



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA  
(Set up by an Act of Parliament)

Western India Regional Council

WIRC/ICAI/ 10922 /2024

2 December 2024

The Secretariat  
Accounting Standards Board  
The Institute of Chartered Accountants of India  
ICAI Bhawan, P.B. No.7100, Indraprastha Marg,  
New Delhi- 110 002, India.

Dear Sir/Madam,

Please find attached **Comment on the Exposure Draft, Provisions—Targeted Improvements to IAS 37** issued by the IASB for comments.

Kindly take the same on record.

Regards,

CA. Ankit Rathi  
Chairman - WIRC of ICAI



**Comment on the Exposure Draft, Provisions—Targeted Improvements to IAS 37.**

Below are our comments and feedback based on the proposed amendments and their practical implications:

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1. Clarification of Costs to Fulfill a Contract

We commend the IASB for addressing the ambiguity around the definition of "costs to fulfill a contract." Including both incremental costs and directly attributable allocated costs provides much-needed clarity. This will result in:

- Uniform interpretation and application of the standard globally.
- Enhanced reliability in recognizing provisions for onerous contracts.

**Suggestion:** While the clarification is helpful, we recommend providing additional implementation guidance, including examples for industries with complex cost structures, to ensure seamless application.

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2. Use of Present Value for Long-Term Contracts

The recognition of provisions based on the present value of future costs aligns with the time value of money principle. This ensures that the liability reflects its fair economic burden.

**Suggestion:** To enhance user understanding, consider providing explicit guidance on the selection of an appropriate discount rate, particularly in cases of uncertainty.

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3. Presentation of Losses on Onerous Contracts

We acknowledge that IAS 37 requires losses on onerous contracts to be recognized immediately in the **Profit and Loss (P&L) statement**. However, such recognition can result in significant distortions in reported results, particularly for long-term contracts.

**Alternative Suggestions for Presentation:**

1. **Separate Line Item in P&L:**

- Require or allow losses from onerous contracts to be presented as a separate line item (e.g., "Loss on Onerous Contract") for better transparency.

2. **Enhanced Disclosure:**

- Mandate detailed disclosures in the notes, including:
  - Nature and cause of the loss.
  - Actions taken to mitigate the obligation.
  - The expected financial and cash flow impacts over the contract term.



**3. Use of Non-GAAP Metrics:**

- Permit the use of non-GAAP performance metrics such as "adjusted EBITDA," provided these are reconciled with IFRS figures, to give users an adjusted perspective on operational performance.

These approaches ensure faithful representation while minimizing undue disruption to stakeholders' perception of operational performance.

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**4. Enhanced Disclosure Requirements**

The proposed disclosure requirements improve transparency, helping stakeholders better understand the nature, timing, and uncertainties of provisions.

**Suggestion:** Consider emphasizing quantitative sensitivity analyses in disclosures to highlight the impact of changes in key assumptions, such as cost estimates or discount rates.

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**5. Practical Implications for Stakeholders**

The proposed amendments will require entities to revisit existing contracts and their provisions, potentially leading to additional implementation costs.

- While these costs are justifiable, we suggest providing a reasonable transition period to ensure entities have sufficient time to comply with the new requirements.
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**Conclusion**

The targeted improvements to IAS 37 address significant practical challenges and enhance the consistency, comparability, and transparency of financial reporting. We support the IASB's efforts and believe the additional suggestions for alternative presentations will help entities effectively balance transparency and operational clarity.