

# Provisions—Targeted Improvements Proposed amendments to IAS 37

## *Review Comments*

### **Question 1—Present obligation recognition criterion**

Do you agree with these proposals? Why or why not?

If you disagree, which aspects do you disagree with and what would you suggest instead?

### **Response**

Agreed

In the ED of IAS 37, the IASB defines a provision as a liability of uncertain timing or amount. A liability is a present obligation of the entity to transfer an economic resource as a result of arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits. Emphasis has been laid on 'economic resource'

Moreover, IASB has included guidance, inter alia, on the following :

- Obligation condition (paragraph 14A(a))
- Transfer condition (paragraph 14A(b))

The amended sections appear to be consistent with the overall IFRS framework.

IAS 37 requires an entity to measure a provision at the best estimate of the expenditure required to settle its present obligation.

### **Question 2—Measurement—Expenditure required to settle an obligation**

Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?

### **Response**

Agreed

In the amended IAS 37, IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A) explaining IASB's reasoning for this proposal. A perusal of these paragraphs indicate that proposal is valid

### **Question 3—Discount rates**

Do you agree with: (a) the proposed discount rate requirements; and (b) the proposed disclosure requirements?

Why or why not? If you disagree, what would you suggest instead?

### **Response**

Agreed.

In our opinion, as per analysis of the ED on IAS 37, the main aim of the proposed amendments to the discount rate requirements are as follows :

- ✓ Attempt to reduce diversity in selection of discount rate
- ✓ increase the transparency of, the discount rates entities use in measuring provisions,
- ✓ improving the comparability of the financial statements.

### **Opinion on discount rate**

IASB proposes that discount rate must exclude 'non-performance risk', i.e. the risk that the entity will not settle the liability. It is obvious that Rates that include non-performance risk are higher than risk-free rates and hence result in smaller provisions. If two entities measure provisions using discount rates calculated on different bases, users of their financial statements might find it difficult to compare the entities' financial performance and financial position, especially if the entities disclose little information about the rates they have used or the basis of arriving at the numbers .

The proposed discount rate requirements appear to be valid. The clarification regarding the discount rate that it should be represented by a risk-free rate, with no adjustment for non-performance risk is well accepted .

The IASB 's additional proposal to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)) will provide stakeholders with the background and basis of selection of the discount rate.

#### **Question 4—Transition requirements and effective date**

4(a) Do you agree with these proposals? Why or why not?

If you disagree, which aspects do you disagree with and what would you suggest instead?

4(b) Effective date.

#### **Response**

Agreed

The IASB proposes transition requirements (referred to in paragraphs 94B–94E) for the proposed amendments along with a reasonable basis for Conclusions. It explains the IASB's reasoning for these proposals. It appears to be adequate.

Regarding effective date, it is suggested that amended IAS 37 will also bring about consequential amendments *inter alia*, in the following standards (included in Appendix B—[Draft] Amendments to other IFRS Accounting Standards)

- IFRS 3 Business Combinations - Recognising and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree ..( Exceptions to the recognition or measurement principles)
- IFRS 19 Subsidiaries without Public Accountability: Disclosures
- IAS 34 Interim Financial Reporting
- IFRS 1 First-time Adoption of International Financial Reporting Standards

Considering the above changes, it may involve substantial efforts and resources to converge into the amended IAS 37. It is requested that IASB may kindly consider finalising the effective date only after ensuring that those applying IAS 37, get sufficient time to prepare for the new requirements.

#### **Question 5—Disclosure requirements for subsidiaries without public accountability**

Do you agree with this proposal?

Why or why not?

If you disagree, which proposal do you disagree with and what would you suggest instead?

## **Response**

Agreed in principle.

In the ED of IAS 37 , IASB proposes to add to IFRS 19 (Subsidiaries without Public Accountability: Disclosures) a specific requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B). In Paragraphs BC101–BC105 , IASB has recorded the Basis for Conclusions which adequately explain the IASB’s reasoning for this proposal.

It will entail somewhat less disclosure requirement for those subsidiaries which elect to apply IFRS 19

## **Question 6—Guidance on implementing IAS 37**

### **The IASB proposes amendments to the Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets.**

Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements?

If not, why not?

Do you have any other comments on the proposed decision tree or illustrative examples?

## **Response**

The decision tree and supporting explanation are deleted and a new three-part decision tree and supporting explanation are added. This is comprehensive and easy to follow.

It is felt that the proposed decision tree and examples are helpful in illustrating the application of the requirements of amended IAS 37. To expand the decision tree in Section B was required for better understanding which is now achieved.

IASB 's decision to update the analysis in the illustrative examples in Section C and to add illustrative examples to Section C are helpful to users and reporting entities .As per paragraphs BC58–BC59, the IASB proposes to add to the Guidance on implementing IAS 37 examples illustrating fact patterns like those described in IFRIC 6 and IFRIC 21, so the analysis in these Interpretations would not be lost. This will add to the guidance for reporting entities , ensuring better compliance

## **Question 7—Other comments Do you have comments on any other aspects of the proposals in the Exposure Draft?**

### **Response**

It is suggested that a comprehensive numerical example or illustration on the amended concept of discount rate ( which excludes non-performance risk) may be included for better clarity