

Joint Outreach Event on the IASB project
Provisions – targeted improvements to IAS 37 (ED/2024/8)
IASB, ASCG, EFRAG, AFRAC, FER – 27 January 2025 – Report

I. Welcome/Introduction

Prof Morich (DRSC) welcomed the approximately 60 participants and thanked on behalf of all participating organisations for their interest. This was followed by an introduction of the representatives of EFRAG, AFRAC and FER as well as the IASB member, Florian Esterer, and two IASB staff members.

Mr Morich briefly explained the course of the event.

II. Presentation of the project

Joan Brown (IASB) began with general comments on the IASB project and the exposure draft.

She then gave an overview of the proposals, their objectives and rationale. The proposed amendment as regards the ‘present obligation’ recognition criterion was explained in detail and supported by an example.

Florian Esterer added and emphasised that the proposed amendments are primarily necessary to align with the IFRS framework amended in 2018.

III. Discussion of the proposals/questions in the ED/2024/8

1. Present obligation recognition criterion

EFRAG explained in detail the proposal in ED/2024/8 regarding the three explicit conditions for the ‘present obligation’ recognition criterion (criterion (a)).

The following aspects were raised during discussion:

- The decision tree appears complex. Specifically, it was questioned why the ‘transfer’ criterion should be examined twice. It was explained that in the context of the ‘present obligation’ recognition criterion, the first decisive factor is whether the nature of the obligation is to ‘transfer’ a resource – this may lead to the existence of an obligation. In the third criterion, on the other hand, the probability of a ‘transfer’ is relevant and decisive as to whether a present obligation may lead to the recognition of a provision.
- The difference between the current wording of the criterion in para. 10 (‘obligating event’) and the new proposal (obligation condition vs. past-event condition) does not appear clear. In this regard, it was explained that so far it is unclear whether the past event creates an obligation or results in (unavoidability of) settling the obligation. It should now be made clear

that the past event potentially creates an obligation. It was also noted that the decision tree does not become more complex, but more detailed and therefore more precise (in relation to criterion (a)).

- It was also mentioned that the new wording of the criterion leads to an earlier recognition with a subsequent increase of the provision in the case of two (or more) activities being required. As a result, recognition and measurement aspects cannot be clearly separated.

6. Implementation guidance on IAS 37

The proposals for amending and expanding the IG are closely related to the proposals for the recognition criterion (a). In addition to the previous explanations, the amended decision tree and some of the examples were explained. The new understanding that criterion (a) comprises three conditions was again emphasised and deepened.

During discussion, it was asked whether this would have practical implications for restructuring provisions. The IASB stated that there is no intention to change accounting practice in this regard. Examples 5A/5B in the IG serve as illustrations.

2. Measurement – cost to be included

The clarification in ED/2024/8 as regards costs to be included in the measurement of a provision was then explained. This is intended to align with the clarification already introduced in 2020 as to which costs to be included when assessing whether contracts are onerous.

During discussion, the following points were raised:

- Despite this clarification, details remain unclear. Eg. in case of a legal dispute, it seems clear that external costs are to be included, but the inclusion of internal (legal) costs remains unclear. It was noted that the primary intention is clarifying the principle of whether and how to include an allocation of direct overheads as well as incremental expenditures in measuring obligations that will be fulfilled by providing goods or services to the counterparty (for example, obligations under onerous sales contracts). If expenditures to third parties are affected, for example in a legal dispute, costs of external and internal legal advisers would be taken into account along with this principle.
- Furthermore, a lack of clarity may persist as there is a different understanding of the term 'directly related) - for example, the extent to which pro rata fixed costs are considered directly related.

3. Measurement – discount rates

The proposal of ED/2024/8 on using of a risk-free discount rate was then explained. It was also clarified that no methods for determining these interest rates are prescribed. The IASB also

clarified that other risks (such as uncertainties regarding the amount/timing of cash flows) must nevertheless be included in the cash flows or the discount rate.

In the discussion, it was mentioned that some uncertainties may remain. For example, the question arises as to which (risk-free) reference interest rate is appropriate. In particular, it seems questionable whether yields on corporate bonds or lower-rated government bonds may also be used as a discount rate.

5. Disclosures for Swopa (IFRS 19)

ED/2024/8 also proposes to add to IFRS 19 a requirement to disclose discount rates used (analogously to IAS 37), but not the approach used to determine those rates (in contrast to IAS 37).

There were no comments or objections to this in the discussion.

4. Transition and effective date

Finally, the proposals for transitional provisions were presented, in particular the two exceptions from a general retrospective approach.

There were no fundamental objections to this. Nevertheless, it was suggested that the exception in case of a change in accounting policy for the costs to be included (para. 94D) could also be designed as an option.

7. Other issues

EFRAG explicitly asked whether unintended consequences could result from the proposed amendments and whether industry-specific application problems were identified.

Participants did not provide information or comments on this.

IV. Summary

Finally, the participants were offered the opportunity to send comments and information to the ASCG afterwards.

Prof Morich gave thanks to all participants for their active role in the discussion, and to the other organisations for contributing to the event.