

12 March 2025  
International Accounting Standards Board  
Email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Cc: EFRAG

Dear Sir/Madam

## Exposure Draft – Provisions – Targeted Improvements

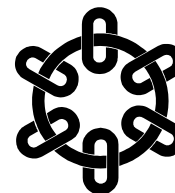
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board, NASB) welcomes the opportunity to comment on the proposals in the Exposure Draft (ED) *Provisions – Targeted Improvements: Proposed amendments to IAS 37*.

We support changing the definition of a liability and withdrawing IFRIC 21, and we generally agree with the proposed changes related to measurement and discount rates. We also welcome expanded guidance of the definition through updating and adding to the examples in the IG.

However, we are concerned that the new definition and recognition criteria will not create more clarity as to when a provision should be recognised. The new concepts seem to introduce another layer of complexity, and we therefore expect diversity in practice.

Our main comments relating to the new definition and recognition criteria are:

- We are concerned with the threshold of *significantly worse* for the consequences of not discharging legal obligations. While this may be used in a narrow interpretation of the practical ability to avoid the obligation, it may be interpreted more widely and result in a number of legal obligations not being included. This is counter-intuitive and not aligned with the measurement of an onerous contract.
- We strongly believe that IAS 37 should use the structure and the logic of the Conceptual Framework and deal with definitions and recognition criteria separately, both in the standard and in the accompanying examples in the IG.
- We recommend that the examples in the IG follow the sequential logic in decision tree B1. We find it unnecessary and somewhat confusing to analyse subsequent conditions when a previous condition is not met, e.g. discussing whether a past event has occurred when the entity has no obligation.
- We believe some of the examples do not properly distinguish between existence uncertainty (see CF 5.14) and low probability of outflow (see CF 5.15). This results in guidance that is less helpful, which may lead to wrong conclusions in the analyses of the fulfilment of the obligation condition, the transfer condition and the past event condition in the examples in the IG. As an example, we disagree with some of the conclusions on what is the past event. We note that some of the conclusions have



changed from the analysis of the same examples in current IG, which we question whether was the IASB's intention.

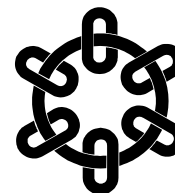
- While *economic benefit* is a key concept in the standard, several examples leave us uncertain about what the IASB considers to be an economic benefit. We recommend that the IASB provide further clarification on this concept, particularly regarding the role of license-to-operate benefits.
- We are uncertain whether the ceasing-to-trade considerations in paragraph 14R apply solely at the reporting entity level, or if they are also relevant at lower levels such as subsidiaries, segments or markets.

Should you wish to discuss our comments further, please do not hesitate to contact Bjørn Einar Strandberg.

Yours faithfully,

Bjørn Einar Strandberg

Chair of the Technical Committee on  
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## Appendix 1 – our comments to the questions in the exposure draft

Below we provide our responses to the questions in the ED.

References to paragraphs in IAS 37, are references to the proposed paragraphs in the ED. Any reference to paragraphs in the current IAS 37, will specify that it refers to current IAS 37. We use the abbreviations *CF* when referring to the IASB’s Conceptual Framework for Financial Reporting, and *IG* when referring to the Proposed amendments to Guidance on implementing IAS 37.

### Response to Question 1 – Present obligation recognition criterion

#### Question 1—Present obligation recognition criterion

The IASB proposes:

- to update the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to align it with the definition in the *Conceptual Framework for Financial Reporting* (paragraph 10);
- to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));
- to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and
- to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).

The proposals include withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies* (paragraph 108).

Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB’s reasoning for these proposals.

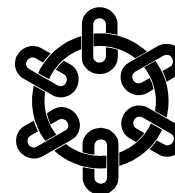
Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

The IASB proposes to update the definition of a liability. We understand that there are two objectives of the proposal:

- (i) Earlier recognition of some provisions (mainly levies), and
- (ii) clearer requirements on when to recognise a provision.

We agree with the objective to recognise some provisions earlier, exemplified by the withdrawal of IFRIC 21.

We are however unable to conclude that the objective of making the requirements on when to recognise a liability clearer, have been met. We find that the recognition criteria in IAS 37.14 combine the definition of liability (letter a)) with recognition criteria (letter b) and c)). More



importantly, we believe the updated analysis in many examples in the IG does not align with the newly proposed concepts. This could cause confusion and create diversity in practice. Additionally, we are concerned that the amendments may have unintended and unforeseen consequences.

We discuss these concerns below. Firstly, we discuss the difference between definition and recognition criteria. Secondly, we discuss our concerns related to the application of the following key concepts:

- Practical ability to avoid
- Going concern
- Economic benefit
- Probability

We are concerned that some of the amendments will have unintended consequences. For instance, the IASB has changed the way probability is used in the analysis of the definition criterion, and how to assess past events. We do not believe this was the IASB's intention.

To substantiate our concerns, we comment on all the examples in IG. We present our comments in a table at the end of our response to question 1.

#### **Definition versus recognition criteria**

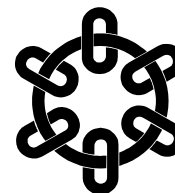
The IASB proposes to amend the definition of a provision in IAS 37.10 and to amend the recognition criteria in IAS 37.14. We agree with the new definition in IAS 37.10 which is fully aligned with the definition of a liability in CF 4.26. This removes the existing conflict between the definitions in the current IAS 37 and the CF, which has caused some uncertainty both in practice and not the least in the education of accounting students.

However, we believe the way the IASB uses the new definition of a liability in the recognition criteria is conceptually confusing. In paragraph IAS 37.14(a), the IASB repeats the definition of a liability but this time as part of the recognition criterion, and in the new paragraphs 14A-14U, the IASB elaborates on the conditions for meeting the definition. These elaborations are useful. However, they are elaborations of the definition, and it is conceptually confusing to include them as part of the recognition criteria. Presenting the obligation-, transfer- and past-event conditions as recognition criteria, is not aligned with CF 4.27, which discusses them as part of the definition of a liability.

We suggest that paragraphs 14A-14U and 15-16 are moved forward as elaborations of the definition of a provision, and that the recognition criteria in IAS 37.14 for example are presented in a similar manner to the recognition criteria in IAS 38.18. We provide the following suggestion for how this could be done:

*The recognition of a provision requires that the item meets:*

- a) *the definition of a provision and*
- b) *the following recognition criteria:*



- i. *it is probable that the entity will be required to transfer an economic resource to settle the provision; and*
- ii. *a reliable estimate can be made of the amount of the provision.*

#### **Practical ability to avoid**

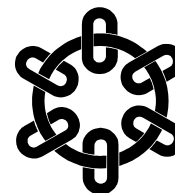
In IAS 37.14B, we find the concept *no practical ability to avoid discharging the responsibility* in letter (c) particularly unclear. As per paragraph 14F, if avoidance results in significantly worse economic consequences than non-avoidance, this is considered an indicator that the entity has no practical ability to avoid, similar to CF 4.34. In general, we support alignment with the CF, but we do not agree with how this is done in paragraph 14F of IAS 37.

Firstly, paragraph 14F relates the indicator only to legal obligations, not to constructive obligations. We believe the indicator may be equally relevant to constructive obligations. Even though constructive obligations are not exposed to fines or similar payments, withdrawal of promises might still have negative economic consequences through impaired reputation etc.

Secondly, paragraph 14F(a) states that an entity has no practical ability to avoid discharging a responsibility if (i) the other party has a legal right and (ii) the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it. In our opinion, the second part of this paragraph (IAS 37.14F(a)(ii)), should be deleted. It is sufficient that there is a legal right. Otherwise, a legal obligation would not be an obligation unless the law or the contract states significant economic consequences of non-compliance. It appears counter-intuitive that a legal requirement is not an obligation if the economic consequences are moderate or unclear or the consequences of non-compliance are non-monetary (for instance imprisonment).

If the IASB chooses to retain paragraph IAS 37.14F(a)(ii), we question why both the CF and IAS 37 require that avoidance must be *significantly* worse, rather than simply worse? The magnitude of the consequences should be addressed as part of the materiality and measurement considerations, and not within the definition itself. Based on this we do not agree with how the *significantly worse* indicator is incorporated into IAS 37.14F.

Lastly, the requirements on the measurement of onerous contracts uses the concept *least net cost* of fulfilling the contract and any penalties arising from failure to fulfil it (IAS 37.68). We struggle to see how to reconcile this requirement with the new concept of *significantly worse* included in the obligation criterion. We believe that also when an entity chooses not to discharge its obligation as the consequence is *less worse* than fulfilling it, a provision should be recognised.



### Going concern

One could argue that an obligation could be avoided by liquidating the entity. However, IAS 37.14R<sup>1</sup> states that the *going concern assumption* implies that liquidation should be disregarded as a practical ability to avoid discharging the obligation:

*A decision to prepare an entity's financial statements on a going concern basis implies that the entity has no practical ability to avoid taking an action it could avoid only by liquidating the entity or by ceasing to trade.*

In principle, we agree. However, it is unclear whether the ceasing-to-trade argument applies only at the reporting entity level or if it is also relevant at lower levels, such as subsidiaries, segments or markets. The text in 14R links liquidation to the entity, while ceasing-to-trade is not explicitly linked, suggesting it may be applied at a lower level. In examples 13A and 13B, the entity can avoid the levy by ceasing to trade in the market (13A) or in the bank segment (13B)<sup>2</sup>. However, the fact patterns in these two examples emphasise the economic consequences of exiting and do not discuss paragraph 14R, indicating that the ceasing-to-trade argument might not apply to a lower level than the reporting entity level.

If the latter is correct, ceasing banking activity in example 13B would not be a practical ability to avoid the levy if banking is the sole activity of the entity, while it can be a practical ability to avoid the levy if banking is one of several activities. Consequently, a levy can be a liability in a subsidiary while it is not a levy on group level. It seems strange that the definition of a liability will depend on organisational structure.

We suggest that the IASB clarifies the use of IAS 37.14R, especially whether the ceasing-to-trade argument can be applied at a lower level than the reporting entity.

### Economic benefit

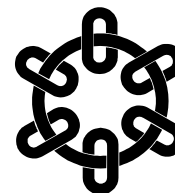
*Economic benefit* is a key concept in IAS 37, including paragraph 14B on when to recognise an obligation as a result of obtaining economic benefits (14B). The concept is also important in understanding the transfer condition. A transfer implies the transfer of economic resources without receiving any resources (14I) or receiving them on unfavourable terms (14L). An economic resource is “a right that has the potential to produce economic benefits” (CF 4.4, our underlining). In some of the examples in the IG, the conclusion depends on whether the entity has received an economic benefit or not. However, in several examples, it is unclear to us what the IASB considers to be an economic benefit.

Examples of economic benefits according to IAS 37.14D include cash, goods and services, which we find less helpful in establishing clarity on what constitutes an economic benefit for example when the topic for discussion is if a license-to-operate represents an economic benefit. We see examples in the IG where the obligation relates to the fulfilment of requirements to be allowed to operate. In our view, being allowed to operate is an economic benefit. We base our view on CF 4.16, which states that economic benefits include resources

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<sup>1</sup> We question why 14R is located under the past-event condition. In our opinion, this is related to the discussion of the practical ability to avoid discharging a responsibility.

<sup>2</sup> The example does not use the term *segment* but refer to ceasing banking activity. To illustrate our point, we assume the banking activity is a segment.



that entitle the entity to use economic resources to produce goods and services. In particular, we believe a discussion of the license-to-operate concept in the following examples would be useful:

- Example 6 considers receiving the smoke filters as receiving an economic benefit without discussing why so. What is the economic benefit in example 6? We assume it is not the filters per se that produce an economic benefit, but by investing in the filters, the entity will be allowed to continue daily operations. The smoke filters can be considered a payment for a licence to operate.
- In example 11B, the entity is required to overhaul its aircraft every three years. By conducting this overhaul, the entity will be allowed to operate for three more years.
- In example 13C, the entity has to pay tax for properties the entity owns at year end. In our opinion, paying the tax may be seen as a prerequisite to be allowed to use the property for daily operations, which is a key economic benefit for the entity. If so, the analysis of the transfer condition would be different as an economic benefit has been received.

As for the transfer condition specifically, we struggle to see why the IASB has reached different conclusions in example 2 (A and B) and example 7. The clean-up services in example 2 may well be delivered by a service provider. If the entity receives services in both example 2 and 7, we struggle to see why it is considered a transfer in one of the examples and an exchange in the other example.

We suggest that more attention is given to the economic benefit concept in the examples. If an economic benefit indeed includes a license to operate, the examples should also consider whether the obligation accumulates over time in accordance with IAS 37.14O.

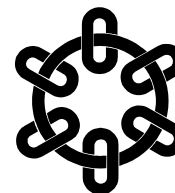
### **Probability**

IAS 37.14I-14L clarify that the transfer condition is met regardless of the **probability** of a transfer, as long as there is potential for a transfer, even if the probability is low. Any consideration of probability is part of the recognition criterion in IAS 37.14(b), and not part of the present obligation criterion in IAS 37.14(a). We agree with this clarification.

However, we disagree with the analysis of probability in some of the examples. In example 1, the IASB argues that:

*On the basis of the available evidence (past experience), management judges it to be more likely than not that the manufacturer has taken the action (selling defective products) as a consequence of which it will have to provide services or goods it would not otherwise have had to provide (paragraphs 14N and 15–16). The past-event condition is met for warranty costs attributable to defective products sold in the past.*

It is clear that the IASB applies probability in the assessment of the definition criterion in this example. As clarified above, probability shall be disregarded when assessing whether the definition is met. The probability in this example should be part of the recognition criterion in



14(b), not the definition criterion in 14(a). We think this example does not properly distinguish between uncertainty about existence and low probability of outflow of economic benefits (ref CF 5.14-5.17).

In our understanding, the only uncertainty relevant in assessing the present obligation criterion, is the uncertainty about existence, see CF 5.14. As explained in IAS 37.15, it is only in rare cases that “it is not clear whether there is a present obligation to transfer an economic resource as a result of a past event.” The warranties in example 1 are common cases, not rare cases. As we see it, there is no uncertainty about existence in example 1.

In this example, the IASB considers the sale of a defective product as the past event. We disagree. In our opinion, the past event is the sale of a product. Even though the probability is low, any product has the potential to be defective, and there is no uncertainty related to the entity’s responsibility to fix potential defects. Moreover, it seems that the IASB has changed its view on the past event in this example. The analysis of the same example in the current IG, concludes that “the obligating event is the sale of the product with warranty, which gives rise to a legal obligation.” In other words, while the current IG concludes that it is the sale of products that is the past event, the proposed IG concludes that it is the sale of a defective product that is the past event.

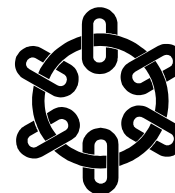
In the same example, we note a change in how the IASB applies probability in its analysis. In the current IG, it does not apply probability as part of the present obligation analysis, but as part of the recognition analysis. And in this latter analysis, it considers probability “for the warranties as a whole” with reference to IAS 37.24. This paragraph discusses the probability of an outflow, which is part of the recognition criterion. In the updated example, the IASB applies probability for the warranties as a whole in analysing the uncertainty about existence as part of the definition criterion. We respectfully disagree with this updated approach. Firstly, we do not agree that there is any uncertainty about existence. Secondly, IAS 37.24, which is unchanged, should not be applied in assessing the definition criterion in 14 (a).

We have similar concerns with example 10. In this example, the law is clear that the entity has a responsibility to pay damages if it sells food that poisons consumers. Even though the probability should be very low for this to happen, there is no existence uncertainty related to the entity’s responsibility if it turns out that it has sold poisonous food. As in example 1, we argue that it is the sale of food that is the past event, not the sale of poisonous food. The probability for having sold poisonous food is part of the recognition criterion in IAS 37.14(b).

### **Comments on the examples**

In general, we believe that all examples in the IG could benefit from a structure that is more aligned with the logic in the CF. The CF clearly distinguishes between *definition*, *recognition* and *measurement*, which are assessed sequentially. Section C in the IG includes examples on recognition. However, all examples are mostly concerned with the definition criterion in paragraph 14 (a), which require that the definition of a liability must be met. We acknowledge that in many cases the assessment of the definition criterion requires more effort than the probability criterion in 14(b) and the reliability criterion in 14(c). Nevertheless, as the examples hardly mention the probability and reliability criteria, the examples do not really





address recognition issues, which the section heading indicates they should. Aligning the examples with the logic in the CF will benefit both education in accounting and application of the standard in practice.

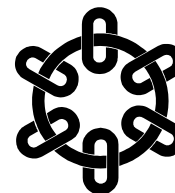
Moreover, based on IAS 37.14A, if one of the three conditions (obligation, transfer and past event) is not met, recognition shall not take place. Nevertheless, all examples in the IG analyse all three conditions even if the first or second condition is not met. We are not sure if this is helpful. While it provides completeness, we believe it may be less helpful to illustrate a past event discussion when the obligation condition is already considered not met (see for instance example 7).

The approach in the examples should follow the decision tree in the IG. Only when the answer is *yes* to the obligation condition you proceed to discuss the transfer condition, and only the answer is *yes* to the transfer condition, you proceed to discuss past event.

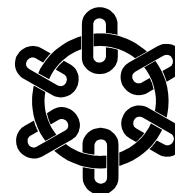
Please find below our comments to the examples. Note that our comments relate to the present obligation criteria only since that is the main focus in the examples.

We reiterate that we believe the structure of all examples should be aligned with the CF.

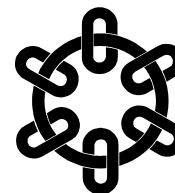
#	Our comments
<b>1</b>	<b>Warranties</b>
	<p>We disagree with the analysis of the past-event condition. Probability is applied inconsistently with the proposed standard (see elaboration above). In our opinion, the past event is the sale of a product, not the sale of a defective product.</p> <p>We agree in the conclusion, as probability is part of the recognition criterion in 14(b).</p>
<b>2A</b>	<b>Contaminated land: legislation virtually certain to be enacted</b>
<b>2B</b>	<b>Contaminated land and constructive obligation</b>
	<p>We agree that all three conditions are met.</p> <p>However, we find the analysis of the transfer condition to be inconsistent with the analysis in example 7, see the discussion of economic benefit above.</p> <p>We are also concerned that the analysis in 2A neglects the impairment impact of the asset (as explained in the introduction to the examples). Assuming that the land is owned, the new legislation is clearly an impairment indicator of the asset. A minority in our body would even argue that to recognise a provision instead of recognising an impairment results the asset being presented with attributes that it does not have (at a price of a non-contaminated land). It is more intuitive to increase the cost of the land when the contamination is removed as it becomes more valuable. It would nevertheless be useful to also mention if there may be an impairment issue.</p>
<b>3</b>	<b>Offshore oilfield</b>
	<p>We agree that the analysis must distinguish between damages from construction and damages from the extraction of oil, and we agree that all three conditions are met for the former while the past event condition is not met for the latter. However, we suggest that the example makes it clearer that these are two different obligations. As of now, the obligation condition refers only to the first obligation, and the transfer condition refers to the</p>



	<p>obligations as one combined obligation. Moreover, the quantification of 90% and 10% is a measurement issue and should not be brought into the evaluation of the past-event condition.</p> <p>As this example relates to an offshore oil field, we would like to point out that we consider the past event to be placing the oilrig at the seabed site, and not to the construction of the rig. We suggest that the parenthesis is changed to the following: (<del>constructing</del> <u>placing</u> the oil rig on the seabed).</p>
4	(deleted)
<b>5A</b>	<b>Closure of a division: no communication or implementation before end of reporting period</b>
<b>5B</b>	<b>Closure of a division: communication/implementation before end of reporting period</b>
	<p>We agree that all three conditions are met in 5B, while the past event condition is not met in 5A.</p> <p>However, the analysis of the transfer condition does not explain why this is a transfer and not an exchange. In example 5B, the explanation is instead included under the past event condition where it is stated “The termination benefits are payable in respect of past service from employees – they are not associated with the ongoing activities of the entity (paragraph 80 (b))”.</p> <p>In addition, the fact description could say more clearly that the employees’ contractual right to receive termination benefits is part of the ordinary employment contract and not a right decided in the closure decision.</p>
<b>6</b>	<b>Legal requirement to fit smoke filters</b>
	<p>In our opinion, it is unclear what constitutes the economic benefit that the entity receives (see above). It appears that receiving goods or services is considered an economic benefit, regardless of their value to the entity’s operation. We believe this example may be used by analogy, so it is crucial to clearly understand how the IASB defines the concept of economic benefit.</p> <p>In addition, we believe the second paragraph of the analysis under the “past-event condition” is irrelevant. This paragraph states that “The entity has not yet obtained the economic benefits (received the smoke filters) as a consequence of which it will have to pay for the filters”. We believe that even if the entity <i>had</i> received the smoke filters, there is no provision to recognise, but rather a financial liability.</p> <p>Lastly, we note that if the fine is not significantly worse than the cost of the filters, would this not be an argument under the proposed wording in IAS 37.14F (a) (ii) for there to be no obligation?</p>
<b>7</b>	<b>Staff retraining as a result of changes in the income tax system</b>
	<p>We agree that there is no present obligation.</p> <p>However, we find the past-event analysis strange. In our opinion it is an irrelevant analysis for at least two reasons. First, the example has already concluded that the obligation condition is not met. Then it is irrelevant to discuss any past event. Second, as in example 6, the analysis included is rather an analysis of whether a financial liability should be recognised.</p>
8	(deleted)
9	(deleted)



<b>10</b>	<b>A court case</b>
	<p>As described above, we disagree with the analysis of the past event condition. Similar to example 1, probability is included in the assessment of the past-event condition.</p> <p>As we see it there is no uncertainty about existence. The law is clear (obligation condition) and the entity has sold food, which potentially could be poisonous (past event condition). The assessment of whether the sold food was poisonous or not is a probability assessment related to the recognition criterion in 14(b) only.</p>
<b>11A</b>	<b>Refurbishment costs: no legislative requirement</b>
	<p>We agree that there is no present obligation. However, when the obligation condition is rejected, it is irrelevant to include analyses of the transfer and past-event conditions. Also, and similar to example 6 and 7, the analysis of the past event condition is rather an analysis of whether a financial liability should be recognised.</p>
<b>11B</b>	<b>Refurbishment costs: legislative requirement</b>
	<p>We suggest clarifying whether this example pertains to the owner of the aircraft, the user or both. Example 11 begins with a reference to IAS 16, suggesting it relates to the owner. However, it later mentions the operation of the aircraft, which could involve someone other than the owner.</p> <p>If the obligation falls upon the owner, we agree that this is an exchange transaction where the owner will receive “future economic benefits embodied in the aircraft”. As mentioned above, when the transfer condition is rejected, it is not relevant to analyse the past event condition.</p> <p>But if this analysis nevertheless is retained, we are not entirely convinced by the analysis of the past event condition. The past event is stated to be “operating aircraft that has not been overhauled for more than three years”. It is not obvious to us why paragraph 14O is not applicable and the past event condition is met over time, as the airline seems to receive benefits from use of the aircraft in the three first years of use. If an analysis of past event <i>is</i> considered relevant, we think the analysis should clarify why paragraph 14O is not applicable.</p> <p>However, if the obligation falls upon the operator, any future economic benefit will depend on the content and duration of the contract with the owner. For the operator, the refurbishment costs might as well be payment for wear and tear in previous years. If so, it will be relevant to incorporate an analysis of the over-time argument in IAS 37.14O.</p> <p>In addition, and similar to example 6, 7 and 11A, we think the last paragraph of the analyses under the past event condition is rather an analysis of whether a financial liability should be recognised.</p>
<b>12</b>	<b>Liabilities arising from participating in a specific market: waste electrical and electronic equipment</b>
	<p>We agree with the analyses and the conclusion.</p>
<b>13A</b>	<b>A levy on revenue</b>
	<p>We agree in the analysis of the three conditions.</p> <p>However, the fact description in (c) states that the entity has no practical ability to avoid the second action—operating in the market on 1 January 20x1, because exiting the market would</p>



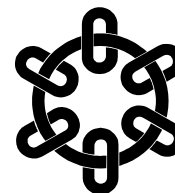
	cost significantly more than paying the levy. We find this cost argument unnecessary when the going concern assumption implies that the entity has no practical ability to exit the market. Furthermore, IAS 37.14F relates such cost-benefit considerations to legal obligations only, but the example does not present staying in the market as a legal obligation.
<b>13B</b>	<b>A levy on an entity operating as a bank on the last day of its annual reporting period</b>
	We raise the same concerns as for Example 13A.  In addition, we suggest clarifying the description of the facts. Currently the levy is calculated by reference to amounts in the balance sheet; there is no reference to amounts in the income statement. Nevertheless, the fact description in (a) concludes that the entity must operate in the reporting period. The example should explain why operation is necessary when the amounts is not based on income or expenses or link it better to the notion of ‘reporting period’ mentioned in the introduction.
<b>13C</b>	<b>A property tax</b>
	We agree that a property tax provision is recognised in the financial statements for the year ended 31 December 20x5. However, the example argues that “the past-event condition is met on 31 December 20X5”. We understand this argument as “met on 31 December 20X5, but not before”. If this is correctly understood, we disagree with the analysis. In our opinion this is an obligation that it could be argued accumulates over time. This would be evidenced by the value of the property fluctuating during the year depending on where in the cycle of property tax the transaction takes place. If our understanding is not correct, the analysis should be rewritten to avoid misunderstanding. In any case we suggest that the analysis addresses the over-time-paragraph (14O).
<b>14</b>	<b>Negative low-emission vehicle credits</b>
	We agree with the analyses and the conclusion.
<b>15</b>	<b>Climate-related commitments</b>
	We agree with the analyses and the conclusion.

## Response to Question 2 – Measurement – Expenditure to settle an obligation

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

We generally agree with the proposal for measurement of provisions.

From a conceptual perspective, we note that the proposed IAS 37 will refer to three measurement bases:



### **Fulfilment value (see CF 6.17)**

- IAS 37.36: 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.
- IAS 37.40A: The expenditure required to settle an obligation comprises the costs that relate directly to the obligation. Costs that relate directly to an obligation consist of both:
  - a) the incremental costs of settling that obligation; and
  - b) an allocation of other costs that relate directly to settling obligations of that type.

### **Transfer value**

- IAS 37.37: 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.

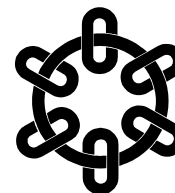
### **Penalty value**

- IAS 37.68: [...] 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.

We believe that by referring to three measurement bases there is a risk of inconsistency in practice. This could be alleviated by either adding text to paragraph 40A or amending paragraphs 36, 37 and 68, to clearly articulate a singular measurement objective or by removing any reference to the transfer value and penalty value entirely.

Further, it is not clear to us whether the intention is that IAS 37.68 should be applicable for provisions in general or only for onerous contracts. Hence, we suggest including a reference from the new IAS 37.40A to the current IAS 37.68. Alternatively, the two paragraphs could be merged.

The exposure draft does not provide any guidance or examples regarding measurement of costs/expenditure related to a provision. We suggest that the IASB include some guidance and examples. One example where guidance would be helpful is a court case. Which expenditures should be included? Fees to lawyers engaged, the cost of in-house lawyers, and/or an allocation of management time spent on the case?



### Response to Question 3 – Discount rates

#### Question 3—Discount rates

The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money – represented by a risk-free rate – with no adjustment for non-performance risk (paragraphs 47–47A).

The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)).

Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB’s reasoning for these proposals.

Do you agree with:

- (a) the proposed discount rate requirements; and
- (b) the proposed disclosure requirements?

Why or why not? If you disagree, what would you suggest instead?

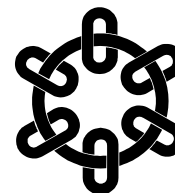
We generally agree with the proposal, but there are some aspects where we believe further clarification would be useful.

We agree that a provision should not be adjusted for non-performance risk. Adjusting for non-performance risk would mean that an entity with a weak credit standing reports a smaller provision than an entity with a higher credit standing, and that an entity would decrease the provision if its credit rating deteriorates. We do not think this provides the most relevant information for users. We acknowledge that own credit risk is taken into account in the measurement of some other types of liabilities (as per IFRS 13). However, we agree with the argument in paragraph BC77 that there is a difference between provisions within the scope of IAS 37 and liabilities that arise from exchange transactions, and we think this conceptually also supports not adjusting for non-performance risk.

Paragraph 47A of the ED explicitly states that the discount rate does not reflect non-performance risk. We suggest also to state explicitly that cash-flows shall not be adjusted for non-performance risk.

We agree that the standard should not include application guidance on how an entity determines an appropriate risk-free discount rate, but that an entity should use judgement to identify the most appropriate method for measuring the provision in question. However, we note that the IASB indirectly gives some guidance in BC 82, which states that:

*“Typically, entities determine an appropriate risk-free rate by reference to an observable market proxy for a risk-free rate, such as the current yield on a low-risk government bond in a currency consistent with that of the provision. In some cases, an entity might adjust that yield—for example, to compensate for differences between the*



*duration and liquidity of the investment and those of the provision. However, the IASB does not expect all entities to make such adjustments.”*

We find this guidance unclear. Is the BC saying that an entity may, but is not required to, use a discount rate that is consistent with the duration and/or liquidity of the provision? We suggest that BC82 is deleted for three reasons (i) guidance on how to determine the risk-free rate should not be given, but left to the entity’s judgement, (ii) the guidance is unclear, and (iii) guidance on measurement should generally not be given in BC but included in the standard. Alternatively, the IASB should clarify the guidance in BC82 and include it directly in the standard.

We are concerned about how IFRS 3 *Business Combination* and IAS 37 interact. IFRS 3.23 requires both a contingent liability and a provision to be measured at fair value. IFRS 13.42 explains that the fair value of a liability reflects the non-performance risk, which includes “an entity’s own credit risk”. Hence, if the entity applies IAS 37 to subsequently measure the provision, this would result in the entity using a lower discount rate on day two, which will lead to a loss recognized in profit or loss, except for provisions within the scope of IFRIC 1. In our opinion, such day two losses do not provide relevant information for users.

We suggest IFRS 3 be amended so that provisions assumed in a business combination are measured in accordance with IAS 37 or alternatively that such provisions are measured at fair value also in subsequent periods (similar to the provisions for contingent consideration in IFRS 3.58).

#### **Response to Question 4 – Transition requirements and effective date**

##### **Question 4—Transition requirements and effective date**

##### **4(a) Transition requirements**

The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E).

Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB’s reasoning for these proposals.

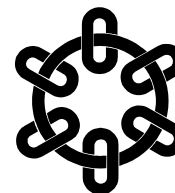
Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

##### **4(b) Effective date**

If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements.

Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

We agree with the proposed transition requirements.



We agree with full retrospective application of the amendment to the present obligation recognition criteria. The amendment will lead to earlier recognition of some provisions and comparative information is highly relevant for the users. We also believe that the entities are able to apply the amendment retrospectively with limited effort.

We agree with the modified retrospective approach for changes in cost included in the measurement of a provision. With the modified retrospective approach entities only have to apply the amendment to obligations that are not settled at the date of initial application. This is a simplification for preparers, the benefits of which we think outweigh the costs for users. We do not believe it is imperative for users to have information on how previously settled provisions would have been measured under the amendment.

### **Response to Question 5 – Disclosure requirements for subsidiaries without public accountability**

<b>Question 5—Disclosure requirements for subsidiaries without public accountability</b>
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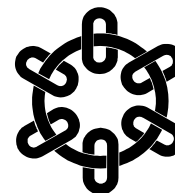
<p>The IASB proposes to add to IFRS 19 <i>Subsidiaries without Public Accountability</i>: Disclosures a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B).</p>
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<p>Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.</p>
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<p>Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?</p>
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We have not assessed the proposal for IFRS 19, as this standard is currently not relevant in our jurisdiction.





## Response to Question 6 – Guidance on implementing IAS 37

### Question 6—Guidance on implementing IAS 37

The IASB proposes amendments to the *Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. It proposes:

- (a) to expand the decision tree in Section B;
- (b) to update the analysis in the illustrative examples in Section C; and
- (c) to add illustrative examples to Section C.

Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB’s reasoning for these proposals.

Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not?

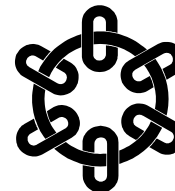
Do you have any other comments on the proposed decision tree or illustrative examples?

We have included our comments to the examples in our response to question 1 above. In general, we find the updated analysis in several examples to be not always in accordance with the new proposed concepts. We think the examples are important in the application of the standard and strongly encourage the IASB to ensure that the analyses in the examples are accurate and in accordance with the underlying concepts.

As mentioned above, we believe that the examples in the IG could benefit from a structure that is more aligned with the logic in the CF. The CF clearly distinguishes between *definition*, *recognition* and *measurement*, and these are assessed sequentially. Moreover, we suggest that the examples also follow the logic of the decision trees in the IG and do not proceed to the next step if the answer is *no* to any of the two first conditions as such analysis risks being counterfactual.

We find it useful to summarize the definition and recognition criteria in decision trees like the trees in B1-B3 in IG. In general, we support splitting the one tree in the current IG into the three trees in the proposed IG. This makes it easier to distinguish between definition and recognition and the reason for non-recognition. However, we would like to point out that the definition of contingent liabilities includes possible obligations (ref. IAS 37.10), but this is not part of the proposed decisions trees. We think it will be useful to include it in the decision trees as in the current IG.

The tree in B1 is related to the definition of a liability. As emphasised in our comments above, we suggest removing any references to recognition and instead presenting this as a decision tree purely for the definition of liability. We also suggest tightening the reference to “unclear”. Now the tree only refers to “unclear facts or circumstances”, which is a vague description. There are many situations that can be claimed to be unclear, but IAS 37.15 emphasizes that only in rare cases it is not clear whether the definition conditions are met.



Lastly, if the decision trees are supposed to be decision trees for a *provision*, the trees must include “uncertain timing or amount” to be complete (see definition of provision in IAS 37.10).

**Response to Question 7 – other comments**

<b>Question 7—Other comments</b>
Do you have comments on any other aspects of the proposals in the Exposure Draft?

We have no further comments.