Australian Government
Australian Accounting Standards Board

Staff Paper

Project:	**Provisions—Targeted Improvements** Proposed amendments to IAS 37	**Meeting:**	6 March 2025 (M211)
Topic:	**Summary of stakeholders' feedback, staff analysis and recommendations**	**Agenda Item:** **Date:**	3.1 19 February 2025
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Objective of this agenda item

1 The objective of this agenda item:

(a) To inform the Board about the feedback from stakeholders on the International Accounting Standards Board (IASB) ED/2024/8 Provisions—Targeted Improvements—Proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

(b) For the Board to consider the staff analysis of stakeholders' feedback and matters for inclusion in the comment letter.

Summary of Staff Recommendations

2 Staff recommend supporting the proposed present obligation recognition criterion and recognition requirements, and present the following suggestions to (refer to paragraph 41):

(a) clarify that paragraph 14L relates to the recognition of the obligation only and does not preclude payments for goods and services to be considered for provision measurement purposes if they meet requirements in paragraph 40A;

(b) explain in the standard the interaction of paragraph 14L and 40A;

(c) clarify paragraph 40A to explain whether the IASB intended to include in the provision costs payable to third parties (such as legal costs);

(d) explain in the BC the reason for deleting paragraph 18; and

(e) amend the wording of paragraph 14(a) to refer to liability.

3 Staff recommend supporting the proposal to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A) subject to clarifications suggested above (refer to paragraph 52).

4 Staff recommend supporting the proposal on the discount rates and clarifying that (refer to paragraph 62):

(a) the exclusion of a non-performance risk is an exception to the measurement principle as explained in paragraph 6.92 of the *Conceptual Framework*; and

(b) non-performance risks shall not be reflected in the expected cash flows of provisions.

5 Staff recommend permitting both transition exceptions to be applied at the same date, and to select an effective date that would provide sufficient time for entities to understand the

implication of the proposed changes, undertake the appropriate system updates and access historical data going back many periods (refer to paragraph 72).

6 Staff also recommend amending Decision Tree B1 to require users to assess all three conditions (as per paragraph 14A of the ED) and including the relevant paragraph references in decision trees (refer to sub-paragraphs 88(a) and 88(b)).

7 Staff further recommend wording changes in Example 13C of the ED to (refer to sub-paragraph 88(c)):

(a) replace "increase" to "adjust" in the second sentence of the second paragraph; and

(b) update the conclusion statement to clarify that paragraph 14P does not apply in this scenario and that a provision cannot be recognised over time.

Background

8 In 2020, the IASB added a standard-setting project to its work plan, with the objective of making targeted improvements to IAS 37 to clarify recognition and measurement criteria.

9 In November 2024, the IASB issued an ED/2024/8 Provisions—Targeted Improvements—Proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that proposes targeted amendments related to:

(a) Recognition criteria

(i) updating the definition of a liability and the recognition criterion to align with the definition of liability in the *Conceptual Framework for Financial Reporting* (*Conceptual Framework*);

(ii) explaining three conditions for the present obligation recognition criterion (obligation, transfer and past-event);

(iii) adding requirements for threshold-triggered costs

(iv) improving the wording of the requirements for restructuring costs.

(b) Measurement – discount rates

specifying that the discount rate excludes non-performance risk and added disclosure requirements.

(c) Measurement – costs to include

clarifying that the types of costs an entity includes in measuring a provision are the incremental costs of settling that obligation and an allocation of other costs that relate directly to settling obligations of that type.

10 The ED comment period closes on 12 March 2025.

11 In November 2024, the AASB issued an Australian equivalent ED – ED336 Provisions—Targeted Improvements (ED336). The comment period closed on 31 January 2025.

Outreach activities

12 Staff conducted the following outreach activities to gather views from stakeholders:

(a) 25 November 2024 – AASB staff introduced and discussed the ED with the User Advisory Committee (UAC);

(b) 16 December 2024 – AASB Financial Instruments Project Advisory Panel (FIPAP) meeting where five members provided feedback to AASB staff on the ED;

(c) 20 January 2025 – AASB staff hosted a preliminary discussion meeting with the AOSSG Financial Instruments and Liabilities Working Group members, where China and Singapore joined to provide preliminary feedback on the ED; and

(d) 13 February 2025 – AASB staff attended a roundtable arranged jointly by CA ANZ and CPA Australia to obtain the views of their members.

13 In addition, staff also considered comments from the following:

(a) one comment letter from the Heads of Treasuries Accounting and Reporting Advisory (HoTARAC) submitted to the AASB; and

(b) views of other standard setters, such as EFRAG, NZASB and UKEB.

14 Meeting with an IASB staff to understand the IASB's intent for the targeted improvements.

Feedback from Australian stakeholders, staff analysis and recommendations

15 There are seven questions in the ED. Staff have considered all feedback received in providing their recommendations to the Board.

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?

Summary of the proposals

16 For the first targeted improvement, the IASB proposed four amendments:

(a) Updates to liability definition and recognition criteria to align with the *Conceptual Framework*

(b) Disentanglement of the recognition requirements (ED paragraphs 14A-14U) by clarifying

(i) the obligation condition

(ii) the transfer condition

(iii) the past-event condition

(c) Threshold-triggered costs

(d) Improving the wording of the requirements for restructuring costs

17 To align the liability definition and recognition criteria to the *Conceptual Framework*, the ED proposed the following wording changes:

Liability definition

A *liability* is a present obligation of the entity to transfer an economic resource as a result of ~~arising from~~ past events~~, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits~~.

Present obligation recognition criterion

14 A *provision* shall be recognised when three criteria are met:

(a) an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event (paragraphs 14A–16);

…

18 To clarify the present obligation recognition criterion (ED paragraph 14(a)), the IASB proposed to remove the definition and requirement of an obligating event and replaced it with the requirement to meet three distinct conditions (paragraph 14A):

(a) an obligation condition—the entity has an obligation;

(b) a transfer condition—the nature of the entity's obligation is to transfer an economic resource; and

(c) a past-event condition—the entity's obligation is a present obligation that exists as a result of a past event.

19 For the obligation condition, the ED explains an obligation as a responsibility the entity has "no practical ability to avoid".

20 For the transfer condition, the ED clarifies that:

(a) the obligation must have the potential to require the entity to transfer an economic resource; and

(b) transfer is not an exchange of economic resources, unless the exchange is unfavourable to the entity.

21 For the past-event condition, the ED clarifies that:

(a) if an action is taken over time, the past event condition is met over that time; and

(b) if two or more separate acts are needed, then the past event condition is met when the first action is taken and entity cannot avoid taking the second action.[1] This amendment differs from the current IFRIC 21 *Levies*, where provision is recognised when the entity takes the last of the specific actions. These amendments will effectively withdraw IFRIC 21, requiring an earlier recognition of certain levies and other provisions.

22 For the threshold-triggered costs, the ED clarifies that the provision should be recognised over time as the related specified activity occurs, rather than once the threshold is crossed.[2] This amendment is a fundamental change in the timing of provision recognition, resulting in earlier recognition of some provisions.

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1 Paragraph 14Q of the ED states "*In some situations, an entity has an obligation to transfer an economic resource only if it takes two (or more) separate actions, and the requirement to transfer an economic resource is a consequence of taking both (or all) these actions. In such situations, the past-event condition is met when the entity has taken the first action (or any of the actions) and has no practical ability to avoid taking the second action (or all the remaining actions).*"

2 Paragraph 14P of the ED states, *"in some situations, an entity has an obligation to transfer an economic resource only if a measure of its activity in a period (the assessment period) exceeds a specific threshold. In such situations, 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. The entity recognises a provision if the recognition criteria in paragraphs 14(b) and 14(c) are met—that is, if:*

(a) it is probable that the entity's activity will exceed the threshold and the entity will be required to transfer an economic resource (see paragraph 14(b)); and

(b) a reliable estimate can be made of the amount of the obligation (see paragraph 14(c)).

…"

23 To clarify the recognition of a provision for restructuring the ED also proposed new wording to replace "constructive obligation to restructure" with "present obligation for restructuring costs". The intent is that the term "present obligation" would mean that all three conditions (obligation, transfer and past event conditions) have been met. This is to clarify that an entity that has publicly announced a plan to change its operations in the future (e.g. reduce annual greenhouse gas emissions) does not have a present obligation unless all three recognition conditions are met.

<u>Stakeholders' feedback</u>

24 One DIPAP member commented that it is unclear whether the provision can include the costs of external legal counsel. The proposed paragraph 14L[3] explains that the exchange of economic resources is not an obligation to transfer an economic resource. The paragraph contains an example of a contract to receive good in exchange for cash. The member noted that it is unclear whether that consideration applies to contracts for services, such as legal counsel services.

25 When considering the impact of the proposed amendments on legal counsel costs, some stakeholders noted that the ED contains contradictory guidance in:

(a) Paragraph 14L – explains the difference between transfer and exchange of resources and explains that executory contract (e.g. contract to receive goods for payment of cash) is not a transfer of economic resources. Reading this paragraph alone made users wonder whether the paragraph should also refer to contracts to receive services. In that case, the panel member thought that would exclude providing for legal counsel services.

(b) Example 7 – in this example an entity is required to train current employees. The contract to receive training services is an example of a contract for exchange of economic resources that fails the transfer condition, and therefore no provision is raised.

(c) Paragraph 40A[4] – specifies that the expenditure required to settle an obligation consists of both the incremental costs and an allocation of other costs that relate directly to settling obligations. The member commented that paragraph 40A seems to indicate that legal costs would be included, interpreting that:

(i) if legal services are specifically outsourced to settle the obligation, then this would meet paragraph 40A(a);

(ii) if the in-house legal team settles the obligation, then paragraph 40A(b) would be met.

26 Another comment was made in relation to the proposal of deleting paragraph 18, which clarified that no provision should be recognised for future losses. The panel member observed that this clarification has not been replaced. The panel member acknowledged that the guidance on restructuring, specifically paragraph 81 relating to specific restructuring costs, explains that those specific expenditures relate to the future conduct of the business and are not present obligations.

27 DIPAP members also noted that it is unclear how the proposed guidance would apply to:

(a) situations when an entity chooses to settle a claim to avoid potential supervision from a regulator (which could incur more costs to the entity).

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3 Paragraph 14L of the ED 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. Accordingly, the obligations arising under an executory contract—for example, a contract to receive goods in exchange for paying cash—are not obligations to transfer an economic resource unless the contract is onerous*."

4 Paragraph 40A of the ED states, "*the expenditure required to settle an obligation comprises the costs that relate directly to the obligation. Costs that relate directly to an obligation consist of both:*
(a) the incremental costs of settling that obligation; and
(b) an allocation of other costs that relate directly to settling obligations of that type."

(b) a situation when an entity can successfully defend a legal dispute, but chooses to settle to avoid damage to reputation.

28 One DIPAP member highlighted the need for consistency in recognising provisions relating to climate regulation and suggested more examples.

29 One stakeholder expressed concern that paragraph 14P could give rise to a potential for earnings management through early recognition of a provision, and corresponding expense, when a threshold is partially satisfied. The threshold in paragraph 14P, and accompanying example in the body of the Standard, rely on judgement about revenue measures to determine the present obligation. This judgement has potential to debit an 'expense' that is not realised in the next reporting period.

Staff analysis

Inconsistencies between paragraph 14L, Example 7 and paragraph 40A

30 Staff analysed stakeholder feedback on the clarity of proposed wording of paragraph 14L and whether clarification on services is needed when explaining that obligations under executory contracts, for example contracts to receive goods for paying cash, are not obligations to transfer an economic resource. Staff acknowledge that paragraph 14L only refers to goods. However, the wording of the paragraph clearly states it is just an example. Therefore, the paragraph should not be considered to provide an exhaustive list of contracts.

31 The AASB discussed this topic with the IASB staff, who confirmed that the IASB's intent is to include contracts for goods and services in exchange for paying cash to fail the transfer condition. As such, there is no inconsistency between paragraph 14L and Example 7.

32 Pertaining to the proposed paragraph 40A, the ED clarified that the types of costs an entity includes in measuring a provision are the same as those used to identify whether a contract is onerous. Staff noted that stakeholders were still unsure whether future costs of legal counsel services could be included in the provision.

33 The IASB staff clarified that when assessing the transfer condition as part of the present obligation recognition criterion (paragraph 14L), entities are to consider whether there is a transfer of economic resources required as a result of their obligation rather than assessing transfer of resources for services that will be required to settle that obligation (e.g. in the case of a legal claim made against the entity, when assessing the transfer condition in paragraph 14L, the entity needs to consider whether it has an obligation to transfer an economic resource to settle the claim in the first place. The measurement guidance is considered only after the recognition criteria are met. At the measurement stage, the entity will consider the type of costs that should be included, e.g. the subsequent costs that would be required to settle that obligation).

34 The IASB staff noted that this ED does not specifically address whether legal costs should be included in the provision. However, they acknowledged that currently IAS 37 is unclear about whether the expenditure required to settle a provision includes costs payable to third parties for future services, such as legal costs expected to be incurred in negotiating the settlement of a legal claim[5]. The IASB staff recommended raising this issue in our comment letter if it is prevalent in our outreach activities on this ED.

35 Staff observed that the wording in paragraph 14L and the explanation of the difference between transfer and exchange of economic resources could be improved to make clear, that the wording only relates to assessing the transfers as a result of the underlying obligations for recognition purposes, not costs of contracts that will be included in the measurement of the provision.

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5 Also documented in paragraph 3.18 of the IASB Staff Paper Research Summary on Provisions, dated January 2020.

Removal of references to future operating costs

36 Staff reviewed the proposed deletion of paragraph 18 prohibiting provisions for future operating costs, and noted that the Basis for Conclusion (BC) did not explain the reasons for removing paragraph 18 from IAS 37. Staff think that the guidance in paragraph 81[6] is similar to a certain extent, but it has a narrower scope as it refers to specific costs incurred in relation to restructuring. Staff agree with stakeholder feedback that the requirement not to provide for future losses will continue to apply, and as such, there is no reason for deletion.

37 Meeting with the IASB staff clarified that paragraph 14L was intended to replace paragraph 18 as it requires the transfer of economic resources as a result of the obligation. As our stakeholders were not able to interpret it that way, an explanation of the proposed paragraph 14L being the replacement for paragraph 18 would be useful.

Consideration of other matters

38 Staff considered the guidance in relation to specific scenarios (entity chooses to settle the obligation) raised by stakeholders in paragraph 27:

Staff are of the view that paragraph 14F(b) would apply when considering those scenarios. Paragraph 14F(b) states:

> *"An entity has no practical ability to avoid discharging a responsibility:*
>
> *…*
>
> *(b) in the case of a constructive obligation, if the entity's pattern of past practice, published policy or sufficiently specific current statement creates valid expectations in other parties that the entity will discharge the responsibility."*

Staff do not recommend adding any further guidance.

39 Regarding paragraph 14P's potential for earnings management, staff acknowledge this risk but are of the view that the IASB's explanations in paragraphs BC45 to BC47 are well justified. Staff think that:

(a) accruing a provision provides more useful information to investors, and is less risky than a later recognition (i.e. risk of misleading information to investors), as concluded in paragraph BC45[7];

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6 Paragraph 81 of the ED proposes "*a restructuring provision does not include such costs as:*
(a) retraining or relocating continuing staff;
(b) marketing; or
(c) investment in new systems and distribution networks.
These expenditures relate to the future conduct of the business and are not present obligations to transfer an economic resource at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

7 Paragraph BC45 of the ED states *"… the IASB concluded that:*
(a) a present obligation for a threshold-triggered cost starts to arise when an entity starts to carry out the activity on which the cost is assessed.
(b) accruing a provision based on the expected cost attributable to each unit of activity would provide useful information to investors. In contrast, recognising a provision only after the threshold has been met could provide misleading information to investors. Recognition at this stage might not faithfully represent the entity's financial performance and financial position in its (interim) financial statements for periods before and after the threshold is met.

(b) if entities are not able to measure the present obligation, then this would fail one of the criteria for provision recognition (i.e. the reliable estimate criteria as per paragraph 14(c) of IAS 37). Refer to the ED's paragraph BC46[8];

(c) judgement is based on the expectation that the threshold would be exceeded, which is based on the entity's forecast of the total activity for the assessment period. If the entity is not able to make a forecast that is sufficiently reliable, then a provision for threshold-triggered cost would not be made, as explained in paragraph BC47[9].

Additionally, management judgement is required in other IFRS Accounting Standards (e.g. IFRS 15 *Revenue from Contracts with Customers* or IFRS 9 *Financial Instruments Classification and Measurement*). Staff also consider that financial audit is an additional measure preventing management over-optimism or revenue management. As such, staff do not recommend any change.

40 Staff noted that the new definition of liability is the same as the condition for present obligation in paragraph 14(a).

> *14* A *provision* shall be recognised when <u>three criteria are met</u>:
>
> (a) an entity has a present obligation (legal or constructive) <u>to transfer an economic resource</u> as a result of a past event <u>(paragraphs 14A–16);</u>

Therefore, it is unclear why the wording in that paragraph does not refer to a liability, ie.

(a) an entity has a liability;

<u>Staff recommendations</u>

41 Considering the feedback provided and staff analysis, staff suggest that the AASB recommends that the IASB

(a) clarifies that paragraph 14L relates to the recognition of the obligation only and does not preclude payments for goods and services to be considered for provision measurement purposes if they meet requirements of paragraph 40A;

(b) explains in the standard the interaction of paragraph 14L and 40A;

(c) clarifies paragraph 40A to explain whether the IASB intended to include in the provision costs payable to third parties (such as legal costs);

(d) explains in the BC the reason for deleting paragraph 18; and

(e) amends the wording of paragraph 14(a) to refer to liability.

Question for Board members

Q1 Do Board members agree with the staff recommendations in paragraph 40? If not, what would Board members suggest?

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8 Paragraph BC46 of the ED states "*the IASB further noted that an entity applying the proposed amendments would not necessarily recognise a provision before its activity exceeded the threshold. The entity would recognise a provision only if the other recognition criteria in IAS 37 were also met, that is, if:*
(a) it were probable that a transfer of economic resources would be required to settle the obligation (paragraph 14(b) of IAS 37); and
(b) a reliable estimate could be made of the amount of the obligation (paragraph 14(c) of IAS 37)."

9 Paragraph BC47 of the ED states "*the IASB concluded that, as a consequence, an entity would recognise a provision for a threshold-triggered cost only if:*
(a) the entity's activity for the assessment period were expected to exceed the threshold; and
(b) the entity could make a forecast of the total activity for the assessment period that was sufficiently reliable to use in recognising the provision (as required by paragraph 25 of IAS 37)."

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?

Summary of the proposals

42 In response to stakeholder feedback on diversity in practice, the ED clarifies that the expenditure required to settle an obligation comprises the incremental costs of settling that obligation and an allocation of other costs that relate directly to settling the obligations (paragraph 40A).

Stakeholders' feedback

43 DIPAP members noted that other standards may apply to some other costs, such as employee costs or share-based payments. In those situations, it is unclear which standard takes precedence and whether those costs could still be allocated to provision.

44 A stakeholder also commented that while paragraph 36 of IAS 37 and proposed paragraph 40A appear consistent with the "fulfilment value" measurement objective described in paragraph 6.17 of the *Conceptual Framework*, paragraph 37 introduces an "exit price" for the transfer of a liability. They noted that stakeholders may not have assessed this distinction in the past. This creates the risk of unintended consequences, including perhaps the reassessment of entities' existing obligations. The distinction between the two concepts is not always clear cut, particularly where outsourcing is involved.

45 For AASB specific matters, a public sector stakeholder commented that the divergence between Generally Accepted Accounting Principles (GAAP) and Government Financial Statistics (GFS) would arise where:

(a) provisions are valued on a fulfillment basis, as GFS is valued on a current market value exchange basis [ASNS 2015, paragraphs 3.40 and 15.17]; and/or

(b) provisions increase or decrease in value, the changes are presented as neutral holding gains and real holding gains [ASNS 2015, paragraph 16.11].

Staff analysis

46 In analysing which Standard takes precedence, staff reviewed:

(a) Paragraph 5 of IAS 37 provides a list of other Standards that would apply in precedence over IAS 37. Staff noted that IAS 19 *Employee Benefits* has been included in paragraph 5(d), but paragraph 5 is silent on IFRS 2 *Share-based Payments*.

(b) Paragraph 2 of IAS 19 states that IAS 19 applies to the accounting for all employee benefits, except for those to which IFRS 2 applies.

(c) Paragraphs 2 and 6 of IFRS 2 state that IFRS 2 applies to all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, except for share-based payment transactions that are under a contract within the scope of paragraphs 8–10 of IAS 32 *Financial Instruments: Presentation* (as revised in 2003)1 or paragraphs 2.4–2.7 of IFRS 9 *Financial Instruments*.

47 Paragraph 5 of IAS 19 provides a list of employee benefits that are captured by IAS 19, which includes termination payments. Paragraph 165 of IAS 19 states: "*an entity shall recognise a liability and expense for termination benefits at the earlier of the following dates:*

(a) *when the entity can no longer withdraw the offer of those benefits; and*

(b) *when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits."*

48 However, staff acknowledge that other complex situations may require a thorough analysis of the scope. Nevertheless, staff are of the view that it is not possible to provide a list of specific provisions that are addressed by other standards in addition to existing paragraph 5 of IAS 37. Staff noted that this issue is not isolated to provisions.

49 In respect of the comment on the reference price in paragraph 37, staff do not think the intent of paragraph 37 is to measure the settlement expenditure by estimating solely the fulfilment costs. The intention is to estimate the real costs to settle the obligation. If an entity itself cannot settle an obligation itself, the estimate should include the premium paid to the third party that will settle the obligation. The proposed paragraph 40A refers to incremental costs and allocation of other directly attributable costs. It does not exclude the costs paid to a third party to settle the obligation.

50 Paragraph 36 of IAS 37 refers to recognising the provision at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Staff reviewed the *Conceptual Framework* and noted:

(a) Paragraph 4.40 of the *Conceptual Framework* states that instead of fulfilling an obligation to transfer an economic resource, an entity could transfer the obligation to a third party.

(b) Para 4.41 of the *Conceptual Framework* further says that entity has the obligation to transfer an economic resource until it has settled, transferred or replaced that obligation. As such, a transfer of the obligation is considered as one way to settle the obligation.

(c) Para 5.28 of the *Conceptual Framework* also refers to the transfer of liability as one way to derecognise liability.

Based on the above, staff do not think that paragraph 37 of IAS 37 should be amended to refer to fulfilment value only.

51 Staff will consider the comments relating to GAAP/GFS at a later stage when considering potential amendments to the final standard for public sector entities.

<u>Staff recommendations</u>

52 Staff recommend that the AASB supports the proposal to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A) subject to clarifications suggested in paragraph 41.

Question for Board members

Q2 Do Board members agree with the staff recommendations in paragraph 52? If not, what would Board members suggest?

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?

Summary of the proposals

53 In response to stakeholder feedback on diversity in practice, the ED clarifies that the discount rate used to measure provision is to exclude non-performance risk.

54 The ED introduced new disclosure requirements to disclose:

(a) the discount rate (or rates) it has used; and

(b) the approach it has used to determine that rate (or those rates)

Stakeholders' feedback

55 Two DIPAP members noted that whilst they do not disagree with the proposal, excluding non-performance risk is inconsistent with discount rates used for calculating fair value under IFRS 9 *Financial Instruments* or a right-of-use asset under IFRS 16 *Leases*.

56 Another stakeholder supported the proposed discount rate and disclosure requirements but noted that in some circumstances, a provision could be subsequently measured by a risk-free rate adjusted for non-performance as per IFRS 3 *Business Combinations*. The stakeholder suggests to explain that the proposed amendment is an exception to the measurement principle in the *Conceptual Framework*, introduced as a practical expedient to reduce diversity in practice and costs incurred in measurement.

57 UAC members welcomed the disclosure of the actual discount rate, commenting that it would be useful.

58 A stakeholder from the CA ANZ / CPA roundtable noted that some entities reflect non-performance risks in their expected cash flows of provisions, the stakeholder asked if it is also the IASB's intention to require entities to exclude non-performance risks in their expected cash flows.

Staff analysis

59 Staff reviewed Appendix B of the Basis for Conclusion and noted the following rationale for decision to exclude non-performance risk to the discount rate:

(a) Conceptual justification and information provided to investors

"If the discount rate for a provision excludes non-performance risk, the measure of the provision tells investors the amount the entity would need to invest in risk-free assets at the reporting date to fund the settlement of a provision that has been measured at its certainty equivalent amount, as described in paragraph BC68(a).

Provisions within the scope of IAS 37 have a characteristic that justifies treating them differently from liabilities that arise from exchange transactions. Provisions within the scope of IAS 37 (for example, asset decommissioning obligations) typically do not include an obligation for an entity to pay the counterparty compensation for accepting non-performance risk. By discounting a provision (and hence unwinding the discount) at a rate that excludes non-performance risk, an entity faithfully represents the fact that it does not incur an expense for transferring that risk—that is, it does not have to pay the counterparty a premium for accepting the risk."

(b) Consistency with the measurement objective of IAS 37

"Paragraph 36 of IAS 37 describes the measurement objective as 'the best estimate of the expenditure required to settle the present obligation'. This amount does not reflect the probability that the entity will fail to settle the obligation."

(c) **Requirement to reflect risks 'specific to the liability'**

"It can be argued that non-performance risk is not specific to the liability because it does not depend solely on the characteristics of the liability. It also depends on the credit standing of the entity that owes the liability."

60 The UKEB's draft comment letter recommended the IASB to explain that the proposed discount rate excluding the non-performance risk is an exception to the measurement principle in the *Conceptual Framework*. Paragraph A24 states:

"… 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 amended is an exception to the measurement principle as envisaged in paragraph 6.92 of the Conceptual Framework."

61 Staff reviewed the NZASB's draft comment letter for its February 2025 meeting, and noted that NZASB recommended the IASB to clarify in the requirements that non-performance risks should also not be reflected in the expected cash flows of provisions.

Staff recommendations

62 Staff recommend the AASB to support the IASB's proposal on the discount rates and clarifies that:

(a) the exclusion of a non-performance risk is an exception to the measurement principle as explained in paragraph 6.92 of the *Conceptual Framework*; and

(b) non-performance risks shall not be reflected in the expected cash flows of provisions.

Question for Board members
Q3 Do Board members agree with the staff recommendations in paragraph 62? If not, what would Board members suggest?

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?

Summary of the proposals

63 The ED proposes to require an entity to apply the proposed amendments retrospectively, except for:

(a) Changes resulting from measuring the cost included – change of policy allowed only for obligation not yet settled at the date of initial application.[10] Recognise the cumulative effect in the opening balance of related assets, retained earnings, or other components of equity, without restating comparative information.

(b) Changes resulting from a change in discount rate(s) – entity is allowed to restate provision at transition date,[11] apportion the amount of adjustment between related asset and retained earnings (assuming no change to the discount rates and estimates of cash flows of provision since initial recognition; and using current estimates of the useful life of related asset).

Stakeholders' feedback

64 FIPAP members expressed concerns regarding the complexity of long-term provision calculations, particularly the adjustments to retained earnings and assets due to changes in the discount rate as proposed in the amendments.

65 A stakeholder expressed some concerns about the potential complexity introduced by proposing exceptions to be applied at two different dates:

(a) Cost to include – at the date of initial application;

(b) Discount rate(s) – at transition date.

By not applying these measurement changes in combination, the effect is increased complexity for users in interpreting financial statements whilst requiring preparers to reconstruct a more extensive history of adjustments mentioned in BC96(c).[12]

66 A public sector stakeholder expressed concerns regarding the increased interpretative complexity for users introduced by the different dates for proposed exceptions.

67 A stakeholder (preparer) at the CA ANZ / CPA roundtables commented that having two different dates for transition would introduce extra complexity and noted that if both exceptions were on the same day, it would help reduce complexity and costs for the preparer.

68 A FIPAP member commented that preparers are experiencing change fatigue and should choose one collective effective date for bulk changes, as opposed to changes made across various dates.

Staff analysis

69 Staff noted that BC96(c) is the IASB's rationale for permitting entities an exception to apply the simplified transition approach (at transition date) as opposed to the full retrospective approach (date of initial recognition) for the discount rate(s). During our outreach, stakeholders (preparers) did not oppose this optional exception for the amendment proposed to discount rate(s).

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10 The date of initial application is the beginning of the annual reporting period in which the entity first applies the amendments (as per Paragraph 94B(b) of the ED).

11 the transition date is the beginning of the first annual reporting period for which the entity provides comparative information (as per Paragraph 94B(a) of the ED).

12 Paragraph BC96(c) states *"the difficulty would arise because:*

…

(c) … retrospective application of the change in accounting policy would necessitate an entity constructing a historical record of every adjustment that would have been made to the asset's cost and accumulated depreciation at each reporting date between initial recognition of the provision and the date of transition."

70 Staff understand that having two different dates for transition would introduce extra complexity for preparers, and agree with the UKEB's recommendation to the IASB to consider whether both exceptions should be applied at the same date. Paragraph A28 states:

> *"We understand the proposed exceptions are consistent with transitional provisions in previous IASB projects[13], 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)."*

71 Staff will consider comments relating to GFS at a later stage when considering potential amendments to the final standard for public sector entities.

Staff recommendations

72 Staff recommend the AASB to suggest the IASB:

(a) consider whether both exceptions should be applied at the same date; and

(b) select an effective date that would provide sufficient time for entities to understand the implication of the proposed changes, undertake the appropriate system updates and access historical data going back many periods.

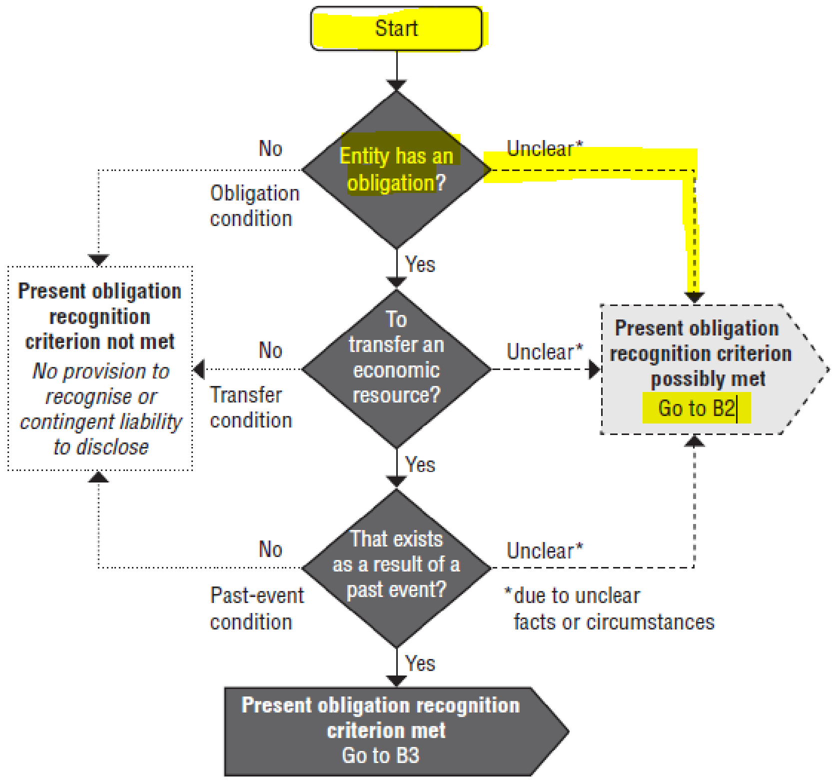
Question for Board members
Q4 Do Board members agree with the staff recommendations in paragraph 72? If not, what would Board members suggest?

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?

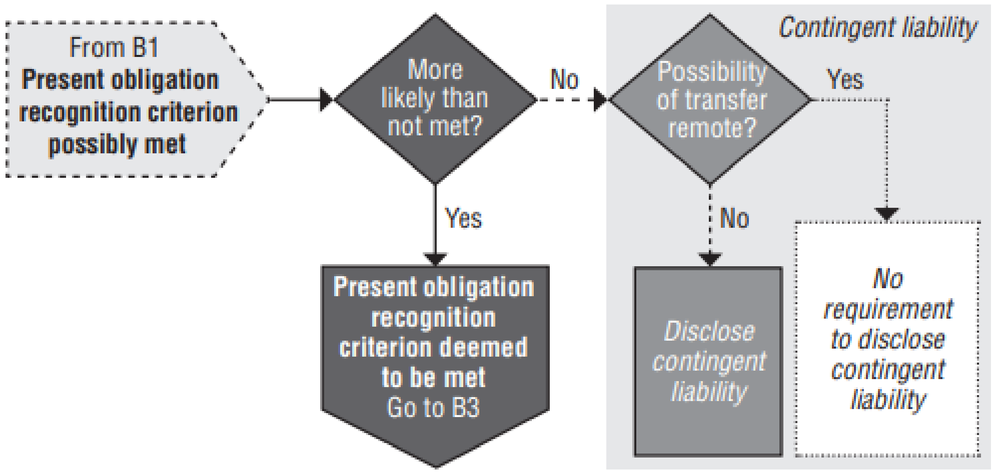
13 Transitional provision to Amendment '*Onerous Contracts – Cost of Fulfilling a Contract'* issued in May 2020 and that provided to first-time adopters of IFRS Accounting Standards by IFRS 1 *First-time Adoption of International Financial Reporting Standards*, paragraph D21.

Summary of proposal

Decision tree B1



Decision Tree B2

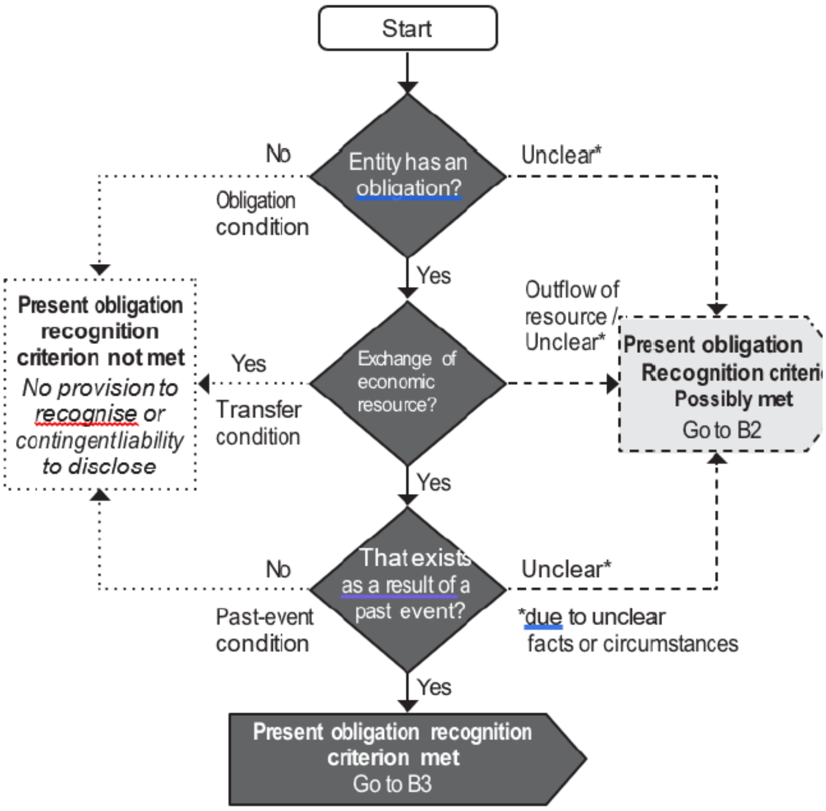


Stakeholders' feedback

Decision Trees

73 FIPAP members favoured the decision trees but found Decision Tree B2 to be unclear, particularly the decision node "more likely than not met".

74 A stakeholder acknowledged that the decision trees in Section B provide a useful visual aid for the proposed new recognition requirements. However, the stakeholder suggested that Decision Tree B1 explicitly identifies the "exchange of economic resources" from the proposed paragraph 14L and Example 6(a) to enhance clarity, the stakeholder proposed the following suggestion to Decision Tree B1:



75 Stakeholders at the CA ANZ / CPA roundtables welcomed the decision trees and suggested improvements to linking the relevant paragraphs from the Standard to the tree.

Examples

76 A stakeholder commented that the illustrative examples are useful for users, preparers and auditors of financial statements. However, they recommend an example for adjusting the discount rate to improve the consistency of application; and expressed some reservations about the following proposed examples:

Example #	**Extract from the comment letter**
2A	Virtual certainty of enactment of legislation is an extremely high threshold to meet for an obligation condition. The committee observes that the passage of legislation is fraught. Moreover, legislation enactment may not be effective as it may be repealed or it may not be proclaimed. Whilst the decline in net asset value of the entity is not related to conditions in existence at the end of the reporting period, the example implies that a change in legislation is an adjusting event after the reporting period despite paragraphs 21-22[14] of IAS 10 *Events after the Reporting Period* requiring disclosures for non-adjusting events. This increases

14 Paragraph 21 of IAS 10 states "*If non-adjusting events after the reporting period are material, non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period: (a) the nature of the event; and (b) an estimate of its financial effect, or a statement that such an estimate cannot be made*."

Paragraph 22 of IAS 10 provides a list of examples of non-adjusting events after the reporting period that would generally result in disclosure. E.g. a major business combination after the reporting period or disposing of a major subsidiary; changes in tax rates or tax laws enacted or announced after the reporting period; announcing a plan to discontinue an operation; major purchases of assets; etc.

Example #	Extract from the comment letter
	ambiguity in application of accounting standards, in addition to management making uncertain judgements concerning the effective date of legislative obligating events.
5A	The termination benefits payable to employees is more appropriately measured and recognised under IAS 19 *Employee Benefits* which has express provisions on the topic (IAS 19: recognition in paragraph 165, measurement in paragraph 169, and disclosure in paragraph 78(d) of IAS 1 *Presentation of Financial Statements*). The stakeholder recommends that the example be changed to clearly reflect only those other costs of restructuring, or removing the example entirely.
5B	The conclusion appears to contradict IAS 19 in respect of provisions for employee benefits (as noted for Example 5A).
6(a)	Liability not recognised due to obligating event occurring after balance date: • The statement, "The three conditions specified in paragraph 14A of IAS 37 are not all met" can be clarified by inserting "for the obligations to fit smoke filters and to pay fines". • It is much easier to understand example 6(b) because the present obligation leads by identifying which attributes are met and unmet. • Statement preparers and users find the example more useful if they know which sub-paragraphs have been met from which perspective.
6(b)	Liability not recognised for fines issued from enforcement action that has not yet occurred: • The example may have far broader application than intended by standard setters. By corollary from a self-incrimination angle, trucking and taxi companies would need to recognise provision for speeding offences committed by employees. • This is enabled by the likelihood that entities have information on excessive speed, observing that the fitting of GPS devices on fleet vehicles has become more common and enforcement is relatively advanced in many jurisdictions.
13C	The example contains an implicit assumption that values of land and buildings will always increase. This is often true but is not always the case. The stakeholder proposed the following wording edit: "*The measure is the price paid for the land and buildings by the current owner, ~~increased~~ adjusted by the change in a specified price index between the purchase date and the date on which the tax is charged*."

77 One FIPAP member also questioned whether the conclusion in Example 13C—A provision for property tax should be recognised over time, as opposed to on the balance date of an annual period. This would have implications for interim reports.

Staff analysis

Decision Trees

78 Staff reviewed the ED's Decision Tree B2 and noted that the intended way to assess the decision node "more likely than not met" is to consider whether all three conditions (obligation, transfer and past event) as a package are more likely than not met.

79 Staff noted that the decision tree in B1 does not indicate the need to assess all three conditions. For example, if an entity is unsure whether the first condition is met (i.e. unsure whether an obligation exists), the decision tree suggests going to B2. However, there is no

instruction that the remaining two conditions (transfer and past event) need to be assessed too (refer to the yellow highlighted path in Decision Tree B1 above).

80 If it is not clear that B2 refers to an assessment of all three conditions, it could result in confusion (ie. the user could think that B2 requires an assessment of the probability of the transfer condition, which was concluded to be unclear in B1).

81 At the meeting, the IASB staff acknowledged the flaw in Decision Tree B1, recognising that it is possible that users may omit to assess the transfer and past-event condition given how the decision tree is drafted in the ED.

82 Staff believe if Decision Tree B1 is updated and the right arrows removed (highlighted in yellow in Decision Tree B1 above) to ensure that all three conditions in Decision Tree B1 are assessed, this will solve the issue of users potentially making only a partial assessment of the three conditions in paragraph 14A. The right arrows could be replaced by instructions to follow to B2 if meeting any of the three conditions is uncertain. As such, the assessment of the three individual conditions ends at the completion of Decision Tree B1. Staff think that reference to the relevant paragraphs in the tree would also be helpful.

83 If users arrive at Decision Tree B2, the "more likely than not met" decision node is in reference to paragraphs 15 and 16, which require the entity to holistically consider all three conditions in combination, taking into account all available evidence, including, for example, the opinion of experts.

84 Staff considered stakeholder's proposed wording of "exchange of economic resource?" instead of the ED's proposed "to transfer an economic resource?" decision node in Decision Tree B1 and noted:

(a) "to transfer an economic resource?" is worded more consistently with paragraph 14A(a)[15], where the condition is - there has to be a transfer. Changing the wording may not work in all instances, for example, answering "no" to an "exchange of economic resource?" decision node will not always mean that there is a transfer of economic resources. It is also noted that paragraph 14L is only one of four paragraphs to explain paragraph 14A(a).

(b) the direction of the arrows for "yes" and "no" for the 3 conditions are consistent, this is easier and less overwhelming for the user when using the decision tree.

Examples

85 Staff reviewed each of the commented examples and noted:

Example #	Staff analysis of comments from the comment letter
2A	Staff understood the comment letter to suggest that new legislation enacted after the reporting period should be treated in accordance with paragraph 22 of IAS 10. Paragraph 22(h) of IAS 10 provides a list of non-adjusting events, which includes changes to tax liabilities (assets) due to changes in tax rate. However, that is because IAS 12 specifically states that tax liability (asset) is measured using the rates enacted before the year end. Any provisions in scope of IAS 12 are out of scope of IAS 37 (as per paragraph 5(b) of IAS 37), therefore, IAS 37 does not apply to tax liabilities, only to other liabilities.

15 Paragraph 14A of the ED proposes "*the first criterion for recognising a provision (paragraph 14(a)) is that an entity has a present obligation (legal or constructive) to transfer an economic resource as a result of a past event. This criterion (the present obligation recognition criterion) comprises three conditions:*

…

(b) a transfer condition—the nature of the entity's obligation is to transfer an economic resource (paragraphs 14I–14L);

..."

Example #	Staff analysis of comments from the comment letter
	The proposed paragraph 14G[16] of IAS 37 states that obligation arises when any new legislation is virtually certain and paragraph 50[17] of IAS 37 further explains why the legislation needs to be virtually certain and acknowledges that in many cases, sufficient objective evidence will not exist until the new legislation is enacted. Staff observe that the guidance in IAS 37 do not contradict IAS 10 and do not suggest any changes to Example 2A.
5A & 5B	Staff noted that termination benefits provision can be addressed by IAS 19 or IAS 37. Paragraph 165(b) of IAS 19 states that an entity recognises a liability for termination benefits at the earlier of: (a) When the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring within the scope of IAS 37. While staff agree that IAS 37 overlaps with IAS 19, it does not contradict IAS 19. Staff do not suggest any changes to Example 5A or 5B.
6(a) & 6(b)	Staff are of the view that Examples 6(a) and 6(b) are clearly defined. In considering the provided example of a truck/taxi company having evidence that a driver was speeding (ie past event) and also meets the probability criteria, staff are of the view that provision could be justified. Staff do not think the IASB should change the examples. Staff do not suggest any changes to Example 6(a) or 6(b)
13C	Staff agree with the proposed wording change from "increase" to "adjust," noting that while not common, there may be instances where the value of land and buildings would decrease.

86 Staff considered the comment of the FIPAP member that the conclusion of Example 13C states "*a provision is recognised* <u>*on*</u> *31 December 20X5 for the full amount of the tax expected to be charged on land and buildings owned on that date*".

87 Staff are of the view that in Example 13C, the past event condition is only met on 31 December. Therefore, the provision in Example 13C cannot be recognised over time. However, staff acknowledge that entity's owning the building during the year could be seen as an activity that contributes to the condition at the reporting date align with paragraph 14P. Staff therefore recommend clarifying, that in this example, the obligation to pay tax is not based on the measure of activity exceeding a certain threshold. Therefore, the guidance in paragraph 14P does not apply.

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16 Paragraph 14G of the ED (derived from the current paragraph 22 of IAS 37) states that "*if details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. In this Standard, such an obligation is treated as a legal obligation. Variations in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted*."

17 Paragraph 50 of IAS 37 states "*the effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted*."

Staff recommendations

88 Staff recommend

(a) amending the Decision Tree B1 to require users to assess all three conditions (as per paragraph 14A of the ED);

(b) including the relevant paragraph references in Decision Trees;

(c) wording changes in Example 13C:

(i) replace "increase" to "adjust" in the second sentence of the second paragraph:

(ii) update the conclusion statement to clarify that paragraph 14P does not apply in this scenario and the provision cannot be recognised over time.

Question for Board members
Q5 Do Board members agree with the staff recommendations in paragraph 88? If not, what would Board members suggest?

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

Stakeholders' feedback

89 A stakeholder commented on the subsequential amendments to IFRS 3 *Business Combinations* and the deletion of paragraphs 21A and 21B from IFRS 3. IFRS 3 invokes IFRS 13 *Fair Value Measurement* when measuring liabilities. Inclusion of non-performance risk on the application of IFRS 3, but excluding it when applying IAS 37 may give rise to profit or loss impacts on Day 2. The stakeholder recommends retaining the exception in paragraph 21A[18] as it appears warranted and will likely enhance information for users of the general purpose financial statements by removing unnecessary short-term volatility arising solely due to Accounting Standards.

90 For GFS, a stakeholder expressed reservations about the effect of Day 2 losses, commenting that the change in entity value between mere days, due to a technicality, does not induce confidence in estimates.

Staff analysis

91 Paragraphs BC107 to BC110 of the ED explain the proposed consequential amendments to IFRS 3.

92 Paragraph BC107 states that there are "*two recognition principles underpin the requirements in IFRS 3 for recognising assets and liabilities acquired in a business combination:*

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18 The ED proposes to delete paragraphs 21A-21C of IFRS 3. The stakeholder proposes to keep paragraph 21A, which refers to 21B. Refer below for an extract of paragraphs 21A and 21B of IFRS 3.

Paragraph 21A of IFRS 3 states that "*paragraph 21B applies to liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies if they were incurred separately rather than assumed in a business combination*."

Paragraph 21B of IFRS 3 states that "*the Conceptual Framework for Financial Reporting defines a liability as 'a present obligation of the entity to transfer an economic resource as a result of past events'. For a provision or contingent liability that would be within the scope of IAS 37, the acquirer shall apply paragraphs 15–22 of IAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21, the acquirer shall apply IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.*"

(a) *at the acquisition date, the acquirer recognises the identifiable assets it has acquired and the liabilities it has assumed, recognising items that meet the definition of an asset or a liability as set out in the Conceptual Framework; and*

(b) *after the acquisition date, the acquirer accounts for those assets and liabilities in accordance with the applicable IFRS Accounting Standard for those items, depending on their nature."*

93 Paragraph BC108 explains that *"currently, the recognition requirements in IAS 37 and IFRIC 21 are not consistent with the Conceptual Framework. Some items that meet the definition of a liability in the Conceptual Framework do not meet the definition applied in the present obligation recognition criterion in IAS 37. As a result, an acquirer applying the recognition principles in IFRS 3 might recognise a provision on acquisition and then be required to derecognise that provision immediately after the acquisition."*

94 Paragraph BC109 states that *"to avoid this outcome, paragraphs 21A–21C in IFRS 3 provide an exception to the initial recognition principle. The exception applies to liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 if they were incurred separately rather than assumed in a business combination. The exception specifies that an entity applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to determine whether to recognise a liability for those items at the acquisition date."*

95 Paragraph BC110 explains that *"… the IASB proposes to amend the requirements supporting the present obligation recognition criterion in IAS 37, to align them with the Conceptual Framework. It also proposes to withdraw IFRIC 21. These amendments would eliminate the inconsistency between the IFRS 3 recognition principle and IAS 37 recognition criteria, rendering the exception in IFRS 3 redundant. Consequently, the IASB proposes to remove the exception by deleting paragraphs 21A–21C from IFRS 3*."

96 Staff agree with the IASB that the proposed amendments eliminate the inconsistency between the IFRS 3 recognition principle and IAS 37 recognition criteria; and thus the exception in IFRS 3 is no longer required. Whilst there is still a possible difference caused by amendments to exclude non-performance risk from the discount rate for IAS 37 and the inclusion of non-performance risk in the discount rates used on the application of IFRS 3; however such differences arise on many items during business combination, and they are accepted.

97 Staff will consider the comments relating to GFS at a later stage when considering potential amendments to the final standard for public sector entities.

<u>Staff recommendations</u>

98 Staff recommend not to comment on question 7.

Question for Board members

Q6 Do Board members agree with the staff recommendations in paragraph 98? If not, what would Board members suggest?

Question 5— Disclosure requirements for subsidiaries without public accountability

The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B). Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.

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

99 In May 2024, the IASB issued IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. The new standard includes simplified disclosure requirements for subsidiaries without public accountability while retaining the recognition and measurement principles from full IFRS Accounting Standards.

100 As the ED proposes new disclosure requirements to IFRS Accounting Standards, it needs to consider whether some of the proposed disclosures should be included in IFRS 19.

101 The IASB proposes to include one out of the two disclosure requirements:

	Full IFRS disclosure	Simplified disclosure
Discount rate(s)	✓	✓
Approach(es) used to determine discount rate(s)	✓	✗

102 Considering AASB 1060 *General Purpose Financial Statements Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* has a similar objective, the AASB has decided not to issue an Australian equivalent of IFRS 19 immediately. Instead, the AASB will wait for stakeholders' feedback from the post-implementation review of AASB 1060. After contemplating the feedback on AASB 1060 and changes made to *IFRS for SMEs*, the AASB will consider whether and how to adopt IFRS 19 in Australia.

103 Therefore, during the outreach, staff amended the question and asked whether the disclosure requirements suggested for inclusion in IFRS 19 should be added to AASB 1060.

<u>Stakeholders' feedback</u>

104 Staff did not receive any objection to the proposed disclosure requirements.

<u>Staff recommendations</u>

105 Staff recommend not to comment on question 5.

Question for Board members

Q7 Do Board members agree with the staff recommendations in paragraph 105? If not, what would Board members suggest?

Next steps

106 The comment period to IASB ED/2024/8 closes on 12 March 2025. Therefore, staff suggest that the comment letter is finalised out-of-session by the Chair.

107 The proposed timing is as follows:

Date	Deliverable
6 March 2025 (AM)	Board decision
6 March 2025 (PM)	Staff update a draft comment letter.
7-10 March 2025	The Chair reviews the comment letter and provides comments.
11 March 2025	Staff update the comment letter.
12 March 2025	The comment letter is signed by the AASB Chair and submitted to the IASB.

Questions for Board members

Q8 Do Board members agree with the staff recommendation that the AASB submission is finalised out-of-session by the Chair?

Q9 Do Board members have any comments or concerns about the proposed timing of the finalisation of the AASB comment letter?