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7 March 2025

Mr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

By e-mail only - commentletters@ifrs.org

Re: Exposure Draft Provisions – Targeted Improvements Proposed Amendments to IAS 37

Dear Mr Barckow,

On behalf of RSM International Limited, a worldwide network of independent audit, tax, and consulting firms, we are pleased to comment on the IASB's Exposure Draft Provisions – Targeted Improvements Proposed Amendments to IAS 37 ("ED").

Our comments and detailed responses to the questions set out in the Invitation to Comment section of the ED are set out in the appendix to this letter.

We welcome the proposed amendments, including the additional illustrative examples and expanded decision tree in IAS 37 *Provisions*, in response to application questions from stakeholders. We believe that the amendments provide greater clarity on the practical application, reducing diversity and increasing comparability.

We would be pleased to respond to any questions the Board or its staff may have about any of our response. If you have any questions or comments, please do not hesitate to contact Monique Cole (+1 6172411461) or me (+44 (0)207 601 1842).

Yours faithfully,

Marion Hannon
Global Leader, Quality & Risk
RSM International

Appendix

Question 1 – Present obligation recognition criteria

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?

We agree with the alignment of the definition in IAS 37 Provisions, Contingent Liabilities and Contingent Assets with the definition in the Conceptual Framework for Financial Reporting. We believe that this reduces complexity, and we agree with the alignment of the present obligation criterion to the updated definition of a liability.

We agree with the additional guidance provided in the ED on the application of the present obligation recognition criterion, including the example and interaction between the obligation and past-events conditions. Furthermore, we welcome the amended requirements on restructuring which we believe clearly explain the requirements to enable them to be applied consistently by financial statement preparers, enhancing comparability.

We agree with the minor amendments to IAS 37 to align with the updated definition of a liability.

Finally, we agree with the withdrawal of both IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment* and IFRIC 21 *Levies*. We believe that proposed amendments in the ED and illustrative examples provide sufficient guidance for financial statement prepares, eliminating the need for separate IFRIC's on these issues.

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 proposal specifying the costs that an entity should include in estimating the future expenditure required to settle an obligation, which addresses previous questions raised with IFRS IC on this matter. These amendments align with IFRS principals and will ensure consistency in the measurement of the future expenditure required to settle and obligation.

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?

We welcome the amendments to discount rate determination with the aim of enhancing comparability. However, we are concerned with the lack of guidance on the determination of a 'risk-free rate' and suitable proxy's which may result in diversity in practice. We recommend that the IASB includes specific guidance in IAS 37 on the determination of the discount rate, similar to the requirements in IAS 19 *Employee Benefits* paragraphs 83-86. In addition, we believe that the IASB should consider deleting paragraph 47(b) and instead require all risks surrounding the amount of timing of expenditure to be reflected in the estimates of the future cash flows, noting our comment below on non-performance risk.

In terms of non-performance risk, paragraph 47A explicitly states that this should not be reflected in the discount rate. However, it is unclear whether non-performance risk can be reflected in the estimated cash flows to settle an obligation, which may result in diversity in practice.

Question 4 – Transition requirement 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 agree with the proposed transition requirements included in the ED.

We agree that a change in accounting policy for the costs an entity includes in the measurement of provision should only be applied to obligations not yet settled at the date of initial application of the amendments, without restatement of comparative information.

We also agree with the proposed exemption to comply with the requirements of IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar liabilities* for any entity that changes its accounting policy to determine discount rates.

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 to add a requirement to disclose the discount rate used in measuring a provision but not disclosure of approach used to determine discount rates in IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. Our view is that the proposals are in line with the principles used to develop IFRS 19 *Subsidiaries without Public Accountability: Disclosures*.

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 support the amendments to the *Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets*. We believe that the expanded decision tree will enhance understanding of the application of the requirements for preparers of financial statements.

We agree with the amendments to existing examples in the *Guidance on implementing IAS* 37 to reflect the amended requirements, with a conclusion on whether each of the present obligation recognition criterion have been met. We believe that these amendments will help preparers in the application of the amendments.

We support the introduction of new examples in the *Guidance on implementing IAS 37* including negative low-emission vehicle credits and climate-related commitments, to address current climate related financial reporting issues.

Question 7 – Other comments

Do you have any comments on any other aspects of the proposals in the Exposure Draft?

Our view is that it would be beneficial for the IASB to expand the decision tree in Section B to include scoping assessment to determine whether an item is in scope of IFRS 9 *Financial instruments* or IAS 37 *Provisions, contingent liabilities and contingent assets.*

No further comments.

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