ACCOUNTING AND CORPORATE
REGULATORY AUTHORITY

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(By online submission)

Dear Andreas

RESPONSE TO EXPOSURE DRAFT ON PROVISIONS—TARGETED IMPROVEMENTS

The Singapore Accounting Standards Committee (ASC), under the Accounting and Corporate Regulatory Authority (ACRA), welcomes the opportunity to comment on the Exposure Draft on *Provisions—Targeted Improvements (Proposed amendments to IAS 37)* (the ED) issued by the International Accounting Standards Board (the IASB) in November 2024.

We appreciate the IASB's efforts to align the definition and recognition criterion of a liability with concepts introduced in 2018 to the *Conceptual Framework for Financial Reporting* (Conceptual Framework). The proposed amendments aim to address questions raised to the IFRS Interpretations Committee (the IFRIC) regarding the present obligation recognition criterion. These clarifications are expected to enhance the timing of recognition of some provisions, and therefore, provide more useful information to users of financial statements (users). Furthermore, the clarifications of costs to include and the discount rate requirements in measuring provisions are anticipated to reduce diversity in practice and improve the comparability of financial statements.

We are generally supportive of the proposals to make targeted improvements to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* set out in the ED but have specific comments on certain aspects. Our comments are as follows:

Question 1—Present obligation recognition criterion
The IASB proposes: • to update the definition of a liability in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to align it with the definition in the *Conceptual Framework for Financial Reporting* (paragraph 10); • to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a)); • to amend the requirements for applying that criterion (paragraph 14A–16 and 72–81); and • to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A). The proposals include withdrawing IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies* (paragraph 108). Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals. 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?

Question 6—*Guidance on implementing IAS 37*
The IASB proposes amendments to the *Guidance on implementing IAS 37* Provisions, Contingent Liabilities and Contingent Assets. It proposes: (a) to expand the decision tree in Section B; (b) to update the analysis in the illustrative examples in Section C; and (c) to add illustrative examples to Section C. Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals.

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?

We broadly agree with the direction of the proposed amendments, which are aligned with the Conceptual Framework. The proposed amendments distinguish the three conditions within the present obligation recognition criterion, based on concepts in the Conceptual Framework. Importantly, they provide crucial clarifications on applying this criterion to emission schemes and other threshold-triggered costs, which are increasingly prevalent and complex in today's business environment. We agree with the IASB's aim to provide more useful information to users through earlier and progressive recognition of certain costs.

We welcome the expanded decision tree and updated analysis in the illustrative examples in the *Proposed amendments to Guidance on implementing IAS 37* (the Guidance), as they are generally comprehensive and helpful for understanding how to apply the proposed requirements to specific fact patterns.

However, we have the following suggestions to improve clarity and consistency:

<u>'One action' or 'two or more separate actions' (paragraphs 14O, 14P and 14Q of the ED and related examples in the Guidance)</u>

We suggest that the IASB clarify the interaction between paragraphs 14O and 14Q, and 14O and 14P, and how these paragraphs apply to similar fact patterns. This clarification would help entities better understand and apply, particularly how to determine whether an entity is required to analyse further its practical ability to avoid taking the second action (or all the remaining actions) in paragraph 14Q.

We compare the fact pattern and conclusions reached in *Example 13B—A levy on an entity operating as a bank on the last day of its annual reporting period* with *Example 11B—Refurbishment costs: legislative requirement* of the Guidance. The current conclusion to Example 11B:

(a) Identifies the obligation as a legislative responsibility if the airline operates the aircraft that is not overhauled for more than three years;

(b) Identifies the action as 'operating aircraft that has not been overhauled for more than three years'; and

(c) Uses paragraph 14N to explain that as the entity has not yet taken the action, the past-event condition is not met.

However, the fact pattern in Example 11B could also result in conclusions that are different from the ED by applying the following interpretations of the proposed requirements:

(a) Using 14O and 14P: The action could be identified as ‘operating the aircraft over three years’ and the obligation could be seen as a requirement to overhaul the aircraft every three years. This would require accumulating the present obligation as the entity obtains benefits from operating the aircraft over time.

(b) Using the rationale and conclusion drawn from Example 13B and applying paragraphs 14O and 14Q: The first action could be identified as ‘owning and operating an aircraft’, and the second action could be seen as ‘regular overhaul services at the three-year interval’. The airline management could assess that there is no practical ability to avoid the second action based on economic consequences, and thus, have to potentially accumulate a present obligation over time.

We suggest that the IASB use these two examples to elucidate the differences and interactions between paragraphs 14O, 14P and 14Q. This clarification is essential for consistent application of the proposed requirements across various scenarios.

In addition, we suggest that the IASB include more explanations in Example 13B on why the requirements in paragraphs 14O and 14Q apply, by leveraging on those provided in the IASB staff paper in April 2023. The staff paper explains that the description of the fact pattern has been expanded to include an important feature of the levy (i.e., if the reporting period is longer or shorter than 12 months, the levy is increased or reduced proportionately). As the conclusion of Example 13B appears to depend on the presence or absence of this feature, based on a real-life bank levy, more explanations should be included in the example for improved clarity.

Example 5B—Closure of a division: communication/implementation before end of the reporting period of the Guidance

Example 5B illustrates two separate contractual obligations, namely, one to the employees and another to customers. On the latter, when considering the treatment of contract termination penalties payable to customers, an entity needs to assess whether those penalties should be accounted for under IAS 37 or IFRS 15 *Revenue from Contracts with Customers*. The IFRIC agenda decision on *Compensation for Delays or Cancellations (IFRS 15)*, published in September 2019, clarifies that compensation for delays or cancellations is variable consideration in the contract under IFRS 15 and is accounted for as a reduction of revenue, instead of recognising a provision under IAS 37.

To avoid this potential interaction issue with other IFRS Accounting Standard(s) while preserving the example’s core purpose, we suggest the IASB either remove contract termination penalties payable to customers from the fact pattern or replace it with another type of obligation.

Example 7—Staff retraining as a result of changes in the income tax system of the Guidance

Example 7 illustrates a scenario where an entity needs to retrain its staff to 'ensure continued compliance with financial services regulation' due to upcoming changes in the income tax system. The example concludes that while regulation requires maintaining service standards, the retraining is for the entity's benefit, not an obligation owed to another party.

Although we do not disagree with the analysis and the conclusion that no provision is recognised for the staff retraining, in our view, the example could benefit from a more thorough discussion of potential regulatory obligations arising from compliance requirements. Therefore, we suggest expanding the analysis of the obligation condition to better explain why the entity does not have a responsibility to the regulator for retraining to comply with the financial services regulation.

Furthermore, to enhance clarity in the example, we suggest the IASB consider guidance on restructuring provisions. While the ED proposes to withdraw paragraph 18 of IAS 37, which states that 'no provision is recognised for costs that need to be incurred to operate in the future', similar guidance is retained in paragraph 81 of IAS 37 regarding a restructuring provision. This guidance is applicable to Example 7 and should be incorporated into the analysis of the transfer condition.

Example 15—Climate-related commitments of the Guidance

We observe that Examples 6(a), 6(b), 7, 11A and 11B analyse all three conditions even when the obligation or transfer conditions are not met. However, Example 15 does not analyse the past-event condition for the obligation to reduce emissions, when the transfer condition is not met for this obligation.

While paragraph BC61 of the Basis for Conclusions on the ED (the BC) acknowledges that assessing all conditions might be unnecessary in practice, it clarifies that the IASB proposed to expand the analysis of each example to include a conclusion on whether *each* of the three conditions within the present obligation recognition criterion is met, in order to clarify those conditions to help entities apply them to other fact patterns, including 'new fact patterns that might emerge in the future'. To support consistent application, we suggest the IASB include an analysis of all three conditions in this example, even when one or more conditions are not met. We view that the expanded analysis would benefit entities, particularly for climate-related commitments, which is an evolving area for climate transition regulations and business strategies.

Question 2—Measurement—Expenditure required to settle an obligation
The IASB proposes to specify the costs an entity includes in estimating the future expenditure required to settle an obligation (paragraph 40A). Paragraphs BC63–BC66 of the Basis for Conclusions explain the IASB's reasoning for this proposal. Do you agree with this proposal? Why or why not? If you disagree, what would you suggest instead?

We agree with the proposed amendments of the ED on the basis of the IASB's rationale and its potential to enhance financial statements comparability.

However, we suggest the following refinement:

To promote more consistent application, we recommend either including similar examples in paragraph 40A or a reference to paragraph 68A of IAS 37. This would clarify the IASB's intention, as explained in paragraph BC66 of the BC, that an entity should include the same types of costs in measuring a provision under IAS 37 as it would in assessing whether a contract is onerous.

Question 3—Discount rates
The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk (paragraphs 47–47A). The IASB also proposes 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)). Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals. 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?

Given the scope of this project, we agree with the proposed amendments of the ED on the basis of the IASB's rationale. We have the following suggestions:

<u>Non-performance risk</u>

The proposed requirements explicitly exclude non-performance risk from the discount rate but are silent on whether its effects could instead be reflected in the expected cash flows for measuring a provision. Some entities might include non-performance risk in the cash flows to achieve the same measurement outcome. Hence, if the IASB intends to exclude non-performance risk entirely from the measurement of liabilities under IAS 37, we suggest that the IASB explicitly states this.

Furthermore, the definition of 'non-performance risk' in paragraph 47A of the ED is unclear. To ensure consistent meaning and appropriate exclusion, we suggest referencing the definition of non-performance risk in Appendix A of IFRS 13 *Fair Value Measurement*. Alternatively, the IASB should explain in the BC why this definition differs from the defined terms in IFRS 13.

Question 4—Transition requirements and effective date
4(a) Transition requirements The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E). Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals. 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** If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements. Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

We generally agree with the proposed transition requirements on the basis of the IASB's rationale.

We have the following suggestions:

Transition requirements

We note that the IASB allows, in paragraph D21A of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, an exception from apportioning the adjustment to the decommissioning provision between the related asset and retained earnings. This was on the basis that the IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities* exemption in paragraph D21 of IFRS 1 would require detailed calculations that would not be practicable for entities that apply the deemed cost exemption for oil and gas assets. As the change in discount rates presents similar challenges, we suggest that the IASB provide similar exemption to allow the adjustment to a decommissioning provision to be recognised directly in retained earnings.

Should the IASB retain the proposed transition requirement in paragraph 94E of the ED, guidance on its rationale or an example would be useful to help entities apply an appropriate basis of apportionment between the related asset and retained earnings. In addition, we think clarification is needed regarding whether ‘current’ in paragraph 94E(b) refers to the transition date or the reporting date.

Effective date

We agree with the IASB’s proposal to determine an effective date for the amendments that would allow sufficient time to prepare for the new requirements. This approach is particularly important given that some stakeholders have shared concerns about implementation challenges, noting that entities require time to prepare for system-related changes.

Question 5—Disclosure requirements for subsidiaries without public accountability
The IASB proposes to add to IFRS 19 *Subsidiaries without Public Accountability: Disclosures* a 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). Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB’s reasoning for this proposal. 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?

We agree with the proposal on the basis of the IASB’s rationale.

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

We note that Table B1—*Other consequential amendments* in *Appendix B—[Draft] Amendments to other IFRS Accounting Standards* of the ED did not list IFRIC 12 *Service Concession Arrangements* and its accompanying illustrative examples.

Paragraph 21 of IFRIC 12 discusses application of IAS 37 requirements to an operator's contractual obligations to restore infrastructure to a specified level of serviceability, referencing IAS 37 on recognition and measurement requirements. This is illustrated in the Illustrative Examples accompanying IFRIC 12, specifically paragraphs IE19–IE20 of *Example 2: The grantor gives the operator an intangible asset (a licence to charge users)* and paragraphs IE35–IE36 of *Example 3: The grantor gives the operator a financial asset and an intangible asset*, in which an operator recognises a provision for a resurfacing obligation. We think it would be helpful to explain how the three conditions of the present obligation recognition criterion apply to such obligations, either by expanding *Example 11—Repairs and maintenance* of the Guidance or making consequential amendments to the examples in IFRIC 12.

We hope that our comments will contribute to the IASB's deliberation on the ED. Should you require any further clarification, please contact our project managers Yun Leng Chua at chua_yun_leng@acra.gov.sg or Poh Chong Kerh at kerh_poh_chong@acra.gov.sg.

Yours sincerely

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For and on behalf of Accounting Standards Committee
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