Feedback Statement

Provisions – Targeted Improvements

Final Comment Letter (FCL)

27 February 2025

UK Endorsement Board

The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS for use in the UK and therefore is the UK's National Standard Setter for IFRS. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations.

The comment letter to which this feedback statement relates forms part of those influencing activities and is intended to contribute to the IFRS Foundation's due process.

The views expressed by the UKEB in its comment letter are separate from, and will not necessarily affect the conclusions in, any endorsement and adoption assessment on new or amended international accounting standards undertaken by the UKEB.

Contents

UKEB
UK Endorsement Board

	Page
Purpose of this document	4
The IASB's Exposure Draft	5
Outreach approach	6
UKEB and stakeholder views	7 - 15

Purpose of this document

This document presents the views of UK stakeholders on the UKEB's Draft Comment Letter on the IASB's Exposure Draft (ED) *Provisions – Targeted Improvements* and explains how the UKEB's Final Comment Letter addressed those views.

The IASB's Exposure Draft

UK Endorsement Board

On 12 November 2024, the International Accounting Standards Board (IASB) published the Exposure Draft (ED) IASB/ED/2024/8 *Provisions - Targeted Improvements* proposing amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37).

In the ED, the IASB proposed targeted improvements to three aspects of IAS 37:

1. one of the criteria for recognising a provision - the requirement for the entity to have a present obligation as a result of a past event (the present obligation recognition criterion); and
2. two aspects of the requirements for measuring a provision – those relating to:
   a) the costs an entity includes in estimating the future expenditure required to settle its present obligation; and
   b) the rate an entity uses to discount that future expenditure to its present value.

The IASB is also proposing amendments to the *Guidance on implementing IAS 37*. These amendments would update the guidance on applying the present obligation recognition criterion to reflect the proposed amendments to the requirements.

Outreach approach

UKEB
UK Endorsement Board

The UKEB's outreach activities took place between June 2023 and February 2025 and were conducted to develop the UKEB Comment Letter on the ED.

Outreach activities included discussions with the following UKEB Advisory and Working Groups:

- Academic Advisory Group
- Accounting Firms and Institutes Advisory Group
- Investor Advisory Group
- Preparer Advisory Group
- Financial Instruments Working Group
- Rate-regulated Activities Technical Advisory Group

In addition, an investor roundtable was held and there were one-to-one meetings with accounting firms, users, preparers, a standard setter, regulators, and a government body.

Public consultation of the UKEB's Draft Comment Letter (DCL) was conducted for 52 days between 20 December 2024 and 10 February 2025.

Stakeholder Engagement (before and after issue of DCL)	
Stakeholder type	No. of organisations
Accounting firm	6
Regulators and Government body	3
Preparer	1
Standard setter	1
User	1
UKEB Advisory & Working Groups	*
Investor roundtable	8

* The UKEB Advisory/Working Groups have multiple members, representing a variety of stakeholder types. The groups we engaged with comprise 57 members. Information about these groups can be accessed here.

The UKEB promoted awareness of the DCL and encouraged stakeholders to respond through the UKEB website, the UKEB subscriber news alerts and by sharing the DCL with our outreach participants.

One comment letter was received from a preparer. This was in addition to the engagements shown in the table.

When stakeholders agreed with the DCL position and where there has been no substantive change in drafting from the DCL, this feedback has been excluded from the summary of feedback presented on the following slides.

All comments and views were considered in reaching the final UKEB views on the questions raised by the IASB in the ED.

UKEB and stakeholder views

ED Question 1- Present obligation recognition criterion

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Update the definition of a liability in IAS 37 (paragraph 10) to align it with the definition in the 2018 Conceptual Framework for Financial Reporting (Conceptual Framework).	• Supported updating the definition of a liability in IAS 37 to align it with that in the Conceptual Framework. • Highlighted that this could help preparers of financial statements when developing an accounting policy for a transaction that is not specifically addressed by any IFRS Accounting Standard, by removing the need to make a judgement about which definition to apply.	• Stakeholders were supportive of the UKEB's position. They agreed that the update in definition would be easier for preparers to apply in practice.	As a result of further Board consideration of the ED proposals: • The Final Comment Letter (FCL) did not comment on these aspects of the proposals (i.e. updates to the definition of a liability and alignment of the wording of the present obligation recognition criterion). • The FCL expressed significant concerns about the proposed amendments to the recognition criteria and recommended the IASB reconsider its approach. Refer to **next slide** for further details.
• Alignment of the wording of the present obligation recognition criterion in IAS 37 (paragraph 14(a)) with the proposed updated definition of a liability.	• Agreed that the updated definition provides the framework for the proposed amendments to the recognition criteria.	• Stakeholders were generally supportive of the UKEB's position. However, one stakeholder reflected on the change in terminology from 'outflow of resources embodying economic benefits' to 'transfer of an economic resource' in determining if a provisions exists. That stakeholder considered that this change would cause confusion for preparers of the financial statements.	

UKEB and stakeholder views

ED Question 1- Present obligation recognition criterion

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Amendment of the requirements for applying the present obligation recognition criterion (IAS 37 paragraphs 14A-16 and 72-81). • Withdrawal of: • IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*. • IFRIC 21 *Levies*.	• Supportive of the objective of clarifying the recognition criteria. Concerned, however, that the proposals may create new interpretation issues. The intended application of the proposals was not clear in the following areas: a) Transfer condition – a clear principle was needed to clarify the difference between a transfer and an exchange. Without further clarification there is a risk of confusion and increased diversity in practice. b) Past event condition - The underlying principle behind the requirements in relation to obligations to transfer an economic resource only if an entity takes two (or more) separate actions was not clear. c) Guidance - The analysis in some of the examples in the Guidance appeared to be inconsistent or contradictory.	• Stakeholders were supportive of UKEB's position. They expressed similar concerns in the following areas: a) Transfer condition – Most agreed it is not always clear whether a transaction would be considered an exchange or a transfer. They suggested the IASB scope out non-reciprocal transactions and account for them differently. b) Past event condition – Most were of the view that the proposals are complex and lack clarity as to their intended application. They raised concerns about the risk of potential unintended consequences. c) Guidance – Stakeholders had significant challenges with the illustrative examples which some found overly simplistic and not representative of real-life transactions. Many flagged examples 13A-13C as problematic, considering the rationale for the different conclusions reached was unclear. They considered this could lead to diversity in interpretation.	As a result of further Board consideration of the ED proposals: • Expressed concerns that the proposed amendments to the recognition criteria lack clarity and are likely to increase the risk of diversity in practice and unintended consequences. • Recommended that the IASB reconsiders its approach to improving IAS 37. We consider the IASB's immediate focus should be on the clarification of the requirements relevant for non-levy obligations that have given rise to application challenges in the past. • Highlighted areas where further clarity is needed if the IASB nevertheless decided to finalise the proposed amendments, including: <u>Obligation condition</u>: • Intended application of the assessment of whether economic consequences of not discharging a legal responsibility would be *significantly worse* than the costs of not discharging it, as part of the '*no practical ability to avoid* test in paragraph 14F. • Reconsideration of terminology used. <u>Transfer condition</u>: • Distinction between 'transfer' and 'exchange'. <u>Past-event condition</u>: • Explanation/definition of 'action'. • Distinction between action and measurement basis. • Whether the complex requirements in ED 14Q are needed for non-levies. • Intended application of the threshold-triggered costs requirement (ED 14P).

UKEB and stakeholder views

UK Endorsement Board

ED Question 2 - Measurement – Expenditure required to settle an obligation

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Specified the costs an entity includes in estimating the future expenditure required to settle an obligation (IAS 37 paragraph 40A).	• Broadly supported the proposed clarification of the costs an entity includes in estimating the future expenditure required to settle an obligation. • Recommended that further consideration should be given as to how the proposed amendment would be applied to certain obligations not settled by the provision of goods or services, such as legal claims.	• Stakeholders were generally supportive of UKEB's position. Although they welcomed the clarification provided by the proposals, most stakeholders considered that further guidance was needed on which costs should be included, especially for long-term obligations. • Questioned the intended application of the proposed requirement for certain costs, such as legal costs.	• Consistent with draft position. • Highlighted the need for further clarification to facilitate consistent application. • In particular, requested clarification on whether the proposed amendments are only applicable to those provisions settled by providing goods or services and if so, suggested that should be explicitly stated in the Standard. • If applicable to all provisions, further guidance should be provided as to the intended application to obligations not settled by the provision of goods or services, such as legal claims.

UKEB and stakeholder views

UK Endorsement Board

ED Question 3 - Discount rates (risk-free rate)

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Specified 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 (IAS 37 paragraphs 47-47A).	• On balance, supported the proposed amendment to require entities to discount the future expenditures expected to be 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. • Noted, however, that measuring a provision with no adjustment for non-performance risk would create a disconnect with the measurement principle specified in IAS 37 paragraph 37 and is arguably difficult to reconcile with paragraphs 6.15 and 6.20 of the Conceptual Framework. Suggested clarifying that the proposed amendment is an exception to the measurement principle as envisaged in paragraph 6.92 of the Conceptual Framework.	• Stakeholders were supportive of UKEB's position. • Some stakeholders, mainly users of accounts, noted that the IASB decision (ED BC81) not to provide additional guidance for risk-free rates may have a significant effect depending on what risk-free rate was used, potentially affecting comparability.	• Consistent with draft position. • Acknowledged the IASB decision noted in BC81-BC82 and made some recommendations to the IASB on disclosures, which are reflected on the following slide.

UKEB and stakeholder views

UKEB
UK Endorsement Board

ED Question 3 - Discount rates (Disclosures)

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Required entities to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (IAS 37 paragraph 85(d)).	• Supported the proposed requirement to disclose the discount rate(s) used and the approach used to determine such rate(s). • Held the view that the proposed disclosures would result in useful information for users of accounts.	• Many stakeholders were supportive of UKEB's position. They were of the view that this would reduce diversity in practice. • Some stakeholders, particularly users of accounts, suggested the following: a) Application guidance is needed on how to include adjustment for variability risk and the magnitude of such adjustment. They added that for investors to have confidence in the amount provided, disclosures were required when there is uncertainty about amount or timing. b) They also suggested that it would be helpful if entities disclosed clearly the sensitivity analysis of the discount rates. They believed this was particularly important in the energy sector, given the rapid growth of decommissioning and environmental provisions.	• Consistent with draft position. • To provide information that would allow users of accounts to make better informed decisions: • Suggested requiring more granular disclosure in relation to the approach used to determine the discount rate, that is, not only that an entity uses a risk-free rate, but identifying the actual rate used (e.g. UK gilt yields, swap rates or other). • Suggested requiring disclosure of a sensitivity analysis to changes in discount rates. • Suggested requiring more specific disclosures about the measurement uncertainty of provisions.

UKEB and stakeholder views

UK Endorsement Board

ED Question 4 - Transition requirements and effective date

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Transition requirements - Required the proposed amendments to be applied retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, except for: a) Changes to an entity's accounting policy for the costs it includes in the measure of a provision to comply with ED paragraph 40A. [Required] b) Changes to an entity's accounting policy for determining discount rates to comply with ED paragraphs 47-47A. [Optional]	• Broadly supported the proposed retrospective application of the requirements, with the two exceptions in proposed paragraphs 94D and 94E, relating to the measurement requirements. • Recommended the IASB considers whether both exceptions should be applied at the same date (i.e. date of initial application or transition date).	• Stakeholders were supportive of UKEB's position.	• Consistent with draft position. • Requested clarification on the discount rate to be used for purposes of the transition requirements proposed in 94E. • Given the complexity of the transition requirement, suggested adding to IAS 37 an illustrative example based on that presented at the IASB June 2024 meeting.

UKEB and stakeholder views

UK Endorsement Board

ED Question 5 - Disclosure requirements for subsidiaries without public accountability

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• Added to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement to disclose the discount rate (or rates) used in measuring a provision. • Did not add a requirement to disclose the approach used to determine the discount rate (or rates).	• Supported the proposed requirement in IFRS 19 to disclose the discount rate (or rates) used in measuring a provision.	• Stakeholders were supportive of UKEB's position.	• Consistent with draft position.

UKEB and stakeholder views

UK Endorsement Board

ED Question 6 - Guidance on implementing IAS 37

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position

• Amended the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets:
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.
	• Supported the proposed amendments to the decision tree in Section B and to the illustrative examples in the *Guidance on implementing IAS 37.*
	
	• Noted that some of the analysis could be perceived as inconsistent or contradictory. Suggested that the examples currently in the Guidance should be transferred to the main body of the standard, as application guidance that is an integral part of the standard.
		• Stakeholders were generally supportive of UKEB's position.
		
		• One stakeholder, however, considered that part B2 of the decision tree, as it is currently drafted, is unhelpful because it does not consider the past event condition.
			As a result of further Board consideration of the ED proposals:
			
			• Expressed concerns about the proposed amendments to the recognition criteria and recommended that the IASB reconsiders its approach to improving IAS 37.
			
			• If the IASB nevertheless decided to finalise the proposed amendments, highlighted areas where further clarity is needed, mainly affecting the following illustrative examples:
			  • 5A/5B (restructuring);
			  • 6 (smoke filters);
			  • 7 (staff retraining);
			  • 11A (refurbishment costs – furnace lining);
			  • 11B (refurbishment costs – aircraft overhaul);
			  • 13A-13C (levies); and
			  • 14 (negative low-emission. vehicle credits).

UKEB and stakeholder views

UK Endorsement Board

ED Question 7 - Other comments

IASB Proposals	UKEB Draft Position	Further stakeholder views	UKEB Final Position
• The IASB requested for other comments on any other aspects of the proposals in the ED.	• Recommended that the IASB considers whether an exception to the measurement principle in IFRS 3 is needed for provisions in scope of IAS 37.	• Stakeholders were supportive of UKEB's position.	• Consistent with draft position.

Disclaimer

This Feedback Statement has been produced to set out the UKEB's response to stakeholder comments received on the UKEB's Draft Comment Letter on the IASB's Exposure Draft *Provisions – Targeted Improvements*.

The views expressed in this Feedback Statement are those of the UK Endorsement Board at the point of publication.

Any sentiment or opinion expressed within this Feedback Statement will not necessarily bind the conclusions, decisions, endorsement or adoption of any new or amended IFRS by the UKEB.

Contact Us

UK Endorsement Board

6th Floor | 10 South Colonnade | London | E14 4PU

www.endorsement-board.uk