UK Endorsement Board

Provisions – Targeted Improvements – Draft Comment Letter

Executive Summary

Project Type	Influencing
Project Scope	Moderate
Purpose of the paper	
The purpose of this paper is to obtain the Board's approval for publication of the draft Comment Letter (DCL) and the accompanying Invitation to Comment (ITC) on the IASB Exposure Draft - Provisions—Targeted Improvements.	
Summary of the Issue	
The IASB Exposure Draft (ED) was issued on 12 November 2024 with a comment deadline of 12 March 2025. The ED proposes amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets,* mainly on the following: • when an entity recognises a provision; • whether rates used to discount provisions reflect non-performance risk; and • which costs to include in the measurement of a provision. The UKEB approved the Project Initiation Plan (PIP) at its October 2024 meeting. The PIP included the publication of a DCL following the December 2024 meeting for consultation with stakeholders (for a period of no less than 30 days) and presentation of the Final Comment Letter at the meeting on 27 February 2025.	
Questions and decision for the Board	
1. Do Board members: a) have questions or comments about the initial technical analysis presented in Appendix A? b) consider that any points arising should or should not be included in the Draft Comment Letter (Appendix B)?	

2.	Do Board members want to explore either of the options presented in paragraph 10? If so, which one? (NB: volunteers would be required should the Board decide to form a 'sub-group' of members.)
3.	Subject to addressing any matters arising during the meeting, does the Board approve the DCL (Appendix B) and ITC (Appendix C) for publication to obtain stakeholder feedback?

Recommendation
The Secretariat recommends that the Board approves the DCL and accompanying ITC.

Appendices	
Appendix A	Initial technical analysis - examples
Appendix B	Draft Comment Letter
Appendix C	Invitation to Comment

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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 ED proposes amendments mainly on the following aspects:

   a) when an entity recognises a provision.

   b) whether rates used to discount provisions reflect non-performance risk; and

   c) which costs to include in the measurement of a provision.

Initial technical analysis - examples

3. Further to the Board's initial technical discussion on the ED at its November 2024 meeting, Appendix A sets out further preliminary analysis of the IASB's proposals. This analysis is based largely on Secretariat's desk-based research, including review of the IASB's ED, IASB staff papers, presentations and meeting summaries.

4. The focus of this initial analysis is on the illustrative examples included in the *Guidance on implementing IAS 37* (the Guidance) which accompanies the ED. The Secretariat has considered the application of the proposals to certain real life fact patterns relevant to UK entities.

5. As agreed with the Board at the November 2024 meeting, this work is in progress and will continue whilst the DCL is out for comment. Findings of this work will inform the Final Comment Letter.

Question for the Board
1. Do Board members: a) have questions or comments about the initial technical analysis presented in Appendix A? b) consider that any points arising should or should not be included in the Draft Comment Letter (Appendix B)?

Draft comment letter

6. The DCL has been informed by the Board's initial technical discussion in November 2024, by the preliminary technical analysis set out in Appendix A and by the stakeholder outreach conducted to date.

7. 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.

8. 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.

9. The assessment of the IASB's proposals relies on a close analysis of the detailed wording of the ED, including the examples in the accompanying Guidance. Given the very limited time available since the publication of the ED and the Board's initial discussion on 28 November 2024, the draft does not attempt to include all the detailed points that may potentially feature in the final comment letter. Rather, the DCL is relatively high level, seeking to draw out the overarching points identified so far. To address this, the ITC includes specific questions about key aspects of the proposals we wish to assess further with stakeholders during the consultation period. This should help ensure that the final comment letter includes a comprehensive list of issues that are pertinent for the UK.

10. The Secretariat's technical analysis work and discussions with stakeholders are therefore expected to continue during the DCL consultation period. In this context, the Board may wish to consider the following as potential options to explore:

    a) an additional technical discussion at its January 2025 meeting and/or

    b) formation of a small 'sub-group' of members to support the further assessment of the proposals and drafting of the final comment letter.

Question for the Board	
2.	Do Board members want to explore either of the options presented in paragraph 10? If so, which one? (NB: volunteers would be required should the Board decide to form a 'sub-group' of members.)

11. The DCL is attached at Appendix B for consideration and approval, with the accompanying ITC at Appendix C. Overall, the DCL supports the IASB's proposed amendments but makes recommendations to enhance the ED's proposals.

Question for the Board	
3.	Subject to addressing any matters arising during the meeting, does the Board approve the DCL (Appendix B) and ITC (Appendix C) for publication to obtain stakeholder feedback?

Next steps

12. If approved by the UKEB, the DCL will be published for stakeholder comment on the UKEB website for a comment period of no less than 30 days (in line with the approved PIP). Targeted stakeholder outreach engagement will continue whilst the DCL is out for comment.

13. The Final Comment Letter, Feedback Statement and draft Due Process Compliance Statement are expected to be presented at the February 2025 meeting for Board approval.

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Appendix A: *Provisions – Targeted Improvements* – Initial technical analysis - examples

Disclaimer: This document reflects the UKEB Secretariat's ***preliminary understanding*** of key aspects of three different UK levies. The Secretariat's assessment is ongoing and subject to further refinement.

Background

A1. 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*. The IASB comment period closes on 12 March 2025.

A2. Further to the Board's initial technical discussion of the ED proposals at its November 2024 meeting, this Appendix sets out further preliminary analysis of the IASB's proposals by reference to certain examples. The UKEB Secretariat has considered the application of the proposals to the following real life fact patterns relevant to some UK entities:

a) The UK Bank Levy.

b) The Bank of England Levy.

c) The Electricity Generator Levy.

A3. A sound understanding of the relevant legislation is needed to form a conclusion in relation to the identification of the relevant 'actions' for the purposes of the proposed amendments. The Secretariat will engage with relevant experts during the consultation period in order to confirm the preliminary analysis in this Appendix.

A4. The preliminary observations included in this Appendix do not automatically mean the IASB's proposed amendments are flawed. Rather, they indicate proposals which are not entirely clear on initial review and will require further work to fully assess. In the meantime, preliminary findings from the assessment of these levies have been considered in the drafting of the UKEB Draft Comment Letter (and/or questions in the Invitation to Comment).

A5. Points reflected in the DCL include:

a) The proposed requirements for obligations to transfer an economic resource only if an entity takes two (or more) separate actions can lead to application challenges. This is particularly relevant when applied to fact patterns such as the UK Bank Levy and the Bank of England Levy.

b) The distinction between transfer and exchange may not always be clear cut.

Next steps

A6. The Secretariat's work is in progress and will continue whilst the DCL is published for comment. Findings from this further work will inform the Final Comment Letter.

Questions for the Board
1. Do Board members: a) have questions or comments about the initial technical analysis presented in this Appendix? b) consider that any points arising should or should not be included in the Draft Comment Letter (Appendix B)?

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Example 1 – UK Bank Levy

Background

A7. The UK Bank Levy (the Bank Levy) seeks a contribution from banks and building societies in respect of the risks they pose to the financial system and the wider UK economy.

A8. The Bank Levy has been subject to modifications after its introduction[1]. The details presented in this document reflect the Secretariat's understanding of the Bank Levy currently in place.

A9. The scope of the Bank Levy covers the UK equity and liabilities of banking groups. This means that overseas activities of UK headquartered banking groups are not subject to the levy.

A10. The Bank Levy is charged if an entity (or group) is a bank or a building society at the end of a period of account[2]. The period of account for consideration of the Bank Levy is referred to as the 'chargeable period'.

A11. Where the chargeable period *is not equal to* 12 months, then an adjustment is made to the chargeable equity and liabilities to reflect the relevant period.

A12. The Bank Levy is chargeable on specified equity and liabilities of banks and building societies, if in aggregate those exceed a £20 billion allowance. The Bank Levy rate is charged on chargeable equity and liabilities in excess of such allowance.

A13. There are two main levy rates: one for short-term chargeable liabilities with maturities of a year or less and one for long-term[3] chargeable liabilities and equity.

1 The Bank Levy was introduced following the financial crisis, within Schedule 19 Finance Act 2011.
2 The HMRC internal manual - Bank Levy states that an entity's 'period of account' is a period for which it prepares financial statements, whether consolidated or otherwise.
3 Liabilities are considered to be long term if they cannot be required to be repaid in the next 12 months (and fulfil various other conditions). All equity is considered to be long term.

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Preliminary accounting analysis

A14. A preliminary analysis of how the proposed amendments to IAS 37 would be applied to the Bank Levy is presented below.

Requirement		Analysis
Present obligation recognition criterion (IAS 37.14(a))		
Obligation	✓	UKEB Secretariat's preliminary analysis The obligation condition is met: • UK legislation imposes a responsibility on entities operating as a bank or a building society at the end of a period of account. • Entities owe that responsibility to the government, which acts on behalf of society at large. • An entity has no practical ability to avoid discharging its responsibility if it operates as a bank or as a building society at the end of the period of account and has chargeable equity and liabilities greater than £20 billion. Observations Example 13B in the ED Guidance sets out a fact pattern that is very similar to the UK Bank Levy. The IASB analysis for that example also concludes that the obligation condition is met. However, the IASB analysis relates the obligation to the entity taking two separate actions: operating in its current accounting period and operating as a bank on the last day of that period. It is not clear that this matter is relevant to the obligation condition assessment – it does not affect the conclusion that the obligation condition is met. However, it has an impact on the assessment for the past-event condition and we discuss it further in the past-event condition analysis below.
Transfer	?	UKEB Secretariat's preliminary analysis The levy represents a contribution from entities in respect of the risks they pose to the financial system and wider economy. On the face of it, entities paying the levy receive no economic resources from HMRC/the government directly in exchange for the payment. The transfer condition is therefore met. Observations The draft IASB analysis for Example 13B also concludes that the transfer condition is met. However, that the entity receives no economic resources in exchange for the levy

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Requirement		Analysis
		is stated as a fact in the fact pattern, so this matter is not really analysed. An alternative view is that by paying the levy entities receive, in effect, the right to operate as banks or building societies, similar to a licence. Early stakeholder feedback[4] suggests that in such cases the distinction between transfer and exchange may not be clear cut. This was highlighted to some extent during the development of IFRIC 21. As part of our public consultation and other stakeholder engagement we will consider this further. One key aspect might be to understand what consequences would flow from non-payment. [To confirm.]
Past-event	?	<u>UKEB Secretariat's preliminary analysis</u> The starting point for this aspect of the analysis is to identify what specific economic benefits or actions need to be taken to trigger an obligation under the relevant legislation. This includes considering whether there is more than one such action, or benefit taken. The UK Bank Levy is charged if an entity is operating as a bank or building society at the end of an accounting period with chargeable liabilities and equity in excess the £20 billion allowance. On the face of it, therefore, the 'mechanism' (the relevant legislation) requires only one action and this arises only at the entity's year end. It is unclear what the consequence would be for an entity if it ceased being a bank/building society part way through the year. [To confirm.] Could it avoid paying the bank levy for the full chargeable period? If that were the case, this might support the argument that there is only one relevant action for the purposes of this assessment, that is, operating as a bank/building society at the end of the chargeable period. <u>Observations</u> As noted above (see obligation condition), the IASB analysis relates the obligation to the entity taking two separate actions: operating in its current accounting period and operating as a bank on the last day of that period. However, the basis for this assessment is not explicit, and it is not apparent how it would apply in the case of the UK Bank Levy. We understand that the assessment may depend on the fact that the amount charged is adjusted when the

4 For example, the alternative view was expressed by some UKEB advisory group members.

Requirement	Analysis	
		chargeable period *is not equal to* 12 months. This may imply that operation as a bank/building society **during the period** is also necessary to trigger the obligation. [To confirm.] Further, it is unclear if the £20 billion allowance would be deemed a threshold requiring consideration of the threshold-triggered costs requirements in paragraph 14P. *Accounting implications:* (a) Two or more actions identified: if it were concluded that there are two or more actions, the IASB's analysis for Example 13B in the ED Guidance would apply. From the start of the current annual reporting period, the entity starts to take the first action and has no practical ability to avoid the second action (paragraph 14Q in the ED). Because the extent of the entity's obligation depends on the length of its annual reporting period, the present obligation accumulates over the annual reporting period (paragraph 14O). (b) Only one action identified: there may be two possible interpretations of the proposed requirements for the Bank Levy, if only one action is identified: • Application of proposed paragraph 14N - The only action identified is to operate as a bank/building society at the end of the relevant levy period, so a provision would be recognised only at the end of the reporting period. This would result in the same accounting outcome as per the existing requirements in IFRIC 21. • Application of proposed paragraph 14O – "*If the economic benefits are obtained, or the action is taken, over time, the past-event condition is met, and the resulting present obligation accumulates, over that time*". The levy is charged on year-end equity and liabilities, but those balances accumulate over time. A bank obtains economic benefits from operating as a bank and obtaining deposits/equity over time. As a result, the present obligation arising from the Bank Levy accumulates over time. This would represent a change from current practice under IFRIC 21. Further consideration would need to be given to determine the period over which the obligation accumulates (e.g. the chargeable period? the average period for the bank's deposits? other?).

Example 2 – Bank of England Levy

Background

A15. The purpose of the Bank of England Levy (the BoE Levy) is to recover the amounts required by the Bank of England in connection with the funding of its policy functions in pursuit of its Financial Stability[5] and Monetary Policy[6] objectives. This is a new levy which took effect from March 2024.

A16. The BoE Levy is paid by eligible institutions, including banks and building societies, if they have an *average* of eligible liabilities[7] greater than £600 million in the Reference Period. An 'eligible institution[8]' is a person who, at any time during a levy year, is an authorised deposit-taker. The Reference Period is the period from 1 October to 31 December prior to the start of that BoE Levy Year.

A17. The BoE Levy Year is the 12-month period beginning on 1 March in one calendar year to the last day of February in the following calendar year.

A18. The BoE Levy is charged annually, based on the Bank of England's projection for its annual policy costs (the Anticipated Levy Requirement) and subject to certain (true-up) adjustments. [*For simplification purposes, the effect of true-up adjustments is not further considered in this document*].

A19. The BoE Levy is applied on a proportional basis. The Bank of England allocates the policy costs to be recovered by the Levy in proportion to an eligible institution's liability base. The policy rationale for using the eligible liability base is the link between the size of a financial institution's liabilities and its potential impact on the Bank of England's financial stability and monetary policy functions. The corresponding invoice is then submitted to eligible institutions.

A20. The contribution of an eligible institution to the Levy is calculated using eligible liability data for the Reference Period.

A21. Where an institution has become an eligible institution during the Reference Period, the Bank may use such other period of no more than three months as the Bank of England thinks fit.

A22. Should an institution become eligible because its eligible liabilities go above £600 million after the eligible liabilities data has been collected for the Levy Year[9], and

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5 The Bank of England's financial stability objective is to protect and enhance the stability of the financial system of the United Kingdom.

6 The Bank of England's monetary policy objective is to maintain price stability in the UK. Subject to that, it supports the UK Government's economic policy, including its objectives on growth and employment.

7 Eligible liabilities have the meaning set out in regulation 4 of [The Bank of England Levy (Amount of Levy Payable) Regulations 2024](#).

8 As defined in paragraph 2 of Schedule 2ZA of the [Bank of England Act 1998](#). For purposes of this schedule, an 'eligible institution' is a person who, **at any time during a levy year**, is an authorised deposit-taker.

9 Eligible liability data typically submitted by Levy Payers in February.

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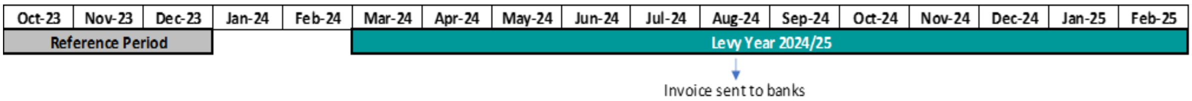
the total Levy amount has already been determined, the Levy will be payable by that eligible institution from the following Levy Year.

A23. Under BoE Levy Terms and Conditions clause 12.1, if a Levy Payer ceases to be an eligible institution during a Levy Year, the Levy Payer's invoice for that Levy Year is payable in accordance with clause 4. It is our understanding, therefore, that the Levy Payer is required to pay the obligation for that Levy Year in full.

A24. The timeline for the 2024/25 Levy Year can be illustrated as follows:



Preliminary accounting analysis

A25. The Secretariat's preliminary analysis on how the proposed amendments to IAS 37 would be applied to the Bank of England Levy is presented below.

Requirement	**Analysis**	
Present obligation recognition criterion (IAS 37.14(a))		
Obligation	✓	UKEB Secretariat's preliminary analysis The obligation condition is met: • The UK legislation imposes a responsibility on an entity that qualifies as an eligible institution (i.e. an authorised deposit-taker) in the Levy Year and has average eligible liabilities greater than £600 million in the Reference Period. • Entities owe that responsibility to the Bank of England, which acts on behalf of British citizens. • The responsibility is enacted in legislation. If an entity meets the relevant criteria, it *has no practical ability* to avoid the levy.
Transfer	?	UKEB Secretariat's preliminary analysis The levy represents a contribution from entities in respect of their potential impact on the Bank of England's financial stability and monetary policy functions. On the face of it, entities paying the levy receive no economic resources from the BoE directly in exchange for the payment. The transfer condition is therefore met. Observations See observations in respect of the UK Bank Levy example above. Early stakeholder feedback suggests that the distinction between transfer and exchange in such cases may not be

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Requirement		Analysis
		clear cut. This was highlighted to some extent during the development of IFRIC 21. As part of our public consultation and other stakeholder engagement we will consider this further.
Past-event	?	UKEB Secretariat's preliminary analysis The entity is required to pay a levy only if it takes two actions: • qualifies as an eligible institution in the Levy Year; and • holds eligible liabilities greater than £600 million in the Reference Period. Proposed paragraph 14Q states that "the past-event condition is met when an entity has taken the first action (or any of the actions) and it has no practical ability to avoid taking the second action (or all the remaining actions)". Proposed paragraph 14R states that "A decision to prepare an entity's financial statements on a going concern basis implies that the entity has no practical ability to avoid taking an action it could avoid only by liquidating the entity or by ceasing to trade." Ceasing to operate as a bank could be a lengthy process. It could therefore be assumed that an entity that has taken the first action **has no practical ability to avoid** taking the second action (that is, to operate as an eligible institution in the Levy Year). (IAS 37.14Q) Based on the above analysis, an entity would recognise a provision[10] in the Reference Period. The amount would be based on estimates and subject to uncertainty as the Bank of England anticipated costs will only be known during the BoE Levy Year. Observations [The precise timing of recognition of the provision would need to be considered: would the full amount of the provision be recognised during the Reference Period (October to December), only at the end of that period, or accrued over a longer period (e.g. the full reporting period that includes the Reference Period)?] While acknowledging that the use to which the levy is put by the regulator is not necessarily a driver for the timing of recognition, a question arises as to whether accounting

10 Assuming both the second (the probable outflow of resources) and the third (reliable estimate) recognition criteria are met.

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Requirement	Analysis	
		for the obligation in the Reference Period reflects the substance of the BoE Levy, which is an annual charge relating to each Levy Year. An alternative analysis could view the Reference Period as the basis for measurement only. This view might be supported by the fact that in some circumstances the BoE can select an alternative period on which to base its apportionment of charges to an entity (see A22 above). In that case there might be only one action and the provision might be recognised only in the Levy Year.

Example 3 – Electricity Generator Levy

Background

A26. The Electricity Generator Levy[11] (EGL) is a temporary charge on the exceptional receipts that have arisen to some UK electricity generators following an unprecedented increase in the wholesale price of electricity.

A27. The EGL mainly applies to groups or entities generating electricity in the UK from nuclear and renewable (including biomass) sources and energy from waste, both sold in the UK and exported. It does not apply to revenue arising from certain Contracts for Difference (CfD)[12].

A28. The EGL is limited, through a threshold, to those groups or standalone companies generating more than 50 Gigawatt-hours (GWh) per annum of electricity from in-scope generation assets in a qualifying period. This is prorated when a qualifying period is shorter than a year. If the threshold is exceeded for a period, then the EGL calculation includes all of the attributable generation, not just the amount by which the threshold is exceeded.

A29. The EGL applies at a rate of 45% to exceptional receipts of companies that generate electricity in the UK from 1 January 2023 to March 2028.

A30. Exceptional generation receipts are those in excess of those that would arise based on a benchmark price. The benchmark rate was set at £75 per MWh from 1 January 2023 until April 2024[13].

A31. Exceptional generation receipts are calculated as: Generation receipts[14] (-) Electricity generation (x) Benchmark price (-) Allowable costs (-) Allowance.

A32. A qualifying period for EGL purposes is based on the corporation tax accounting period of a single company or that of the lead company in the case of a group.

A33. The measure of generation receipts will be the amount that a group realises from relevant generation output in a qualifying period, irrespective of when the relevant contracts were entered into.

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11 The EGL legislation is contained in Part 5 of the Finance (No. 2) Act 2023 (legislation.gov.uk). Information about the EGL can also be found in to Electricity generator levy technical note and Technical note: Electricity Generator Levy – new investment exemption, and Electricity Generator Levy Manual - HMRC internal manual.

12 There is a general exclusion from liability to EGL for stations to the extent that they operate under a CfD with the Low Carbon Contracts Company (LCCC). The LCCC is owned by the Secretary of State for the Department for Energy Strategy and Net Zero (previously the Department for Business, Energy and Industrial Strategy). Generators are not exposed to market volatility to the extent that their output is subject to a CfD with the LCCC and will not be making the exceptional returns that are the subject of the EGL.

13 It will be adjusted annually from 1 April 2024 in line with the Consumer Prices Index (CPI) during the life of the charge. The indexation is based on the annual change in the CPI in the period to the previous December.

14 To be confirmed if cash receipts or an accounting-based metric.

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Preliminary accounting analysis

A34. The Secretariat's preliminary analysis on how the proposed amendments to IAS 37 would be applied to the EGL is presented below.

<table>
<tr><th>Requirement</th><th colspan="2">Analysis</th></tr>
<tr><td colspan="3">Present obligation recognition criterion (IAS 37.14(a))</td></tr>
<tr><td>Obligation</td><td>✓</td><td><u>UKEB Secretariat's preliminary analysis</u>
The obligation condition is met:
Legislation imposes a responsibility on a qualifying electricity generator (which may be a group or a standalone company).
The qualifying electricity generator owes this responsibility to the UK Government, acting on behalf of British citizens.
The responsibility is enacted in legislation. A qualifying electricity generator has no practical ability to avoid the levy. (IAS 37.14B)</td></tr>
<tr><td>Transfer</td><td>?</td><td><u>UKEB Secretariat's preliminary analysis</u>
Since it is based on a measure of profit, the EGL seems similar in nature to a tax. An entity paying the EGL does not appear to obtain any economic resources from the government in exchange. The transfer condition is therefore met.

<u>Observations</u>
Although in our view this assessment seems more straightforward compared with other scenarios, such as bank levies, early stakeholder feedback suggests that the distinction between transfer and exchange may not always be clear cut. This was highlighted to some extent during the development of IFRIC 21. As part of our public consultation and other stakeholder engagement we will consider this further.</td></tr>
<tr><td>Past-event</td><td>?</td><td><u>UKEB Secretariat's preliminary analysis</u>
UK qualifying electricity generators are those groups or standalone companies:
Generating more than 50 Gigawatt-hours (GWh) per annum of electricity from in-scope generation assets in a qualifying period.</td></tr>
</table>

Requirement		Analysis
		• With exceptional generation receipts in excess of the set benchmark price (as defined in legislation). There are therefore two relevant thresholds (volume of electricity generated in excess of 50GWh and generation receipts in excess of the set benchmark price of £75 per MWh). **The threshold-triggered costs guidance in IAS 37.14P applies.** Under IAS 37.14P, the action that meets the past-event condition is the activity that contributes to the total activity on which the amount of the transfer is assessed. At any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period. It is the portion attributable to the activity carried out to date. Therefore, a present obligation for UK qualifying electricity generators arises **as they generate receipts** from generation of electricity (from in-scope generation assets) in the qualifying period. The entity recognises a provision if the recognition criteria in paragraphs 14(b) and 14(c) are met, that is, if: • It is probable that the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource (14(b)); and • A reliable estimate can be made of the amount of the obligation (14(c)). This would represent a change to current practice, as under IFRIC 21 a provision is recognised only from the date the threshold is met. <u>Observations</u> Initial stakeholder engagement has highlighted potential practical application challenges: • Difficulty in forecasting electricity prices: in the past, budgets have been significantly different from actual prices. This might bring into question whether an electricity generator would be in a position to produce a reliable measure (as required by IAS 37.14(c)) for the liability if it needed to forecast it from the beginning of the reporting period. • The impact of seasonality would need to be considered in determining the 'portion' of the total expected obligation for the assessment period (paragraph 14P). In the electricity industry the EGL benchmark is likely to be exceeded only over the

Requirement	Analysis	
		winter months. For a March year-end reporter, it would be only in the second half when the entity would confirm if the threshold had been exceeded.

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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*. To develop our [draft] response our work [to-date] has included in-house research and consultation with stakeholders in the UK, including academics, accounting firms and institutes, preparers and users of accounts. [Our work on these matters continues and will inform our final comment letter.]

4. We welcome the IASB's efforts to improve the clarity of the requirements in IAS 37. This is a long-standing standard and over the years application challenges

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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.

have arisen, resulting in the issuance of various IFRIC Interpretations and Agenda Decisions.

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

Provisions - recognition criteria

6. Overall, we support the proposed amendments relating to the present obligation recognition criterion in IAS 37 paragraph 14(a). We consider the addition of separate requirements for each of the three distinct elements of the criterion (i.e. the obligation, transfer and past-event conditions) will enhance the clarity of the requirements, providing a more robust structure and greater rigour to the assessment.

7. We welcome the proposed extensive amendments to the examples in the *Guidance on implementing IAS 37* (Guidance). Updating the analysis of the existing examples to reflect the proposed amendments supports understanding of the intended application of the proposed requirements and should facilitate application of the concepts to different fact patterns. The addition of new examples is also welcome as is the consolidation of certain Agenda Decisions into this guidance.

8. However, we have identified some areas where we consider that further work may be needed before the proposals are finalised:

   a) We consider that 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 is not clear. It is unclear from the guidance how an entity may go about separately identifying individual actions in order to apply the requirements to their specific circumstance. Clearly identifying the underlying principle and/or providing further application guidance would facilitate consistent application across a variety of fact patterns. [Appendix A paragraphs A13 - A19]

   b) In relation to the transfer condition, we consider that further guidance is needed in the standard to support understandability of what constitutes a transfer as opposed to an exchange. This seems to be an inherently judgemental aspect and is made particularly complex by the fact that the terms 'transfer' and 'exchange' are used widely in IFRS with a variety of meanings. Not all usage is consistent with the proposals in the ED. Without further guidance there is therefore a risk of confusion and increased diversity in practice. [Appendix A paragraphs A8 – A12]

c) The analysis in some of the examples in the Guidance could be perceived as inconsistent or contradictory. In Appendix A we have identified these areas and provide recommendations that in our view would enhance the clarity and help reduce the risk of unintended consequences. [Appendix A paragraphs A17, A31 - A34]

d) 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. 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, transfer and past-event). [Appendix A paragraph A20]

Measurement

9. We welcome the proposed clarification on the expenditure required to settle an obligation. This will reduce the risk of diversity in practice and enhance comparability. [Appendix A paragraphs A21 – A22]

10. We also welcome the proposed requirement for an entity to use a discount rate represented by a risk-free rate with no adjustment for non-performance risk, when the time value of money is material. We support the IASB's rationale, as presented in the Basis for Conclusions BC75 – BC80, including that provisions within the scope of IAS 37 typically do not include an obligation for an entity to pay the counterparty compensation for accepting non-performance risk, the determination of a non-performance risk adjustment could be highly subjective and the outcome of including it can be counter-intuitive. We consider that the proposed clarification will reduce diversity in practice and enhance comparability. [Appendix A paragraphs A23 – A26]

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

UK Endorsement Board

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 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.

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

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Provisions – recognition criteria

A3. Overall, we support the proposed amendments relating to the present obligation recognition criterion in IAS 37 paragraph 14(a). We consider the removal of the obligating event definition and the proposed introduction of separate requirements for each of the three distinct elements of the criterion (i.e. the obligation, transfer and past-event conditions) will enhance the clarity of the requirements, providing a more robust structure for the technical analysis.

A4. However, we have identified some aspects of the proposed amendments that in our view might benefit from further consideration or field testing:

No practical ability to avoid test

A5. 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.

A6. 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 such a test in two subtly different ways:

a) A no practical ability to avoid test is one of the elements within the obligation condition. We understand this test is in effect a test of the 'strength of the mechanism' imposing the obligation.

b) The past-event condition also includes a no practical ability to avoid test (ED paragraph 14Q). This arises 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.

A7. The interaction of the obligation and past event conditions can be confusing. We recommend the IASB describe more explicitly the difference between the two tests and how the test is intended to be applied when assessing the obligation condition and the past-event condition to facilitate consistent application.

Transfer/exchange of economic resources

A8. The ED introduces 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.

A9. Stakeholder feedback also suggests that the distinction between the two concepts may not always be clear cut. For example, UKEB stakeholders have raised doubts over whether certain levies are transfers or exchanges. In addition, questions arise as to whether outsourcing the settlement of an obligation (to provide clean-up services, for instance, or staff training) can impact recognition by converting it into an exchange (compare examples 2A/2B and 7).

A10. The amendment also begs the question as to how the proposal can be reconciled with the requirement in IFRS to capitalise within assets the costs recognised when certain provisions are made (for example decommissioning costs, see IAS 16.16-18). IAS 37 paragraph 8 states that "this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made" and IFRIC 21 stated that an entity should apply other accounting standards to determine whether the recognition of the provision gives rise to an asset or expense.

A11. This seems to be an inherently judgemental aspect of the proposals and is made particularly complex by the fact that the terms 'transfer' and 'exchange' are used widely in IFRS with a variety of meanings. Not all usage is consistent with the proposals in the ED.

A12. These challenges have been recognised in the past by IFRIC agenda papers which have set out the difficulties in assessing the difference between exchange and transfer[3]. We therefore recommend that further guidance is provided in the standard to support understandability and reduce the risk of diversity in practice. A possible approach could include signposting within IAS 37 the relevant concepts from the Conceptual Framework, accompanied by examples illustrating the analysis performed in reaching a conclusion. Some of the proposed examples, such as those illustrating levies, state whether the nature of the obligation is a transfer or exchange without explaining how such a conclusion might be reached.

Past-event condition

A13. In withdrawing IFRIC 21 the proposed amendments would be applicable to *all* obligations in the scope of IAS 37, not only levies. The risk of unintended consequences needs to be considered.

A14. For straightforward scenarios, the proposed amendments to the present obligation recognition criterion do not appear to present any particular difficulties. The conclusion is not so clear when applied to more complex fact patterns, such as certain levies, where an entity would need to consider the proposed

3 For example, IFRS Interpretations Committee January 2013 meeting - Agenda Paper 16, paragraph 11 states "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……."

requirements for obligations to transfer an economic resource *only if an entity takes two (or more) separate actions*.

A15. 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 terms and conditions of a contract, or in the case of a levy, such a mechanism would be the corresponding legislation.

A16. We consider that 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 is not clear. Clearly identifying the underlying principle and/or providing further application guidance would facilitate consistent application across a variety of fact patterns.

A17. At present, it is difficult to rationalise precisely what leads to the identification of an 'action', and therefore to clearly understand the difference between some of the examples in the Guidance. For example:

a) 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. We consider that the distinction between what is merely a measurement basis and what is considered to be an 'action' for purposes of the proposed amendments should be made clearer.

b) 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. We consider it would be helpful to explain the rationale for the differences from:

i. the proposed guidance for threshold-triggered costs (paragraph 14P), 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); and

ii. 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.

A18. Further testing of the proposals is needed to identify whether the requirements can be applied consistently across different fact patterns and whether they lead to a sensible accounting outcome.

A19. This is also applicable to the proposed requirements on *threshold-triggered costs*. In addition, 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, for example, to indicate what would take precedence if both requirements seem relevant for the same fact pattern.

Application of the recognition and measurement rules – Restructuring

A20. 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. 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, transfer 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?

A21. We support the proposed clarification of the costs an entity includes in estimating the future expenditure required to settle an obligation. The proposed requirements will reduce diversity in practice and enhance comparability, resulting in more useful information for users of accounts.

A22. However, 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.

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?

A23. We support the proposed amendment to require entities to discount 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. The proposed requirements will reduce diversity in practice and enhance comparability.

A24. We also support the IASB's decision for the reasons set out in the Basis for Conclusions BC75-BC80, including that:

a) provisions within the scope of IAS 37 typically do not include an obligation for an entity to pay the counterparty compensation for accepting non-performance risk;

b) non-performance risk is not observable and, therefore, any estimate of the adjustment required to reflect non-performance risk could be highly subjective; and

c) the outcomes of measuring a provision at an amount that reflects the entity's own credit standing can be counter-intuitive.

A25. In this regard, we recommend the IASB considers whether paragraph 37 in IAS 37 should be amended to reflect the proposed new requirement: the proposed measurement requirement will result in a fulfilment value modified to exclude the effect of the possibility that the entity may fail to fulfil the liability (own credit risk), thereby resulting in more useful information, as explained in the Conceptual Framework paragraph 6.92.

A26. We also support the proposed requirement to disclose the discount rate(s) used and the approach used to determine such rate(s). We believe the proposed disclosures would result in more useful information for users of accounts.

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** 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?

A27. 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.

A28. However, 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).

A29. We understand the proposed exceptions are consistent with transitional provisions in previous IASB projects[4], 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).

4 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.

Question 5— Disclosure requirements for subsidiaries without public accountability
The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B). Paragraphs BC101-BC105 of the Basis for Conclusions explain the IASB'S reasoning for this proposal. Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would suggest instead?

A30. 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?

A31. We support updating the decision tree in Section B of the *Guidance on implementing IAS 37*. It provides a useful visual aid of the proposed new recognition requirements.

A32. 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 three conditions in the first recognition criterion enhances clarity and facilitates comparison of the technical analysis and conclusions for the different fact patterns presented.

A33. However, we consider the analysis in some of the examples could be perceived as inconsistent or contradictory. Refer to paragraphs A17 – A19 above.

A34. 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. 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*

A35. We recommend the IASB considers whether an exception to the measurement principle in IFRS 3 is needed for provisions in scope of IAS 37. 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), would result in a Day 2 impact to profit or loss.]

UKEB
UK Endorsement Board

Invitation to Comment

Call for comments on the UKEB Draft Comment Letter on the IASB's Exposure Draft *Provisions – Targeted Improvements*

Deadline for completion of this Invitation to Comment:

Monday 3 February 2025

Please submit to:
UKEndorsementBoard@endorsement-board.uk

Introduction

The objective of this Invitation to Comment is to obtain input from stakeholders on the UKEB Draft Comment Letter (DCL) on the Exposure Draft (ED) *Provisions – Targeted Improvements* published by the International Accounting Standards Board (IASB) on 12 November 2024. The IASB comment period ends on 12 March 2025.

UK endorsement and adoption process

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 (Foundation) on the development of new standards, amendments, and interpretations. This letter is intended to contribute to the IASB'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.

Who should respond to this Invitation to Comment?

Stakeholders with an interest in the quality of accounts prepared in accordance with international accounting standards.

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How to respond to this Invitation to Comment

Please download this document, answer any questions on which you would like to provide views, and return it together with the 'Your Details' form to UKEndorsementBoard@endorsement-board.uk by close of business Monday 3 February 2025.

Brief responses providing views on individual questions are welcome, as well as comprehensive responses.

Privacy and other policies

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[1] These policies can be accessed from the footer in the UKEB website here: https://www.endorsement-board.uk

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Questions

Definition of a liability and recognition criteria

1. Overall, the UKEB's DCL supports the proposed amendments to the definition of a liability and to the recognition criteria for provisions. The UKEB's DCL also highlights some areas where further consideration might be needed and provides some recommendations. [DCL Paragraphs 4 -8 and A1 – A19]

   Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

2. The IASB's ED proposes amendments to the present obligation recognition criterion including the introduction of a 'transfer' condition. [ED paragraphs 14I – 14L] The proposals make an explicit distinction between a transfer and an 'exchange' transaction.

   Do you consider the proposed requirements are clear and would allow consistent application across a variety of fact patterns? If not, what would you recommend instead?

Yes	☐	No	☐
Click or tap here to enter text.			

3. The IASB's ED proposes the introduction of a 'past-event' condition. [ED paragraphs 14M – 14R] As part of this, the ED also proposes specific guidance for obligations to transfer an economic resource only if the entity takes two (or more) separate actions [ED paragraph 14Q].

   Do you consider the underlying principle behind the identification of the relevant 'action(s)' is clear and would facilitate consistent application across a variety of fact patterns? If not, what would you recommend instead?

Yes	☐	No	☐
Click or tap here to enter text.			

4. The IASB's proposes limited editorial amendments to the section in IAS 37 'Application of the recognition and measurement rules – Restructuring'. The UKEB DCL considers such guidance could be perceived as confusing or inconsistent with other proposals in the ED and recommends it is presented using the new structure for the assessment proposed in the ED (i.e. disaggregating by obligation, transfer and past-event).

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

Measurement – Expenditure required to settle an obligation

5. The UKEB's DCL agrees with the proposed clarification of the costs an entity includes in estimating the future expenditure required to settle an obligation but recommends further consideration on how the proposed amendment would be applied to certain obligations not settled by the provision of goods or services, such as legal claims. [DCL paragraphs 9 and A21 – A22]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

Measurement – Discount rates

6. The UKEB's DCL agrees with the proposed amendment to discount 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. The DCL also supports the proposed related disclosure requirements. [DCL paragraphs 10 and A23 – A26]

The UKEB's DCL also recommends a potential amendment to paragraph 37 in IAS 37 to reflect that the proposed measurement requirement will result in a fulfilment value modified to exclude the effect of the possibility that the entity may fail to fulfil the liability (own credit risk) [DCL paragraph A25]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐

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Click or tap here to enter text.

Transition requirements

7. The UKEB's DCL agrees with the proposed transition requirements but recommends the IASB considers requiring the exceptions to retrospective application to be applied at the same date (i.e. date of initial application or transition date). [DCL paragraphs A27 – A29]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

Disclosure requirements for subsidiaries without public accountability

8. The UKEB's DCL supports the proposed consequential amendments to IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. [DCL paragraph A30]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

Guidance on implementing IAS 37

9. The UKEB's DCL supports the proposed amendments to the decision tree in Section B and to the illustrative examples in the *Guidance on implementing IAS 37*. However, the DCL also highlights some perceived inconsistencies and makes some recommendations. [DCL paragraphs 8(c) and A31 – A34]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

UK Endorsement Board

Consequential amendments to other IFRS Accounting Standards

10. The UKEB's DCL recommends the IASB considers whether an exception to the measurement principle in IFRS 3 *Business Combinations* is needed for provisions in scope of IAS 37. [DCL paragraph A35]

Do you agree with this position? Please explain why or why not.

Yes	☐	No	☐
Click or tap here to enter text.			

Other comments

11. Have you identified any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in the IASB's Exposure Draft? If so, please describe them below.

Click or tap here to enter text.

12. Do you have any comments on the potential costs and benefits likely to arise from the proposed targeted improvements to IAS 37?

Click or tap here to enter text.

13. Do you have any other comments on the IASB's Exposure Draft or the UKEB's DCL you would like to share?

Yes	☐	No	☐
Click or tap here to enter text.			

Thank you for completing this Invitation to Comment

Please submit this document by

Monday 3 February 2025 to

UKEndorsementBoard@endorsement-board.uk