

IASB[®] meeting

Date	June 2024
Project	Provisions—Targeted Improvements
Topic	Effects analysis and review of due process
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (IASB). This paper does not represent the views of the IASB or any individual IASB member. Any comments in the paper do not purport to set out what would be an acceptable or unacceptable application of IFRS[®] Accounting Standards. The IASB's technical decisions are made in public and are reported in the IASB[®] *Update*.

Session overview

1. The International Accounting Standards Board (IASB) has reached tentative decisions on proposals for amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as summarised in the appendix to Agenda Paper 22 *Cover note and summary of tentative agenda decisions*.
2. In this session, the IASB will be asked to consider several matters it needs to complete before publishing an exposure draft of these proposals. These matters include:
 - (a) completing an effects analysis—reviewing the likely costs and benefits of the proposals (paragraphs 3–5);
 - (b) reviewing the steps the IASB has taken in developing the proposals (paragraphs 11–16);
 - (c) setting a comment period for the exposure draft (paragraph 17); and
 - (d) giving the staff permission to begin the balloting process (paragraph 18).

Effects analysis

Due process requirements

3. Paragraphs 3.76–3.81 of the [Due Process Handbook](#) explain requirements for the IASB to assess and explain its views on the likely costs and benefits (effects) of proposed new requirements. These paragraphs explain that:
- (a) the IASB assesses the likely effects throughout the development of a new or amended IFRS Accounting Standard;
 - (b) in assessing the likely effects, the IASB considers matters such as:
 - (i) how the proposed changes are likely to affect the comparability of financial information between periods or between entities; economic decision-making; and the ability of a user of financial statements to assess the future cash flows of an entity;
 - (ii) the likely effect of compliance costs for preparers of financial statements, both on initial application and on an ongoing basis;
 - (iii) the costs of analysis for users of financial statements and the costs they incur if information is not available;
 - (iv) the effects of the proposals on financial stability—for example, the link between increased transparency and financial stability.
 - (c) the IASB is not required to make a formal quantitative assessment of the overall effects—initial and ongoing costs and benefits are likely to affect different parties in different ways.
 - (d) the IASB explains its views on the likely effects at each stage of the development of a new or amended IFRS Accounting Standard. In the standard-setting phase, the IASB explains why it is proposing a particular change to financial reporting requirements, including referring to the evidence it has collected, in the basis for conclusions accompanying the exposure draft.

Likely costs and benefits of the proposals in this project

4. The IASB has assessed and reported on the likely costs and benefits of amendments to IAS 37 at every stage of this project:
- (a) the Basis for Conclusions on Exposure Draft *Conceptual Framework for Financial Reporting* included an analysis of the effects of the revisions to the *Conceptual Framework* proposed in that Exposure Draft and issued in 2018. That analysis noted that IAS 37 requirements, as interpreted in IFRIC 21 *Levies*, were inconsistent with the proposed new concepts and that the IASB would consider this inconsistency in deciding whether to take on to its work plan a project to amend IAS 37.¹
 - (b) before deciding to add the project to make targeted improvements to IAS 37 to its workplan, and in determining the project scope and objectives, the IASB identified a list of potential shortcomings in IAS 37 and sought stakeholder views on whether for each of these shortcomings the benefits of possible amendments to IAS 37 would exceed the costs. The scope of the project includes only matters on which there was widespread consensus among stakeholders that the benefits of the possible amendments would exceed the costs.²
 - (c) in reaching each of the tentative decisions in this project, the IASB has considered the costs and benefits of various options for each of the proposed amendments. Likely costs and benefits were identified using information gathered from stakeholders and explained in the staff papers prepared for the IASB meetings at which each tentative decision was made.

¹ Paragraphs BCE9–BCE11 of the Basis for Conclusions accompanying Exposure Draft [Conceptual Framework for Financial Reporting](#), published May 2015.

² As discussed further in IASB January 2020 meeting [Agenda Paper 22 Provisions—Project Proposal](#).

5. The IASB will set out in the Basis for Conclusions accompanying the proposed amendments its reasons for proposing each amendment. These reasons will cover its assessment of the likely costs and benefits of each amendment. A staff assessment of the most significant likely costs and benefits is set out below.

Amendment	Likely costs	Likely benefits
Updated liability definition and wording of present obligation recognition criterion—eliminating the old definition from IFRS Accounting Standards		Lower ongoing costs. Entities developing an accounting policy in the absence of a specific requirement will no longer need to consider whether to apply the new <i>Conceptual Framework</i> definition or the older IAS 37 definition.
Clearer requirements supporting present obligation recognition criterion		Lower ongoing costs and more consistent application.
New requirements leading to earlier and progressive recognition of some levies	Initial application costs—some entities will need to change an accounting policy. Higher ongoing application costs for those entities—provisions recognised earlier may be subject to greater measurement uncertainty.	More useful information for investors—enhancing their ability to assess an entity’s future cash flows.

Amendment	Likely costs	Likely benefits
<p>Absorption of fact patterns in IFRIC 6, IFRIC 21 and two agenda decisions into Guidance on Implementing IAS 37, and withdrawal of those Interpretations and agenda decisions.</p>		<p>Ongoing easier application—all IAS 37 requirements and guidance consolidated in one place.</p>
<p>New application requirements for threshold-triggered costs.</p>	<p>Initial application costs—some entities will need to change an accounting policy.</p> <p>Higher ongoing application costs for those entities—provisions recognised earlier may be subject to higher measurement uncertainty.</p>	<p>Specific application requirements will reduce uncertainty about how to interpret general requirements, reducing application costs and promoting more consistent application.</p> <p>More useful information for investors—enhancing their ability to assess an entity's future cash flows.</p>
<p>More specific discount rate requirements</p>	<p>Initial application costs—some entities will need to change an accounting policy.</p>	<p>Less diversity in practice and less subjectivity in measurements, enhancing comparability between entities.</p>
<p>Additional disclosure requirements—discount rates used and approach to determining those rates</p>	<p>Ongoing application costs—to provide additional information</p>	<p>Useful information for investors, increased transparency.</p>

Question for the IASB**Question 1 for the IASB**

1. Do you have any comments on our assessment of the most significant likely costs and benefits of the proposed amendments?

Completion of due process and permission to start the balloting process***Due process requirements for developing an exposure draft***

6. Paragraphs 6.4–6.9 of the *Due Process Handbook* specify the due process steps required in developing an exposure draft.
7. Paragraphs 6.4 and 6.5 explain that:
 - (a) the development of an exposure draft takes place in public meetings;
 - (b) development of an exposure draft normally begins with the IASB considering the issues on the basis of technical staff research and recommendations, and
 - (c) the IASB also considers the comments and suggestions arising from consultation with stakeholders.
8. Paragraph 6.6 states that when the IASB has reached general agreement on the technical matters in the project and has considered the likely effects of the proposals staff presents a paper to the IASB:

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- (a) summarising the steps the IASB has taken in developing the proposals, including a summary of when the Board discussed the project in public meetings, public hearings held, outreach activities and meetings of consultative groups;
 - (b) if applicable, reaffirming why the Board has decided that it was not necessary to have a consultative group or to have conducted fieldwork; and
 - (c) recommending a comment period for the exposure draft.
 9. Paragraphs 6.7 and 6.8 of the *Due Process Handbook* set out the minimum requirements for the comment period for an exposure draft. They state that the IASB normally allows a minimum period of 120 days for comment on an exposure draft, and may allow a shorter period of no less than 30 days only if:
 - (a) the matter is narrow in scope and urgent, and the Due Process Oversight Committee has approved the shorter period; or
 - (b) in exceptional circumstances, 75% of the Trustees have approved the shorter period.
 10. Paragraph 6.9 states that if the IASB is satisfied that it has addressed all these matters, it votes to have the technical staff prepare the exposure draft for balloting. IASB members who intend to dissent from the proposals in the exposure draft make their intentions known at that time.

Summary of steps the IASB has taken in developing proposals

11. The IASB has made all decisions on this project in public meetings. The [project page](#) on the IFRS Foundation website was updated after every meeting. Agenda papers were posted on the website before every meeting on a timely basis and a summary of each meeting was included in [IASB Update](#).

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12. On the two main project topics, the IASB reached its tentative decisions only after consulting stakeholders, including:
 - (a) users of financial statements—via the IASB’s Capital Markets Advisory Committee (CMAC) and other informal groups;
 - (b) preparers of financial statements—via the IASB’s Global Preparers Forum (GPF) and other informal groups;
 - (c) national standard-setters—via the IASB’s Accounting Standards Advisory Forum (ASAF); and
 - (d) the IFRS Interpretations Committee.
 13. The IASB also presented its tentative decisions to attendees at the World Standard Setters meeting in September 2023 and to members of its Emerging Economies Group in May 2024 to obtain views from a wider group of national standard-setters before starting the balloting process.
 14. Fieldwork on this project comprised one-to-one meetings with preparers of financial statements in oil & gas, mining, energy and telecoms sectors, and financial reporting specialists at large accounting firms to clarify:
 - (a) the implications and practical feasibility of various possible bases for determining discount rates for provisions; and
 - (b) the consequences of applying the proposed amendments to various types of levies arising in practice.
 15. A schedule setting out the dates on which the IASB discussed the project in public meetings and consulted stakeholders is set out in the appendix to this paper.
 16. Paragraph 3.45 of the *Due Process Handbook* clarifies that a requirement to consider establishing a consultative group apply only to major projects. Accordingly, it does not apply to this maintenance project.

Setting a comment period for the exposure draft

17. We recommend setting a comment period of 120 days:
- (a) we think the standard comment period of 120 days is sufficient to allow stakeholders the opportunity to review and evaluate the proposals in their jurisdictions—the proposals are for three targeted improvements to IAS 37, not for fundamental changes to, or replacement of, IAS 37; and
 - (b) we have not identified any grounds for requesting approval from the Due Process Oversight Committee for a comment period of less than 120 days. The proposed amendments, although targeted, are not narrow in scope and would require a change in accounting policy by at least some entities for various types of transactions. Furthermore, we are not aware of any factors making the amendments proposed in this project especially urgent.

Permission to begin the balloting process

18. We think the IASB has complied with applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the exposure draft. Consequently, we request permission to begin that process.

Questions for the IASB**Questions 2-4 for the IASB**

2. The staff recommend that the IASB set a comment period of 120 days for the exposure draft. Do you agree?
3. Are you satisfied the IASB has complied with applicable due process requirements and has undertaken sufficient consultation and analysis to begin the process for balloting the exposure draft?
4. Do you intend to dissent from the proposals in the exposure draft?

Appendix—dates of IASB and stakeholder meetings at which this project was discussed

Date	Project topic		
	Present obligation recognition criterion	Discount rates	Costs to include
2015-2019	Research—including meetings with various stakeholder groups to receive advice on need for and scope of a possible standard-setting project		
Jan 2020	IASB public meeting—decision to add standard-setting project to make three targeted improvements to IAS 37		
Feb 2022	IASB public meeting—decision to keep project on work plan		
Nov 2022		IASB public meeting—initial discussion of possible amendments	
Sept 2022-March 2024		<p>Consultation with investors (CMAC, Australian ASB User Advisory Committee, Canadian ASB User Advisory Committee, UK Corporate Reporting Users Forum, Securities Analysts Association of Japan), GPF and ASAF.</p> <p>One-to-one meetings with preparers in oil & gas, mining, energy generation and telecoms sectors (both individual companies and sector representative groups from a wide range of jurisdictions).</p>	

Date	Project topic		
	Present obligation recognition criterion	Discount rates	Costs to include
April 2023	IASB public meeting—initial discussion of staff suggestions		
May 2023-March 2024	Consultation with ASAF , CMAC and GPF (joint meeting), World Standard Setters , IFRS Interpretations Committee . One-to-one meetings with individual preparers affected by changes to requirements for levies.		
July 2023		IASB public meeting—discussion to narrow options	IASB public meeting—tentative decision
October 2023		One-to-one meetings with financial reporting specialists in three large accounting firms on practical feasibility of one of the options.	
Nov 2023		IASB public meeting—tentative decision on discount rate requirements	
Dec 2023	IASB public meeting—decision to continue working towards publication of proposals in an exposure draft for public comment		
April 2024	IASB public meeting—tentative decision on proposed amendments	IASB public meeting—tentative decisions on application guidance and disclosure requirements	
May 2024	Consultation with EEG		

Date	Project topic		
	Present obligation recognition criterion	Discount rates	Costs to include
June 2024	IASB public meeting—tentative decisions on sweep issues, transition requirements and comment period for exposure draft		
July 2024	Consultation with ASAF (planned)—summarising all the tentative decisions and seeking views before starting to draft amendments.		