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From: **CA Twinkle Kachariya** <twinklekachariya@gmail.com>

Date: Fri, Dec 13, 2024 at 9:01 PM

Subject: Exposure Draft on Provisions-Targeted Improvements - Proposed amendments to IAS 37

To: <admin@puneicai.org>

Key Comments on the Proposed Amendments

Proposed Amendment	Comment
Refinement of Provisions Definition	The revised definition is a positive step, as it reduces ambiguity around enforceability and unavoidable obligations. However, further examples could enhance practical understanding, especially in complex scenarios.
Recognition Threshold	Emphasizing the "probable" threshold provides clarity, but the guidance on "probable" should include quantitative thresholds or illustrative examples to ensure consistency in application.
Measurement Consistency	The requirement for present value measurement aligns with fair valuation principles. Clearer guidelines on selecting appropriate discount rates and handling uncertainties in cash flow estimation would be beneficial for preparers.
Enhanced Disclosure Requirements	Enhanced disclosures improve transparency, but care must be taken to avoid excessive disclosure burdens, especially for smaller entities. Suggestions for a tiered disclosure approach could balance the needs of users and preparers.
Clarifications on Onerous Contracts	The inclusion of both incremental and directly related costs in determining fulfillment costs is logical. However, clear delineation of what qualifies as "directly related" costs is needed to avoid subjectivity.

1. Refinement of Provisions Definition

- **Challenge:** Practical difficulties may arise in distinguishing between enforceable and practically unavoidable obligations, particularly in complex legal and commercial arrangements.
- **Suggestion:**
 - Develop sector-specific examples to illustrate how enforceability and "practically unavoidable" obligations should be assessed.
 - Provide additional guidance on handling scenarios with high legal or regulatory uncertainties.

2. Recognition Threshold

- **Challenge:** Subjectivity in interpreting "probable" could lead to inconsistent application among entities and jurisdictions.
- **Suggestion:**
 - Offer quantitative guidance or ranges (e.g., probabilities in percentage terms) to define "probable."

- Include scenarios demonstrating application in ambiguous situations, such as litigation cases or multi-faceted contingent liabilities.

3. Measurement Consistency

- **Challenge:** Estimating future cash flows and applying discount rates could be complex, particularly in volatile economic conditions.
- **Suggestion:**
 - Recommend methodologies for determining discount rates, such as using risk-free rates adjusted for credit risk.
 - Provide examples of handling significant uncertainty in future cash flow estimates, including sensitivity analyses.
 - Encourage the use of standard tools or templates for consistent measurement practices across entities.

4. Disclosure Enhancements

- **Challenge:** Balancing the need for transparency with concerns about excessive disclosure complexity and proprietary information.
- **Suggestion:**
 - Introduce a materiality threshold to focus disclosures on significant provisions and liabilities.
 - Allow simplified disclosures for smaller entities or less complex provisions to reduce compliance burdens.
 - Develop illustrative disclosure templates to demonstrate clear, concise reporting of key information.

5. Clarifications on Onerous Contracts

- **Challenge:** Differentiating between "incremental costs" and "directly related costs" may lead to varying interpretations across entities.
- **Suggestion:**
 - Define and list specific examples of each type of cost in the standard or accompanying guidance.
 - Address situations where overhead allocation is disputed or unclear, especially for multi-contract operations.

6. Transition Provisions

- **Challenge:** Entities may face challenges in transitioning to the revised requirements, especially when it involves re-measurement of provisions or reassessment of obligations.
- **Suggestion:**
 - Permit transitional relief, such as prospective application or limited retrospective adjustments, to ease the burden.
 - Provide a checklist or roadmap to help entities systematically review existing provisions and contracts for compliance with the new standard.

7. Training and Education

- **Challenge:** The success of implementation depends on preparers, auditors, and regulators fully understanding the amendments.
- **Suggestion:**
 - Encourage professional bodies to develop training modules and webinars tailored to the amendments.
 - Issue FAQs or technical bulletins to address common questions and uncertainties during the implementation phase.

8. Coordination with Other Standards

- **Challenge:** Potential overlaps with standards such as IFRS 9 (Financial Instruments) or IFRS 15 (Revenue from Contracts with Customers) may create confusion.
- **Suggestion:**

- Highlight clear distinctions and interdependencies in guidance to prevent duplication or conflicts.
- Align terminology and principles with related standards to ensure cohesive application.

These measures would facilitate smoother adoption of the revised IAS 37, reduce implementation risks, and enhance the overall reliability and comparability of financial statements.

**Regards,
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