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From: **Pranav Mantri** <[pranavmantri@gmail.com](mailto:pranavmantri@gmail.com)>

Date: Thu, Dec 12, 2024 at 9:36 PM

Subject: Pointers on Exposure Draft IAS 37

To: Pune ICAI Admin <[admin@puneicaai.org](mailto:admin@puneicaai.org)>

The Exposure Draft on IAS 37 (Provisions, Contingent Liabilities, and Contingent Assets) focuses on targeted improvements, aiming to clarify specific areas and enhance consistency in its application. Below are the key highlights and comments on the proposed amendments:

Key Proposed Amendments:

1. Definition of Provisions:

The exposure draft refines the definition of provisions to address ambiguities around what constitutes a present obligation.

A present obligation now includes those stemming from past events that are enforceable or practically unavoidable.

2. Recognition Threshold:

The amendments emphasize the "probable" threshold for recognizing a provision and provide clearer guidance on what constitutes "probable" in practice.

3. Measurement Consistency:

Provisions must be measured at the present value of the expected outflows.

The draft provides more guidance on estimating future cash flows and the use of discount rates to ensure uniformity.

4. Disclosure Enhancements:

Enhanced disclosure requirements for provisions and contingent liabilities to improve transparency for users of financial statements.

5. Clarifications on Onerous Contracts:

The draft specifies how costs of fulfilling a contract should be determined, incorporating both incremental costs and an allocation of other costs directly related to the contract.

Comments on the Proposed Amendments:

#### 1. Improved Clarity and Application:

The clarified definition of a provision will reduce diversity in practice, particularly in identifying present obligations and ensuring they meet recognition criteria.

The guidance on "probable" and measurement techniques is a positive step toward more consistent application across entities and jurisdictions.

#### 2. Alignment with Other Standards:

The proposals align IAS 37 with other standards such as IFRS 15 (Revenue from Contracts with Customers) by defining costs of fulfilling contracts. This integration is likely to improve the conceptual framework's coherence.

#### 3. Challenges in Implementation:

Estimating present value and future outflows may require significant judgment, especially for long-term provisions. Entities will need robust internal controls and valuation techniques to comply with the revised guidance.

#### 4. Increased Disclosures – A Double-Edged Sword:

Enhanced disclosure requirements will improve the decision-usefulness of financial statements for stakeholders. However, they may lead to increased preparer burden, particularly for entities with complex or sensitive provisions.

#### 5. Global Impact:

For entities operating in multiple jurisdictions, these changes will promote uniformity but might also demand retraining of personnel and updates to systems and policies to align with the amendments.

Conclusion:

The proposed amendments to IAS 37 address critical gaps in the existing standard, providing much-needed clarity and guidance. While they offer significant benefits in terms of transparency and consistency, implementation challenges may arise, particularly for entities with intricate provision structures. Stakeholders should carefully assess the impact of these changes and prepare for their adoption well in advance.

Thank You.