Wednesday, 12 March 2025

Dr Andreas Barckow
Chair
International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

Via online submission: www.ifrs.org

Dear Andreas

Exposure Draft: Provisions – Targeted Improvements, Proposed amendments to IAS 37

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout Australia, New Zealand and internationally. We welcome the opportunity to provide feedback on the above Exposure Draft (the ED) and make this submission on behalf of our members and in the public interest.

We welcome the International Accounting Standard Board (IASB) efforts to develop targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Overall and in principle, we support the amendments proposed in the ED, however our outreach indicates that whilst there is support for the proposals relating to measurement, there are some concerns around the recognition proposals having broader consequences than the IASB intended when developing the targeted amendments.

Amendments relating to recognition criteria

Disaggregating the present obligation recognition criterion has the potential to enhance the logical flow of the assessment, enabling a focused analysis of each component. This approach can provide critical guidance while preserving a preparer's ability to exercise professional judgement. However, through our outreach, we have heard concerns from members and stakeholders that the IASB's intent to clarify existing principles of the present obligation recognition criterion has the potential to create more complexity and inadvertently give rise to new uncertainties in application. Therefore, we suggest the IASB undertakes further research and outreach on these proposals before finalising the amendments to recognition criteria. We have also suggested some further improvements to reduce potential misinterpretation and unnecessary diversity in practice.

CHARTERED ACCOUNTANTS AUSTRALIA + NEW ZEALAND

Chartered Accountants Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA AUSTRALIA

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Amended measurement requirements

We welcome the IASB's proposals to clarify the costs an entity should include when estimating future expenditures required to settle an obligation, and to specify that an entity discounts this expenditure at a rate reflecting the time value of money, represented by a risk-free rate, without adjustment for non-performance risk. We believe these clarifications will enhance consistency and reduce diversity in practice.

Guidance and illustrative examples

Subject to the concerns raised above in relation to the recognition criteria amendments, we support the proposed amendments to the *Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets.* Our members have conveyed that the revisions effectively illustrate the application of the three criteria for the present obligation recognition. In particular, we appreciate the new Examples 14 and 15 relating to low emission vehicle credits and climate commitments respectively, given their topical nature and the significant stakeholder demand for application guidance in these areas.

Transitional provisions

While we acknowledge the constructive measures taken with the proposed amendments, we must also address the concerns raised by our members regarding the proposed transition requirements. Many members found the inconsistent dates for the proposed simplifications to retrospective application confusing and unnecessarily convoluted. Furthermore, despite the principles of IAS 37 remaining unchanged under the proposals in the ED, there remains concern around the considerable time and resources required to reassess transactions under the clarified principles. We also encourage the IASB to carefully consider the mandatory effective date of 1 January 2027 for IFRS 18 *Presentation and Disclosure in Financial Statements* when deciding the effective date for these amendments, as our members are already committing substantial resources to ensure implementation readiness for this new IFRS Accounting Standard.

Our detailed responses to the specific questions raised in the ED are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Amir Ghandar (CA ANZ) at Amir.Ghandar@charteredaccountantsanz.com or Ram Subramanian (CPA Australia) at Ram.Subramanian@cpaaustralia.com.au.

Sincerely

Simon Grant FCA
Group Executive – Advocacy and International Development
Chartered Accountants Australia and New Zealand

Elinor Kasapidis
Chief of Policy, Standards and External Affairs
CPA Australia

Attachment

Responses to consultation questions

Question 1—Present obligation recognition criterion

The IASB proposes:

- **to update the definition of a liability in IAS 37 Provisions, Contingent Liabilities and Contingent Assets to align it with the definition in the Conceptual Framework for Financial Reporting (paragraph 10);**
- **to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));**
- **to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and**
- **to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).**

The proposals include withdrawing IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment and IFRIC 21 Levies (paragraph 108).

Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

Updating the definition of a liability and aligning the recognition criteria

We agree that aligning the definition of a liability in IAS 37 to the Conceptual Framework definition will contribute to more accurate and reliable financial reporting. For the same reason, we support aligning the wording of the present obligation recognition criterion with the updated definition of a liability. Considering IAS 37 is currently the only IFRS Accounting Standard that uses a definition of a liability predating the Conceptual Framework, we support proposals seeking alignment across all IFRS Accounting Standards to facilitate consistent and transparent financial reporting.

In addition, we anticipate that this uniformity will reduce uncertainty for preparers when developing accounting policies for transactions not explicitly addressed in any IFRS Accounting Standard, ensuring a more coherent application of accounting principles.

However, some members have noted that a proposed change to paragraph 10 disrupts the logical continuity of the definition. As currently proposed, the definition of a liability is

immediately followed by the definitions of a legal and constructive obligation. To improve readability, we suggest including the connecting sentence "*An obligation can be legal or constructive*" between the definitions.

Amended requirements for applying the present obligation recognition criterion

While we support in principle the disaggregation of the present obligation recognition criterion into three distinct conditions, we have received feedback from stakeholders that the proposed wording of the requirements for applying these conditions has introduced new complexities and interpretation concerns that would benefit from further consideration by the IASB. As noted in our cover letter, there is some concern that these proposals could have far-reaching, uncertain consequences that should be considered by the IASB before finalising the amendments.

- ***Economic consequences of not discharging an obligation***

  The current wording of paragraph 14F(a)(ii) outlines the economic consequence of failing to discharge a legal obligation but does not address the economic consequence of not fulfilling a constructive obligation. In practice, failing to meet a constructive obligation can also result in significant economic consequences. The current structure of this paragraph may mislead users into assuming that economic consequences are only relevant where there is a legal obligation.

- ***Distinction between a transfer and an exchange***

  Paragraph 14L distinguishes between a transfer and an exchange. This introduces a distinction that preparers may not have considered in the past, potentially requiring reassessment of existing obligations. Further consideration should be given to the introduction of this distinction and any additional guidance to assist in consistent application of the requirements.

  In its current form, paragraph 14L does not clarify that certain transfers may be perceived as exchanges where a service is received in return, stating "*an obligation to exchange economic resources with another party is not an obligation to transfer an economic resource to that party unless the terms of the exchange are unfavourable to the entity*". This wording risks inadvertently excluding provisions where an entity receives some form of right or benefit in exchange for the transfer. For instance, some stakeholders view a levy as an exchange as the entity receives the right to operate in return for the payment.

- ***Past event condition***

  Paragraph 14Q stipulates an entity has an obligation to transfer an economic resource only if it takes two (or more) separate actions, and the requirement to transfer an economic resource is a consequence of taking both (or all) of these actions. The rationale behind this principle is unclear and introduces concern that judgement required to determine what constitutes a distinct "action" could give rise to unnecessary diversity in practice.

Furthermore, some clarity is needed to assist preparers in distinguishing actions from measurement basis. There is inconsistency between Example 13A and Example 13B as it is currently worded. Example 13A treats generating revenue in 20X0 as an 'action', while Example 13B identifies two actions: operating during the reporting period and as a bank on the last day. The pro rata charge adjustment in Example 13B implies that operating as a bank is necessary to trigger the obligation, not just a measurement basis. We therefore suggest that the IASB give further consideration to clarifying this distinction within these illustrative examples.

- ***Example of an executory contract***

  The current wording of paragraph 14L cites an example of "a contract to receive goods in exchange for paying cash". Some members raised concerns that omitting "services" from this example could imply that only receiving goods, not services in exchange for paying cash is not an obligation to transfer an economic resource. This language implies that contracted services such as legal, marketing or consultancy could be considered an obligation to transfer an economic resource with no reciprocal benefit. This creates the risk of unintended consequences such as unnecessary and costly reassessment of entities' existing obligations. To mitigate this risk, we suggest a simple amendment to the example: "*a contract to receive goods* ***or services*** *in exchange for paying cash*", to reduce potential misunderstanding.

Withdrawal of IFRIC Interpretations

Broadly, our members support the withdrawal of IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* (IFRIC 6) and IFRIC 21 *Levies* (IFRIC 21), however there were some concerns with the adequacy of proposed Examples 13A and 13B as a replacement for IFRIC 21. While the proposed examples concisely outline the application of the three distinct present obligation recognition criteria, members noted that the considerations that may arise from applying these examples to different fact patterns are more judgement based. In contrast, IFRIC 21 is less ambiguous in application of the principles. Removing this clarity may have the unintended consequence of increasing diversity in practice. We also note that given these amendments will apply to all obligations within the scope of IAS 37 and not just to levies, consideration should be given toother unintended consequences that may arise. To mitigate this, we suggest that the IASB issue additional guidance in the form of educational materials on treatment of levies, given their prevalence in practice.

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

Chartered Accountants
Australia and New Zealand
33 Erskine Street, Sydney, NSW 2000
P: +61 1 9290 1344
W: charteredaccountantsanz.com
ABN: 50 084 642 571

CPA AUSTRALIA

CPA Australia
L20, 28 Freshwater Place, Southbank
Victoria 3006
P: +1300 73 73 73
W: cpaaustralia.com.au
ABN 64 008 392 452

Question 2—Measurement—Expenditure required to settle an obligation

The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A).

Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?

We support the proposed specification of costs an entity includes in estimating the future expenditure required to settle an obligation. The clarified requirements will help improve consistency and comparability in practice, providing more valuable information for users of financial statements.

However, some members have expressed uncertainty around determining the "allocation of other costs that relate directly to the obligation" in paragraph 40A(b). There is a high level of judgement required by entities to determine which costs "relate directly" to the obligation and this may result in diversity in practice amongst entities. For example, concerning a restoration provision, whether a portion of the salaries and wages of the employees engaged on that project should be included in the future expenditure required to settle the obligation. Without additional guidance, there is a risk that excessive costs will be recognised, inflating the balance of the provision.

To ensure accurate and reasonable allocation of costs, we recommend the IASB consider including examples within the body of the Standard, similar to IFRS 15 *Revenue from Contracts with Customers* and IFRS 17 *Insurance Contracts* outlining what types of costs are considered to "relate directly" to common types of provisions (for example, warranty obligations, restoration and make-goods, legal claims and environmental commitments).

Question 3—Discount rates

The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money – represented by a risk-free rate – with no adjustment for non-performance risk (paragraphs 47–47A).

The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)).

Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with:

a) **the proposed discount rate requirements; and**

b) the proposed disclosure requirements?

Why or why not? If you disagree, what would you suggest instead?

Overall, we support the proposed amendment clarifying that entities discount the future expenditures needed to settle an obligation at a rate reflecting the time value of money (represented by a risk-free rate) and the risks associated with the amount or timing of the expenditure, excluding non-performance risk. Our outreach indicates preparers are supportive of the proposed requirements and believe they will improve comparability of financial statements. However, we recommend the following clarifications to assist in reducing diversity in practice.

- ***Non-performance risk in expected cash flows of provisions***

  The ED specifies that non-performance risk should be excluded from the discount rate. To prevent ambiguity, we suggest that the final amendments explicitly state that non-performance risk should also be excluded from the expected cash flows associated with the provisions. This clarification would ensure that non-performance risk is entirely omitted from the valuation of provisions.

- ***Operations involving foreign currency***

  Our outreach identified some uncertainty around which discount rate should be used when calculating the time value of money in operations involving foreign currency. Guidance material, including an example considering whether an entity applies discounting using their operational or local currency, would be useful.

The proposed disclosure requirements are also reasonable and will provide useful information for users of the financial statements.

Question 4—Transition requirements and effective date

a) Transition requirements

The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E).

Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

b) Effective date

If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements.

Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

a) Transition requirements

On balance, we agree with the IASB's proposal of a general requirement for retrospective application with the two simplifying exceptions proposed in paragraphs 94D and 94E. We support a retrospective approach as it ensures consistency and comparability across different financial periods and contributes to more accurate and useful financial statements, and we agree with the IASB's reasoning for providing the simplifying exceptions.

However, concerns have been raised by our members regarding potential confusion and issues introduced by proposing that these exceptions be applied at two different application dates:

- The exception in relation to the costs an entity includes in the measurement of a provision (paragraph 94D) is proposed to be applied as of the date of initial application (as defined in proposed paragraph 94B(b)).
- The exception in relation to the requirements on discount rates (paragraph 94E) is proposed to be applied at the transition date (as defined in proposed paragraph 94B(a)).

This could lead to confusion and misapplication. Consistency in application is essential to support clear and reliable financial reporting. In addition, applying recognition principles at different times could result in increased variances and distorted comparisons, exacerbated by the explicit exclusion of restated comparative information under paragraph 94D(b). Such unusual movements could necessitate extensive note disclosures potentially undermining user understandability and and conflicting with the fundamental purpose of disclosures i.e., to enhance clarity and provide meaningful context to the financial statements. Based on our outreach, we recommend that the IASB consider offering an option to restate comparatives when the necessary information is available, as this would promote comparability across periods.

b) Effective date

When setting the implementation date for these changes, we suggest the IASB considers the effective dates of other recent amendments or new IFRS Accounting Standards, such as IFRS 18 *Presentation and Disclosure in Financial Statements*. The proposed retrospective application will likely require preparers to restate comparatives and include supplementary note disclosures. Implementation challenges may arise if there is insufficient time between the effective dates.

Additionally, although these are targeted amendments, they involve substantial changes for some preparers due to the additional context and disaggregation of the present obligation recognition criterion. Concerns have been raised about the cost and time required to

reassess transactions and ensure appropriate treatment under the clarified criteria. This should also be considered when determining the effective date to allow sufficient preparation time and ensure reliable and accurate financial statements consistent with IFRS Accounting Standards.

Question 5—Disclosure requirements for subsidiaries without public accountability

The IASB proposes to add to IFRS 19 Subsidiaries without Public Accountability: Disclosures a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B).

Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?

Australia and New Zealand do not apply IFRS 19 presently, therefore we have not commented on these proposals.

Question 6—Guidance on implementing IAS 37

The IASB proposes amendments to the Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It proposes:

a) **to expand the decision tree in Section B**
b) **to update the analysis in the illustrative examples in Section C; and**
c) **to add illustrative examples to Section C.**

Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not?

Do you have any other comments on the proposed decision tree or illustrative examples?

We support updating the decision tree in Section B of the Guidance on implementing the requirements in IAS 37. It provides a useful visual aid for the amendments to the present obligation recognition criterion. In addition, we acknowledge the IASB's intent to provide more clarity around the distinction between a provision and a contingent liability through the updated decision trees. This guidance could be further improved by including an illustrative example that applies this deductive process in a practical context.

Broadly, we support the proposed amended and additional illustrative examples. Specifically, we commend the IASB for including Examples 14 and 15 to address increasing demand for climate-related illustrative examples and guidance. In addition, the table-based approach of structuring the examples is particularly helpful and assists in outlining the concepts in a logical and digestible manner. An improvement to the illustrative examples would be to reference the relevant paragraph of IAS 37, thereby providing a clearer roadmap to the requirements being applied. In addition, we wish to highlight the unanimous consensus asking for additional examples. The IASB should be open to releasing additional guidance or educational material as the revised Standard is put into practice and different application issues arise.

As highlighted in our recent joint submission on climate-related and other uncertainties in the financial statements, we wish to highlight that access to Implementation Guidance on the IFRS Foundation website requires a paid subscription which may be cost prohibitive for some and therefore pose a barrier to access. As a result, the IASB's intent in improving these examples may not provide the desired benefit. To improve access and utility, we recommend that the IASB consider transferring the examples into the main body of IAS 37 as Application Guidance that is an integral part of the standard, akin to the approach taken in IFRS 9 *Financial Instruments*.

Question 7—Other comments

Do you have comments on any other aspects of the proposals in the Exposure Draft?

There is some apprehension among members regarding the proposed amendment to the definition of an executory contract in paragraph 3, which introduces the concept of "a portion of a contract". There is uncertainty on how a contract could be split in practice for this purpose, particularly for more complex service arrangements. We suggest the IASB reconsider this amendment, as it could lead to increased application uncertainty and possible unintended consequences.