March 6, 2025

Mr. Muhamed Imran Khan
AOSSG Chair Secretariat Accounting Standards Board
The Institute of Chartered Accountants of Pakistan,
Chartered Accountants Avenue,
Block 8 Clifton,
Karachi-75600

Dear Mr. Muhamed Imran Khan,

Response on IFRS Accounting Standards Exposure Draft ED/2024 – Provisions—Targeted Improvements (Proposed amendments to IAS 37)

The Federation of Accounting Professions would like to show our appreciation on the opportunity to response on **IFRS Accounting Standards Exposure Draft ED/2024 – Provisions—Targeted Improvements (Proposed amendments to IAS 37)**. Overall, we have both agreements and disagreements from the changes of this standard which should be highlighted and reconsidered as well as provided more practical guidance on the application.

Please find our responses to the specific survey raised in **IFRS Accounting Standards Exposure Draft ED/2024 – Provisions—Targeted Improvements (Proposed amendments to IAS 37)** in an attachment. We believe that these responses will help the practitioners in the future and that our response will contribute positively to the IASB's due process. Should you need more information, please kindly contact the Federation of Accounting Professions.

The Federation of Accounting Professions avails itself of this opportunity to the International Accounting Standards Board the assurances of its highest consideration.

Yours sincerely,

Associate Professor Dr. Vorasak Toommanon
Chairman of Thai Accounting Standards Board
Federation of Accounting Professions
Bangkok, Thailand

March 6, 2025

Dr. Andreas Barckow
Chairman
International Accounting Standards Board (IASB)
Columbus Building
7 Westferry Circus, Canary Wharf,
London E14 4HD, United Kingdom

Dear Dr. Andreas Barckow

Response on IFRS Accounting Standards Exposure Draft ED/2024 – Provisions—Targeted Improvements (Proposed amendments to IAS 37)

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Bangkok, Thailand

IFRS Accounting Standards Exposure Draft ED/2024 - Provisions—Targeted Improvements (Proposed amendments to IAS 37)

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 (paragraphs 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?

TFAC:

We generally agree with the proposal to update the definition of a liability to align with the Conceptual Framework for Financial Reporting. However, we have concerns regarding paragraph 14F(a)(ii) of the Exposure Draft ('as a result of that right, the economic consequences for the entity of not discharging the responsibility are expected to be significantly worse than the costs of discharging it'). It implies that to meet the legal obligation criteria, the consequences of not discharging must be significantly worse than the cost of discharging it. This may not always hold true due to negotiation processes between parties. Additionally, there is no guidance on determining what constitutes 'significantly worse'. Clarification is needed on whether to consider only financial effects or include other factors such as the entity's reputation. We request the IASB to provide more specific guidance on how to determine the 'significantly worse'. Additionally, legal obligations are generally straightforward. However, the proposed amendment introduces a more stringent condition for consideration than the "Construction obligation," specifically, the conditions outlined in paragraph 14 F(a)(ii).

We support withdrawing IFRIC 6 and IFRIC 21 and incorporating them into the Guidance on implementing IAS 37. This will better align the liability recognition criteria across IAS 37, IFRIC 6, and IFRIC 21.

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?

TFAC:

We support the proposal to clarify what types of costs an entity should include in measuring a provision.

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?

TFAC:

We support the proposal to specifying the discount rate to exclude non-performance risk, as it reduces practice diversity. The proposed disclosure requirements for the discount rate and its determination will enhance information for financial statement users.

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?

TFAC:

We do not agree with the proposed transition requirements. The mandate to apply the amendments retrospectively would impose substantial costs and efforts on entities, particularly those with numerous provisions. Retrospective application necessitates the use of historical information to determine if the entity had a present obligation that met the recognition criteria at that time, with measurement also based on historical data without utilizing hindsight. This process would be burdensome for entities implementing retrospective adjustments. Moreover, since provisions are accounting estimates and entities have already complied with the current IAS 37, applying the amendments does not indicate a prior period error that necessitates retrospective adjustment.

To balance costs and benefits, it is proposed that the amendments be applied prospectively, with an option to use a modified retrospective approach. In this case, at the date of initial application, cumulative effects are adjusted to the liabilities, related asset (for example, item of property, plant and equipment or right-of-use assets), if any and the opening balance of retained earnings or other equity components, as appropriate. Entities opting for the modified retrospective method should clearly disclose this choice and state the affected financial statement line items in the notes to the financial statements.

However, according to the proposed transition, we have noted paragraph 94D of the Exposure Draft regarding the change in accounting policy for costs included in the measure of a provision. The transition requirement applies only to obligations that have not been settled at the date of initial application. Meanwhile, paragraph 94C of the Exposure Draft requires the entity to identify, recognise, and measure provisions as if the entity had always applied the amendments. These two paragraphs appear to be conflicting concerning obligations that remain unsettled at the transition date and at the date of initial application (e.g., long-term decommissioning provisions).

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?

TFAC:

We support the proposal of disclosure requirements add to IFRS 19 as it will provide useful information to the users of the financial statements. However, since IFRS 19 is currently being amended, to reduce discrepancies in disclosure between entities that apply and do not apply IFRS 19, we recommend that the effective date of this amendment and IFRS 19 be aligned.

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?

TFAC:

We support the amendments to the Guidance on implementing IAS 37 due to the following reasons:

- Deleting Example 4 (Refund policy), as this example is no longer application due to an issuing of IFRS 15.
- Incorporating examples about IFRIC 6 and IFRIC 21 and adding examples about climate-relating, as this will provide more guidance in applying the recognition criteria of IAS 37 for those types of obligations.

Furthermore, we recommend that the examples include more detailed information on the background and analytical thought processes leading to the conclusions.

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

TFAC:

To clarify the rationale behind the amendments, we would like to recommend that the basis for conclusions should be included in the BC section of IAS 37. This should encompass the reasons for the withdrawal of IFRIC 6 and IFRIC 21.