

6 March 2025

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Submitted to: www.ifrs.org

Dear Andreas

IASB/ED/2024/8 Provisions – Targeted Improvements – Proposed amendments to IAS 37

Thank you for the opportunity to comment on Exposure Draft IASB/ED/2024/8 *Provisions – Targeted Improvements Proposed amendments to IAS 37* (the ED). The ED has been exposed for comment in New Zealand and some New Zealand constituents may comment directly to you. Our comments have been informed by targeted outreach and consultation with for-profit advisors in New Zealand.

We acknowledge that IASB’s efforts to clarify the existing requirements for the recognition and measurement of provisions, to change the timing of recognition of some provisions, and to reduce diversity in, and increase the transparency of, discount rates used in provisions between entities.

Overall, we agree with, and support, the IASB's proposals, subject to the detailed comment below. We consider the proposals overall are helpful to improve the recognition and measurement of provisions, as well as the guidance on implementing IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

However, there are some areas where we believe the proposals could be enhanced or clarified to ensure these are interpreted and applied in the manner intended by the IASB. The key areas we have comments on are:

- **Clarification of costs to include in measuring a provision** – The IASB should develop clear guidance material which explains what types of internal and external costs “relate directly” to different types of provisions. This will help ensure that entities recognise an appropriate provision when measuring their obligations and will ensure comparable and consistent financial reporting around provisions.



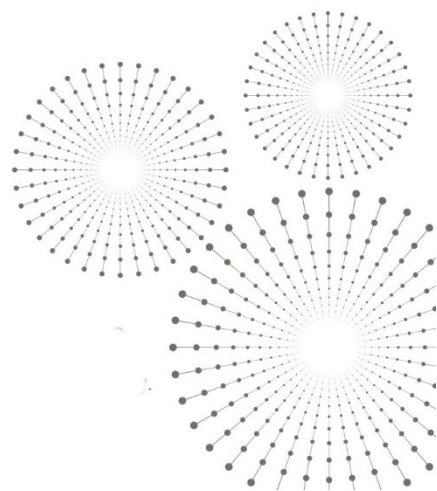
- **Effective date and clarity for users** – It is important that the effects of the proposed amendments can be clearly identified by users. Given that IFRS 18 *Presentation and Disclosure in Financial Statements* is mandatory from 1 January 2027, this may result in additional disclosures as to how financial statement presentation principles have been applied. We recommend that the IASB ensure the effective date of this ED's requirements avoids confusion by allowing users to clearly understand, and differentiate, changes in the measurement of provisions resulting from these proposals from changes made to the presentation of provisions resulting from IFRS 18.

Our recommendations and responses to the specific questions for respondents are provided in the Appendix to this letter. If you have any queries or require clarification of any matters in this letter, please contact Nimash Bhikha (nimash.bhikha@xrb.govt.nz) or me.

Yours sincerely



Dr Carolyn Cordery
Chair – New Zealand Accounting Standards Board



Appendix

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?

Response to Question 1: Present obligation recognition criteria

1. We agree with the proposals, subject to the comments below.

Disentanglement of supporting requirements

2. We consider the disentanglement of the provision recognition criteria within paragraph 14A to be reasonable. The consideration of three distinct conditions provides for a clearer framework for entities to exercise their judgements around provisions.
3. However, paragraph 14(b) refers to “transfer of an economic resource” as part of assessing when it is probable an entity will be required to settle the obligation, while paragraph 14A(b) refers to the transfer condition – around the nature of an entity’s obligation to transfer an economic resource. There may be confusion around how these paragraphs interact with the ‘present obligation’ or ‘possible obligation’ terminology contained within the definition of a contingent liability.
4. While paragraph 14K helps explain this interaction, this is included within the transfer condition section. We recommend the IASB reorder and make this more prominent within the requirements, to show these considerations relates to paragraph 14(b) and that the assessment of the present obligation recognition criteria may also result in determining a possible obligation for the purposes of disclosing a contingent liability.

Clarification of obligation condition

5. We have not identified concerns with these proposals within paragraph 14B to 14H, and the updated wording to match the conceptual framework is considered reasonable.
6. However, the changing wording may be interpreted by entities as changing the principles of an obligation. We recommend the IASB develop clear guidance messaging that the updated terminology within these proposals is not intended to change the existing principles around “no practical ability to avoid” when considering the obligation condition.

Amendments to past-event condition and threshold-triggered costs

7. The proposals within paragraph 14P and 14Q result in a fundamental change in the recognition of threshold-triggered provisions and are expected to result in the recognition of these provisions being brought forward.
8. The ED principles assume that the activity which drives the provision occur evenly and accumulatively over the period and that actions an entity may take can be clearly distinguished and separated from each other. We note that there may be situations where the activity fluctuates, and the resulting obligation does not build up evenly over time, which may result in the subsequent derecognition of provisions, due to changes in management’s estimates of future activities, and future actions based on already performed actions.
9. We consider the current drafting within the proposals may be unclear when applying the proposals to these situations. Our understanding is that in these situations:
 - Paragraph 14P notes that at any date within the assessment period, the present obligation is a portion of the total expected obligation for the assessment period and is the portion attributable to the activity carried out to date. As such, where the other recognition criteria are not met, including when it is no longer probable the entity’s activity will exceed the threshold and the entity will be required to transfer an economic resource, then the provision should be derecognised.
 - Paragraph 14Q notes that where the requirement to transfer an economic resource is a consequence of taking multiple actions, then 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 remaining actions. As such, where the other recognition criteria are not met, including is subsequently the entity has a practical ability to avoid future actions, then the provision should be derecognised.
10. If our understanding above is correct, we consider that material judgements and estimates as to how these provisions have been determined would need to be disclosed under paragraphs 122 and 125 of IAS 1 *Presentation of Financial Statements*, and paragraphs 27G and 31A of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* (as amended by IFRS 18

Presentation and Disclosure in Financial Statements). As such, we consider the proposals are reasonable, and do not consider that additional disclosure requirements are needed.

11. However, if our understanding above is not correct, and the judgements and estimates made by the entity in evaluating the facts and circumstances of their obligations are would not be required to be disclosed under paragraphs 122 and 125 of IAS 1, we recommend the IASB add in additional disclosure requirements around the specific judgements made in evaluating unavoidable actions.

Question 2 — Measurement—Expenditure required to settle an obligation
<p><i>The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A).</i></p> <p><i>Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal.</i></p> <p><i>Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?</i></p>

Response to Question 2: Measurement—Expenditure required to settle an obligation

12. We agree with the proposals, subject to the comments below.
13. Paragraph 40A of the proposals notes that the expenditure required to settle an obligation comprises of the costs that “relate directly” to the obligation and consists of both the incremental costs of settling that obligation, and an allocation of other costs that relate directly to settling obligations of that type.
14. We agree with the proposals and have not identified any significant concerns around including directly related costs within the measurement of a provision. This evaluation of a complete set of incremental costs required to settle obligations, when estimating provisions is reasonable and applicable to a wide range of provisions. However, there is a high level of judgement required by entities to determine which costs “relate directly” to the obligation and this may result in diversity in practice amongst entities.
15. We recommend that the IASB develop clear guidance material which explains what types of internal and external costs “relate directly” to different types of provisions (for example: make-good provisions, onerous contract provisions, litigation provisions, decommissioning provisions, restructuring provisions, warranty provisions). This will help ensure that entities recognise and appropriate provision for their obligations and will ensure comparable and consistent financial reporting around provisions.

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?

Response to Question 3: Discount rates

16. We agree with the proposals, subject to the comments below.
17. Paragraph 47 of the proposals requires that the discount rate shall reflect risks surrounding the amount or timing of the expenditure required to settle the obligation if those risks are not reflected in the estimates of the future cash flows. Paragraph 47A notes that the discount rate does not reflect non-performance risk – the risk that the entity will not settle the obligation.
18. We agree with the proposals and consider that the clarifications that discount rates do not incorporate non-performance risk will make the application of the discount rate simpler, less costly to determine, and more reliable and consistent for users.
19. However, to ensure the non-performance risk is not considered in the valuation of a provision entirely, we recommend that the IASB clarify within the requirements that non-performance risk should also not be reflected in the expected cash flows of provisions.
20. The new disclosure requirement within paragraph 85(d) explaining the approach used to determine discount rates is also considered to be reasonable. This will provide useful information to users as to the methods used to determine discount rates and enabling enhanced understanding of its impact on the valuation of the provision.

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?

Response to Question 4: Transition requirements and effective date

21. We agree with the proposals, subject to the comments below.
22. Given the changes in the recognition criteria for certain provisions through the ED, particularly for threshold-triggered provisions, the retrospective approach may result in restatements if there are large multi-year triggered costs which are not currently being recognised in line with the proposals.
23. It is important that the effects of the proposed amendments can be clearly identified by users. We note IFRS 18 *Presentation and Disclosure in Financial Statements* is mandatory from 1 January 2027 and requires entities to consider the grouping of information in the financial statements. Users may be confused if provision restatements due to the changes proposed in this ED are presented at the same time as IFRS 18-driven additional disclosures showing how the aggregation and disaggregation principles, and useful structured summary principles, have been applied.
24. We recommend the IASB consider the timing and effort required by users and entities to understand the changes proposed through IFRS 18 when determining the effective date for the proposals in this ED. The IASB should ensure the timing of these requirements allows for any restatements in the measurement of provisions resulting from these proposals to be understood, and differentiated, from changes made to the presentation of provisions resulting from IFRS 18.
25. We have not identified any other concerns with the transitional provisions and effective date.

Question 5 — Disclosure requirements for subsidiaries without public accountability

*The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability*: Disclosures a requirement to disclose the discount rate (or rates) used in measuring a 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?

Response to Question 5: Disclosure requirements for subsidiaries without public accountability

26. We agree with the proposals and consider the IFRS 19 *Subsidiaries without Public Accountability: Disclosures* amendments to require the discount rate to be disclosed but not the method used to determine the discount rate, to be reasonable. This will provide a proportionate level of disclosure for users of financial statements of subsidiaries without public accountability.

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?

Response to Question 6: Guidance on implementing IAS 37

27. We agree with the proposals, subject to the comments below.
28. We consider the updated decision tree to be helpful to explain the steps needed in determining a provision, in line with the updated disentangled requirements and definitions. The new illustrative examples are also useful to users and outlines previous matters which were already within IFRIC decisions, so that precedence is not lost.
29. However, the sequencing of the decision tree within the guidance appears to suggest that the three criteria included in paragraph 14A of the proposals should always be considered in order of the obligation condition, the transfer condition and then lastly the past-event condition. In some cases, it may be more appropriate to evaluate the proposed conditions through a different sequence (for example: legal provisions where the past-event condition is clearer to identify) to efficiently and effectively determine the need for a provision.
30. We recommend the IASB update the guidance on implementing IAS 37 to ensure there is flexibility in the sequencing in assessing the conditions which have been introduced in the proposals, to demonstrate how efficient decisions on provisions can be made.

Question 7 — Other comments

Do you have comments on any other aspects of the proposals in the Exposure Draft?

Response to Question 7: Other comments

31. We do not have any other comments on the proposals in this ED.