



Re: Exposure Draft on Provisions—Targeted Improvements - Proposed amendments to IAS 37 issued by the IASB for comments.

From ICAI BANGALORE <bangalore@icai.org>

Date Fri 12/13/2024 1:06 PM

To asb@icai.in <asb@icai.in>

 3 attachments (101 KB)

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The Chairman
Accounting Standards Board
The Institute of Chartered Accountants of India

Dear Sir,

We are pleased to submit the inputs / suggestions from Chartered Accountants and other stakeholders on **IAS 37 (Provisions, Contingent Liabilities, and Contingent Assets)**. In this regard, Bengaluru Branch (SIRC) has obtained suggestions from the Members, **the following areas require clarification or present concerns, along with suggestions for improvement**, kindly find the following suggestions :

1. Definition of a Liability

- **Issue:** The draft introduces updates to align the definition of a liability with the *Conceptual Framework*. However, the explanation of "constructive obligations" may remain ambiguous for entities with nuanced legal or customary practices. For instance, terms like "valid expectation" and "no practical ability to avoid" require precise benchmarks.
- **Reason:** Stakeholders might interpret these terms inconsistently, leading to diversity in application.
- **Recommendation:** Incorporate additional examples and illustrative scenarios (e.g., obligations arising from multi-jurisdictional legal frameworks).

2. Recognition of Provisions

- **Issue:** The proposed changes advocate recognizing provisions earlier, particularly for costs tied to multi-action events (e.g., levies payable only after meeting thresholds). However, entities may face challenges in reliably estimating obligations mid-period when thresholds depend on fluctuating operational activities.
- **Reason:** The accumulation approach to obligations is novel and might lack clarity when thresholds are not linear or are seasonally influenced.
- **Recommendation:** Provide guidance on how entities should accumulate obligations, especially for complex activities with variable assessment periods.

3. Measurement of Provisions

- **Issue:** The emphasis on including "costs that relate directly to the obligation" introduces clarity but raises questions about "allocation of costs." Entities may struggle to determine the boundary for costs that indirectly contribute to meeting the obligation.

- **Reason:** Misalignment may occur between provision measurement and financial statement accuracy, especially in shared-cost environments.
 - **Recommendation:** Offer clearer examples on distinguishing directly related costs from general administrative overheads.
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4. Discount Rate Specification

- **Issue:** The proposed mandatory use of "risk-free rates" for discounting aims to standardize practices. However, the lack of guidance on determining the risk-free rate in regions with volatile financial markets could hinder consistent application.
 - **Reason:** A one-size-fits-all risk-free rate may not reflect economic realities in different jurisdictions, leading to less meaningful comparisons.
 - **Recommendation:** Specify acceptable methods or proxies for determining risk-free rates globally and address transitional considerations for entities switching from non-performance adjusted rates.
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5. Withdrawal of IFRIC 21 Levies

- **Issue:** Withdrawing IFRIC 21 in favor of illustrative examples within IAS 37 aligns standards but may reduce emphasis on unique levy-specific issues.
 - **Reason:** Levies with varying triggering events (e.g., market entry vs. annual thresholds) require tailored attention to avoid confusion.
 - **Recommendation:** Retain IFRIC 21 as an addendum or provide an expanded section in IAS 37 dedicated to levy-specific guidance.
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6. Transitional Provisions

- **Issue:** While retrospective application ensures comparability, requiring adjustments without sufficient implementation lead time may burden entities with historical provisions spanning long durations.
 - **Reason:** Historical data for provisions or associated discount rates may no longer be accessible or reliable.
 - **Recommendation:** Allow an alternative prospective application approach, particularly for long-term provisions where historical recalculations are impractical.
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7. Illustrative Guidance and Decision Tree

- **Issue:** The expanded decision tree is helpful but may be insufficient for rare cases, such as disputes over whether obligations meet the "more likely than not" threshold.
- **Reason:** Ambiguity persists in determining when "unclear facts or circumstances" justify recognizing a provision or disclosing a contingent liability.
- **Recommendation:** Provide detailed explanations or step-by-step procedures for rare, borderline cases in future updates to IAS 37.

Thanks,
Chairman

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