EFRAG Secretariat: I. Batista,
V. Dionelis, R. Sommer

Provisions–Targeted Improvements (Proposed amendments to IAS 37)

Tentative IASB decisions to date

Objective

1 This paper contains a summary of the IASB's tentative decisions to date on the project *Provisions–Targeted Improvements (Proposed amendments to IAS 37)*. It contains the summary included as an appendix in the IASB Staff paper AP22 of the June 2024 meeting, and the additional tentative decisions taken during that meeting.

2 This paper serves as background information to papers 07-01 and 07-02 provided for this session.

Topic	Tentative decisions
1 Sweep issues	***June 2024—sweep issues arising from previous IASB tentative decisions (Agenda Paper 22A)*** The IASB tentatively decided to propose in an exposure draft: a. to retain the scope of IAS 37, instead of widening it to include levies whose timing and amount are certain; b. to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement for an entity to disclose the discount rate(s) used in measuring a provision, but not to add to IFRS 19 a requirement for an entity to disclose the approach used to determine the rate(s); and c. to delete paragraphs 21A–21C from IFRS 3 *Business Combinations*, thereby removing the exception to the recognition principle in IFRS 3 that would become redundant as a result of the proposed amendments to IAS 37.
2 Transition requirements	***June 2024—proposed transition requirements (Agenda Paper 22B)*** The IASB tentatively decided to propose in the exposure draft that an entity apply the proposed amendments retrospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with two exceptions. The first exception would apply to the proposed amendment to the discount rate requirements affecting provisions for asset decommissioning, restoration or similar costs that are added to the cost of the related asset. The exception would permit an entity to apply a simplified retrospective approach, whereby in the year of transition the entity would:

	a. apply the amended requirements in IAS 37 to restate the provision at the start of the first period for which it provides comparative information; and b. apportion the amount by which it adjusts the provision at that date between the related asset and retained earnings: i. assuming the current discount rate(s) and estimates of cash flows used in measuring the provision have not changed since the provision was first recognised; and ii. using current estimates of the useful life of the related asset. The second exception would apply to the proposed amendment specifying the costs an entity would include in measuring a provision. The exception would require an entity to apply the proposed amendment: a. only to obligations that exist on, or arise after, the beginning of the annual reporting period in which the entity first applies that amendment. b. without restating comparative information. Instead, the entity would recognise the cumulative effect of applying the amendment as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application. The IASB tentatively decided to propose in the exposure draft to make no amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards as a result of the amendments proposed in this project.
3 Effects analysis and review of due process	***June 2024—effects analysis and review of due process (Agenda Paper 22C)*** The IASB set a 120-day comment period for the exposure draft. All 14 IASB members confirmed they were satisfied the IASB has complied with the applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the exposure draft. No IASB member indicated an intention to dissent from the proposals in the exposure draft.
4 Present obligation recognition criterion	***April 2024—General requirements and illustrative examples (Agenda Paper 22A)*** To propose: a. updating the 'liability' definition and the wording of the present obligation recognition criterion applied in IAS 37 to align them with the Conceptual Framework for Financial Reporting (Conceptual Framework) definition of a liability; b. clarifying the requirements supporting the present obligation recognition criterion by: i. separating out and explaining three conditions within the criterion; and ii. expanding the decision tree in the Guidance on implementing IAS 37 to show the process an entity could follow to determine whether to recognise a provision, disclose a contingent liability or do neither;

	c. replacing the requirements supporting the present obligation recognition criterion with new requirements based on concepts in the Conceptual Framework, and then withdrawing IFRIC 21 Levies; d. improving the wording of the explanations of the application requirements for restructuring provisions, without changing those requirements; e. adding new examples to the Guidance on implementing IAS 37 and updating the explanation of the conclusions for some of the existing examples, without changing those conclusions; and f. adding no requirements relating specifically to net zero transition commitments. ***April 2024—Threshold-triggered costs (Agenda Paper 22B)*** To propose adding to IAS 37 application requirements for threshold-triggered costs, specifying that: a. a present obligation for a threshold-triggered cost arises as the entity carries out the activity that contributes to the total amount of activity on which the cost is measured; and b. at any date within the measurement period, the amount of the present obligation is a portion of the total estimated cost for the measurement period—the portion being the amount attributable to the activity carried out to that date.
5 Discount rates	***November 2023—Discount rate requirements (Agenda Paper 22)*** To propose: a. specifying the basis on which an entity calculates the discount rate it uses when measuring a provision: and b. specifying a rate that reflects the time value of money with no adjustment for non-performance risk. ***April 2024—Application guidance (Agenda Paper 22C)*** To propose: a. clarifying that the time value of money reflected in the discount rate for a provision is represented by a risk-free rate; and b. providing no further application guidance on estimating the time value of money. ***April 2024—Disclosure requirements (Agenda Paper 22D)*** To propose requiring an entity to disclose, for each class of provision: a. the rate or rates used in measuring the provision; and b. the approach used to determine those rates.
6 Costs to include in measuring a provision	***July 2023 (Agenda Paper 22B)*** The IASB tentatively decided to propose specifying that: a. the expenditure required to settle an obligation comprises the costs that relate directly to settling the obligation; and b. the costs that relate directly to settling an obligation consist of both:

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