

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 objective of the session is to discuss and agree to recommend to the EFRAG FRB EFRAG’s Draft Comment Letter (the ‘DCL’) on the IASB’s Exposure Draft (the ‘ED’) *Provisions – Targeted improvements (Proposed amendments to IAS 37)*.
- 2 The EFRAG Secretariat notes that as this project has been classified as a low-priority project, limited outreach has been conducted. Following the decisions of the EFRAG FR TEG at its September 2024 meeting and to gather further input, questions to EFRAG’s constituents have been included in the DCL. Moreover, some EFRAG FR TEG members have acted as a sounding board ahead of the meeting by providing their comments on the EFRAG Secretariat’s analysis and positions expressed in the DCL.

Background of the IASB project

- 3 On 12 November 2024, the IASB issued the ED 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 in its [13 September 2024](#) meeting, where an outlined version of the DCL was presented ([AP 07-02](#)).
- 5 With respect to the present obligation recognition criterion, two views (one in favour of the IASB’s proposals and one in favour of the current requirements included in IFRIC 21) were expressed and it was decided to include arguments for both views and include a question to constituents for their views.

- 6 As regard the discount rate used to measure provisions, it was agreed that the DCL should include a question for constituents on whether entities that have to set aside assets to cover provisions and for that have to use a specified rate to discount their provisions, should be allowed also to use this discount rate for the IFRS measurement of the provision.
- 7 It was also agreed to include in the DCL that IAS 37 should state that inflation should not be included in the discount rate as inflation should not be presented as a financing expense.
- 8 Lastly, the discussion reflected that the EFRAG Secretariat should further explore whether it would be useful to have a requirement to perform an impairment test of assets affected by changes in the measurement of a provision (following IFRIC 1) and the degree of the use of hindsight that would follow from applying the proposed transition requirements.
- 9 A complete list of the EFRAG meetings where the proposals were discussed is included in the Appendix.
- 10 On 28 November 2024, the EFRAG User Panel will discuss some of the requirements included in the ED. Particularly the proposals related to when a present obligation exists as a result of a past event will be considered. At its 2 December 2024 meeting, EFRAG FR TEG will be provided with updated on the input received from the EFRAG User Panel.

Questions for EFRAG FR TEG

- 11 A member of the ‘sounding board’ consulted for this DCL considered that EFRAG FR TEG should discuss whether it is appropriate to refer to the requirements of the prospective IFRS Accounting Standard on rate-regulated activities as an argument in favour of the proposed requirements (paragraph 6 (c)(ii) of the DCL) as this Accounting Standard has not been issued. Does EFRAG FR TEG consider that the reference to this prospective IFRS Accounting Standard should be removed?
- 12 A member of the ‘sounding board’ consulted for this DCL considered that EFRAG FR TEG should discuss whether the different interpretations listed in the DCL (paragraph 6(c)(ii)) of ‘beyond the control of both the issuer and the holder of the instrument’ (paragraph 25 of IAS 32 *Financial Instruments: Presentation*) could be considered valid interpretations. Does EFRAG FR TEG disagree that the stated interpretations of paragraph 25 of IAS 32 included in the drafted DCL could be valid?
- 13 Does EFRAG FR TEG have any (other) comments on the drafted DCL including the questions to constituents?
- 14 Does EFRAG FR TEG agree to recommend EFRAG’s DCL to the EFRAG FRB for approval?

Next steps

- 15 Subject to the EFRAG FR TEG’s agreement to recommend the DCL to the EFRAG FRB, the EFRAG FRB to approve the DCL on the 11 December 2024 meeting. Thereafter, the EFRAG Secretariat will publish the DCL for consultation.
- 16 The deadline for providing comment letters to the IASB is 12 March 2025. The EFRAG FRB will consider the deadline for providing comments to EFRAG.

Agenda Papers

- 17 In addition to this cover note, Agenda paper 04-02 Draft comment letter on provisions ED is provided for this session.

Appendix : EFRAG discussions on the project

- EFRAG TEG – CFSS 20 March 2019
- EFRAG TEG 4 March 2020
- EFRAG FR TEG – CFSS 30 November 2022
- EFRAG User Panel 6 December 2022
- EFRAG FR TEG – FRB 8 February 2023
- EFRAG FR TEG 6 June 2023
- EFRAG FR TEG – CFSS 4 July 2023
- EFRAG FRB 30 January 2024
- EFRAG FIWG 27 February 2024
- EFRAG RRAWG 6 March 2024
- EFRAG IAWG 28 May 2024
- EFRAG FR TEG – CFSS 2 July 2024
- EFRAG FRB 17 July 2024
- EFRAG FR TEG 13 September 2024