer made to encourage voluntary redundancy, the~~ M~~m~~easurement of a liability for unvested involuntary termination benefits shall ~~be based on the number of employees expected to accept the offer~~ reflect the likelihood of employees leaving voluntarily before the termination benefits vest.** **Example illustrating paragraphs 138-145**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
Background As a result of a recent acquisition, an entity plans to close a factory in 12 months and, at that time, terminate the employment of all of the remaining employees at the facility. Because the entity needs the expertise of the employees at the facility to complete some contracts, it announces a termination benefit plan as follows. Each employee who stays and renders service for the full 12-month period will receive as a termination benefit on the termination date a cash payment of three times the amount specified by employment legislation. The entity's usual practice is to pay only the minimum termination benefits specified by employment legislation. For the employees at the factory, this minimum amounts to 10,000 per employee. Employment legislation also requires the entity to give 60 days' notice of its intention to terminate employment. There are 120 employees at the factory, 20 of whom are expected to leave voluntarily before closure. Therefore, the total expected cash flows under the termination benefit plan are 3,200,000 (ie 20 × 10,000 + 100 × 30,000). As required by paragraph 141, the entity accounts for the benefits provided in accordance with the ongoing benefit plan (ie employment legislation) and the enhancement separately. *Ongoing benefit plan* A liability of 1,200,000 (ie 120 × 10,000) for the termination benefits provided in accordance with the ongoing benefit plan is recognised when the plan of termination is announced. The liability represents	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
the benefits of 1,200,000 that the entity is required to pay in accordance with legislation. *Incremental benefits* The expected cash flows for the termination benefits that are incremental to what the employees would otherwise be entitled to receive (and relate to future services) are 2 million (ie 100 × 20,000). In this example, discounting is not required, so a liability and expense of 166,667 (ie 2,000,000 ÷ 12) is recognised in each month during the future service period of 12 months. If the number of employees expected to leave voluntarily before closure changes, the entity makes corresponding adjustments to its estimate of the expected cash flows for termination benefits and hence the liability recognised.	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
Disclosure Paragraph 141 is deleted and paragraphs 142 and 143 are amended and renumbered as 146 and 147 as follows. ~~142~~146 As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. The expense for ~~T~~termination benefits may ~~result in an expense~~ need~~ing~~ to be ~~disclosure~~ disclosed ~~in order~~ to comply with ~~this~~ that requirement. ~~143~~147 ~~Where~~ When required by IAS 24, ~~*Related Party Disclosures*~~ an entity discloses information about termination benefits for key management personnel.	
Effective Date Paragraph 159D is added as follows. **159D An entity shall apply the amendments in [draft] paragraphs 7 and 132-147 from the beginning of its first annual period commencing on or after [1 January 2007]. Comparative information shall not**	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
be restated. Earlier application is encouraged. However, an entity shall apply the amendments only from the beginning of an annual period commencing on or after [date the amendments are issued]. If an entity applies the amendments before the effective date, it shall disclose that fact.	