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Approval by the Board of *Onerous Contracts—Cost of Fulfilling a Contract* issued in May 2020

Onerous Contracts—Cost of Fulfilling a Contract, which amended IAS 37, was approved for issue by all 14 members of the International Accounting Standards Board.

Hans Hoogervorst	Chairman
Suzanne Lloyd	Vice-Chair
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Rika Suzuki	
Ann Tarca	
Mary Tokar	

Approval by the IASB of *Disclosures about Uncertainties in the Financial Statements* issued in November 2025

Disclosures about Uncertainties in the Financial Statements was approved for issue by all 12 members of the International Accounting Standards Board.

Andreas Barckow	Chair
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Basis for Conclusions on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

This Basis for Conclusions accompanies, but is not part of, IAS 37. IAS 37 was issued by the International Accounting Standards Committee in 1998 and was not accompanied by a Basis for Conclusions. This Basis for Conclusions summarises the considerations of the International Accounting Standards Board (Board) in developing amendments to IAS 37. Individual Board members gave greater weight to some factors than to others.

Onerous Contracts—Cost of Fulfilling a Contract (paragraph 68A)

BC1 In May 2020 the Board added paragraph 68A to IAS 37. Paragraph 68A specifies which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The Board added this clarification in response to a recommendation from the IFRS Interpretations Committee, whose research indicated that:

(a) differing views on which costs to include could lead to material differences in the financial statements of entities that enter into some types of contracts.

(b) the need for clarification was urgent. Following the withdrawal of IAS 11 *Construction Contracts*, entities are required to apply IAS 37 instead of IAS 11 to assess whether construction contracts are onerous. IAS 11 specified which costs to include, but IAS 37 did not.

The cost of fulfilling a contract

BC2 Views differed on what an entity should include in the cost of fulfilling a contract when assessing whether the contract is onerous—whether to include:

(a) only the incremental costs of fulfilling the contract—for example, the cost of materials and labour required to construct a building; or

(b) all costs that relate directly to the contract—both the incremental costs and 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 the contract among others, or an allocation of the costs of management and supervision of contracts.

BC3 The Board decided to require an entity to include all costs that relate directly to a contract. The Board concluded that:

(a) including all such costs provides more useful information to users of the entity's financial statements (paragraphs BC4–BC7);

(b) the benefits of providing that information are likely to outweigh the costs (paragraphs BC8–BC9); and

(c) a requirement to include all costs that relate directly to a contract is consistent with other requirements in IAS 37 and requirements in other IFRS Standards (paragraphs BC10–BC13).

Useful information

BC4 An entity may obtain the resources it needs to fulfil a contract in different ways. For example, if an entity needs equipment to fulfil a contract to manufacture goods or provide services, it may either hire the equipment for use only on that contract, or buy the equipment and use it on several contracts. The Board concluded that to provide a faithful representation of the effect of a contract on an entity's financial position, the entity should identify the resources needed to fulfil the contract and include the cost of those resources, regardless of how it expects to obtain them. Including only incremental costs in that assessment—for example, the costs of hiring equipment but not an allocation of the depreciation of purchased equipment—would fail to recognise the costs of resources shared with other contracts.

BC5 The Board considered contracts an entity will fulfil using existing assets with idle capacity. If the income from such a contract will exceed the incremental cost of fulfilling it, the contract will improve the entity's financial position and performance. But, unless the income will fully cover the cost of the capacity used, including that cost in assessing whether the contract is onerous might suggest otherwise because the entity will recognise an onerous contract provision and a loss when it incurs a present obligation by entering into the contract. If that capacity were not used to fulfil the contract, such a loss would not be recognised.

BC6 The Board concluded that, even for a contract that will be fulfilled using existing idle capacity, including all costs that relate directly to the contract (that is, including the cost of the capacity used) provides useful information. By entering into a contract at a price that does not fully cover the cost of the capacity used, the entity has committed itself to using that capacity to provide goods or services at a price that would not be sustainable if all contracts were similarly priced. The entity has effectively committed itself to making a loss on that capacity for the life of the contract. In the Board's view, including the cost of the capacity used in assessing whether a contract is onerous provides information that is relevant to users of financial statements and faithfully represents the effect of the contract on the entity's financial position and performance. The Board noted that an entity would disclose additional information about the contract if such information is relevant to an understanding of the entity's financial statements.

BC7 The Board also considered requirements in other IFRS Standards. Several IFRS Standards—such as IAS 2 *Inventories*—specify the costs to include in measuring a non-monetary asset. Although their detailed requirements differ, they all require an entity to include both the incremental costs of purchasing or constructing the asset, and an allocation of other directly related or directly attributable costs, such as production overheads. The Board concluded that, in assessing whether a contract to deliver goods is onerous, the way an entity determines the cost of fulfilling the contract should be broadly consistent with the way it measures the cost of the goods when it holds them. Such consistency leads to more useful information.

Cost of applying the requirements

BC8 The Board discussed suggestions that it might be costly for a manufacturing entity to estimate and allocate all the costs that relate directly to a contract if the entity has not yet manufactured the goods it will deliver under the contract.

BC9 The Board noted that IAS 2 requires an entity to measure the cost of manufactured inventories at an amount that includes both the incremental costs of production and an allocation of production overheads. Further, a manufacturing entity that enters into contracts to supply inventory is likely to need information about these costs to make pricing decisions. Therefore, the entity is likely to have already the information it needs to estimate and allocate the costs that will relate directly to contracts into which it has entered. The Board therefore concluded that a requirement to estimate and allocate costs that relate directly to a contract would not impose costs that outweigh the usefulness of the information provided.

Consistency with other requirements in IAS 37 and requirements in other IFRS Standards

BC10 IAS 37 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 Board concluded that the unavoidable costs of fulfilling a contract are the costs an entity cannot avoid because it *has* the contract (as opposed to the costs the entity could avoid if it *did not have* the contract). The costs an entity cannot avoid because it has a contract include both the incremental costs of that contract and an allocation of other costs that relate directly to fulfilling contracts, including that contract.

BC11 The Board discussed whether including costs other than the incremental costs of fulfilling a contract would be inconsistent with other requirements in IAS 37. Those holding this view suggested that, because an entity will incur those other costs regardless of whether it fulfils the contract under consideration, the costs are not costs of 'fulfilling the contract'—they are costs of operating the business. Paragraph 18 of IAS 37 specifies that no provision is recognised for costs that need to be incurred to operate in the future, and paragraph 63 prohibits recognition of future operating losses.

BC12 However, the Board concluded that a requirement to include all costs that relate directly to a contract in assessing whether the contract is onerous is consistent with other requirements in IAS 37. It concluded that:

(a) in recognising an onerous contract provision, an entity would not be recognising a provision for the costs themselves—that is, it would not be identifying those costs as present obligations in their own right. Instead, the entity would be recognising its present obligation to deliver goods or provide services in exchange for other economic benefits, measuring that obligation at an amount that includes the cost of all the resources to be used to fulfil the obligation.

(b) paragraph 63 of IAS 37 prohibits an entity from recognising future operating losses because such losses are not liabilities; in other words, the entity does not have a present obligation to incur those losses. In contrast, in assessing whether a contract is onerous, an entity determines the cost of fulfilling its present obligation under an existing contract. Therefore, including all costs that relate directly to a contract in assessing whether the contract is onerous does not result in an entity recognising future operating losses.

BC13 The Board noted that a requirement to include all costs that relate directly to a contract is consistent with IFRS 17 *Insurance Contracts*. IFRS 17 requires insurers to include all costs that relate directly to the fulfilment of a contract in assessing whether an insurance contract is onerous. These costs include an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts.

Examples

BC14 When it exposed draft amendments for comment, the Board proposed to include a list of examples of costs that do and do not relate directly to a contract. These examples were based on paragraphs 97–98 of IFRS 15 *Revenue from Contracts with Customers*.

BC15 Some respondents to the Board's draft amendments noted differences between the examples proposed and those in other IFRS Standards that specify which costs to include in measuring the cost of non-monetary assets. Those respondents asked the Board to clarify whether some costs mentioned in those other IFRS Standards would be regarded as costs that relate directly to the contract by an entity applying IAS 37. Respondents also asked the Board to provide examples of costs that relate directly to contracts other than contracts to deliver goods or provide services.

BC16 In response to this feedback, the Board decided to replace the list of examples with a more general description of the types of costs that relate directly to a contract—that is, the incremental costs of fulfilling the contract and an allocation of other costs that relate directly to fulfilling contracts. The Board concluded that the more general description:

(a) can be applied to all types of contract, rather than only to contracts to deliver goods or provide services;

(b) avoids unintended consequences of slight differences in the wording of examples in different IFRS Standards; and

(c) provides a framework within which an entity can judge whether a particular cost relates directly to a contract.

Interaction with requirements for impaired assets

BC17 Paragraph 69 of IAS 37 requires that, before an entity establishes a provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets 'used in fulfilling the contract'. Paragraph 69 originally referred to assets 'dedicated to that contract'. However, the term 'dedicated' could be read to apply only to assets used solely on that contract, and not used on other contracts. The Board amended the terminology in paragraph 69 to clarify that the requirement to recognise any impairment loss before establishing an onerous contract provision applies to all assets whose cost would be considered in assessing whether the contract is onerous.

Scope

BC18 Some respondents to the Board's draft amendments asked the Board to expand the scope of the project to clarify other aspects of the onerous contract requirements in IAS 37, such as:

(a) measuring onerous contracts—whether an entity would consider the same costs in measuring a provision for an onerous contract as it would consider in assessing whether that contract is onerous.

(b) selecting a unit of account—whether, and if so when, an entity should combine groups of similar contracts or segment contracts into components when applying the onerous contract requirements.

BC19 The Board decided not to consider other aspects of the onerous contract requirements in IAS 37 because doing so would have prolonged the project, delaying the issue of amendments regarded as urgent (see paragraph BC1(b)). The amendments therefore do not change the requirements in IAS 37 beyond clarifying the costs an entity is required to include in assessing whether a contract is onerous.

Transitional provisions

BC20 On transition entities are required to apply the amendments only to contracts for which the entity has not fulfilled all its obligations at the date of initial application, without restating comparative amounts. The Board concluded that it may be difficult and costly for an entity to obtain the information needed to restate comparative amounts, and the information provided by doing so was unlikely to be sufficiently useful to justify the costs that the entity might incur.

BC21 The Board decided not to provide entities with an option to restate comparative amounts—that is, not to provide the option of retrospective application, as defined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*[*]. The Board concluded that the benefits of providing that option would be limited, and would be outweighed by the complexity and possible loss of comparability between the financial statements of entities applying the amendments at their effective date.

Disclosures about Uncertainties in the Financial Statements (November 2025)

BC22 In November 2025, the IASB issued *Disclosures about Uncertainties in the Financial Statements*, which added Example 2A to Section D of the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets. Paragraphs BC429–BC451 of the *Basis for Conclusions on IFRS 18* Presentation and Disclosure in Financial Statements include the IASB's overall considerations in developing this illustrative example.

BC23 The IASB developed Example 2A to illustrate disclosures about uncertainties related to the amount or timing of outflows required to settle plant decommissioning and site-restoration obligations. In particular, the IASB decided to illustrate a situation in which information about some obligations is material, even if their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial.

[*] When it issued IFRS 18 *Presentation and Disclosure in Financial Statements* in April 2024, the IASB changed the title of IAS 8 to *Basis of Preparation of Financial Statements*.

Guidance on implementing IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*

This guidance accompanies, but is not part of, IAS 37.

A Tables – Provisions, contingent liabilities, contingent assets and reimbursements

The purpose of this table is to summarise the main requirements of the Standard.

Provisions and contingent liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of:(a) a present obligation; or (b) a possible obligation 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.		
There is a present obligation that probably requires an outflow of resources.	**There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.**	**There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.**
A provision is recognised (paragraph 14).	No provision is recognised (paragraph 27).	No provision is recognised (paragraph 27).
Disclosures are required for the provision (paragraphs 84 and 85).	Disclosures are required for the contingent liability (paragraph 86).	No disclosure is required (paragraph 86).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent assets

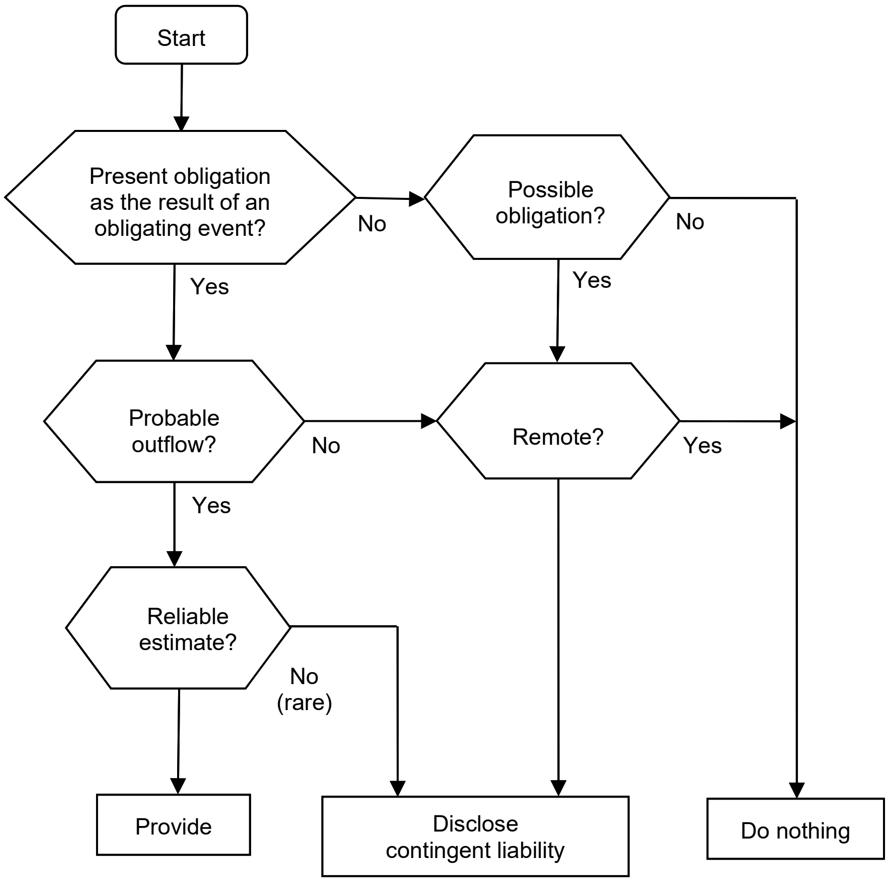
Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits is virtually certain.	**The inflow of economic benefits is probable, but not virtually certain.**	**The inflow is not probable.**
The asset is not contingent (paragraph 33).	No asset is recognised (paragraph 31).	No asset is recognised (paragraph 31).
	Disclosures are required (paragraph 89).	No disclosure is required (paragraph 89).

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	**The obligation for the amount expected to be reimbursed remains with the entity and it is virtually certain that reimbursement will be received if the entity settles the provision.**	**The obligation for the amount expected to be reimbursed remains with the entity and the reimbursement is not virtually certain if the entity settles the provision.**
The entity has no liability for the amount to be reimbursed (paragraph 57).	The reimbursement is recognised as a separate asset in the statement of financial position and may be offset against the expense in the statement of comprehensive income. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 53 and 54).	The expected reimbursement is not recognised as an asset (paragraph 53).
No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph 85(c)).	The expected reimbursement is disclosed (paragraph 85(c)).

B Decision tree

The purpose of this diagram is to summarise the main recognition requirements of the Standard for provisions and contingent liabilities.



Note: 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 (paragraph 15 of the Standard).

C Examples: recognition

All the entities in the examples have 31 December year-ends. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.

The cross-references provided in the examples indicate paragraphs of the Standard that are particularly relevant.

References to 'best estimate' are to the present value amount, where the effect of the time value of money is material.

Example 1 Warranties

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement – Probable for the warranties as a whole (see paragraph 24).

Conclusion – A provision is recognised for the best estimate of the costs of making good under the warranty products sold before the end of the reporting period (see paragraphs 14 and 24).

Example 2A Contaminated land – legislation virtually certain to be enacted

An entity in the oil industry causes contamination but cleans up only when required to do so under the laws of the particular country in which it operates. One country in which it operates has had no legislation requiring cleaning up, and the entity has been contaminating land in that country for several years. At 31 December 20X0 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year end.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 14 and 22).

Example 2B Contaminated land and constructive obligation

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17).

Example 3 Offshore oilfield

An entity operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety per cent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and 10 per cent arise through the extraction of oil. At the end of the reporting period, the rig has been constructed but no oil has been extracted.

Present obligation as a result of a past obligating event – The construction of the oil rig creates a legal obligation under the terms of the licence to remove the rig and restore the seabed and is thus an obligating event. At the end of the reporting period, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it (see paragraph 14). These costs are included as part of the cost of the oil rig. The 10 per cent of costs that arise through the extraction of oil are recognised as a liability when the oil is extracted.

Example 4 Refunds policy

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Present obligation as a result of a past obligating event – The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.

An outflow of resources embodying economic benefits in settlement – Probable, a proportion of goods are returned for refund (see paragraph 24).

Conclusion – A provision is recognised for the best estimate of the costs of refunds (see paragraphs 10 (the definition of a constructive obligation), 14, 17 and 24).

Example 5A Closure of a division – no implementation before balance sheet date

On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 72).

Example 5B Closure of a division – communication/implementation before the end of the reporting period

On 12 December 20X0, the board of an entity decided to close down a division making a particular product. On 20 December 20X0 a detailed plan for closing down the division was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised at 31 December 20X0 for the best estimate of the costs of closing the division (see paragraphs 14 and 72).

Example 6 Legal requirement to fit smoke filters

Under new legislation, an entity is required to fit smoke filters to its factories by 30 June 20X1. The entity has not fitted the smoke filters.

(a) At 31 December 20X0, the end of the reporting period

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.

Conclusion – No provision is recognised for the cost of fitting the smoke filters (see paragraphs 14 and 17–19).

(b) At 31 December 20X1, the end of the reporting period

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).

An outflow of resources embodying economic benefits in settlement – Assessment of probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion – No provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 14 and 17–19).

Example 7 Staff retraining as a result of changes in the income tax system

The government introduces a number of changes to the income tax system. As a result of these changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with financial services regulation. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

Example 8 An onerous contract

[Deleted]

Example 9 A single guarantee

[Deleted]

Example 10A Court case

After a wedding in 20X0, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings are started seeking damages from the entity but it disputes liability. Up to the date of authorisation of the financial statements for the year to 31 December 20X0 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X1, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

(a) At 31 December 20X0

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – No provision is recognised (see paragraphs 15 and 16). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraph 86).

(b) At 31 December 20X1

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 14–16).

Example 11 Repairs and maintenance

Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. IAS 16 *Property, Plant and Equipment* gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Example 11A Refurbishment costs – no legislative requirement

A furnace has a lining that needs to be replaced every five years for technical reasons. At the end of the reporting period, the lining has been in use for three years.

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

The cost of replacing the lining is not recognised because, at the end of the reporting period, no obligation to replace the lining exists independently of the company's future actions—even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, ie it is depreciated over five years. The re-lining costs then incurred are capitalised with the consumption of each new lining shown by depreciation over the subsequent five years.

Example 11B Refurbishment costs – legislative requirement

An airline is required by law to overhaul its aircraft once every three years.

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in example 11A. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions—the entity could avoid the future expenditure by its future actions, for example by selling the aircraft. Instead of a provision being recognised, the depreciation of the aircraft takes account of the future incidence of maintenance costs, ie an amount equivalent to the expected maintenance costs is depreciated over three years.

D Examples: disclosures

Two examples of the disclosures required by paragraph 85 are provided below.

Example 1 Warranties
A manufacturer gives warranties at the time of sale to purchasers of its three product lines. Under the terms of the warranty, the manufacturer undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the end of the reporting period, a provision of 60,000 has been recognised. The provision has not been discounted as the effect of discounting is not material. The following information is disclosed: *A provision of 60,000 has been recognised for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years after the reporting period.*

Example 2 Decommissioning costs
In 2000, an entity involved in nuclear activities recognises a provision for decommissioning costs of 300 million. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed: *A provision of 300 million has been recognised for decommissioning costs. These costs are expected to be incurred between 2060 and 2070; however, there is a possibility that decommissioning will not take place until 2100–2110. If the costs were measured based upon the expectation that they would not be incurred until 2100–2110 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2 per cent.*

The example below illustrates the requirements in paragraph 85 of IAS 37. In particular, it illustrates how an entity might disclose information about plant decommissioning and site-restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial.

Example 2A Decommissioning and site-restoration obligations

Background

The entity is a manufacturer and has plant decommissioning and site-restoration obligations for its facilities. The entity assumes it will continue to maintain and operate some of its facilities for an extremely long time. Consequently, the costs required to settle the obligations related to these facilities will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial. However, the costs to settle the obligations relating to these facilities will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects. This risk stems from efforts to transition to a lower-carbon economy, which might include shifting consumer demand for the entity's products and possible regulatory and policy actions to reduce greenhouse gas emissions in the jurisdictions in which the entity operates.

Application

Paragraph 85 of IAS 37 requires an entity to disclose information for each class of provision. The entity concludes that, although some of its plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision (see the 'Background' section), information about these obligations is material. The entity reaches this conclusion after considering, among other factors:

(a) *the size of the costs required to settle the obligations*—the costs of settling the obligations are high;

(b) *the risk of early settlement*—the risk that the entity might be required to settle the obligations earlier than expected is significant and is increasing; and

(c) *external climate-related qualitative factors*—the industry and jurisdictions in which the entity operates (including the entity's market, economic, regulatory and legal environments) make the information about the obligations more likely to influence the decisions that primary users of the entity's financial statements make on the basis of the financial statements.

In applying paragraph 85 of IAS 37, the entity discloses information about its plant decommissioning and site-restoration provision. This information includes information about the obligations that have an immaterial effect on the carrying amount of the provision. The information the entity discloses includes: (a) a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them. (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the entity's main facilities—for example, when the entity expects to close the facilities.

An example is given below of the disclosures required by paragraph 92 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

Example 3 Disclosure exemption
An entity is involved in a dispute with a competitor, who is alleging that the entity has infringed patents and is seeking damages of 100 million. The entity recognises a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 84 and 85 of the Standard. The following information is disclosed: *Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of 100 million. The information usually required by IAS 37* Provisions, Contingent Liabilities and Contingent Assets *is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claim can be successfully resisted by the company.*