



## **New Zealand Equivalent to International Accounting Standard 37 Provisions, Contingent Liabilities and Contingent Assets (NZ IAS 37)**

**Issued November 2004 and incorporates amendments to 31 January 2026**

This Standard was issued by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 24(1)(a) of the Financial Reporting Act 1993.

This Standard is a Regulation for the purposes of the Regulations (Disallowance) Act 1989.

NZ IAS 37 incorporates the equivalent IFRS<sup>®</sup> Standard as issued by the International Accounting Standards Board (IASB).

Tier 1 for-profit entities that comply with NZ IAS 37 will simultaneously be in compliance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

NZ IAS 37 includes RDR disclosure concessions and associated RDR paragraphs for entities that qualify for and elect to apply Tier 2 for-profit accounting requirements in accordance with XRB A1 *Application of the Accounting Standards Framework*. Entities that elect to report in accordance with Tier 2 accounting requirements are not required to comply with paragraphs in this Standard denoted with an asterisk (\*). However, an entity is required to comply with any RDR paragraph associated with a disclosure concession that is adopted.

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The following is available within New Zealand on the XRB website as additional material
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**APPROVAL BY THE IASB OF *ONEROUS CONTRACTS—COST OF FULFILLING  
A CONTRACT* ISSUED IN MAY 2020**  
**IASB BASIS FOR CONCLUSIONS**  
**IASB IMPLEMENTATION GUIDANCE**

New Zealand Equivalent to International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets* (NZ IAS 37) is set out in paragraphs NZ 0.1–105. NZ IAS 37 is based on International Accounting Standard 37 *Provisions, Contingent Liabilities and Contingent Assets* (IAS 37) (1998) issued by the International Accounting Standards Committee (IASC) and adopted by the International Accounting Standards Board (IASB). All the paragraphs have equal authority but retain the IASC format of the Standard when it was adopted by the IASB. NZ IAS 37 should be read in the context of its objective and the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting*. NZ IAS 8 *Basis of Preparation of Financial Statements* provides a basis for selecting and applying accounting policies in the absence of explicit guidance.

Any New Zealand additional material is shown with either “NZ” or “RDR” preceding the paragraph number.

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# New Zealand Equivalent to International Accounting Standard 37

## ***Provisions, Contingent Liabilities and Contingent Assets (NZ IAS 37)***

### **Objective**

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The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

### **Scope**

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- NZ 0.1** This Standard applies to Tier 1 and Tier 2 for-profit entities.
- NZ 0.2** A Tier 2 entity is not required to comply with the disclosure requirements in this Standard denoted with an asterisk (\*). Where an entity elects to apply a disclosure concession it shall comply with any RDR paragraphs associated with that concession.
- 1** This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:
- (a) those resulting from executory contracts, except where the contract is onerous; and
  - (b) [deleted by IASB]
  - (c) those covered by another Standard.
- 2** This Standard does not apply to financial instruments (including guarantees) that are within the scope of NZ IFRS 9 *Financial Instruments*.
- 3** Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.
- 4** [Deleted by IASB]
- 5** When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are also addressed in Standards on:
- (a) [deleted by IASB]
  - (b) income taxes (see NZ IAS 12 *Income Taxes*);
  - (c) leases (see NZ IFRS 16 *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in NZ IFRS 16. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 6 of NZ IFRS 16 and that have become onerous;
  - (d) employee benefits (see NZ IAS 19 *Employee Benefits*);
  - (e) insurance contracts and other contracts within the scope of (NZ IFRS 17 *Insurance Contracts*).
  - (f) contingent consideration of an acquirer in a business combination (see NZ IFRS 3 *Business Combinations*); and
  - (g) revenue from contracts with customers (see NZ IFRS 15 *Revenue from Contracts with Customers*). However, as NZ IFRS 15 contains no specific requirements to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.
- 6** [Deleted by IASB]
- 7** This Standard defines provisions as liabilities of uncertain timing or amount. In some countries the term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.

- 8 Other Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.
- 9 This Standard applies to provisions for restructurings (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by NZ IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## Definitions

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- 10 The following terms are used in this Standard with the meanings specified:

**A *provision* is a liability of uncertain timing or amount.**

**A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.<sup>1</sup>**

**An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.**

**A *legal obligation* is an obligation that derives from:**

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

**A *constructive obligation* is an obligation that derives from an entity's actions where:**

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**A *contingent liability* is:**

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
  - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
  - (ii) the amount of the obligation cannot be measured with sufficient reliability.

**A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.**

**An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.**

**A *restructuring* is a programme that is planned and controlled by management, and materially changes either:**

- (a) the scope of a business undertaken by an entity; or
- (b) the manner in which that business is conducted.

## Provisions and other liabilities

- 11 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:
- (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
  - (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for

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<sup>1</sup> The definition of a liability in this Standard was not revised following the revision of the definition of a liability in the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* issued in 2018.

example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

## Relationship between provisions and contingent liabilities

- 12 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.
- 13 This Standard distinguishes between:
- (a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
  - (b) contingent liabilities – which are not recognised as liabilities because they are either:
    - (i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
    - (ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

## Recognition

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### Provisions

- 14 A provision shall be recognised when:
- (a) an entity has a present obligation (legal or constructive) as a result of a past event;
  - (b) it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
  - (c) a reliable estimate can be made of the amount of the obligation.

If these conditions are not met, no provision shall be recognised.

### Present obligation

- 15 In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.
- 16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:
- (a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and
  - (b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

**Past event**

- 17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) where the settlement of the obligation can be enforced by law; or
  - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the end of the reporting period.
- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.
- 20 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed – indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
- 21 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- 22 Where 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. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences 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.

**Probable outflow of resources embodying economic benefits**

- 23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this Standard,<sup>2</sup> an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).
- 24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

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<sup>2</sup> The interpretation of 'probable' in this Standard as 'more likely than not' does not necessarily apply in other Standards.

**Reliable estimate of the obligation**

- 25 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the statement of financial position. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.
- 26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86).

**Contingent liabilities**

- 27 **An entity shall not recognise a contingent liability.**
- 28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.
- 29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.
- 30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

**Contingent assets**

- 31 **An entity shall not recognise a contingent asset.**
- 32 Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
- 33 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
- 34 A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable.
- 35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset (see paragraph 89).

**Measurement**

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**Best estimate**

- 36 **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**
- 37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- 38 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent

experts. The evidence considered includes any additional evidence provided by events after the reporting period.

- 39 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is ‘expected value’. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

**Example**

An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 4 million would result. The entity’s past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = 400,000$$

- 40 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a major plant that it has constructed for a customer, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

- 41 The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under NZ IAS 12.

**Risks and uncertainties**

- 42 **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

- 43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

- 44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

**Present value**

- 45 **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

- 46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

- 47 **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

## Future events

- 48 Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**
- 49 Expected future events may be particularly important in measuring provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.
- 50 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.

## Expected disposal of assets

- 51 Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**
- 52 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard dealing with the assets concerned.

## Reimbursements

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- 53 Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.**
- 54 In the statement of comprehensive income, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.**
- 55 Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the entity or pay the amounts directly.
- 56 In most cases the entity will remain liable for the whole of the amount in question so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.
- 57 In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case the entity has no liability for those costs and they are not included in the provision.
- 58 As noted in paragraph 29, an obligation for which an entity is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

## Changes in provisions

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- 59 Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.**
- 60 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

## Use of provisions

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- 61 **A provision shall be used only for expenditures for which the provision was originally recognised.**
- 62 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

## Application of the recognition and measurement rules

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### Future operating losses

- 63 **Provisions shall not be recognised for future operating losses.**
- 64 Future operating losses do not meet the definition of a liability in paragraph 10 and the general recognition criteria set out for provisions in paragraph 14.
- 65 An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under NZ IAS 36 *Impairment of Assets*.

### Onerous contracts

- 66 **If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.**
- 67 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.
- 68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
- 68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:
- (a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and
  - (b) an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.
- 69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract (see NZ IAS 36).

### Restructuring

- 70 The following are examples of events that may fall under the definition of restructuring:
- (a) sale or termination of a line of business;
  - (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
  - (c) changes in management structure, for example, eliminating a layer of management; and
  - (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.
- 71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.
- 72 **A constructive obligation to restructure arises only when an entity:**
- (a) **has a detailed formal plan for the restructuring identifying at least:**
    - (i) **the business or part of a business concerned;**

- (ii) **the principal locations affected;**
  - (iii) **the location, function, and approximate number of employees who will be compensated for terminating their services;**
  - (iv) **the expenditures that will be undertaken; and**
  - (v) **when the plan will be implemented; and**
- (b) **has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.**
- 73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (i.e. setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.
- 74 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.
- 75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the reporting period:
- (a) started to implement the restructuring plan; or
  - (b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.
- If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under NZ IAS 10 *Events after the Reporting Period*, if the restructuring is material and 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.
- 76 Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 72 are met.
- 77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (e.g. employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to restructure.
- 78 **No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.**
- 79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under NZ IAS 36. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.
- 80 **A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:**
- (a) **necessarily entailed by the restructuring; and**
  - (b) **not associated with the ongoing activities of the entity.**
- 81 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 liabilities for restructuring at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

- 82 Identifiable future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract as defined in paragraph 10.
- 83 As required by paragraph 51, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

## Disclosure

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- 84 **For each class of provision, an entity shall disclose:**
- (a) **the carrying amount at the beginning and end of the period;**
  - \*(b) additional provisions made in the period, including increases to existing provisions;**
  - (c) **amounts used (ie incurred and charged against the provision) during the period;**
  - (d) **unused amounts reversed during the period; and**
  - \*(e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.**
- Comparative information is not required.**
- 85 **An entity shall disclose the following for each class of provision:**
- (a) **a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;**
  - (b) **an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and**
  - \*(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.**
- RDR 85.1 A Tier 2 entity is not required to disclose the major assumptions concerning future events in accordance with paragraph 85(b).**
- 86 **Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practicable:**
- (a) **an estimate of its financial effect, measured under paragraphs 36–52;**
  - (b) **an indication of the uncertainties relating to the amount or timing of any outflow; and**
  - (c) **the possibility of any reimbursement.**
- 87 In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.
- 88 Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84–86 in a way that shows the link between the provision and the contingent liability.
- 89 **Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the end of the reporting period, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36–52.**
- 90 It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.
- 91 **Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.**
- 92 **In extremely rare cases, disclosure of some or all of the information required by paragraphs 84–89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose**

**the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**

## Transitional provisions

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- 93 [Paragraph 93 is not reproduced. The transitional provisions in IAS 37 are not relevant to the adoption of this Standard.]
- 94 [Deleted by IASB]
- 94A *Onerous Contracts—Cost of Fulfilling a Contract*, issued in June 2020, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

## Effective date

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- 95 This Standard becomes operative for an entity's financial statements that cover annual accounting periods beginning on or after 1 January 2007. Early adoption of this Standard is permitted only when an entity complies with NZ IFRS 1 *First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards* for an annual accounting period beginning on or after 1 January 2005.
- NZ 95.1 *Framework: Tier 1 and Tier 2 For-profit Entities*, issued in November 2012, amended extant NZ IFRSs by deleting any public benefit entity paragraphs, deleting any differential reporting concessions, adding scope paragraphs for Tier 1 and Tier 2 for-profit entities and adding disclosure concessions for Tier 2 entities. It made no changes to the requirements for Tier 1 entities. A Tier 2 entity may elect to apply the disclosure concessions for annual periods beginning on or after 1 December 2012. Early application is permitted.
- 96 [Deleted by IASB]
- 97 [Deleted by IASB]
- 98 [Deleted by IASB]
- 99 *Annual Improvements to NZ IFRSs 2010–2012 Cycle*, issued in February 2014, amended paragraph 5 as a consequential amendment derived from the amendment to NZ IFRS 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to NZ IFRS 3 applies.
- 100 NZ IFRS 15 *Revenue from Contracts with Customers*, issued in July 2014, amended paragraph 5 and deleted paragraph 6. An entity shall apply those amendments when it applies NZ IFRS 15.
- 101 NZ IFRS 9, as issued in September 2014, amended paragraph 2 and deleted paragraphs 97 and 98. An entity shall apply those amendments when it applies NZ IFRS 9.
- 102 NZ IFRS 16, issued in February 2016, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 16.
- 103 NZ IFRS 17, issued in August 2017, amended paragraph 5. An entity shall apply that amendment when it applies NZ IFRS 17.
- 104 *Definition of Material* (Amendments to NZ IAS 1 and NZ IAS 8), issued in December 2018, amended paragraph 75. An entity shall apply those amendments prospectively for annual periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of NZ IAS 1 and paragraphs 5 and 6 of NZ IAS 8.<sup>3</sup>
- 105 *Onerous Contracts—Cost of Fulfilling a Contract*, issued in June 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

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<sup>3</sup> In May 2024 the New Zealand Accounting Standards Board of the External Reporting Board issued NZ IFRS 18 *Presentation and Disclosure in Financial Statements* and carried over the definition of 'material' in NZ IAS 1 *Presentation of Financial Statements* to NZ IFRS 18.

## HISTORY OF AMENDMENTS

### Table of Pronouncements – NZ IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

This table lists the pronouncements establishing and amending NZ IAS 37. The table is based on amendments issued as at 31 January 2026.

Pronouncements	Date issued	Early operative date	Mandatory date (annual reporting periods... on or after ...)
NZ IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Nov 2004	1 Jan 2005	1 Jan 2007
NZ IAS 1 <i>Presentation of Financial Statements</i> (revised 2007) <sup>4</sup>	Nov 2007	Early application permitted	1 Jan 2009
NZ IFRS 3 <i>Business Combinations</i> (revised 2008)	Feb 2008	Early application permitted	1 Jan 2009
Minor Amendments to NZ IFRSs (2008-1)	April 2008	Early application permitted	1 June 2008
Minor Amendments to NZ IFRSs	July 2010	Immediate	Immediate
NZ IFRS 9 <i>Financial Instruments</i> (2010)	Nov 2010	Early application permitted	1 Jan 2013 <sup>5</sup>
<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> <sup>6</sup>	Nov 2012	Early application permitted	1 Dec 2012
NZ IFRS 9 <i>Financial Instruments</i> (2013) ( <i>Hedge Accounting and Amendments to NZ IFRS 9, NZ IFRS 7 and NZ IAS 39</i> )	Dec 2013	Early application permitted	1 Jan 2017 <sup>7</sup>
<i>Annual Improvements to NZ IFRSs 2010–2012 Cycle</i>	Feb 2014	Early application permitted	1 July 2014
NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	July 2014	Early application permitted	1 Jan 2018 <sup>8</sup>
NZ IFRS 9 <i>Financial Instruments</i> (2014)	Sept 2014	Early application permitted	1 Jan 2018
<i>2017 Omnibus Amendments to NZ IFRS</i> (editorial corrections only)	Nov 2017	Early application permitted	1 Jan 2018
NZ IFRS 16 <i>Leases</i>	Feb 2016	Early application permitted	1 Jan 2019
NZ IFRS 17 <i>Insurance Contracts</i>	Aug 2017	Early application permitted	1 Jan 2023 <sup>9</sup>
<i>Amendments to References to the Conceptual Framework in NZ IFRS</i>	May 2018	Early application permitted	1 Jan 2020
<i>Definition of Material</i> (Amendments to NZ IAS 1 and NZ IAS 8)	Dec 2018	Early application permitted	1 Jan 2020
<i>Onerous Contracts—Cost of Fulfilling a Contract</i>	June 2020	Early application permitted	1 Jan 2022

<sup>4</sup> Superseded by NZ IFRS 18 *Presentation and Disclosure in Financial Statements*.

<sup>5</sup> Superseded by NZ IFRS 9 *Financial Instruments* (2014). NZ IFRS 9 (2014) restricted early application of earlier versions of NZ IFRS 9.

<sup>6</sup> This pronouncement amended extant NZ IFRSs by (i) deleting any public benefit entity paragraphs, (ii) deleting any differential reporting paragraphs, (iii) adding scope paragraphs for Tier 1 and Tier 2 for-profit entities, and (iv) adding RDR disclosure concessions.

<sup>7</sup> Superseded by NZ IFRS 9 *Financial Instruments* (2014). NZ IFRS 9 (2014) restricted early application of earlier versions of NZ IFRS 9.

<sup>8</sup> *Effective date of NZ IFRS 15*, issued in November 2015, deferred the mandatory effective date of NZ IFRS 15 from annual reporting periods beginning on or after 1 January 2017 to annual reporting periods beginning on or after 1 January 2018.

<sup>9</sup> *Amendments to NZ IFRS 17*, issued in August 2020, deferred the effective date of NZ IFRS 17 from 1 January 2021 to 1 January 2023.

<b>Pronouncements</b>	<b>Date issued</b>	<b>Early operative date</b>	<b>Mandatory date (annual reporting periods... on or after ...)</b>
NZ IFRS 18 <i>Presentation and Disclosure in Financial Statements</i>	May 2024	Early application permitted	1 Jan 2027

<b>Table of Amended Paragraphs in NZ IAS 37</b>		
<b>Paragraph affected</b>	<b>How affected</b>	<b>By ... [date]</b>
Paragraph 2	Amended	NZ IFRS 9 (2010) [Nov 2010], NZ IFRS 9 (2013) [Dec 2013] and NZ IFRS 9 (2014) [Sept 2014]
Paragraph 5	Amended	NZ IFRS 3 [Feb 2008]
Paragraph 5	Amended	<i>Annual Improvements to NZ IFRSs 2010–2012 Cycle</i> [Feb 2014]
Paragraph 5	Amended	NZ IFRS 15 [July 2014]
Paragraph 5	Amended	NZ IFRS 16 [Feb 2016]
Paragraph 5	Amended	NZ IFRS 17 [Aug 2017]
Paragraph 6	Deleted	NZ IFRS 15 [July 2014]
Paragraph 10	Amended	<i>Amendments to References to the Conceptual Framework in NZ IFRS</i> [May 2018]
Paragraph 68A	Added	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> [June 2020]
Paragraph 69	Amended	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> [June 2020]
Paragraph 75	Amended	<i>Definition of Material</i> [Dec 2018]
Paragraph 89	Amended	Minor Amendments (2008-1) [April 2008]
Paragraph 94A	Added	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> [June 2020]
Paragraph NZ 95.1	Added	<i>Framework: Tier 1 and Tier 2 For-profit Entities</i> [Nov 2012]
Paragraph 97	Added	NZ IFRS 9 (2010) [Nov 2010]
Paragraph 97	Deleted	NZ IFRS 9 (2013) [Dec 2013] and NZ IFRS 9 (2014) [Sept 2014]
Paragraph 98	Added	NZ IFRS 9 (2013) [Dec 2013]
Paragraph 98	Deleted	NZ IFRS 9 (2014) [Sept 2014]
Paragraph 99	Added	<i>Annual Improvements to NZ IFRSs 2010–2012 Cycle</i> [Feb 2014]
Paragraph 100	Added	NZ IFRS 15 [July 2014]
Paragraph 101	Added	NZ IFRS 9 (2014) [Sept 2014]
Paragraph 102	Added	NZ IFRS 16 [Feb 2016]
Paragraph 102	Added	<i>Definition of Material</i> [Dec 2018]
Paragraph 103	Added	NZ IFRS 17 [Aug 2017]
Paragraph 104	Added	<i>Definition of Material</i> [Dec 2018]
Paragraph 104 (footnote added)	Amended	NZ IFRS 18 [May 2024]
Paragraph 105	Added	<i>Onerous Contracts—Cost of Fulfilling a Contract</i> [June 2020]