

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG FR TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG FRB or EFRAG FR TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG FRB, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

Provisions–Targeted Improvements (Proposed amendments to IAS 37)

Cover Note

Introduction and Objective

- 1 The primary objective of the session is to agree on the position of EFRAG FR TEG in relation to the proposals in the forthcoming Exposure Draft (the 'ED') *Provisions – Targeted improvements (Proposed amendments to IAS 37)* when a liability exists as a result of a past event, or a provision.
- 2 In addition, the session is intended to:
 - (a) Provide EFRAG FR TEG with an outline of EFRAG's draft comment letter on the proposed amendments;
 - (b) Present EFRAG FR TEG with the IASB's tentative decisions on transition requirements and proposed amendments to IFRS 19 and IFRS 3. It is noted that the EFRAG Secretariat will discuss the amendments to IFRS 19 with EFRAG's new IFRS 19 consultative group.

Background of the IASB project

- 3 The IASB has announced that it plans to issue an exposure draft in November 2024 on three targeted amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets. The amendments aim to:
 - (a) Clarify requirements on when an entity has a present obligation as a result of a past event; and
 - (b) Specify, in relation to measurement of a provision:
 - (i) the costs an entity includes in estimating the future expenditure required to settle the entity's present obligation; and
 - (ii) the rate an entity uses to discount that future expenditure to its present value and the related disclosure requirements.

EFRAG discussions on the IASB project

- 4 The proposed amendments were discussed at several meetings most lately by the EFRAG FR TEG-CFSS ([AP 05-01](#)) and the EFRAG FRB ([AP 08-01](#)) in their respective July 2024 meetings.

- 5 With respect to the amendments clarifying the requirements on when an entity has a present obligation as a result of a past event, EFRAG FR TEG – CFSS members expressed mixed views. Some members were in favour of the amendments, considering that they align the requirements of IAS 37 with the revised conceptual framework and that the earlier recognition of provisions, as results from the amendments, is beneficial. Others favoured the current approach as per IFRIC 21, whereby provisions are recognised when all the obligating events have taken place. When receiving an update on the project, EFRAG FRB members also seemed to favour the current IFRIC 21 approach.
- 6 Members overall supported the proposed amendments to the costs an entity includes in estimating the future expenditure required to settle the entity’s present obligation.
- 7 Moreover, members also overall supported the proposed amendments to the rate an entity uses to discount that future expenditure to is present value and the related disclosure requirements. They noted that the amendments will reduce some of the diversity in practice. Members’ feedback also indicated that for industries where the discount rate of provisions is regulated for the purpose of the entity holding sufficient assets to cover the provisions, entities should be explicitly allowed to use the discount rate required by that regulation. Members made additional clarifying comments and suggestions.

Questions for EFRAG FR TEG

- 8 Does EFRAG FR TEG want to present a view in EFRAG’s DCL on the proposals on the existence of a liability (or include a question to constituents)? If EFRAG FR TEG wants to present a position, what should the position be?
- 9 Does EFRAG FR TEG agree with the direction of the outlined answers to the questions expected to be included in the ED?

Next steps

- 10 The EFRAG Secretariat to monitor the publication of the ED, expected in November 2024, and prepare the draft comment letter to the proposed amendments accordingly.

Agenda Papers

- 11 In addition to this cover note, agenda papers for this session are:
 - (a) Agenda paper 07-02 – Provisions – Targeted improvements – Outlined draft comment letter; and
 - (b) Agenda paper 07-03 – Provisions – Targeted improvements – Tentative IASB decisions to date.