UK Endorsement Board

Provisions – Targeted Improvements – Final Comment Letter

Executive Summary

Project Stage							
IASB	Research / Pipeline	Discussion paper	Redeliberation	Exposure Draft	Redeliberation	Final standard	Post Implementation Review
UKEB	Research / Influencing	Research / Influencing	Monitoring	Influencing	Monitoring	Endorsement	Influencing

Project Scope	Moderate

Purpose of the paper

The purpose of this paper is to obtain the Board's:

a) approval to issue a Final Comment Letter (FCL) (Appendix A) in response to the IASB Exposure Draft (ED) *Provisions – Targeted Improvements*;

b) approval for the publication of the Feedback Statement (Appendix B); and

c) feedback on the draft Due Process Compliance Statement (DPCS) (Appendix C).

Summary of the Issue

The IASB published its ED in November 2024, proposing targeted amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The IASB comment period closes on 12 March 2025.

The UKEB Draft Comment Letter (DCL) was published on 20 December 2024 for stakeholder consultation. The DCL set out concerns that the proposals as drafted may create new interpretation issues.

At its December 2024 meeting, the UKEB decided to ask for an extension to the IASB's ED comment deadline. On 28th January 2025 the IASB decided to retain the 120-day comment period. The ED comment deadline remains 12 March 2025.

The comment period on the UKEB DCL closed on 10 February 2025.

Questions and decisions for the Board

1. Do Board members have any views on the inclusion in the FCL of further recommendations for the IASB, including the possible alternative considerations presented in paragraph 16?

2. Do Board members have any additional considerations for the IASB to explore? 3. Do Board members have any views about specific work the Secretariat should perform or further Board consideration of the proposals during the IASB's redeliberations? 4. Subject to any amendments arising at this meeting, does the Board approve: a) The FCL (Appendix A) for issue to the IASB and publication on the UKEB website? b) The Feedback Statement (Appendix B) for publication on the UKEB website? 5. Does the Board have any comments on the draft DPCS for the project (Appendix C)?
Recommendation
The Secretariat recommends that, subject to any amendments agreed at this meeting, the Board approves the FCL and the Feedback Statement for issue and publication.
Appendices
Appendix A Final Comment Letter Appendix B Feedback Statement Appendix C [Draft] Due Process Compliance Statement

UK Endorsement Board

Exposure Draft: Provisions – Targeted Improvements

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

In the ED, the IASB proposes 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.

As part of the ED, the IASB also proposes withdrawing:

3. IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*;
4. IFRIC 21 *Levies;*

and replacing them with illustrative examples in the *Guidance on implementing IAS 37*.

The IASB comment period closes on 12 March 2025.

UKEB
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Background

1. On 12 November 2024, the IASB published the Exposure Draft (ED) proposing amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The IASB comment period closes on 12 March 2025.

2. The Board held an initial technical discussion on the ED at its November 2024 meeting[1]. At its December 2024 meeting[2] the Secretariat presented for Board consideration an initial technical analysis considering the application of the proposals to certain real life fact patterns relevant to some UK entities. This work helped identify key questions and areas where the UKEB believes further consideration is needed.

3. On 20 December 2024, the UKEB published its Draft Comment Letter[3]. The UKEB comment period ended 10 February 2025.

4. An additional technical discussion was held at the January 2025 meeting[4], with a focus on the key principles in the proposed amendments to the present obligation recognition criterion.

Outreach and feedback on the Draft Comment Letter (DCL)

5. Prior to the publication of the ED, the Secretariat engaged with the following UKEB Advisory/Working Groups to consider the development of the IASB proposals:

   a) Academic Advisory Group - Sep 2023 and Sep 2024.

   b) Accounting Firms & Institutes Advisory Group - Jun 2023, Jul & Nov 2024.

   c) Investor Advisory Group - Nov 2023.

   d) Preparer Advisory Group - Oct 2023 and Oct 2024.

   e) Financial Instruments Working Group - Jul 2024.

6. Subsequent to the publication of the ED, the proposed amendments were also discussed with the UKEB Rate-regulated Activities Technical Advisory Group on 29 November 2024. We also held a one-to-one discussion with an accounting firm.

7. The UKEB's DCL was informed by the Board's initial technical discussion in November 2024, by the Secretariat's preliminary technical analysis and Board

1 UKEB November 2024 Agenda Paper 6. A recording of the meeting can be accessed here.
2 UKEB December 2024 Agenda Paper 6. A recording of the meeting can be accessed here.
3 The corresponding Invitation to Comment can be found on the UKEB website.
4 UKEB January 2025 Agenda Paper 6. A recording of the meeting can be accessed here.

discussion at the December 2024 meeting and by the stakeholder outreach noted above.

8. 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.

9. During the consultation period on the UKEB's DCL, the Secretariat carried out the following outreach activities:

   a) Held further discussions with the Financial Instruments Working Group – Jan. 2025.

   b) Held an investor roundtable – February 2025.

   c) Held one-to-one engagements with six accounting firms, one preparer, one user of accounts, two regulators, one Government body and a national standard-setter (Jan. – Feb. 2025).

10. One written response to the DCL was received from a preparer and it was uploaded to the UKEB website.

11. Overall, stakeholder feedback received throughout the different outreach activities was generally supportive of the UKEB's position and concerns raised in the DCL. A recurring theme in the stakeholder feedback received was the complexity of the proposals, the perceived lack of clarity of the requirements and the significant risk of unintended consequences.

12. All feedback received during our outreach activities has been summarised and presented in the UKEB Feedback Statement (see below).

Final Comment Letter (FCL)

13. The FCL is attached as Appendix A for consideration and, subject to any amendments, the Board is asked to approve the letter for issue to the IASB and publication on the UKEB website.

14. Due to the number of changes from the DCL we have not provided a tracked changes version. We have instead shaded the areas in the FCL where there have been substantive changes.

Possible solutions

15. The FCL provides feedback to the IASB, describing the UKEB's concerns and, where possible, making recommendations. However, due to the complexity of the

project, in the time available the Secretariat has not been able to fully develop recommendations for all the concerns raised in the FCL.

16. Several of the perceived difficulties with the proposals in the ED relate to levies. During our outreach a few stakeholders have suggested that, given their non-reciprocal nature, a better approach may be to address levies separately from the generality of provisions. Such an approach might have allowed the general requirements to be less complex and risk fewer unintended consequences. Possible alternatives suggested include:

    a) Addressing the accounting for levies separately from the more general requirements within IAS 37. That could be done either within IAS 37 or as a separate standard considering all non-reciprocal transactions.

    b) Given their non-reciprocal nature, the IASB could explore whether levies could be treated as akin to taxes and accounted for in a similar manner, potentially even being brought within scope of IAS 12 *Income Taxes*.

    c) The IASB could consider creating a separate section for levies within the application guidance in IAS 37 (i.e. as part of the 'Application of the recognition and measurement rules'), setting out how the proposed new general requirements would be applied specifically to levies.

17. The Secretariat has not fully considered the individual merits of the above and considers that further work would be required to assess whether any of those alternatives would be achievable.

18. Such suggestions are not currently presented in the FCL. The Secretariat expects to continue discussions with the IASB staff during the IASB's redeliberation of the proposals.

Questions for the Board
1. Do Board members have any views on the inclusion in the FCL of further recommendations for the IASB, including the possible alternative considerations presented in paragraph 16? 2. Do Board members have any additional considerations for the IASB to explore? 3. Do Board members have any views about specific work the Secretariat should perform or further Board consideration of the proposals during the IASB's re-deliberations?

Feedback Statement

19. The Feedback Statement is attached as Appendix B for consideration and, subject to any amendments arising at this meeting, the Board is asked to approve it for publication on the UKEB website.

[Draft] Due Process Compliance Statement (DPCS)

20. The [draft] DPCS is attached for consideration as Appendix C. A final version will be presented at the March 2025 meeting for noting, once the final project steps are completed.

Questions for the Board
4. Subject to any amendments arising at this meeting, does the Board approve: a) The FCL (Appendix A) for issue to the IASB and publication on the UKEB website? b) The Feedback Statement (Appendix B) for publication on the UKEB website? 5. Does the Board have any comments on the [draft] DPCS for the project (Appendix C)?

Next steps

21. Following approval and any amendments required by the Board, the FCL will be submitted to the IASB by the ED comment period deadline. The FCL together with the Feedback Statement will be published on the UKEB project webpage. The [draft] DPCS will be updated to reflect the Board's feedback and final project steps, and then presented to the Board at the March 2025 meeting for noting.

UKEB
UK Endorsement Board

Dr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London
E14 4HD

[XX March 2025]

Dear Mr Barckow

Exposure Draft IASB/ED/2024/8 *Provisions – Targeted Improvements*

1. The UK Endorsement Board (UKEB) is responsible for endorsement and adoption of IFRS Accounting Standards for use in the UK and therefore is the UK's National Standard Setter for IFRS Accounting Standards. The UKEB also leads the UK's engagement with the IFRS Foundation on the development of new standards, amendments and interpretations. This letter is intended to contribute to the Foundation's due process. The views expressed by the UKEB in this 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.

2. There are currently approximately 1,400 entities with equity listed on the London Stock Exchange that prepare their financial statements in accordance with IFRS.[1] In addition, UK law allows unlisted companies the option to use IFRS and approximately 14,000 such companies currently take up this option.[2]

3. We welcome the opportunity to provide comment on the International Accounting Standards Board (IASB)'s Exposure Draft (ED) *Provisions – Targeted Improvements*.

4. We commend the IASB's efforts to improve the clarity of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. This is a long-standing Standard and over the years application challenges have arisen, resulting in the issuance of various IFRIC Interpretations and Agenda Decisions.

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1 UKEB calculation based on LSEG and Eikon data, December 2024. This calculation includes companies listed on the Main market as well as on the Alternative Investment Market (AIM).

2 UKEB estimate based on FAME, Company Watch and other proprietary data.

5. To develop our response our work has included in-house research and consultation with stakeholders in the UK, including academics, accounting firms and institutes, preparers, regulators and users of accounts. This is a complex project and we have tested and given careful consideration to the proposals in the limited time allowed by the ED consultation period. The recommendations in this letter reflect the findings of our work to date. Our work is expected to continue after the IASB's comment deadline, and we look forward to continuing discussions with the IASB staff during the IASB's redeliberation process.

6. Our main observations and recommendations are set out in the paragraphs that follow. Further detail and responses to the IASB's specific questions about the ED are included in the Appendix to this letter.

Provisions - recognition criteria

7. Whilst we support the objective of clarifying the recognition criteria, we are concerned that the intended application of the proposed principles is not clear and may create new interpretation issues. This increases the risk of diversity in practice and unintended consequences.

8. The consistent message we have received during our outreach with stakeholders has been that the proposals are complex and hard to understand. We therefore urge the IASB to enhance the clarity of the proposed requirements to increase understandability and facilitate consistent application across different fact patterns.

Transfer condition

9. The proposals introduce an explicit distinction between a transfer and an exchange of economic resources. In our view this introduces a new notion into IFRS and is problematic for the following reasons:

   a) The distinction between the two concepts is not always clear cut, as recognised in the past in IFRIC agenda papers. This risks giving rise to interpretation issues.

   b) The apparent intended meaning of the term 'transfer' in the ED does not seem consistent with its meaning elsewhere in IFRS.

   c) The proposal brings attention to a distinction that stakeholders might not have assessed specifically in the past, creating the risk of unintended consequences, including perhaps the reassessment of existing obligations.

10. We recommend that the IASB considers refining the terminology to improve the clarity in the Standard to support understandability and reduce the risk of diversity

in practice. In any event, and in particular given the inconsistency with the use of the term elsewhere in IFRS Accounting Standards, we consider that more explanation is required and that the analysis in the examples in the Guidance needs enhancing.

11. Further details are presented in Appendix A paragraphs A9 – A18.

Past-event condition

12. Overall, the proposals appear to be aimed at achieving a hybrid model with a mixed balance sheet and income statement approach. This makes the principles underlying the proposals harder to understand and reinforces the need for clarity in the following aspects of the requirements.

13. 'Action' is not defined or explained in detail in the Amendments. Without a clearer principle and/or a definition of 'action', different interpretations could be made for the same fact pattern by different entities within the same jurisdiction.

14. At present it is difficult to rationalise precisely what leads to the identification of an 'action', and therefore to clearly understand the differences between the examples in the Guidance. In particular, some of the examples in the Guidance seem to blur the distinction between an 'action' and a 'measurement basis'.

15. In addition, the intended application of the principle underlying the proposed past-event condition is not clear in so far as it relates to obligations to transfer an economic resource only if an entity takes two (or more) separate actions. The requirement in proposed paragraph 14Q adds complexity and has given rise to stakeholder confusion.

16. We question whether the assessment in 14Q is needed for non-levies. The only situations where more than one action is identified in the IASB's proposed examples, for non-levies, are in the case of restructuring obligations (Examples 5A and 5B in the Guidance). However, in our view the conclusion in these examples that there are two actions is not convincing.

17. Further, the intended application of the threshold-triggered costs requirement (proposed paragraph 14P) for balance-sheet thresholds is not clear.

18. These issues therefore result in a risk that diversity in practice could arise from applying the amendments as currently proposed. In particular, the same levy could be accounted for differently by entities within the same jurisdiction.

19. It is also not clear whether the IASB's objective of addressing stakeholder dissatisfaction with IFRIC 21[3] would be met by the current proposals. For some levies, including the UK Bank Levy, we understand that the outcome of applying the proposed amendments could be the same as current accounting under IFRIC 21 *Levies*.

20. In Appendix A we comment on these and other matters in more detail. In our opinion the IASB should consider these matters further, with a view to enhancing the clarity of the proposals and to reducing the risk of unintended consequences. [Appendix A paragraphs A19 - A42 and A60 - A63]

Provisions - measurement

21. We welcome the proposed clarification on the expenditure required to settle an obligation. However, further application guidance and examples should also be provided to facilitate consistent application. However, we consider that further guidance is needed on how the requirements would be applied to obligations not settled by the provision of goods or services, such as legal claims. [Appendix A paragraphs A44 – A46]

22. On balance we support the proposed amendment for an entity to use a discount rate that reflects the time value of money (represented by a risk-free rate) and "the risks surrounding the amount or timing of the expenditure required to settle the obligation", which we understand would exclude non-performance risk. We suggest clearly signalling in the Standard that the proposed amendment is an exception to the measurement principle in the *Conceptual Framework for Financial Reporting* (Conceptual Framework), introduced as a practical expedient to reduce diversity in practice and costs incurred in measurement. We also provide recommendations for additional disclosure requirements. [Appendix A paragraphs A47 – A52]

If you have any questions about this response, please contact the project team at UKEndorsementBoard@endorsement-board.uk.

Yours sincerely

Pauline Wallace
Chair
UK Endorsement Board

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[3] Basis for Conclusions paragraph BC6(b) and BC13-BC14.

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Appendix A: Questions on IASB/ED/2024/8 *Provisions – Targeted Improvements*

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

A1. We support updating the definition of a liability in IAS 37 to align it with the definition in the Conceptual Framework. We agree that this could help preparers of financial statements when developing an accounting policy by removing the need to make a judgement about which definition to apply.

A2. In addition, the updated definition provides the framework for the proposed amendments to the recognition criteria.

Provisions – recognition criteria

A3. We support the objective of clarifying the recognition criteria and consider that disentangling the obligation condition and the past-event condition could potentially help clarify the present obligation recognition criterion, providing a more robust structure for the assessment of an entity's obligations (including, for example, certain climate-related commitments).

A4. However, we are concerned that the intended application of the proposed principles is not clear and may create new interpretation issues, potentially leading to diversity in practice and increasing the risk of unintended consequences.

A5. In the following paragraphs we highlight some aspects of the proposed amendments that in our view should be subject to further consideration.

No practical ability to avoid test

A6. We believe this is an area where judgement would be needed. Although we appreciate that it would not be possible to provide application guidance for every possible scenario as to the intended meaning of *no practical ability to avoid*, we recommend the IASB further considers whether the requirements are sufficiently clear to enable this concept to be applied consistently.

A7. Initial stakeholder engagement indicates that having the no practical ability to avoid test in two different aspects of the proposed amendments can be confusing. We understand that the proposed amendments introduce the test in two subtly different ways:

a) No practical ability to avoid test within the obligation condition (ED paragraphs 14B(c) and 14F). We understand this test is in effect a test of the 'strength of the mechanism' (i.e. legal or constructive) imposing the obligation.

b) No practical ability to avoid test within the past-event condition (ED paragraph 14Q). This arises only when two or more actions are needed to trigger the transfer of an economic resource. Here, however, we understand the test appears to relate not to the strength of the mechanism but to the realistic options available to management in relation to any remaining actions as of the reporting date.

A8. We recommend the IASB describes more explicitly, either in the Standard or in accompanying guidance that is integral to the Standard, the difference between the two tests and the intended application to facilitate consistent application.

Transfer/exchange of economic resources

A9. The ED introduces into IAS 37 an explicit distinction between a *transfer* and an *exchange* of economic resources. The proposals have brought attention to a distinction that stakeholders might not necessarily have assessed specifically in the past. This creates the risk of unintended consequences, including perhaps the reassessment of entities' existing obligations.

A10. The distinction between the two concepts is not always clear cut. For example, UKEB stakeholders have raised doubts over whether certain levies are transfers or exchanges. One view is to consider levies as non-reciprocal transactions in which an entity paying a levy receives no economic resources directly in exchange for the payment. An alternative view is that by paying a levy an entity receives, for example, a right to operate, similar to a licence. The proposed examples relating to levies state that the nature of the obligation is a transfer without explaining how such a conclusion might be reached.

A11. Questions also arise as to whether outsourcing the settlement of an obligation can affect recognition by converting it into an exchange. See further details under the heading 'Outsourcing vs internal costs' below.

A12. Challenges have been recognised in the past in IFRIC agenda papers which have set out the difficulties in assessing the difference between exchange and transfer[4].

A13. This is made particularly complex by the fact that the terms 'transfer' and 'exchange' are used widely in IFRS and not all usage seems consistent with the proposals in the ED. The ED seems to present the concept of transfer as a 'one-way' transaction, for which the entity gets nothing in return. Proposed paragraph 14L states: "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 use of the term transfer is different from how it is currently used elsewhere in IAS 37 and in other IFRS Accounting Standards where it has a simple, neutral meaning, and where a transfer is part of an exchange (e.g. see IAS 37 paragraph 37 and IFRS 15 *Revenue from Contracts with Customers* paragraph 2).

A14. It is our understanding that the addition of the transfer condition is intended to reinforce the scope of the Standard. That is, that an entity does not recognise a provision for a future exchange transaction (an executory contract), unless that transaction is onerous. The question therefore arises as to whether the transfer

4 For example, IFRS Interpretations Committee January 2013 meeting - Agenda Paper 16, in paragraph 11 IFRIC staff state "We do not think that the Interpretations Committee should introduce a new notion into IFRS, namely the notion of 'exchange transaction'. We think that determining whether a levy is an exchange transaction is highly subjective and that this will result in diversity in practice……."

condition is needed at all given that the scope of IAS 37 already excludes executory contracts (unless onerous). Also, in our view omitting the transfer condition would not change the conclusion of any of the proposed examples in the Guidance.

A15. Assuming the IASB goes ahead with the proposed transfer condition, we recommend the IASB considers refining the terminology to improve the clarity in the Standard to support understandability and reduce the risk of diversity in practice. In any event, and in particular given the inconsistency with the use of the term elsewhere in IFRS Accounting Standards, we consider that more explanation is required.

A16. We also consider that the analysis in some of the examples in the Guidance should provide greater clarity as to why the relevant outflow of resources does or does not meet the transfer condition. For example:

a) ED Examples 1, 2 and 3 simply state that the obligation is expected to require the provision of repair, clean up or restoration services, but do not analyse why this represents a transfer within the terms of the proposals. See also A17-A18 below.

b) ED Example 6 –

i. Obligation to fit smoke filters: it would be helpful if the analysis explained whether it made a difference if the smoke filters were capitalised or expensed. If not, why not? (Contrast Example 11B which implies that the enhancement of future economic benefits embodied in the aircraft is the reason why the expenditure is not a transfer.)

ii. Obligation to pay fines: the analysis states that this obligation meets the transfer condition because "it is an obligation that has the potential to require the entity to pay cash." However, that is insufficient to distinguish the obligation from an exchange, which might also require the payment of cash.

Outsourcing vs internal costs

A17. The introduction of the transfer condition also gives rise to questions as to whether outsourcing the settlement of an obligation (to provide clean-up services, for instance, or staff training) can affect recognition by converting it into an exchange. For example, would the assessment of the transfer condition in Examples 2A/2B of the Guidance change to be similar to that in Example 7 if the entity outsourced the work needed to provide the clean-up service (as the transaction could be considered an exchange)?

A18. In our view, outsourcing the settlement of the obligation should not affect the assessment of such an obligation. Outsourcing results in the entity entering into a separate transaction, giving rise to a new obligation. The fundamental obligation (e.g. to clean up an operating site) is potentially owed to the Government on behalf of the public at large, while the outsourcing creates a new (contractual) obligation owed to a third party. Those are two separate obligations (or units of account) which should be assessed separately. We recommend the IASB makes this clearer in the Standard and/or the Guidance and revises Examples 2A, 2B and 7 to reflect this.

Past-event condition

A19. For simple scenarios with few basic steps, the proposed amendments to the past-event condition do not appear to present particular difficulties. However, the requirements are not so clear when applied to levies, and in particular when applying the requirement in proposed paragraph 14Q for obligations to transfer an economic resource *only if an entity takes two (or more) separate actions*.

A20. There is therefore a risk that diversity in practice could arise, and the same levy could be accounted for differently by entities within the same jurisdiction.

A21. In withdrawing IFRIC 21 *Levies* the proposed amendments would be applicable to *all* obligations in the scope of IAS 37, not only levies. The risk of unintended consequences is therefore an important matter that needs to be considered.

A22. Areas in which we consider further work is needed to enhance the clarity of the requirements include:

a) The term ‘action’ is not defined or explained in detail in the Amendments and questions therefore arise in relation to the identification of relevant actions when applying the Amendments. Refer to A23-A26.

b) The distinction between what is an action and what is a measurement basis is not clear. Refer to A27-A29.

c) Complexity is added by the requirement in proposed paragraph 14Q for obligations that arise only if an entity takes two (or more) separate actions. The question arises as to whether such guidance is needed for all obligations, or whether it could be limited to levies. Refer to A30-A34.

d) The intended application of the threshold-triggered costs requirement (in proposed paragraph 14P) is not clear for balance sheet thresholds. Further clarity is also needed on the potential interaction with other requirements within the Standard (such as paragraph 14Q). Refer to A35-A38.

e) It is not clear whether the reference to specific economic benefits is needed in the context of the assessment for obligations in the scope of IAS 37. Refer to A39-A41.

f) The proposals suggest removing the existing requirement in IAS 37 paragraph 18 (i.e. that no provision is recognised for costs that need to be incurred to operate in the future). In our view the IASB should consider retaining this well-understood articulation of this fundamental concept in the Standard. Refer to A42.

Identifying actions

A23. Paragraphs 14N and 14O contain a reference to 'specific action', but 'action' is not defined in the proposed amendments. Without a clearer principle and/or a definition of 'action' different possible interpretations could arise as to the identification of actions, including for the same levy, by different entities within the same jurisdiction.

A24. We understand that the identification of the relevant actions(s) is not a question of management's judgement but based on the relevant 'mechanism' imposing the responsibility on the entity. For example, it could be the specific details of a constructive obligation, the terms and conditions of a contract or the requirements in legislation. However, that is not specifically stated in the proposed amendment to the Standard.

A25. We consider it would be helpful to include in the Standard the rationale in paragraph BC36, including that management would reach a conclusion by assessing all the relevant facts of the mechanism imposing the responsibility on the entity.

A26. In addition, at present it is difficult to rationalise precisely what leads to the identification of an 'action', and therefore to clearly understand the differences between the examples in the Guidance. We consider this should be more clearly articulated in the analysis and conclusions for the different examples presented in the Guidance.

Examples – Identifying actions

We consider the analysis of some of the proposed examples could be perceived as confusing or even contradictory. For example:

Example 13B considers that there are *two distinct actions*, that is, operating in the entity's current annual reporting period and operating as a bank on the last day of that same period. It is not clear from the fact pattern or the analysis why operating in the period is a separate action.

It would be helpful to explain the rationale for the differences from the conclusion in **Example 13C**, where *only one action* is identified. By analogising to Example 13B, without further clarification it could be argued that ownership of the property throughout the year is an action, and an assessment would be needed as to whether the entity has a practical ability to avoid ownership of that property as of year-end.

It would also be beneficial to explain the apparently different approach in the proposed guidance for **threshold-triggered costs**, which assumes that the generation of revenue during a period represents only one action (as noted in view 3 in April 2024 - IASB staff Agenda Paper 22B[5]).

Distinction between action and measurement basis

A27. The challenges in the identification of actions also give rise to questions about the distinction between what is a measurement basis and what is an 'action' for purposes of the proposed amendments.

A28. At present, the examples in the Guidance (in particular Examples 13A – 13C) seem to blur this distinction. We therefore recommend that this distinction is made clearer in those examples to avoid the risk of diversity in practice.

Examples – Distinction between action and measurement basis[6]

As proposed, **Example 13A** assumes that the generation of revenue in the market in 20X0 is an 'action'. However, given that the fact pattern notes that only entities operating in the market on 1 January 20X1 are within the scope of the levy, it could be argued that the generation of revenue during 20X0 is not an action but only the basis for measuring the obligation.

As noted above, **Example 13B** considers that there are *two actions*, that is, operating in the entity's current annual reporting period and operating as a bank on the last day of that period. We understand that the conclusion that there are two actions may depend on the fact that the amount charged is adjusted when the chargeable period is not equal to 12 months. This may imply that the operation as a bank during the period is also necessary to trigger the obligation and is not only a measurement basis. However, this is not clear from the fact pattern or explicit in the analysis. We recommend clarifying the rationale for the pro rata reduction to be considered an action.

5 The IASB tentative decision on threshold-triggered costs was based on view 3, which notes that irrespective of whether the measure of the entity's activity is below or above the threshold, there is only one activity (e.g. generating revenue or emitting gasses).

6 This table only discusses the IASB proposed examples. We are aware of other real-life fact patterns which also present such problems. Refer to January 2025 UKEB Agenda Paper 6 - Appendix A, table under paragraph A30.

A29. We consider that, in addition to clarifying the principles and expanding the explanations of proposed Examples 13A – 13C, a possible way to reinforce the distinction between an action and a measurement basis could be by expanding the analysis of some of the proposed examples. It could potentially be done by adding an *alternative scenario* – with slightly modified facts from the *base scenario* – explaining the rationale for reaching a different conclusion based on the different facts. For example, if in a base scenario it was concluded there were two separate actions, the alternative scenario could discuss what would need to be different for concluding that one of those actions was only a measurement basis.

Requirements for obligations that arise only if an entity takes two (or more) separate actions

A30. The requirement in proposed paragraph 14Q for obligations that arise only if an entity takes two (or more) separate actions adds complexity and has given rise to stakeholder confusion.

A31. We question whether the assessment in 14Q is needed for non-levies. The only situations where more than one action is identified in the IASB's proposed examples, for non-levies, are in the case of restructuring obligations (Examples 5A and 5B).

A32. In the case of these examples, the ED sets out that there are two actions (i.e. employing a person for at least a year and terminating the employee's contract). However, it is not clear that employing a person for at least a year should constitute an action:

a) It can be argued that the question of whether an individual has been employed for a year determines whether there is an obligation, not whether there has been an action. In other words, it relates to the obligation condition, not the past event condition. If an individual has not been employed for a year, there is no mechanism that imposes an obligation ***if*** the entity terminates their contract. The only action is therefore the termination of the employee contract.

b) Alternatively, the past employment of a person might perhaps be viewed as a measurement basis. That is, the length of the employment dictates only the measurement of the liability. This argument reinforces the need for further clarity in relation to the distinction of actions from measurement bases as discussed in A27 – A29 above.

A33. Further, the IASB's conclusion that there are two actions introduces judgement over when termination of contracts becomes unavoidable, and could potentially bring forward recognition.

A34. Similar concerns would apply to analysis and conclusion in respect of customer contracts in Example 5B, where again two actions are identified (i.e. entering into a contract with a customer and then terminating the contract). However, it can be argued that the contract provides the mechanism that imposes an obligation on the entity **if** the entity terminates the arrangement. Again, therefore, entering into the contract might satisfy the obligation condition but is not necessarily relevant to the past-event condition.

Threshold-triggered costs

A35. The proposed guidance on threshold-triggered costs seems clear and straightforward when it comes to assessing income statement-related thresholds. The resulting accounting outcome seems sensible. Although it might increase the level of estimation uncertainty as part of the assessment of the present obligation recognition criterion, in reaching a conclusion on whether a provision should be recognised, an entity would also need to consider whether the probable outflow criterion (IAS 37 14.b) and reliable estimate criterion (IAS 37 14.c) are met.

A36. However, it is not so clear whether and, if so, how the threshold-triggered cost guidance might apply when the threshold is a balance sheet-based measure, as it is in the case for some levies. A balance sheet measure does not generally accrue in a similar manner to an income statement measure and it could potentially remain at a similar level throughout a reporting period.

A37. In addition, we consider the interaction of the requirements in proposed paragraphs 14P (threshold-triggered costs) and 14Q (obligations triggered only if an entity takes two or more separate actions) should be made clearer, to indicate what would take precedence if both requirements were relevant for the same fact pattern.

A38. For example, the UK Bank Levy is charged if an entity is a bank or a building society at the end of its annual reporting period and its aggregate chargeable equity and liabilities (deposits) exceed a £20 billion allowance. Alternative views could arise on how the proposals apply:

a) Paragraph 14Q applies - an entity needs to identify the relevant actions to assess whether there is present obligation as a result of a past-event as of the reporting date. If an entity concluded that there is only one action (operating as a bank or building society at the end of its annual reporting period), and that action was met, a provision would be accounted for at a point in time.

b) Paragraph 14P applies – the £20 billion allowance is considered a threshold for purposes of the proposed amendments. If the bank concludes that it is probable that its chargeable equity and liabilities will exceed the specified £20 billion threshold and a reliable estimate can be made of the amount of the obligation, a provision is accumulated over time (i.e. potentially over the full reporting period).

Specific economic benefits

A39. The purpose of the reference to 'specific economic benefits' in the context of obligations in the scope of IAS 37 is not clear. To aid understanding of the proposed amendments, it would be helpful if the IASB provided an example of a circumstance where an entity has a present obligation that exists as a result of a past-event when the entity obtained specific economic benefits (as opposed to taking an action) and such an obligation is in the scope of IAS 37[7].

A40. However, if a reference to receiving economic benefits is not directly relevant to the assessment in IAS 37, we would suggest removing it to avoid confusion and/or unnecessary complexity.

A41. We acknowledge that proposed Example 6 (smoke filters), Example 7 (staff retraining), Example 11A (refurbishment costs – furnace lining) and Example 11B (refurbishment costs - aircraft overhaul) all mention in their analyses 'economic benefits'. However, in each case economic benefits are mentioned in the context of explaining that the fact pattern relates to a *future* economic exchange. In our view, omitting the reference to specific economic benefits would not change the conclusion for any of those examples, given that future economic exchanges are not in scope of IAS 37 (unless onerous) and therefore no provision is recognised. [See also paragraph A61 below for further comment on this point.]

Existing paragraph 18

A42. We note that the IASB proposes to remove the existing requirement in IAS 37 paragraph 18 that no provision is recognised for costs that need to be incurred to operate in the future. In our view, this requirement is a fundamental and well understood concept in the Standard. We consider that the IASB should consider retaining this articulation of the requirement in IAS 37 as it would enhance understanding and help reinforce the proposed principle in paragraphs 14N and 14O, reducing the risk of unintended consequences.

Application of the recognition and measurement rules – Restructuring

A43. The IASB has proposed limited editorial amendments to the section in IAS 37 'Application of the recognition and measurement rules – Restructuring'. As proposed, some of the restructuring guidance could be perceived as confusing or inconsistent with other proposals in the ED. For example, proposed paragraph 72 states that "A present obligation for the costs of a restructuring arises only when

[7] That is, other than a future exchange transaction (executory contract) that is not onerous or an obligation in the scope of other IFRS Accounting Standards (such as IAS 19 *Employee Benefits* or IFRS 9 *Financial Instruments*).

an entity:….b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan ***or*** announcing its main features to those affected by it". This could be read by some as implying that an announcement is enough to create a present obligation. We therefore consider those requirements could be more helpful if they followed the new structure for the assessment proposed in the ED (i.e. disaggregating by obligation and past-event).

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?

A44. We support the proposed clarification of the costs an entity includes in estimating the future expenditure required to settle an obligation. However, we consider that further application guidance and examples[8] should also be provided to facilitate consistent application.

A45. In addition, 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. Our understanding is that entities do not currently consider legal costs in the measurement of an obligation for legal claims. Entities typically consider external legal costs to be a separate unit of account - an executory contract for which the entity will receive future legal services - which is therefore not in the scope of IAS 37. It is not clear whether the amendments are intended to change current practice, and whether a distinction should be made, for example, between internal/external costs.

A46. Alternatively, if the proposed amendments are intended to be applicable only to those provisions settled by providing goods or services as mentioned in the IASB webcast[9], then this should be explicitly stated in the Standard.

8 Examples distinguishing costs that would be included in the measurement of a provision from those costs that would not be included.

9 IASB Webcast: Exposure Draft Provisions - Targeted Improvements.

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?

A47. On balance, we support 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) and "the risks surrounding the amount or timing of the expenditure to settle the obligation", which we understand would exclude non-performance risk.

A48. The exclusion of non-performance risk in the measurement of a liability is not a new concept in IFRS Accounting Standards, as it is already required in IFRS 17 *Insurance Contracts*. We consider the proposed requirements would reduce diversity in practice.

A49. In this regard, we note that measuring a provision liability 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. Consequently, we recommend the IASB considers clarifying that the proposed amendment is an exception to the measurement principle as envisaged in paragraph 6.92 of the Conceptual Framework.

A50. We also support the proposed requirement to disclose the discount rate(s) used and the approach used to determine such rate(s). However, we believe the proposed disclosures could be further refined so they result in more useful information for users of accounts. Our recommendations are provided below.

A51. During the development of the proposals in the ED, the IASB decided[10] against providing application guidance on how an entity determines what is an appropriate risk-free rate. In practice, even within the same jurisdiction, different views could arise as to which rates are risk-free, leading to a potentially significant impact in the measurement of long-term provisions. This situation is not apparent for users of accounts from existing disclosures in financial statements. We recommend the IASB considers requiring:

a) more granular disclosure in relation to the approach used to determine the discount rate - that is, disclosing not only the fact that the entity used a risk-free rate but also identifying the actual rate(s) used (e.g. UK gilt yields, swap rates or other); and

b) disclosure of a sensitivity analysis that shows how the amount of a provision would have been affected by changes in the discount rate used, if the effect of discounting is significant. Disclosure of the methods and assumptions in preparing the sensitivity analysis should also be required.

A52. IAS 37 currently requires entities to consider relevant risks and uncertainties in reaching the best estimate of a provision. However, the Standard does not provide detailed application guidance as to *how* those risks and uncertainties should be determined. In this regard, we acknowledge that IAS 37 paragraph 85(b) requires disclosure of an indication of the uncertainties about the amount or timing of future outflows; however, users of accounts demand more granular disclosure (including quantitative information) about the measurement uncertainty of provisions. They consider this information would allow them to make better informed decisions as part of their work. We recommend the IASB considers making the disclosure requirements on measurement uncertainty more specific.

Question 4—Transition requirements and effective date

4(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?

4(b) Effective date

10 As noted in Basis for Conclusions paragraph BC81-BC82.

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?

A53. We broadly support the proposed retrospective application of the requirements, with the two exceptions in proposed paragraphs 94D and 94E, relating to the measurement requirements.

A54. We consider that, although the exception proposed in paragraph 94E is complex, it would be less onerous for entities than applying the amendments to discount rates fully retrospectively. However, we suggest clarifying whether the discount rate to be used is the rate that is current at the transition date or at the reporting date. In addition, given the complexity of the transition requirement, we recommend the IASB adds to IAS 37 the illustrative example presented at the IASB June 2024 meeting[11].

A55. In addition, we have some concerns about the potential complexity introduced by proposing exceptions to be applied at two different dates:

a) The exception in relation to the costs an entity includes in the measurement of a provision is proposed to be applied as of the *date of initial application* (as defined in proposed paragraph 94B(b).

b) The exception in relation to the requirements on discount rates is proposed to be applied at the *transition date* (as defined in proposed paragraph 94B(a).

A56. We understand the proposed exceptions are consistent with transitional provisions in previous IASB projects[12], but we note that those were introduced at different times and were therefore not applied in combination. We recommend the IASB considers whether both exceptions should be applied at the same date (i.e. date of initial application or transition date).

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

11 Example presented in IASB Agenda Paper 22B - June 2024 meeting.

12 Transitional provision to Amendment '*Onerous Contracts – Cost of Fulfilling a Contract*' issued in May 2020 and that provided to first-time adopters of IFRS Accounting Standards by IFRS 1 *First-time Adoption of International Financial Reporting Standards*, paragraph D21.

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 suggest instead?

A57. We support the proposed requirement in IFRS 19 to disclose the discount rate (or rates) used in measuring a provision.

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?

A58. We support updating the decision tree in Section B of the *Guidance on implementing IAS 37*. It provides a useful visual aid for the proposed new recognition requirements.

A59. Overall, we support the proposed amendments to the illustrative examples in the *Guidance on implementing IAS 37*. Presenting all examples under a similar structure, analysing separately each of the conditions in the first recognition criterion, enhances clarity and facilitates comparison of the technical analysis and conclusions for the different fact patterns presented.

A60. However, we consider the analysis in some of the examples is problematic and could even be perceived as inconsistent or contradictory. In our responses to Question 1 above we refer to several aspects of the examples that should be reconsidered, including:

a) Transfer condition – we consider the analysis of the relevant outflow in the examples needs enhancing to provide greater clarity over why the transfer condition is or is not met. See our comments in A9-A18.

b) 'Two or more actions' – We highlight the complexity of the proposed requirements in paragraph 14Q and question the need for such assessment for obligations other than levies. The IASB could consider whether those requirements could be limited to levies only. This would impact in particular the analysis for Examples 5A and 5B without changing their conclusion. See our comments in A23-A26.

c) Action vs measurement – We recommend further clarity in relation to the identification of relevant actions and the distinction between what is an action and what is a measurement basis for purposes of the proposed amendments. The examples in the Guidance, in particular Examples 13A – 13C, seem to blur this distinction. We therefore recommend that the distinction is made clearer in those examples to avoid the risk of diversity in practice. See our comments in A27-A34 above.

A61. In addition, as explained in paragraph A41 above, in our view the analysis for several examples is more complex than it needs to be because it refers to future exchange transactions when assessing the facts against the past event condition.

a) Proposed Example 6 (smoke filters), Example 7 (staff retraining), Example 11A (refurbishment costs – furnace lining) and Example 11B (refurbishment costs - aircraft overhaul) all refer to *future* economic exchanges in the past-event analysis. We consider that this analysis of the past-event condition is not necessary and recommend omitting it to avoid confusion.

b) In those examples a past-event condition analysis would only be necessary for those obligations that are not future economic exchanges. For example, in the case of Example 6, the analysis would not be needed for the 'obligation to fit smoke filters' but would be relevant for the 'obligation to pay fines'.

c) Our recommendation is in line with the IASB's analysis in proposed Example 15, for which there is no analysis for the past-event condition in relation to the 'obligation to reduce emissions' and an analysis is only presented for the 'obligation to offset remaining emissions'.

A62. While we agree with the overall conclusion for Example 7 (no provision), in our view the analysis is unclear and hard to reconcile to other examples:

a) Obligation condition – it is not clear how the facts and analysis differ from those in other examples in which the obligation is assessed to be owed to the government, specific groups of individuals or society at large (see e.g.

examples 2, 6, and 11 amongst others). From the facts it might appear that the entity has no practical ability to avoid complying with financial services regulation: if it continues to operate after 20X1 it will have no practical ability to avoid incurring retraining costs ("will need to retrain … to ensure continued compliance…"). It does not seem convincing to argue that retraining will be carried out for the entity's own benefit – ultimately everything undertaken by an entity is for its own benefit - and it could be argued that it has a responsibility owed to customers. On the face of it there is a legal mechanism that imposes an obligation that cannot be avoided if the entity continues to operate.

b) Transfer condition – the analysis states that retraining staff will be an exchange transaction not a transfer. However, it is not clear how this example differs from Examples 2A and 2B, since clean-up services are also likely to involves sub-contracting work to third parties, but in those examples the transfer condition is considered to be met. The analysis in Example 7 could be read to imply that if the entity undertook retraining 'in-house' then the transfer condition might be met.

c) Past-event condition – the analysis refers to the future exchange transaction (receiving training services) which should in any event be out of scope of IAS 37. It would perhaps be simpler and more relevant to explain that the past-event condition is not met because the only triggering event would be operating post-20X1.

A63. In Example 14 the relevant legislation imposes a government target in relation to an entity's average fuel emissions resulting from car manufacturing. We recommend adding analysis in relation to threshold-triggered costs or clarifying why the Government target is not a threshold for these purposes.

A64. Finally, the IASB should in our view consider whether 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. We expect the Guidance to be relied on heavily by preparers and auditors and, in effect, to take on the weight of authoritative requirements. Including them as an integral part of the Standard, as application guidance, would give them an appropriate level of prominence and authoritative status. Other IFRS Accounting Standards, such as IFRS 9 *Financial Instruments,* provide precedents for such an approach.

Question 7—Other comments
Do you have comments on any other aspects of the proposals in the Exposure Draft?

Consequential amendment to IFRS 3 *Business Combinations*

A65. We recommend the IASB considers whether an exception to the measurement principle in IFRS 3 is needed for provisions in scope of IAS 37.

A66. The interaction of the measurement requirements in IFRS 3 (fair value measurement) and the measurement requirements in IAS 37 (discount rates with no adjustment for non-performance risk), could result in a Day 2 change to the amount of the provision. The corresponding impact could be on profit or loss or, in the case of decommissioning, restoration and similar liabilities, could result in:

a) an adjustment to the value of the related asset[13]; or

b) an adjustment to the revaluation surplus or deficit on the related asset[14].

13 If the related asset is measured using the cost model.
14 If the related asset is measured using the revaluation model.

[Draft] Feedback Statement

Provisions – Targeted Improvements

UK Endorsement Board

Final Comment Letter (FCL)

27 February 2025

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.

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Purpose of this document

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UK Endorsement Board

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

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

DRAFT

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, 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 *	6
Investor round table	3

* The UKEB Advisory/Working Groups have multiple members, representing a variety of stakeholder types. The groups 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

DRAFT

UKEB
UK Endorsement Board

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 UKEB's position. They agreed that the update in definition would be easier for preparers to apply in practice.	• Consistent with draft position.
• 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 UKEB's position. 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. They considered that this change would cause confusion for preparers of the financial statements.	• Consistent with draft position.

UKEB and stakeholder views

DRAFT

UKEB
UK Endorsement Board

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.	• Consistent with draft position. In addition: • Recommended the IASB considers refining the terminology to improve the clarity in the Standard to support understandability and reduce the risk of diversity in practice. • Highlighted the need for clearer: • Explanation/definition of 'action'. • Distinction between an 'action' and a 'measurement basis'. • Intended application of the principle underlying the requirements on obligations to transfer an economic resource only if an entity takes two (or more) separate actions (ED paragraph 14Q). • Intended application of the threshold-triggered costs requirement (ED paragraph 14P). • Questioned whether the proposals in ED paragraph 14Q are needed for non-levies. • Questioned whether the IASB's objective of addressing stakeholder dissatisfaction with IFRIC 21 would be met by the current proposals.

UKEB and stakeholder views

DRAFT

UKEB
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 application guidance and examples to facilitate consistent application. • 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.

UKEB and stakeholder views

DRAFT

UKEB
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

DRAFT

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 granular/specific disclosures about the measurement uncertainty of provisions.

UKEB and stakeholder views

DRAFT

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] • Effective date – Would provide sufficient time to prepare for new requirements.	• 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 the illustrative example presented at the IASB June 2024 meeting.

UKEB and stakeholder views

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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. • 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).

UKEB and stakeholder views

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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.	• Consistent with draft position. • The direct link in B2 to B1 means that all three conditions (obligation, transfer and past-event) are implicitly included in the chart in B2. • Suggested clarifications and amendments, mainly affecting the following illustrative examples: 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

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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

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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.

UK Endorsement Board

Contact Us

UK Endorsement Board

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

www.endorsement-board.uk

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Appendix C: DRAFT Due Process Compliance Statement: *Provisions – Targeted Improvements*

The International Accounting Standards Board (IASB) published the Exposure Draft IASB/ED/2024/8 *Provisions – Targeted Improvements*[1] on 12 November 2024. The IASB comment period ends on 12 March 2025.

Influencing process

Project preparation

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Added to UKEB technical work plan [Due Process Handbook (Handbook) 4.30]	Mandatory	Project included in the UKEB published technical work plan	**Complete:** The Amendments were included in the UKEB technical work plan published in October 2024.

1 IASB proposes targeted improvements to requirements for provisions.
2 In accordance with the Due Process Handbook.

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Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Project Initiation Plan (PIP) [Handbook 5.4 to 5.8, A1 to A2 and A12 to A14]	Mandatory	PIP draft with project outline (background, scope, project objective) and approach for influencing (key milestones and timing)	**Complete:** The Secretariat included mandatory milestones for the project and considered, as appropriate, other milestones and activities. The PIP was approved at the 17 October 2024 Board meeting.
	Mandatory	Outreach plan for stakeholders and communication approach outlined	**Complete:** The PIP (referred to above) included the outreach plan and approach.
	Mandatory	Resources allocated	**Complete:** One Project Director and one Project Manager, with technical support and oversight from a Senior Project Director. Communications support was obtained as appropriate.

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Project Initiation Plan (PIP) [Handbook 5.4 to 5.8, A1 to A2 and A12 to A14] (continued)	Mandatory	Assessment of whether to set up an ad-hoc advisory group	**Complete:** Taking a proportionate approach, an ad-hoc advisory group was not considered necessary. The existing UKEB Advisory/Working Groups are well placed to provide feedback on this project.
	Mandatory	Assessment of whether PIP required updating	**Complete:** We monitored this throughout the project, the nature and scope of which remained as proposed in the original PIP.
	Mandatory	UKEB Board public meeting held to approve PIP	**Complete:** the PIP was approved at the 17 October 2024 Board meeting.
Education sessions [Handbook 4.10]	Optional	Board provided with education sessions	**Complete:** The Board was provided with an education session on the proposed amendments on 28 November 2024.

Desk-based research

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Desk-based research [Handbook 5.9 and A3]	Optional	Review of relevant documentation	**Complete:** the Secretariat has reviewed relevant documentation, including: • The IASB's work on the proposed amendments including the staff papers, educational material (i.e. webcast) and the Exposure Draft (ED) • The Basis for Conclusions to the ED • IFRIC Agenda Decision on climate-related commitments • IFRIC Agenda Decision on negative low emission vehicle credits • Other standard-setters' views and • Relevant material produced by third parties, including accounting firms

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Outreach

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Outreach activities [Handbook 5.10 to 5.12 and A4 to A8]	Mandatory	Evidence of consultation	**Complete:** Outreach activities focused on: • Consultation with UKEB Advisory and relevant Working Groups. • One to one interviews with accounting firms, government bodies, preparers, and users of accounts. • Investor roundtable discussions. • Obtaining responses to the Draft Comment Letter (DCL). The UKEB received one formal comment letter. The Feedback Statement summarises feedback received on the UKEB's preliminary views.

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Draft Comment Letter (DCL)

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
DCL published for comment (mandatory unless impracticable) [Handbook paragraphs 5.13 to 5.17 and A4(d)]	Mandatory	Comment period set for responses to DCL	**Complete:** The DCL was published for consultation for 52 days on 20 December 2024 (comment period deadline: 10 February 2025).
	Mandatory	Review and approval at a UKEB public meeting	**Complete:** The DCL was reviewed and approved by the Board on 12 December 2024, subject to amendments suggested at that meeting.
	Mandatory	DCL published on website for public consultation	**Complete:** The DCL was published on the UKEB website for public consultation on 20 December 2024 (comment period deadline: 10 February 2025).

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Project finalisation and project closure

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Final Comment Letter (FCL) [Handbook paragraph 5.18 and A4(d)]	Mandatory	Public responses to DCL considered and published on website	**Complete:** The UKEB received one comment letter which was published on the UKEB website. Responses in that letter were assessed, reflected as appropriate in the FCL and summarised in the Feedback Statement.
	Mandatory	FCL approved by the UKEB in public meeting	**Pending:** A draft of the FCL will be presented for approval to the Board at its 27 February 2025 public meeting.
	Mandatory	FCL submitted to the IASB and posted on UKEB website	**Pending:** Following Board approval, the FCL will be submitted to the IASB and posted on the UKEB website.
Feedback Statement [Handbook 5.19 to 5.22 and A9 to A11]	Mandatory	Feedback Statement approved for publication by the UKEB in a public meeting	**Pending:** A draft of the Feedback Statement will be presented for approval to the Board at its 27 February 2025 public meeting.
	Mandatory	Feedback Statement published on the UKEB website	**Pending:** Following Board approval, the final version of the Feedback Statement will be published on the UKEB website.
Due Process Compliance Statement (DPCS)	Mandatory	DPCS approved by the UKEB in public meeting	**Pending:** A draft DPCS will be presented for approval to the Board at its 27 February 2025 public meeting. A final DPCS will be presented for noting at the Board's 28 March 2025 meeting.

[Handbook 5.23 to 5.26 and A12 to A14]	Mandatory	DPCS published on the UKEB website	**Pending:** Following Board approval, the final version of the DPCS will be published on the UKEB website after the 28 March 2025 Board meeting.

Ongoing communications

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Public Board meetings [Handbook 4.10]	Mandatory	UKEB public meetings held to discuss technical project	**Complete:** The Board received updates on the project at its May and June meetings in 2023 and at its May, June, and July meetings in 2024. The Board approved the PIP at its meeting on 17 October 2024. Technical discussions were held at the November 2024, December 2024 and January 2025 meetings. The DCL was reviewed and approved by the Board at the 12 December 2024 meeting, subject to amendments suggested at that meeting. **Pending:** The FCL, Feedback Statement and draft DPCS will be presented for Board approval at the UKEB 27 February 2025 meeting.
Secretariat papers [Handbook 4.20]	Mandatory	Board meeting papers posted and publicly available usually no later than 5 working days before a Board meeting.	**Complete:** The UKEB's meeting papers were published on the UKEB website 5 working days before the public meetings. Meeting minutes and recordings were made publicly available via the UKEB website.

Step	Mandatory / optional[2]	Metrics or evidence	UKEB Secretariat comments
Project webpage [Handbook 4.25(b)]	Mandatory	Project webpage contains a project description with up-to-date information on the project.	**Complete:** The project webpage has been updated regularly on a timely basis.
Subscriber Alerts [Handbook 4.24]	Optional	Evidence that subscriber alerts have occurred	**Complete:** Subscribers were alerted via email 5 days before each Board meeting, with links to the agenda, papers and the option to dial in to observe the discussion.
News Alerts [Handbook 4.24]	Optional	News Alert to announce publication of key documents	**Complete:** A News Alert was published on 20 December 2024 to announce the publication of the DCL. Further news alerts were published in January and February 2025 calling for comments. **Pending:** A News Alert will be published alerting stakeholders to the FCL.

Conclusion
This project complies with the applicable due process steps, as set out in the December 2022 UKEB Due Process Handbook.