Suggestion on Exposure Draft on Provisions—Targeted Improvements (Proposed Amendments to IAS 37)

Submitted by : Bhopal Branch (CIRC) of ICAI

Question for Respondents	Response	Proposed Alternatives or Improvements
1. Recognition Criteria: Do you agree with the proposed amendments to clarify the recognition criteria for provisions, specifically the requirement to recognize a provision only when an entity has no realistic alternative to settling the obligation?	**Agree**: The clarification aligns with existing practices and provides a more robust framework to distinguish between constructive obligations and contingent liabilities. It ensures consistency in recognizing provisions, reducing diversity in application across entities. However, the term **"no realistic alternative"** may still lead to subjective interpretations in practice.	- Provide **examples** of situations where "no realistic alternative" applies to help preparers interpret this requirement consistently. - Consider elaborating on cases where obligations are contingent on future actions (e.g., restructuring plans or potential penalties), to provide further clarity on when a provision should be recognized.
2. Measurement of Provisions: Do you support the proposal to measure a provision at the amount the entity would rationally pay to settle the obligation or to transfer it to a third party?	**Agree**: The proposed measurement basis enhances the relevance of financial reporting by focusing on the **economic outflow** associated with settling the obligation. This approach better reflects the cost to the entity and aligns with market-based valuation principles.	- **Alternative Proposal**: Allow entities to apply a practical expedient for provisions with immaterial financial impacts to avoid excessive cost of estimation. - Provide guidance on determining **market value estimates**, particularly for obligations where no active market exists (e.g., decommissioning liabilities). - Introduce specific guidance for situations where obligations cannot be transferred to third parties to ensure consistency in application.
3. Discount Rate: The ED proposes that the discount rate should reflect the risks	**Agree**: Using a discount rate that reflects both the risks specific to the liability and the time value of	- **Alternative Proposal**: Simplify the guidance by recommending a standardized

specific to the liability and the time value of money. Do you agree?	money ensures that provisions are measured more accurately. This aligns with the principles of IFRS 13 and provides a consistent valuation basis.	discount rate (e.g., risk-free rate adjusted for credit risk) for liabilities that lack observable market data. - Include additional guidance for selecting discount rates in jurisdictions where risk-free rates or reliable credit risk adjustments are unavailable. - Allow a **range of acceptable discount rates** for smaller entities to reduce compliance costs and ensure practicality.
4. Disclosure Requirements: Do you agree with the proposed amendments to improve disclosures about provisions, particularly those regarding risks and uncertainties?	**Partially Agree**: Enhanced disclosure requirements provide more transparency to users of financial statements, especially about **key assumptions** and **uncertainties**. However, the proposed requirements may increase the disclosure burden for smaller entities.	- **Alternative Proposal**: Introduce **tiered disclosure requirements** to allow entities to apply simplified disclosure criteria based on size or significance of the provision. - Provide templates or illustrative examples of disclosure formats for common types of provisions (e.g., warranty obligations, legal claims, and restructuring costs).
5. Contingent Liabilities vs. Provisions: Does the ED sufficiently address the distinction between provisions and contingent liabilities, particularly in borderline cases?	**Partially Agree**: While the ED provides a clearer definition, some borderline cases (e.g., constructive obligations arising from voluntary commitments) may still result in inconsistent application. The current language may not fully eliminate judgmental differences.	- Provide **decision trees** or **flowcharts** to help preparers determine whether an obligation qualifies as a provision or a contingent liability. - Include illustrative examples for contentious scenarios, such as potential regulatory fines, where obligations are uncertain but material.
6. Applicability to Multi-Year Obligations: Does the ED adequately address the application of these amendments to multi-year obligations, such as	**Agree**: The amendments are relevant and applicable to multi-year obligations, especially when incorporating discounting and market-based measurements.	- Provide more **examples of long-term obligations** and how to apply the amendments (e.g., environmental clean-up or dismantling of facilities).

environmental restoration or decommissioning liabilities?	However, implementation may require significant judgment, particularly in estimating long-term obligations where future cash flows and risks are uncertain.	- Allow entities to update long-term estimates periodically without requiring remeasurement at each reporting date unless there are material changes.
7. Transition Provisions: Do you agree with the proposed retrospective application of the amendments to IAS 37?	**Partially Agree**: Retrospective application enhances comparability but may impose an undue burden on preparers, particularly for smaller entities or those with complex historical obligations.	- **Alternative Proposal**: Permit **prospective application** of the amendments for entities with limited resources to avoid significant implementation costs. - Offer a **simplified retrospective approach**, allowing entities to apply the amendments to obligations arising after a specific cut-off date.

Key Recommendations Summary

1. **Clarify Recognition and Measurement**: Provide practical guidance, examples, and decision-making frameworks for recognizing and measuring provisions, particularly for obligations involving uncertainty or long-term liabilities.

2. **Simplify Discount Rate Selection**: Introduce practical expedients or standardized approaches for determining discount rates, particularly in jurisdictions with limited financial market data.

3. **Tiered Disclosure Requirements**: Apply a tiered approach to disclosure requirements, balancing transparency with preparer burden, especially for smaller entities or immaterial provisions.

4. **Improve Application Tools**: Add decision trees, illustrative examples, and templates to facilitate consistent application, particularly for distinguishing between provisions and contingent liabilities.

5. **Transition Provisions**: Consider allowing prospective application or simplified retrospective application to reduce the burden on entities with complex obligations.