

IASB[®] meeting

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Project	Provisions—Targeted Improvements
Topic	Sweep issues
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Purpose of this session

1. The International Accounting Standards Board (IASB) has reached tentative decisions on all three topics it is seeking to address within the scope of this project to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.
2. In this session, the IASB will be asked to consider three sweep issues arising as a consequence of the tentative decisions. It will be asked to decide whether to propose:
 - (a) widening the [scope of IAS 37](#) to include levies whose timing and amount are certain (paragraphs 5–14);
 - (b) an [amendment to IFRS 19](#) *Subsidiaries without Public Accountability: Disclosures*—to add to that Standard either or both of the disclosure requirements the IASB proposes to add to IAS 37 (paragraphs 15–20); and
 - (c) a [consequential amendment to IFRS 3](#) *Business Combinations*—to delete from that Standard an exception to its recognition principle (paragraphs 21–34).

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3. The staff recommend proposing:
 - (a) not to widen the scope of IAS 37;
 - (b) to add to IFRS 19 a requirement to disclose the discount rate(s) used in measuring a provision; and
 - (c) to delete from IFRS 3 the exception to its general recognition principle.
 4. A question for the IASB on these recommendations is included at the end of the relevant section.

Scope of IAS 37

5. In this section, we consider whether to propose widening the scope of IAS 37 to include levies whose timing and amount are certain.

Background

6. IAS 37 applies to provisions, which it defines as liabilities ‘of uncertain timing or amount’.¹
7. The recognition criteria for provisions within the scope of IAS 37 include a requirement for the entity to have a present obligation as a result of a past event (the present obligation recognition criterion). IAS 37 includes requirements supporting that criterion and IFRIC 21 *Levies* specifies how an entity applies those supporting requirements to levies.

¹ Paragraph 10 in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

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8. At its April 2024 meeting, the IASB tentatively decided to propose:
- (a) amending the requirements supporting the present obligation recognition criterion—aligning them with the version of the *Conceptual Framework for Financial Reporting (Conceptual Framework)* the IASB issued in 2018 (2018 *Conceptual Framework*); and
 - (b) withdrawing IFRIC 21, replacing it with examples in IAS 37 illustrating how the amended requirements would apply to levies.

Scope question arising from proposed withdrawal of IFRIC 21

9. The tentative decision to withdraw IFRIC 21 gives rise to a scope question because the scope of IFRIC 21 is not restricted to levies within the scope of IAS 37. Paragraph 2 of IFRIC 21 states that:

This Interpretation addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37. It also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

10. The Basis for Conclusions on IFRIC 21 explains the reason:

BC4 ... The Interpretations Committee further observed that IAS 37 contains a definition of a liability and that a provision is defined in IAS 37 as a liability of uncertain timing or amount. The Interpretations Committee noted that the same recognition requirements should apply to provisions to pay a levy and to liabilities to pay a levy whose timing and amount is certain. Consequently, this Interpretation also addresses the accounting for a liability to pay a levy whose timing and amount is certain.

11. A question therefore arises as to whether the proposed amendments should include a proposal to widen the scope of IAS 37 to include not only provisions (liabilities of uncertain timing or amount) but also levies whose timing and amount is certain.

Staff analysis

12. We think there is no need to widen the scope of IAS 37 to include levies of certain timing and amount:
- (a) suppose a levy is payable if specified conditions are met—that is, if an entity takes specified actions or if other specified events occur. Even if that levy is a fixed amount payable at a fixed time, from the entity’s perspective the levy is of uncertain amount until all the specified conditions are met. Until then, the levy could be the fixed amount (if the future actions or other events occur) or zero (if the future actions or other events do not occur). The purpose of the recognition requirements in IAS 37 is to specify whether and when an entity recognises a liability whose existence or outcome is conditional on future actions or events. Once the conditions are all met, it is clear that the entity has a liability to recognise.
 - (b) with many types of obligations within the scope of IAS 37, the entity’s liability can become certain in both timing and amount before the entity settles the liability. There is no explicit statement in IAS 37 that these obligations are within the scope of IAS 37, and nothing in IAS 37 that says once the uncertainty has been resolved, the liability is no longer in the scope of IAS 37.
13. We also think that widening the scope of IAS 37 to include levies of certain timing and amount could create a risk of unintended consequences. IFRIC 21 does not define the term *levy*—the term could encompass any government-imposed charges, other than those within the scope of IAS 12 *Income Taxes*. And, unlike IFRIC 21 (which addresses only recognition), IAS 37 addresses recognition, measurement, presentation and disclosure. Without a definition of a *levy*, it is unclear what the full consequences of widening the scope might be. And developing a definition—including researching and consulting on alternatives—could take a considerable amount of time.

Staff recommendation and question for the IASB

14. For the reasons in paragraphs 12–13, we recommend proposing no changes to the scope of IAS 37—not widening the scope to include levies whose timing and amount are certain.

Question 1 for the IASB

Do you agree with the staff recommendation in paragraph 14?

Disclosure requirements in IFRS 19

Background information

15. The IASB is proposing to add to IAS 37 a requirement to disclose the discount rates used in measuring provisions and the approach used to determine those rates. As discussed in [Agenda Paper 22D](#) for the April 2024 meeting, the main reasons for this decision were:
- (a) even with the proposed amendments of the discount rate requirements, management will need to apply judgement in determining the appropriate discount rate;
 - (b) other IFRS Accounting Standards that require the discounting of estimated future cash flows, require disclosure of the discount rates used; and
 - (c) users of financial statements described information about the rates used and the basis for determining those rates as the basic information they expect to find in financial statements.

Staff analysis

16. As decided to by the IASB, on an ongoing basis, each exposure draft of a new or amended IFRS Accounting Standard will, if relevant, propose amendments to IFRS 19 so that the disclosure requirements in that Standard remain up to date. In doing so, the IASB is expected to apply the following principles when considering whether new or amended disclosure requirements in IFRS Accounting Standards should be included in IFRS 19:
- (a) *Liquidity and solvency*—information about the entity’s ability to generate cash flows and continue as a going concern.
 - (b) *Short-term cash flows, obligations, commitments and contingencies*—information about the entity’s ability to meet its obligations.
 - (c) *Measurement uncertainty*—information about how amounts in the financial statements are measured, including inputs (for example, significant judgements and estimates) used in those calculations.
 - (d) *Disaggregation of amounts*—information about separation of amounts presented in the financial statements into component parts.
 - (e) *Accounting policy choices*—information about the accounting policy applied by the entity especially when more than one accounting policy option is allowed.
17. Information about the rates used to discount estimates of future cash flows are consistent with the principle for measurement uncertainty as described in paragraph 16(c). We also noted that:
- (a) IFRS 19 includes most of the requirements in other accounting standards to disclose discount rates, for example the requirements in IAS 36, IFRS 17 are directly required, whereas the requirements in IAS 19 and IFRS 2 are

indirectly required through the disclosure of actuarial assumptions or inputs;
and

(b) IFRS 19 includes all the other disclosure requirements in IAS 37.

18. We are of the view that it would therefore be consistent with the current requirements in IFRS 19 to require disclosure of the discount rate used in measuring provisions. We also considered whether to include the proposed requirement to disclose the approach used to determine the discount rate. When deciding to propose requiring an entity to disclose the approach used, the IASB considered that even in estimating a risk-free rate, there is scope for varying approaches to be used and, especially for large long-term provisions, information about the rates an entity has used and the approach it has used to determine these rates is likely to be material.
19. Although it could be argued that information about the approach used to determine the discount rate is equally relevant for entities in the scope of IFRS 19, we note that with the exception of IFRS 17, none of the other requirements in IFRS 19 require disclosure of the approach used to determine the discount rate. We are therefore proposing not to include this proposed requirement in IFRS 19.

Staff recommendation and question for the IASB

20. For the reasons in paragraphs 16–19, the staff recommend that the proposed requirement to disclose the discount rate used in measuring provisions are included in IFRS 19.

Question 1 for the IASB

Do you agree with the staff recommendation in paragraph 20?

Consequential amendments to other IFRS Accounting Standards

Consequential amendment to IFRS 3

21. In this section, we consider whether to propose a consequential amendment to IFRS 3 to delete from that Standard an exception to its recognition principle. The rationale for deleting the exception would be that the amendments to IAS 37 proposed in this project make the exception redundant.

Background

22. There are two ‘recognition principles’ underpinning the requirements in IFRS 3 for recognising assets and liabilities acquired in a business combination:
- (a) *initial recognition at the acquisition date*—the acquirer recognises the identifiable assets it has acquired and the liabilities it has assumed, recognising items that meet the definitions of an asset or a liability in the *Conceptual Framework*;² and
 - (b) *subsequent recognition*—the acquirer accounts for the assets acquired and liabilities assumed in accordance with the applicable IFRS Accounting Standard for those items, according to their nature.³
23. Until 2020, IFRS 3 referred to an old version of the *Conceptual Framework*, which the International Accounting Standards Committee had issued in 1989. However, in 2020, the IASB updated the reference so that IFRS 3 now refers to 2018 *Conceptual Framework*.
24. The recognition requirements in IAS 37 and IFRIC 21 are not consistent with those of the 2018 *Conceptual Framework*. Specifically, some items that satisfy the present

² Paragraphs 10–11 of IFRS 3.

³ Paragraph 54 of IFRS 3.

obligation recognition criterion as it is described in the 2018 *Conceptual Framework* do not meet that criterion as described in IAS 37. Consequently, updating the IFRS 3 reference to the *Conceptual Framework* could have required acquirers to recognise on the acquisition of a business liabilities that they would be required to derecognise subsequently (resulting in ‘day 2’ gains).

25. To avoid this outcome, the IASB made a second amendment to IFRS 3 when it updated the reference. It added to IFRS 3 an exception to the initial recognition principle. The exception applies to liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination. It specifies that an entity applies IAS 37 or IFRIC 21 (not the 2018 *Conceptual Framework*) to determine whether to recognise a liability for those items at the acquisition date.
26. The exception is set out in paragraphs 21A–21C in IFRS 3. It is included in the extract from IFRS 3 reproduced in the appendix to this paper.
27. The IASB viewed the exception as a temporary fix. When it issued the amendments to IFRS 3, it added to its website a statement that:

The Board expects this exception to remain in IFRS 3 for as long as the definition of a liability in IAS 37 differs from the definition in the latest version of the *Conceptual Framework*. The Board plans to consider aligning the definitions [as part of a project to make targeted improvements to IAS 37](#).⁴

Staff analysis and conclusions

28. At its April 2024 meeting, the IASB tentatively decided to propose amendments to IAS 37 that would include:

⁴ Project page: [‘About’ Updating a Reference to the Conceptual Framework \(Amendments to IFRS 3\) project page](#).

- (a) updating the definition of a liability and the wording of the present obligation recognition criterion applied in IAS 37 to align them with the 2018 *Conceptual Framework*; and
 - (b) replacing the requirements supporting the present obligation recognition criterion with new requirements based on concepts in the 2018 *Conceptual Framework*, and then withdrawing IFRIC 21;
29. We think that those amendments, which are explained further in IASB April 2024 [Agenda Paper 22A Provisions—Targeted Improvements—Present obligation recognition criterion](#), would eliminate the inconsistency between the IFRS 3 recognition principle and IAS 37 recognition criteria, rendering the exception in IFRS 3 redundant.

Staff recommendation and question for the IASB

30. We recommend proposing to delete paragraphs 21A-21C from IFRS 3, to remove from that Standard an exception to its recognition principle that would become redundant as a result of the proposed amendments to IAS 37.
31. Indicative drafting for the proposed deletion is shown in the appendix to this paper.

Question 3 for the IASB

Do you agree with the staff recommendation in paragraph 30?

Other more minor consequential amendments

32. Several other IFRS Accounting Standards refer to IAS 37, with their references including terminology from IAS 37. Some of that terminology will change as a result of the amendments proposed as part of this project. Consequential amendments to the

other Standards would be needed to ensure their wording remains consistent with that in IAS 37. Having searched IFRS Accounting Standards and Implementation Guidance for references to IAS 37 and for some IAS 37-specific terminology⁵, we think that all of these consequential amendments would be relatively minor. An example of a potential minor consequential amendment is shown in paragraphs 22 and 23 of the extract from IFRS 3 in the appendix to this paper.

33. The Exposure Draft of proposed amendments to IAS 37 could include a proposal to make those minor consequential amendments. The Exposure Draft could include a list of the Standards and paragraphs we have identified for amendment, without necessarily drafting all the consequential amendments. As explained in paragraph 6.2(b) of the [Due Process Handbook](#), ‘the consequential amendments need not be set out in as much detail [in an exposure draft] as they would be in a final IFRS Standard, particularly where such amendments are changes to cross-references or terminology and other matters that are more editorial’.
34. The staff intend to prepare a list of potential minor consequential amendments and ask the IASB to approve proposals for those amendments as part of the balloting process for the Exposure Draft.

⁵ For example, ‘obligating event’, ‘outflow of resources’, ‘present obligation’.

Appendix—Indicative drafting for consequential amendments to IFRS 3 *Business Combinations*

Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree

Recognition principle

- 10 As of the acquisition date, the acquirer shall recognise, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. Recognition of identifiable assets acquired and liabilities assumed is subject to the conditions specified in paragraphs 11 and 12.

Recognition conditions

- 11 To qualify for recognition as part of applying the acquisition method, the identifiable assets acquired and liabilities assumed must meet the definitions of assets and liabilities in the *Conceptual Framework for Financial Reporting* at the acquisition date. For example, costs the acquirer expects but is not obliged to incur in the future to effect its plan to exit an activity of an acquiree or to terminate the employment of or relocate an acquiree's employees are not liabilities at the acquisition date. Therefore, the acquirer does not recognise those costs as part of applying the acquisition method. Instead, the acquirer recognises those costs in its post-combination financial statements in accordance with other IFRSs.

...

Exceptions to the recognition or measurement principles

- 21 This IFRS provides limited exceptions to its recognition and measurement principles. Paragraphs [21A22](#)–31A specify both the particular items for which exceptions are provided and the nature of those exceptions. The acquirer shall account for those items by applying the requirements in paragraphs [21A22](#)–31A, which will result in some items being:
- (a) recognised either by applying recognition conditions in addition to those in paragraphs 11 and 12 or by applying the requirements of other IFRSs, with results that differ from applying the recognition principle and conditions.
 - (b) measured at an amount other than their acquisition-date fair values.

Exceptions to the recognition principle

Liabilities and contingent liabilities within the scope of IAS 37 or IFRIC 21

~~21A—Paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or IFRIC 21 *Levies* if they were incurred separately rather than assumed in a business combination.~~

Deletion explained in paragraphs 14–22 of this paper.

~~21B—The *Conceptual Framework for Financial Reporting* defines a liability as ‘a present obligation of the entity to transfer an economic resource as a result of past events’. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.~~

~~21C—A present obligation identified in accordance with paragraph 21B might meet the definition of a contingent liability set out in paragraph 22(b). If so, paragraph 23 applies to that contingent liability.~~

Contingent liabilities and contingent assets

22 IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines a contingent liability as:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that ~~an outflow~~ a transfer of economic resources ~~embodying economic benefits~~ will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

Example of a minor consequential amendment, as discussed in paragraphs 24–25 of this paper. This amendment would keep the wording in IFRS 3 consistent with the amended wording of the ‘probable outflows’ recognition criterion in IAS 37.

- 23 The acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to paragraphs 14(b), 23, 27, 29 and 30 of IAS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable that ~~an outflow~~ a transfer of economic resources ~~embodying economic benefits~~ will be required to settle the obligation. Paragraph 56 of this IFRS provides guidance on the subsequent accounting for contingent liabilities.
- 24 IAS 37 defines a contingent asset as ‘a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity’. The acquirer shall not recognise a contingent asset at the acquisition date.