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## IFRS Interpretations Committee meeting

Date	<b>November 2023</b>
Project	<b>IASB Provisions Project</b>
Topic	<b>Present obligation recognition criterion</b>
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## Purpose of this session

To obtain IFRS Interpretations Committee (Committee) members' input to the IASB's Provisions project—specifically members' views on:

1. initial suggestions for possible amendments to the requirements and illustrative examples supporting the 'present obligation' recognition criterion in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. whether to add to IAS 37 application requirements specifying when an entity has a present obligation for costs payable if a measure of its activity—for example, its revenue or carbon emissions—exceeds a specified threshold.

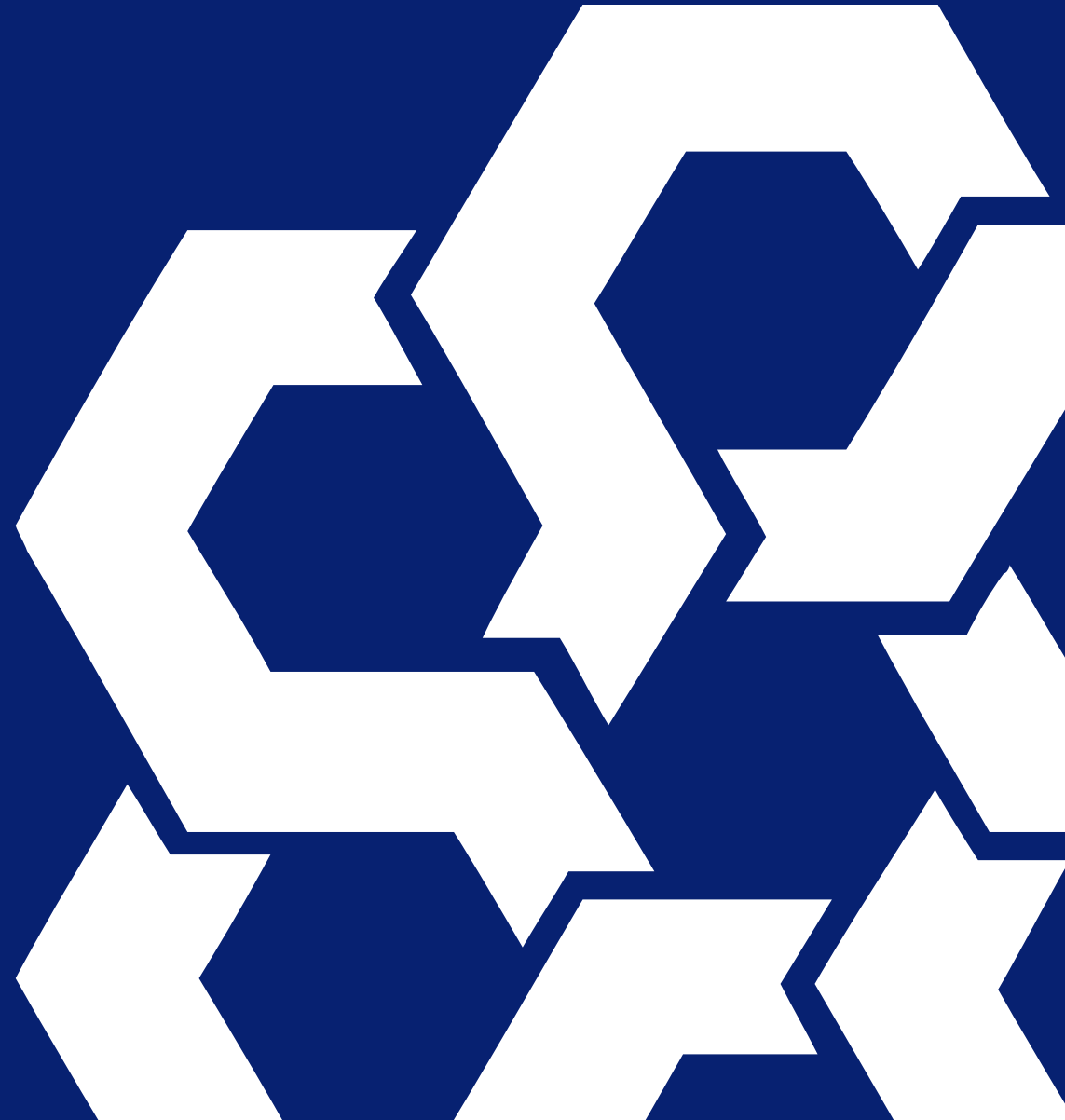
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# Questions for Committee members



## Questions for Committee members

**1**

### Initial suggestions for possible amendments

- a) What are your overall reactions to the possible amendments to IAS 37 suggested in Agenda Paper 6A? See slides 7–9.
- b) Do you have specific comments on any aspects of the possible amendments? \*

**2**

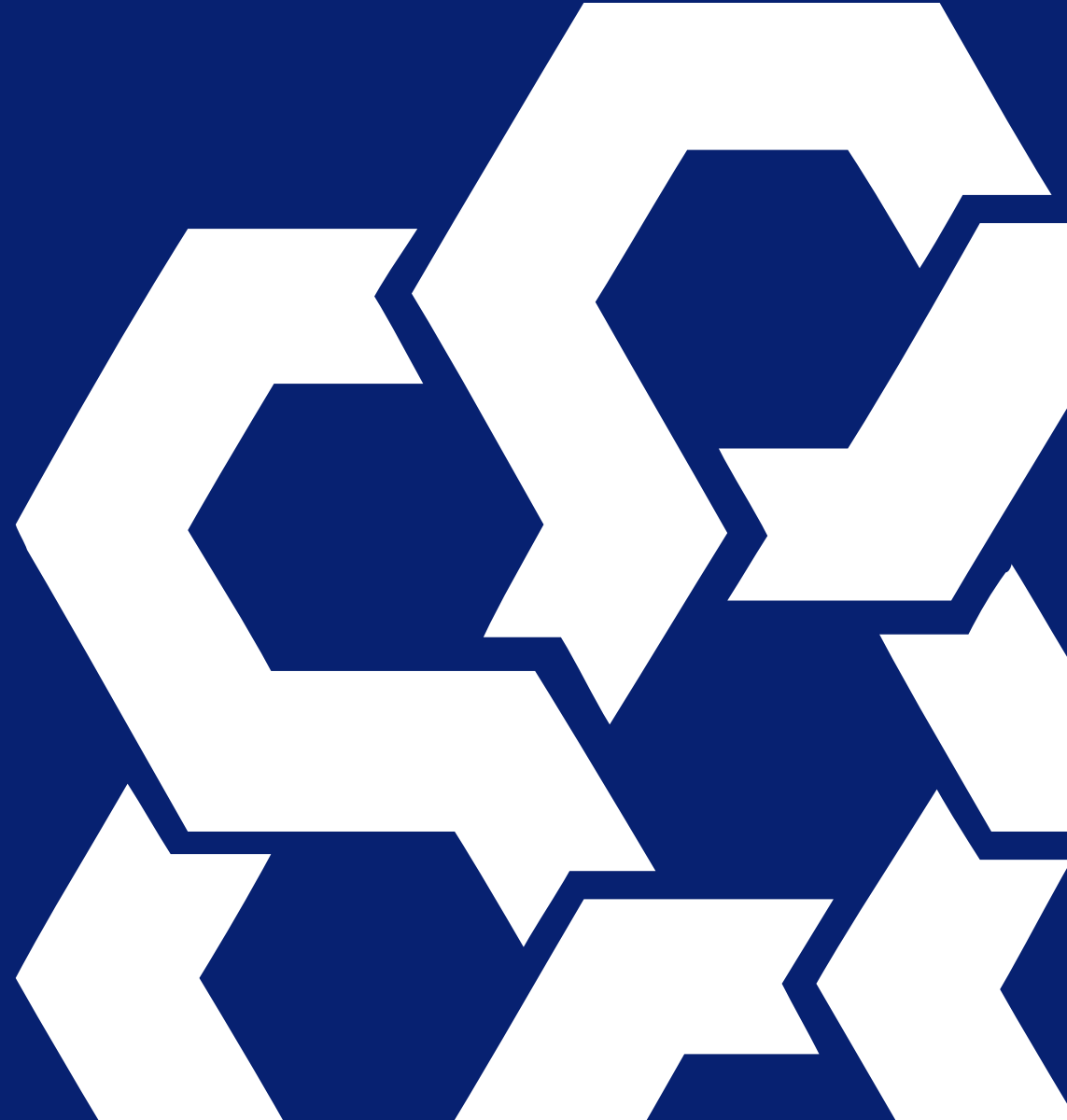
### Thresholds

- a) Should IAS 37 specify when an entity has a present obligation for costs that become payable if a measure of its activity exceeds a specified threshold? See slide 11.
- b) Do you have views on when the present obligation arises? See slides 12–13.

\* We are not asking you for detailed comments on the illustrative drafting sketched in the appendices to Agenda Paper 6A. We have included this illustrative drafting purely to give you a picture of the nature and extent of the possible amendments discussed in Agenda Paper 6A.

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## Topic 1—Initial suggestions for possible amendments to IAS 37



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# Background

- The International Accounting Standards Board (IASB) is conducting a project to make three targeted improvements to IAS 37.
- One of these improvements would affect a criterion for recognising a provision in the financial statements—specifically, the requirement for an entity to have a present obligation as a result of a past event.
- The IASB is considering amending the requirements supporting that recognition criterion, with the aim of:
  - clarifying the requirements—making them easier to apply and promoting consistent application; and
  - changing the timing of recognition of some provisions—specifically provisions for costs (often levies) that are triggered only if the entity takes both (or all) of two (or more) actions.
- The IASB has already developed concepts on which to base new requirements—it added those concepts to its *Conceptual Framework* in 2018. The amendments to IAS 37 would involve importing the concepts into IAS 37 (to replace existing requirements), withdrawing IFRIC 21 *Levies* and updating some of the illustrative examples accompanying IAS 37.

## Current status of amendments and IASB plans

- IASB discussed initial suggestions for possible amendments at meeting in April 2023
- No decisions requested

IASB now consulting stakeholders

- Tentative decisions at future meeting\*
- Any proposed amendments would be exposed for comment

\* Currently expected in Q1 2024



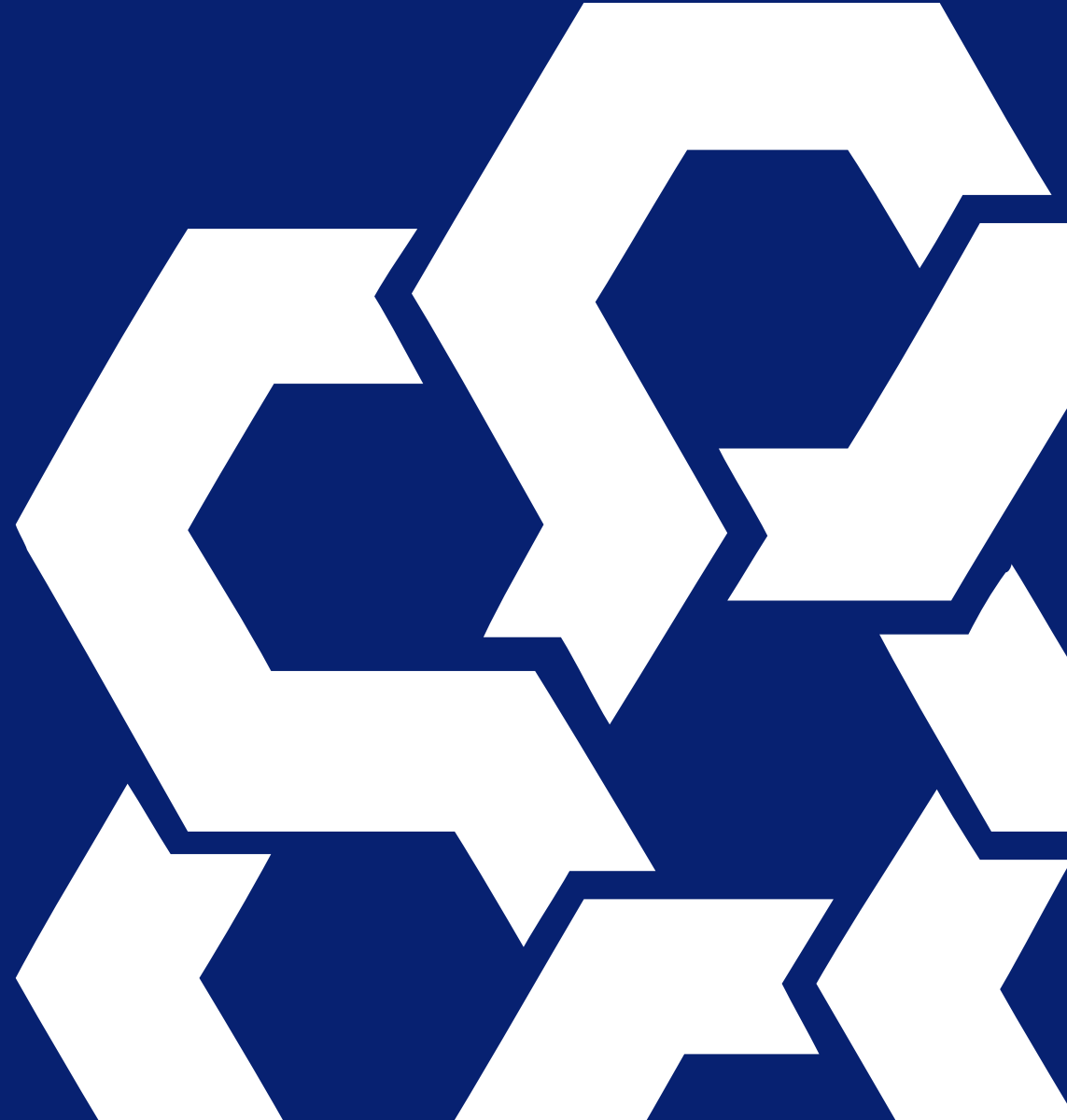
# Initial suggestions for possible amendments

Initial suggestions for possible amendments are set out in a staff paper discussed by the IASB at its April 2023 meeting. That paper, which has two appendices, is reproduced as Agenda Paper 6A for this meeting.

IFRS IC Agenda Ref	Paper contents
6A	An explanation of: <ul style="list-style-type: none"> <li>• reasons for amending requirements supporting the present obligation recognition criterion.</li> <li>• progress the IASB has already made towards developing possible amendments—revisions to its <i>Conceptual Framework for Financial Reporting</i> in 2018.</li> <li>• suggestions for possible amendments to IAS 37 and to the illustrative examples accompanying IAS 37.</li> </ul>
6A Appendix A	Illustrative drafting for the possible amendments to IAS 37.
6A Appendix B	Illustrative drafting for the possible amendments to illustrative examples accompanying IAS 37—including for the addition of new examples on levies (Examples 13A-E), climate-related legislation (Example 14) and a net zero commitment (Example 15).

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## Topic 2—Thresholds



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## Thresholds—whether there is a need for application requirements

As discussed further in paragraphs 66–71 of Agenda Paper 6A, questions sometimes arise about when an entity has a present obligation for costs that become payable only if a measure of its activity exceeds a specified threshold. The IASB could consider adding to IAS 37 specific application requirements for such circumstances.



### Examples

- Sector levies on entities with revenues exceeding a specified annual value.
- Penalties for greenhouse gas emissions above a specified amount.

Thresholds might be measures of the entity's cumulative or average activity.



### Factors to consider in assessing the need for application requirements

- Prevalence—are such obligations widespread in practice?
- Are the amounts large enough for information about the obligations to be material?
- Are specific requirements necessary to avoid diversity in practice (might different views be reached applying the general requirements—see slide 12)?

## Thresholds—potentially applicable requirements

The drafting suggestions in Appendix A to Agenda Paper 6A include requirements specifying when an entity has a present obligation as a result of a past event. Several of those requirements might be applicable to provisions for costs payable if a measure of an entity’s activity exceeds a specified threshold:

Paragraph	Suggested drafting
19A	An entity has a present obligation as a result of a past event only if the entity: <ul style="list-style-type: none"> <li>a) has obtained economic benefits or taken an action; and</li> <li>b) as a consequence, will or may have to transfer an economic resource it would not otherwise have had to transfer.</li> </ul>
19B	... If economic benefits are obtained, or an action is taken, over time, the resulting present obligation may accumulate over that time.
14F	In some situations, an entity’s responsibility to transfer an economic resource arises from past events (as described in paragraph 19A) but is conditional on a particular future action that the entity itself may take. ... In such situations, the entity has an obligation if it has no practical ability to avoid taking that action.

## Thresholds—possible views on how the general requirements apply

1. The ‘action’ that creates a present obligation is activity above the threshold—no present obligation exists until the entity’s activity has exceeded the threshold **or**
2. The ‘action’ that creates a present obligation is the activity to which the charge applies—for example, the generation of revenue, or the emission of greenhouse gases. A present obligation starts to accumulate as soon as the entity starts to perform the activity:
  - A. if it has no practical ability to avoid exceeding the threshold **or**
  - B. irrespective its ability to avoid exceeding the threshold—exceeding the threshold is not a separate action.

Expectations about the extent to which the entity will exceed the threshold could affect the measurement of the provision.\*



Provision  
recognised later



Provision  
recognised earlier

\* Circumstances are perhaps analogous to those in which different income tax rates apply to different levels of taxable income? IAS 12 *Income Taxes* requires deferred tax to be measured at average rate expected to apply.

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