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**International
Accounting Standards
Board**

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Liabilities — Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*

Project Updates are provided for the information and convenience of constituents who wish to follow the IASB's deliberations. All conclusions reported are tentative and may be changed at future IASB meetings. Decisions become final only after completion of a formal ballot to issue an International Financial Reporting Standard, Interpretation, or Exposure Draft.

Introduction

This project report is structured as follows:

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Objective

1. The objective of this project is to amend IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 addresses the accounting for liabilities that are not within the scope of standards.
2. In June 2005, the Board issued an Exposure Draft: *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. [Click here](#) for a copy of the exposure draft.
3. The main objectives of the amendments are:

- (a) *convergence with US GAAP*. The Board proposes to align application guidance for costs associated with restructuring in IAS 37 (and termination benefits in IAS 19 *Employee Benefits*) with the more recent and conceptually superior requirements in SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*.
 - (b) *improvements in the requirements relating to identification and recognition of liabilities*. In particular, the Board proposes to reanalyse 'contingent assets' and 'contingent liabilities' in terms of assets and liabilities (ie in line with the IASB *Framework*). The initial prompt for reanalysing these items was the reconsideration of the treatment of acquired contingencies in Phase II of the Business Combination project. However, the proposed amendments affect all liabilities previously described as contingent liabilities (and assets previously described as contingent) not just those acquired in a business combination.
4. The main effect of the proposed amendments would be to require an entity to recognise items that meet the definition of a liability (unless they cannot be measured reliably). Uncertainty about the amount or timing of the economic benefits required to settle a liability would be reflected in the measurement of that liability.

Next Steps

5. The Board is now discussing the comments received on the Exposure Draft with a view to publishing a final standard in the fourth quarter of 2009.

Background

6. Work on the project commenced in 2002, initially as part of the Board's short-term convergence project. The original objective of the project was to eliminate, as far as possible, the differences in the recognition of liabilities for restructuring costs under IFRSs and US GAAP. More specifically, to eliminate the differences between the recognition requirements of (a) paragraphs 70-83 of IAS 37, addressing restructurings, and paragraphs 132-143 of IAS 19, addressing termination benefits, and (b) SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities*.
7. In 2003, the project scope was widened to reconsider the existing accounting model for contingent assets and contingent liabilities. The Board decided that it needed to reconsider the accounting for these items as a result of considering (in its [Business Combinations II](#) project) their treatment by an acquirer in a business combination.
8. Specifically, the Board observed that many items that are currently considered to be contingent assets and contingent liabilities in IAS 37 satisfy the definition of an asset or liability in the IASB *Framework* and therefore should be separately recognised as such in a business combination. However, contingent assets and (some) contingent liabilities are currently defined as *possible* assets and liabilities in IAS 37. Hence, by definition, they are not assets and liabilities. Accordingly, in the absence of amendments to the definitions of contingent assets and contingent liabilities in IAS 37, they would fail to qualify for recognition in a business combination under the working principle that the Board had adopted in the business combinations project, namely that an acquirer recognises the *assets* acquired and *liabilities* assumed at the date control is obtained.

9. As a result of reconsidering items currently described as contingent liabilities, the Board also observed that it would need to reconsider the application of the probability recognition criterion in IAS 37 as well as some of the Standard's measurement requirements.

Exposure Draft

10. In June 2005 the Board issued an exposure draft *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits*. [Click here](#) for a copy of the exposure draft.
11. The comment period for the exposure draft ended on 28 October 2005. [Click here](#) to view a summary of the comment letters and copies of the original comment letters received.
12. The redeliberation phase of the project began at the February 2006 Board meeting. At that meeting the Board affirmed the project objectives stated above. It also affirmed its December 2005 conclusion that the project is precedential to other current and potential projects. Therefore, the Board decided that the project should be repositioned as a standalone project, rather than as accompanying the Business Combinations project

Round-table meetings

13. In November and December 2006 the Board held five round-table discussions to hear participants' views on the tentative conclusions reached after redeliberating issues associated with the recognition and measurement objectives proposed in the exposure draft.
14. [Click here](#) for more information about the round-table discussions, including background materials, participants list, audio tapes and a summary of the outcomes.

FASB invitation to comment

15. On 30 September 2005, the FASB issued an invitation to comment *Selected Issues Relating to Assets and Liabilities with Uncertainties*. [Click here](#) for a copy of the invitation to comment. In the invitation to comment, the FASB sought the views of its constituents on aspects of the IASB's amendments to IAS 37. The FASB comment period closed on 3 January 2006. [Click here](#) to view the comment letters received by the FASB. These were discussed by the FASB on 5 April 2006.

Project history: Tentative Decisions to Date

Decisions leading to the exposure draft

16. A summary of the main changes to IASs 37 and 19 proposed in the exposure draft is included in the exposure draft. [Click here](#) for a copy of the exposure draft.

Tentative decisions – redeliberations

17. The Board began the redeliberation phase of this project in February 2006. The appendix at the end of this report compares the proposals in the exposure draft and the current proposals of the Board following redeliberations. Click [here](#) to go to the Appendix.

18. The Board's decisions arising from its redeliberations are summarised below and are grouped as follows:
- [Strategy for redeliberations](#)
 - [Scope of IAS 37 & project scope](#)
 - [Distinguishing a liability from a business risk, including stand ready obligations](#)
 - [Uncertainty about the existence of a present obligation](#)
 - [Lawsuits](#)
 - [Constructive obligations](#)
 - [Recognition, including contingent liabilities](#)
 - [Contingent assets](#)
 - [Measurement](#)
 - [Short term convergence amendments](#)
 - [Termination benefits](#)
 - [Other issues](#)

Strategy for redeliberations

19. In February 2006 the Board discussed its strategy for redeliberating the proposed amendments to IAS 37 and IAS 19. At this meeting the Board:
- affirmed the project objectives (as stated above) and its decision in December 2005 that this project is precedential to other current and potential projects. Therefore, the Board decided that the project should be repositioned as a standalone project, rather than as accompanying the Business Combinations project.
 - decided to hold round-table discussions in the fourth quarter of 2006.
 - considered the staff's initial analysis of the 123 comment letters received.
 - approved the staff's provisional timetable for the redeliberations.
20. In January 2007, the Board reviewed its strategy for redeliberating the proposed amendments to IAS 37 and IAS 19 in light of the feedback received at the round-table discussions. At this meeting the Board:
- re-affirmed the project objective underpinning the liability recognition principle in the ED. Namely, to analyse items currently described as 'contingent liabilities' in terms of liabilities, as defined by the *Framework*.
 - acknowledged that there are important links between the issues it plans to address in the context of project and other projects (especially the conceptual framework and revenue recognition projects). Nonetheless, the Board agreed that its work in the of context this project need not await completion of other projects.

- approved the provisional timetable for the next stage of this project.

Scope of IAS 37 & Project Scope

21. In March 2006 the Board reconsidered the scope of IAS 37 and considered whether to include additional issues in the project.

Scope of IAS 37

22. The Board affirmed the proposal in the IAS 37 Exposure Draft that an entity should apply IAS 37 to all liabilities not within the scope of other Standards. In response to commentators' concerns about the relationship between IAS 18 *Revenue* and IAS 37, the Board decided to clarify that performance obligation measured in accordance with IAS 18 on the basis of consideration received (ie deferred revenue) would not be within the scope of the Standard.

Withdrawing the term 'provision' and using the term 'non-financial liability'

23. The Board affirmed its decision not to use 'provision' as a defined term in IAS 37. However, rather than using the term 'non-financial liability', as proposed in the exposure draft, the Board decided to use the term 'liability' both as the title and in the text of the Standard

Project scope

24. In light of the suggestions by commentators, the Board considered whether the following additional issues should be included in the project:
- recognition and measurement requirements in IAS 38 *Intangible Assets* (in particular for assets currently described as contingent assets in IAS 37)
 - measurement of reimbursement rights
 - onerous contracts (except for contracts that become onerous as a result of an entity's own actions)
 - application of the IAS 19 post-employment benefit model to early retirement arrangements (such as the German *Altersteilzeit* and similar arrangements)
25. The Board decided measurement of reimbursement rights should be added to the project scope but concluded that addressing the other issues was not necessary in order to meet the project objectives.
26. The Board noted that some commentators had requested further guidance on applying the measurement requirements proposed in the exposure draft. The Board tentatively decided to provide additional measurement guidance. This guidance will be drafted once the Board has completed its redeliberations of the measurement requirements.

Distinguishing a business risk from a liability, including stand ready obligations

27. The Board discussed distinguishing a business risk from a liability, including stand ready obligations in May 2006, March 2007, May 2007, July 2007 and October 2007.

28. The ED introduces the term 'stand ready obligation' and explains that 'in some cases, an entity has a liability even though the amount that will be required to settle that liability is contingent (or conditional) upon the occurrence or non-occurrence of one or more uncertain future events. In such cases, an entity has incurred two obligations as a result of an event – an unconditional obligation and a conditional obligation.' The term 'stand ready obligation' describes this type of liability.
29. In their comment letters, many respondents agreed that the notion of a stand ready obligation applies to contracts. However, a majority argued that the notion is not appropriate for non-contractual scenarios. They were concerned that applying the ED's description of a stand ready obligation to non-contractual situations may result in an entity recognising limitless liabilities, including items currently regarded as business risks. The Board therefore asked the staff to expand the ED's explanation of a stand ready obligation to clarify the boundary between a liability and a business risk. At the round-tables a majority of participants welcomed the Board's intention.

Distinguishing a liability from a business risk

30. In March, May and July 2007 the Board considered a series of examples developed by the staff to distinguish a liability from a business risk. As a result of these discussions, the Board tentatively decided that the existence of a present obligation distinguishes a liability from a business risk, emphasising that:
- an obligation exists when an entity has a duty or responsibility to an external party to act or perform in a particular way.
 - a present obligation exists independently of future events.
 - a potential outflow of economic benefits does not distinguish a liability from a business risk because both are capable of resulting in an outflow of economic benefits. A business risk is also capable of resulting in an inflow of economic benefits.
31. Consequently:
- an action or event, by itself, does not give rise to a present obligation. A mechanism that enables an external party to call upon the entity to act or perform in a particular is also required.
 - a law (including contract law) or regulation, by itself, does not give rise to a present obligation; an action or event is also required. However, laws and regulations are examples of mechanisms that may enable an external party to call upon the entity to act or perform in a particular way.
 - a non-binding action or event in a jurisdiction where there is a mechanism that enables an external party to call upon the entity to act or perform in a particular way does not give rise to a present obligation.
 - planning a future action or event in a jurisdiction where there is a mechanism that enables an external party to call upon the entity to act in a particular way does not give rise to a present obligation.
32. The Board tentatively decided to amend the proposals to reflect these conclusions.

Stand ready obligations

33. The Board began redeliberations by emphasising that a stand ready obligation is a liability, not a business risk. Consistent with the Board's observations on distinguishing a business risk from a liability, a present obligation must exist before an item can be described as a stand ready obligation.
34. The Board discussed how to distinguish a stand ready obligation from a business risk based on following simple facts:
- an entity sells hamburgers in a jurisdiction where the law states that the vendor must pay compensation of £100,000 to each customer that purchases a contaminated hamburger;
 - on the balance sheet date, the entity has sold one hamburger; and
 - past experience indicates that one in a million hamburgers sold by the entity are contaminated. No other information is available.
35. The Board tentatively agreed that these facts illustrate uncertainty about the existence of a present obligation because paying compensation is the potential consequence of past transaction. This is not an example of a stand ready obligation because there is no conditional future event that may or may not occur. Consequently, the Board tentatively decided to amend the ED's description of a stand ready obligation to explain that the term 'stand ready obligation' describes situations when there is uncertainty about the outflow of economic benefits required to settle a present obligation. Importantly, 'stand ready obligation' does not describe uncertainty about the existence of the present obligation.
36. The Board agreed that contractual situations provide the clearest and most frequent examples of stand ready obligations. However, the Board also tentatively concluded that the term could apply to both contractual and non-contractual situations. The Board noted that this tentative conclusion is consistent with its observations on the attributes of a present obligation (see above). That is to say, a contract represents just one form of legal mechanism that enables an external party to call upon the entity to act or perform in a particular way. But the form of the mechanism should not influence whether a present obligation exists. Statutes are also examples of legal mechanisms that enables an external party to call upon an entity to act or perform in a particular way.
37. The Board discussed this in June 2009 and tentatively approved an analysis of the attributes of stand-ready obligations and the circumstances in which such obligations arise. This analysis refined an earlier analysis that the Board had considered in October 2007.
38. At the round-table meetings on IAS 37 some participants suggested that the Board should drop the label 'stand ready obligation' and simply focus on explaining when and why a present obligation exists. The Board acknowledged that, for some, the label 'stand ready obligation' was confusing, but believed that a short-hand term capturing the long-hand explanation was helpful. The Board tentatively decided to keep the term but asked the staff to consider other phrases or terms when drafting the standard.

Uncertainty about the existence of a present obligation

39. The Board discussed uncertainty about the existence of a present obligation, including lawsuits in May 2006, June 2006, April 2007, July 2007 and October 2007.

40. IAS 37 states that uncertainty about the existence of a present obligation is rare and therefore provides limited guidance. Paragraph 15 states 'In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking into account of all available evidence, it is more likely than not that a present obligation exists on the balance sheet date.'
41. The ED provides even less guidance, stating that only an entity must determine whether a present obligation exists after considering all of the available evidence. In other words, the 'more likely than not' criterion in paragraph 15 of IAS 37 was not carried forward to the ED.
42. In their comment letters many respondents argued that the ED provided insufficient guidance on how to address uncertainty about the existence of a present obligation. The Board agreed and tentatively decided to add more guidance to the standard.
43. The Board tentatively concluded that uncertainty about the existence of a present obligation may arise when one or more of the following questions apply:
- (a) did a transaction or event occur?
 - (b) does a known transaction or event give rise to a present obligation?
 - (c) how does authoritative guidance (for example, statute, law and regulations) apply to a known transaction or event?
 - (d) in the absence of legal enforceability, can cumulative events and circumstances—in other words, items often described as constructive obligations—give rise to a present obligation?
44. After considering the merits of several different approaches, the Board directed the staff to further explore two approaches to providing guidance on how to address uncertainty about the existence of a present obligation:
- indicators—for example, past experience with similar items; the experience of other entities with identical or similar items; the opinion of experts; and additional evidence provided after the balance sheet date about conditions that existed on the balance sheet date.
 - reinstating the 'more likely than not' criterion currently used in paragraph 15 of IAS 37.
45. At the round-tables a majority of round-table participants supported the Board's decision to include additional guidance in any final Standard. Most favoured high level guidance, noting that it is not feasible to provide detailed guidance for all industries in all jurisdictions. However, participants' views on the form of any additional guidance were mixed: approximately half favoured indicators, whilst half favoured re-instating the 'more likely than not' criterion in paragraph 15 of the current IAS 37.

Indicators

46. In July 2007 the Board tentatively decided to use indicators to provide guidance on how to address uncertainty about the existence of a present obligation in any final standard. The Board acknowledged concerns that indicators could be perceived as a checklist of rules and therefore tentatively concluded that any final standard should emphasise that:
- addressing uncertainty about the existence of a present obligation requires judgement;
 - when exercising judgement an entity should consider all of the available evidence; and

- indicators should not be read as a minimum list of conditions that must be satisfied before concluding that a present obligation exists.

47. The Board also asked the staff to develop application guidance or illustrative examples to supplement the indicators included in the text of any final standard.

More likely than not

48. In July 2007, the Board also considered including an explicit 'more likely than not' criterion, in addition to indicators, in the text of any final standard. The Board was split on this issue and decided to discuss this further at a future meeting. In October 2007, it reconsidered the issue and decided not to include the criterion on the grounds that the assessment of whether an entity had a present obligation should be a matter for judgement, taken on the basis of all the available evidence.

Uncertainty about past events

49. In October 2007, the Board discussed situations in which uncertainty about the existence of an obligation arises because the entity is not certain whether a past event has occurred. The Board considered again the hamburger example described in paragraph 34 above. The Board tentatively concluded that the supply of a hamburger that could have been contaminated was not sufficient to give rise to an obligation. There must also be evidence that the hamburger was contaminated. If the entity had sold many hamburgers on the last day of the reporting period, previous experience might provide such evidence. However, because only one hamburger had been sold, other evidence would be needed.

50. The Board also considered an example involving a hospital operation. During the operation, the patient had died. Hospital management estimated that there was a 70 per cent chance that the hospital had been negligent and would have to pay compensation. The Board tentatively concluded that in this example there was sufficient evidence to indicate that the hospital had an obligation. It should recognise a liability. The possibility that the hospital had *not* been negligent should be taken into account in the measurement of the liability because it would reduce the amount that the hospital would rationally pay to settle the obligation or transfer it to a third party at the balance sheet date.

Lawsuits

51. The ED proposes that the start of legal proceedings gives rise to a present obligation. In their comment letters, most constituents disagreed with this proposal and observed that the conclusions in illustrative examples 1 and 2 (accompanying the ED) were contradictory.

52. In June 2006, after reconsidering the conclusions in Examples 1 and 2, the Board concluded that:

- Examples 1 and 2 in the ED are contradictory.
- the conclusion in Example 2 is correct. The likelihood that an external party will detect an entity's violation of the law or breach of contract is not relevant in determining whether the definition of a liability is satisfied (but it would affect the measurement of the liability).
- the conclusion in Example 1 is incorrect. The start of legal proceedings, in itself, does not obligate an entity. Rather, the start of legal proceedings is another piece of evidence that may be relevant when an entity evaluates whether a present obligation exist.

53. The Board also decided that the illustrative examples accompanying any final Standard should include additional guidance on how to address uncertainty about the existence of a present obligation in the context of litigation (and similar regulatory actions).

Disclosure of information about legal proceedings

54. In July 2006 the Board considered respondents' concerns that recognising a liability for on-going legal proceedings may prejudice the entity's position in the litigation. The Board concluded that it would not be possible to accommodate concerns about the operation of different legal jurisdictions in one standard. Furthermore, it noted that any such accommodation would compromise the usefulness of information provided in the financial statements. The Board observed that it had proposed retaining the existing prejudicial disclosure exemption (paragraph 92 of IAS 37) and concluded that no further exemptions were required.
55. At the IAS 37 round-tables in November and December 2006 participants commented that it is particularly difficult to apply the Board's tentative conclusions in this project to lawsuits. This is because lawsuits often combine uncertainty about the existence of a present obligation with uncertainty about the amount of economic benefits that will be required to settle the obligation. Also, there are sensitivities that restrict the amount of information about individual lawsuits that an entity can disclose in the notes to its financial statements without prejudicing its position.
56. In the light of these comments, the Board decided to seek further input from the legal profession. In April 2007, three representatives from the General Counsel 100 Group (GC100) provided the Board with insights into how commercial legal teams address uncertainties associated with lawsuits. The Board and the GC100 representatives also discussed the practical difficulties an entity and its legal advisers might encounter in applying the Board's tentative conclusions to lawsuits. The meeting was for information only and no decisions were made.
57. The Board has noted that the difficulties relate to major one-off lawsuits. It considered concerns that defendants in legal proceedings might encounter practical problems applying the proposed recognition and measurement requirements at its meeting in June 2009 and decided tentatively:
- not to make any changes to the proposals.
 - not to amend or supplement the proposed guidance on identifying liabilities that cannot be measured reliably.
 - that the proposals require no modification in this project for application in the US legal environment. The Board noted that the proposed changes to IAS 37 do not introduce any new factors that would cause problems in that environment.

Constructive obligations

58. In May and July 2007 the Board redeliberated issues associated with the proposed amendments to constructive obligations.
59. In the light of the comment letters received and recent discussions on distinguishing a liability from a business risk, the Board tentatively affirmed its previous observation that the main issue associated with constructive obligations is what makes a constructive obligation an *obligation* in the absence of legal enforceability? However, categorically answering this question goes beyond the scope of the IAS 37 project. Therefore the Board's redeliberations focused on three options that aim to encourage greater consistency in the accounting for constructive obligations.

60. The Board consider three options:
- 1) limit the recognition of constructive obligations to those a court would enforce;
 - 2) recognise constructive obligations that a court would enforce and constructive obligations that are enforceable 'by equivalent means' and explore the meaning of 'by equivalent means';
 - 3) option 2, but use the explanatory text already in paragraph 15 of the ED as a proxy for explaining 'by equivalent means'.
61. The Board favoured option 3 and therefore tentatively concluded that any final standard should emphasise that:
- a recognised constructive obligation is a liability, not a business risk. Therefore, consistently with the Board's observations on distinguishing a business risk from a liability, a present obligation must exist.
 - a management decision or an intention to incur a future outflow of economic benefits by itself is not sufficient to justify recognising a liability.
 - The Board also tentatively affirmed that separately defining legal and constructive obligations in IAS 37 sometimes causes confusion. This is because many items described as constructive obligations are legally enforceable. Therefore, the Board asked the staff to incorporate the existing definitions of legal and constructive obligations into the text of any final standard.

Recognition

62. The Board has discussed the following issues associated with the recognition requirements proposed in the exposure draft:
- the meaning of the phrase 'expected to' in the definition of a liability (May 2006);
 - omitting the probability recognition criterion (June 2006 and February 2008); and
 - eliminating the term 'contingent liability' (July 2006 and December 2008).

The meaning of the phrase 'expected to' in the definition of a liability

63. The definition of a liability in the *Framework* includes the phrase 'expected to result in an outflow from the entity of resources embodying economic benefits'. The Board noted that some respondents to the exposure draft argued that this phrase implies that a particular degree of certainty about the outflow of resources associated with a present obligation is required before the obligation meets the definition of a liability. Hence, some argued that obligations with a remote or low likelihood of future settlement would not meet the definition of a liability.
64. In the light of these comments, the Board decided to clarify that 'expected to' is *not* intended to imply that there must be a particular degree of certainty that an outflow of benefits will occur before an item meets the *Framework's* definition of a liability. The Board also noted that its view was consistent with the use of the word 'probable' in the definition of a liability in the FASB's Concept Statements.

Omitting the probability recognition criterion

65. The Board noted that many respondents to the ED disagreed with the proposal to omit the probability recognition criterion from IAS 37. In particular, respondents noted

that the criterion is derived from the *Framework* and hence viewed its omission as being inconsistent with the *Framework*.

66. In reconsidering this proposal, the Board noted the following points:
- The *Framework* does not explain what recognition threshold is meant by 'probable': the 'more likely than not' threshold exists only in standards-level guidance. Furthermore, a 'more likely than not' threshold in the *Framework* would result in the flawed conclusion that a performance obligation arising from a guarantee, a warranty or an insurance contract should not be recognised until it is probable that a claim will arise.
 - The probability recognition criterion as articulated in the *Framework* and IAS 37 is not related to determining whether a liability exists. The Board acknowledged that probability may have a role when it is uncertain whether a liability exists (ie in resolving element uncertainty). However, that role would be similar to paragraph 15 of IAS 37 (ie is it probable that a liability exists?) rather than paragraph 14(b).
 - Liabilities are identified using the liability definition. Once a liability has been identified, the probability recognition criterion in IAS 37 would in almost all cases not be a determinant for recognition, because some outflow of resources would be probable.
 - A probability recognition criterion is inconsistent with the measurement requirements proposed in the ED (and, indeed, is largely inconsistent with the measurement requirements of IAS 37). This is because the ED proposed that the measurement of a liability should incorporate all possible outcomes, regardless of whether they are more likely than not. If a liability exists and it can be measured reliably, the effect of the probability recognition criterion is to delay the inclusion of decision-useful information in the balance sheet. The Board acknowledged that measurement uncertainty may preclude recognition and, in due course, it will consider whether additional guidance about measurement uncertainty is required.
67. The Board noted that its final conclusions about the probability recognition criterion would depend on affirming the measurement proposals and its continuing work on element uncertainty. However, the Board directed the staff to proceed on the basis that the revised IAS 37 should not include a probability recognition criterion.
68. At the round-table discussions many participants agreed that, conceptually, a probability recognition criterion is not required in IAS 37 because the outflow of benefits required to settle a liability can be reflected in measurement. Nevertheless, most were not comfortable with the proposal to reflect *all* uncertainty in measurement, particularly in non-contractual scenarios. Many thought that the probability recognition criterion was a practical means of avoiding the need to recognise liabilities for which the costs of recognition would exceed the benefits—ie, because the likelihood of an outflow of economic benefits was lower.
69. The Board reconsidered these arguments in February 2008. It rejected the arguments and confirmed its previous decision to remove the criterion.
- Eliminating the term 'contingent liability'*
70. The exposure draft clarifies that only present obligations (not possible obligations) give rise to liabilities. To emphasise this point, the exposure draft proposes eliminating the term 'contingent liability'.
71. In July 2006, the Board noted that some respondents disagreed with the proposal, arguing that the term 'contingent liability' is well understood and consistently applied

in practice. But other respondents agreed with the Board's earlier analysis of issues associated with the term, as explained in the exposure draft. Namely that:

- The current definition of a 'contingent liability' is confusing because it is used to describe two distinct notions: an unrecognised present obligation and a possible obligation.
- Describing a present obligation as a contingent liability is contradictory.
- It is misleading to describe possible obligations as liabilities, even with the modifier 'contingent'. This is because the Framework states that the existence of a present obligation is an essential characteristic of a liability.

72. Additionally, the Board noted that the term creates tension between IAS 37 and other standards that address liabilities. Items that are deemed to be liabilities in other standards (and recognised as such) would be described as contingent liabilities (and therefore not recognised) following the guidance in IAS 37. Therefore, the Board affirmed its proposal to eliminate the term 'contingent liability'. At the round-table discussions most participants supported the Board's conclusion.

73. The Board also considered respondents' concerns that eliminating the term 'contingent liability' would result in a loss of disclosure about items that do not meet the definition of a liability at the balance sheet date.

74. The Board observed that the current disclosure requirements for contingent liabilities that are possible obligations are narrower than suggested by some respondents. This is because they capture only possible obligations existing at the balance sheet date, rather than all business risks.

75. The Board discussed the possibility of developing general disclosure requirement that would allow users to evaluate an entity's determination of whether a liability exists in cases in which there is uncertainty about that determination. The Board, however, was concerned that such a principle would be impracticable. Therefore, the Board directed the staff to explore more specific disclosure requirements, for example to capture asserted legal claims for which the entity concludes that it has no present obligation.

76. In December 2008, the Board decided not to limit the disclosure requirement to any particular type of possible obligation. It decided to require disclosure of information about all types of possible obligation, but highlight in particular possible obligations that relate to legal, arbitration and governmental proceedings that are in progress, pending or threatened against the entity.

77. In June 2009 The Board discussed what an entity should disclose when it is uncertain whether it has a present obligation, but has judged that it does not. The Board decided tentatively:

- to help preparers identify when disclosure is required, by cross-referring from the disclosure requirement back to the discussion of uncertainty in the recognition section of the standard, and giving examples of situations involving uncertainty.
- that an entity should disclose the following, unless the possibility of any outflow of economic benefits in settlement is remote:
 - a description of the circumstances;
 - an indication of the financial effects;

- an indication of uncertainties relating to the amounts or timing of any outflow of economic benefits; and
- the possibility of any reimbursement.

Contingent assets (including reimbursement rights)

78. In June 2009 the Board discussed the measurement of reimbursement rights and decided tentatively:
- to remove the 'asset cap' from IAS 37. The 'asset cap' limits the amount recognised for a reimbursement right to the amount recognised for the related liability.
 - not to specify a measurement objective for reimbursement rights.
 - that the standard should state explicitly that the assumptions used to measure a reimbursement right should be consistent with those used to measure the related liability.

Measurement

79. In September and October 2006, December 2007 and February 2008 the Board discussed the following issues associated with the measurement objective proposed in the exposure draft:
- scope of the proposed amendments to the existing IAS 37 measurement objective.
 - reconsidering the existing measurement objective.
 - does the proposed measurement objective permit choice?
 - will the proposed measurement objective provide useful information about liabilities within the scope of IAS 37?
 - is more guidance on the IAS 37 measurement objective required?

Scope of the proposed amendments & reconsidering the existing measurement objective

80. The ED explained that the Board previously decided to limit the scope of its amendments to clarifying the existing IAS 37 measurement objective and aspects of the accompanying guidance. Therefore, the ED emphasised that the IAS 37 measurement objective is based on a current settlement notion—ie the amount to settle or transfer a present obligation *on the measurement date*.
81. The Board noted that many respondents to the exposure draft do not share its understanding. Rather, they understand the IAS 37 measurement objective to be an ultimate settlement notion—ie the amount estimated to be required to extinguish the obligation *in the future*. Consequently those respondents regarded the amendments proposed in the exposure draft as more significant than the Board intended.
82. In the light of these comments, the Board began its redeliberations by affirming its understanding that the existing IAS 37 measurement objective is based on a current settlement notion. In reaching this conclusion, the Board acknowledged that the wording of the existing IAS 37 measurement objective and accompanying guidance

was not always clear. In particular the Board noted that the term 'best estimate' might be read to imply that a single point estimate rather than an expected cash flow approach could be used to measure a liability within the scope of IAS 37.

83. Some round-table participants questioned the Board's decision not to fundamentally reconsider the IAS 37 measurement objective and identify a clear measurement objective as part of this project. Almost all participants disagreed with the Board's interpretation of the existing IAS 37 measurement objective. Most argued that IAS 37 currently requires an entity to estimate the ultimate costs it expects to incur in settling a liability. Others argued that the existing IAS 37 measurement objective is ambiguous and, therefore, both interpretations are valid.
84. The Board considered how to address these concerns at its meeting in December 2007. It decided that that Basis for Conclusions in the revised standard should explain more fully how the proposed requirements derive from the existing ones.

Does the proposed measurement objective permit choice?

85. The Board noted that some respondents thought that the proposed measurement requirement is unclear because it refers to two different amounts — 'amount to settle' and 'amount to transfer'. Some respondents thought that two different measurement bases were proposed, which would impair comparability. Others asked for further guidance – would 'amount to transfer' be different from 'amount to settle' and if so, which one should an entity use to measure the liability? Does it have a free choice? Or does the inclusion of the word 'rationally' imply that the entity should measure its liability at the lower amount?
86. The Board discussed this issue in February 2008. It noted that the Exposure Draft had proposed that liabilities should be measured at the amount that the entity would *rationally* pay to settle the obligation or transfer it to a third party. It decided that, if the amount required to settle the obligation were different from the amount required to transfer the obligation, the entity would rationally pay the lower of the two amounts. The Board decided to add guidance to this effect to the final standard.
87. The Board discussed the issue again in April 2008. It noted different possible interpretations of the meaning of 'settle'. It directed the staff to undertake further analysis for discussion at a future meeting.
88. In April 2009 the Board discussed how an entity could estimate this amount using expected cash flow techniques. The Board decided tentatively to clarify that an entity would not automatically add a risk adjustment to the expected cash flows. A risk adjustment would be required only if, and to the extent that, uncertainty about the expected cash flows affects the amount that the entity would rationally pay to be relieved of its obligation.
89. The Board also discussed how an entity would use expected cash flow estimation techniques to measure an obligation to undertake a service, such as an asset retirement obligation. The Board decided tentatively that the relevant cash flows are the amounts that the entity would rationally pay a contractor to undertake the service on its behalf. In the absence of an efficient market for those services, the entity could estimate the amount it would rationally pay a contractor by estimating the amount it would itself charge another party to carry out the service. The latter amount would include the entity's estimates of the costs it expects to incur in fulfilling the obligation and the compensation it requires for providing the service inherent in the obligation

Will the proposed measurement objective provide useful information about liabilities within the scope of IAS 37?

90. The Board considered respondents' concerns that the proposed measurement objective would not provide useful information about liabilities within the scope of IAS

37 in the light of the qualitative characteristics of useful information described in the *Framework*.

91. The Board tentatively decided that the Basis for Conclusions accompanying any final Standard should include an explanation of how a measurement objective based on a current settlement notion provides useful information about liabilities within the scope of IAS 37. In particular, the Board noted that:
- many respondents equate 'reliability' with how close an entity's estimate was to the actual cash flow required to settle an obligation. However, a difference between an entity's estimate and the actual cash flow required to settle an obligation normally does not mean that an entity's estimate was 'wrong'.
 - the subjectivity required to measure a liability based on a current settlement notion is no greater than the subjectivity required to measure a liability based on an ultimate settlement notion.
92. The Board also directed the staff (i) to include issues associated with the probability recognition criterion (currently in IAS 37) in any explanation; and (ii) to consider the extent of disclosure needed to assist users to understand liabilities measured using more uncertain estimates.
93. Round-table discussions on this topic focused on the relative merits of expected value versus individual most likely outcome as an estimation technique for liabilities within the scope of IAS 37. Some participants found the Board's comparative analysis of the two estimation techniques useful and agreed that expected value is superior. But others questioned the relevance and reliability of using expected value to measure single, non-recurring transactions and therefore favoured the individual most likely outcome.
94. Some participants noted that both expected value and individual most likely outcome are useful estimation techniques, but no one number is 'richer' or 'better' than another and that neither model is easy to apply when significant measurement uncertainty exists. These participants suggested that the Board is being too precise in trying to specify one estimation technique for all liabilities. Instead they favoured a clear measurement objective, coupled with disclosures.
95. The Board considered this issue again in December 2007. It reaffirmed its view that the proposed measurement basis provides relevant and reliable information about liabilities within the scope of IAS 37 decided to expand the Basis for Conclusions to explain its reasoning more fully.

Is more guidance required?

96. The Board noted respondents' concerns that the proposed measurement requirements would be difficult to apply in practice (even if the conceptual merits of a current settlement notion were accepted).
97. Most round-table participants expected to encounter difficulties applying the proposed measurement objective in practice (including some who supported the objective and the use of expected value as an estimation technique). Therefore the Board asked the staff to focus on developing guidance on the building blocks of an expected value calculation, similar to that in IAS 36 *Impairment of Assets*.
98. The Board discussed, at its meeting in April 2009, how an entity could estimate this amount using expected cash flow techniques. The Board decided tentatively to clarify that a risk adjustment would be required only if, and to the extent that, uncertainty about the expected cash flows affects the amount that the entity would rationally pay to be relieved of its obligation.

99. The Board also discussed how an entity would use expected cash flow estimation techniques to measure an obligation to undertake a service, such as an asset retirement obligation. The Board decided tentatively that the relevant cash flows are the amounts that the entity would rationally pay a contractor to undertake the service on its behalf. In the absence of an efficient market for those services, the entity could estimate the amount it would rationally pay a contractor by estimating the amount it would itself charge another party to carry out the service. The latter amount would include the entity's estimates of the costs it expects to incur in fulfilling the obligation and the compensation it requires for providing the service inherent in the obligation.

Short term convergence amendments

100. The Board noted that most respondents supported the amendments proposed for restructuring costs. It considered arguments from some that a public announcement of a decision to restructure a business creates a constructive obligation because, from a commercial viewpoint, management has little if any discretion to reverse the decision. However, the Board reaffirmed its previous conclusion that such commercial pressures do not amount to obligations to the parties affected by the restructuring, and tentatively decided not to change its proposals in the exposure draft.
101. In response to requests from respondents, the Board tentatively decided in April 2008 to add a requirement for entities to disclose details of restructuring activities.
102. The Board discussed, at its meeting in April 2009, the contents and wording of a disclosure requirement for restructuring activities. The Board considered the equivalent US standard SFAS 146 Accounting for Costs Associated with Exit or Disposal Activities and decided tentatively to require disclosure of:
- a description of the restructuring activity, including the facts and circumstances leading to the expected activity and the expected completion date;
 - for each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date;
 - the expected timing of any resulting outflow of economic benefits.
103. The Board also decided tentatively to require the disclosures in the period in which an entity first implements a restructuring plan or announces its main features to those affected by it, and in any subsequent period until the restructuring is completed.
104. The Board noted that most respondents supported the amendments proposed for onerous contracts. It considered arguments from some that for an onerous operating lease, the liability should be measured net of sublease rentals only if the entity intended to sublet the property. The Board reaffirmed its previous conclusion that the liability should be measured net of sublease rentals that could reasonably be obtained, irrespective of the entity's intentions, and hence tentatively decided not to change its proposals in the exposure draft.

The Board tentatively decided to make minor drafting changes to the proposed requirements:

- to avoid any inference that a decline in the market price of products or services necessarily makes a contract for their purchase onerous;
- to clarify within the standard what is meant by 'actions' in the requirements for contracts that become onerous because of the entity's own actions.

Termination benefits (IAS 19)

105. The Board considered comments received on the exposure draft's proposals for termination benefits and made the following tentative decisions:
- In the proposed definition of voluntary termination benefits, the term 'short period' refers to a period between the offer for voluntary termination and the actual termination of the employment.
 - If an entity offers voluntary termination benefits and cannot withdraw that offer, the entity should recognise a liability in the same way as for involuntary termination benefits.
 - Before an obligation exists for involuntary termination benefits, employees need to know whether they are in the class of employees whose employment will be terminated.
 - Because the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services.

Other issues

106. Scheduled for discussion at a future meeting. In accordance with the IASB Due Process Handbook these meetings will include a discussion of the cost-benefit analysis of the proposed amendments, the need to undertake field tests and the need for re-exposure.

Meeting chronology

107. The main topics discussed at each of the Board meetings at which the project has been discussed are listed in the table below. [Click here](#) to view the decision summaries and the observer notes for each meeting.

Meeting	Main topics discussed
<i>Redeliberations</i>	
June 2009	<p><i>Litigation liabilities</i></p> <p>Considered concerns that defendants in legal proceedings might encounter practical problems applying the proposed recognition and measurement requirements.</p> <p><i>Reimbursement rights</i></p> <p>Discussed the measurement of reimbursement rights.</p> <p><i>Disclosure of possible obligations</i></p> <p>Discussed what an entity should disclose when it is uncertain whether it has a present obligation, but has judged that it does not.</p> <p><i>Stand-ready obligations</i></p> <p>Discussion on the analysis of the attributes of stand-ready obligations and the circumstances in which such obligations arise.</p>
April 2009	<p><i>Measurement</i></p> <p>Discussion of how much measurement guidance on liabilities to include in the revised standard.</p> <p><i>Disclosure of restructuring activities</i></p> <p>Details of disclosure requirement for restructuring activities.</p>
December 2008	<p><i>Disclosure of 'possible obligations'</i></p> <p>Whether to require disclosure of possible 'obligations' ie situations—such as contested lawsuits—in which the entity has judged it does not have a liability but might be wrong.</p> <p>Whether to restrict the disclosure requirement to situations in which there are legal proceedings against the entity.</p>
May 2008	<p><i>Termination benefits (IAS19)</i></p> <p>Clarifying the meaning of 'short period' in the definition of voluntary termination benefits.</p> <p>Whether to distinguish between voluntary termination benefits that an entity can withdraw and those that an entity cannot withdraw.</p> <p>Whether for a liability for termination benefits to exist, an affected employee needs to know that its employment is to be terminated.</p> <p>Clarifying that voluntary termination benefits do not relate to future services.</p>

Meeting	Main topics discussed
April 2008	<p><i>Measurement</i></p> <p>Draft wording for requirements and guidance.</p> <p><i>Short-term convergence amendments</i></p> <p>Amendments proposed to IAS 37 — restructurings and onerous contracts.</p>
Feb 2008	<p><i>Measurement</i></p> <p>Clarifying the measurement requirement – whether the proposed requirement permits choice.</p> <p><i>Recognition</i></p> <p>Practical objections to removing the probability recognition criterion.</p>
Dec 2007	<p><i>Measurement.</i></p> <p>How to address concerns that the amendments will change rather than clarify the existing requirements.</p> <p>Whether to remove one or other of the two measurement objectives (amount to settle and amount to transfer) in the existing requirements.</p> <p>How to address concerns that measuring liabilities at their current settlement/transfer price does not provide useful information to users.</p>
Oct 2007	<p><i>Liability definition</i></p> <p>Situations in which it is uncertain whether a past event has occurred.</p>
July 2007	<p><i>Liability definition</i></p> <p>Distinguishing a stand ready obligation from uncertainty about the existence of a present obligation, including stand ready obligations</p> <p>Uncertainty about the existence of a present obligation, including lawsuits</p> <p>Constructive obligations</p> <p>Summary of tentative conclusions on issues relating to applying the definition of a liability</p>
May 2007	<p><i>Liability definition</i></p> <p>Distinguishing a stand ready obligation from uncertainty about the existence of a present obligation</p> <p>Constructive obligations</p>
Mar 2007	<p><i>Liability definition.</i></p> <p>Distinguishing a liability from a business risk</p> <p>Stand ready obligations</p>
Jan 2007	<p><i>Round-table discussions:</i> Summary of outcomes</p> <p>Planning the next stage of this project</p>
Nov and Dec 2006	<p><i>Round-table meetings</i></p>
Oct 2006	<p>Does the proposed measurement objective permit choice?</p>

Meeting	Main topics discussed
Sep 2006	<p>Approach to redeliberating the issues associated with the measurement objective proposed in the ED</p> <p>Scope of the proposed amendments to the IAS 37 measurement objective</p> <p>Reconsidering the existing IAS 37 measurement objective</p> <p>Will the proposed measurement objective provide useful information about liabilities within the scope of IAS 37?</p> <p>Is more guidance on the IAS 37 measurement objective required?</p>
Jul 2006	<p>Eliminating the term 'contingent liability'</p> <p>Can recognition of a liability prejudice the outcome of legal proceedings</p> <p>Project planning update</p>
Jun 2006	<p>Reconsidering the probability recognition criterion</p> <p>Revisiting lawsuits</p>
May 2006	<p>Approach to redeliberating the issues associated with the recognition objective proposed in the exposure draft</p> <p>The meaning of the phrase "expected to" in the definition of a liability</p> <p>Determining whether an entity has a liability when the existence of a present obligation is uncertain</p> <p>Stand ready obligations</p>
Mar 2006	<p>Scope of IAS 37</p> <p>Whether to include additional issues in the project scope</p>
Feb 2006	<p>Affirmation of the project objectives</p> <p>Initial staff analysis of the comment letters</p> <p>Provisional project timetable for the redeliberations</p>
<i>Deliberations leading to the exposure draft</i>	
May 2005	<p>Withdrawing the terms provision, contingent asset and contingent liability from IAS 37</p> <p>Scope of IAS 37</p> <p>Transition and first-time adoption</p>
Dec 2004	Measurement of termination benefits
Nov 2004	Confirming the scope of the project and the style of the exposure draft
Oct 2004	Reconsidering the requirements for constructive obligations and aspects of the measurement guidance
Sep 2004	Application of the probability recognition criterion in IAS 37
May 2004	Recap of decisions to date
Apr 2004	Recognition of items currently labelled contingent liabilities in a business combination
Mar 2004	Recognition of items currently labelled contingent assets and contingent liabilities
Oct 2003	Recognition of items currently labelled contingent assets in a business combination
Sep 2003	Discussion of the terms contingent assets and contingent liabilities

Meeting	Main topics discussed
May 2003	Reconsidering the requirements in IAS 37 for onerous contracts, constructive obligations and aspects of the measurement guidance Consideration of a proposal to withdraw the terms contingent assets and contingent liabilities
Feb 2003	Converging the requirements for termination benefits in IAS 19 and US GAAP
Dec 2002	Initial consideration of proposal to converge the requirements of IASs 37 and 19 with SFAS 146

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APPENDIX A: A comparison of the exposure draft and the current proposals of the Board following redeliberations

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p><i>[Draft] International Accounting Standard 37</i> NON-FINANCIAL LIABILITIES</p>	<p>The title of any final Standard will be 'Liabilities' rather than 'Non-financial Liabilities' (March 2006).</p>
<p>Objective</p>	
<p>1 The objective of this [draft] Standard is to establish principles for recognising, measuring and disclosing non-financial liabilities. Those principles require an entity to recognise a non-financial liability unless it cannot be measured reliably. Uncertainty about the amount or timing of the economic benefits that will be required to settle a non-financial liability is reflected in the measurement of that liability. The principles also require an entity to disclose sufficient information to enable users of the financial statements to understand the amount and nature of an entity's non-financial liabilities and the uncertainty relating to the future outflows of economic benefits that will be required to settle them.</p>	<p>Objectives tentatively affirmed (February 2006).</p>
<p>Scope</p>	
<p>2 An entity shall apply this [draft] Standard in accounting for all non-financial liabilities, except:</p> <p>(a) those resulting from executory contracts, unless the contract is onerous; and</p> <p>(b) those within the scope of another Standard.</p>	<p>Tentatively affirmed that an entity should apply IAS 37 to all liabilities not within the scope of other Standards (March 2006).</p> <p>The text of any final Standard will refer to 'liabilities' rather than 'non-financial Liabilities' (March 2006). This amendment will apply throughout the remaining text of the exposure draft, but has not been noted for the purposes of this appendix.</p>

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>3 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.</p>	
<p>4 When a specific type of non-financial liability is within the scope of another Standard, an entity applies that Standard instead of this [draft] Standard. For example, some types of non-financial liabilities are within the scope of Standards on:</p> <ul style="list-style-type: none"> (a) construction contracts (see IAS 11 <i>Construction Contracts</i>). (b) income taxes (see IAS 12 <i>Income Taxes</i>). (c) employee benefits (see IAS 19 <i>Employee Benefits</i>). (d) insurance contracts (see IFRS 4 <i>Insurance Contracts</i>). However, this [draft] Standard applies to non-financial liabilities of an insurer, other than those arising from its contractual obligations and rights under insurance contracts within the scope of IFRS 4. 	<p>An additional scope exclusion for financial liabilities as defined by IAS 32 <i>Financial Instruments: Presentation</i> will be included following the decision to change the title of any final Standard to 'Liabilities' (March 2006).</p>
<p>5 An entity shall apply this [draft] Standard to the following contractual obligations only if they are onerous:</p> <ul style="list-style-type: none"> (a) obligations under operating leases to which IAS 17 <i>Leases</i> applies; and (b) loan commitments excluded from the scope of IAS 39 <i>Financial Instruments: Recognition and Measurement</i>. 	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>6 Because IAS 17 contains no specific requirements for operating leases that are onerous, this [draft] Standard applies to such leases. Similarly, because IAS 39 excludes some loan commitments from its scope, this [draft] Standard applies to such loan commitments if they are onerous.</p>	
<p>7 Some amounts treated as non-financial liabilities may relate to the recognition of revenue, for example when an entity issues a product warranty in exchange for a fee. This [draft] Standard does not address the recognition of revenue. IAS 18 <i>Revenue</i> identifies the circumstances in which revenue is recognised and provides guidance on the application of the recognition criteria. This [draft] Standard does not change the requirements of IAS 18.</p>	<p>In response to commentators' concerns about the relationship between IAS 18 <i>Revenue</i> and IAS 37, the text will be modified to clarify that performance obligation measured in accordance with IAS 18 on the basis of consideration received (ie deferred revenue) will not be within the scope of any final Standard (March 2006).</p>
<p>8 Other Standards specify whether the corresponding amount recognised for a non-financial liability is included as part of the cost of an asset or recognised as an expense. This issue is not addressed in this [draft] Standard.</p>	
<p>9 In some jurisdictions, some classes of liabilities are described as provisions, for example those liabilities that can be measured only by using a substantial degree of estimation. Although this [draft] Standard does not use the term 'provision', it does not prescribe how entities should describe their non-financial liabilities. Therefore, entities may describe some classes of non-financial liabilities as provisions in their financial statements.</p>	<p>Tentatively affirmed that 'provision' will not be a defined term in IAS 37 (March 2006).</p>

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
Definitions	
<p>10 The following terms are used in this [draft] Standard with the meanings specified:</p> <p>A <i>constructive obligation</i> is a present obligation that arises from an entity's past actions when:</p> <p>(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept particular responsibilities; and</p> <p>(b) as a result, the entity has created a valid expectation in those parties that they can reasonably rely on it to discharge those responsibilities.</p> <p>A <i>legal obligation</i> is a present obligation that arises from the following:</p> <p>(a) a contract (through its explicit or implicit terms);</p> <p>(b) legislation; or</p> <p>(c) other operation of law.</p> <p>A <i>liability</i> is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.</p> <p>A <i>non-financial liability</i> is a liability other than a financial liability as defined in IAS 32 <i>Financial Instruments: Disclosure and Presentation</i>.</p> <p>A contract is <i>onerous</i> when the unavoidable costs of meeting its</p>	<p>The term 'non-financial liability' will be withdrawn and replaced with 'liability' (March 2006).</p> <p>Tentatively affirmed the proposal to eliminate the term 'contingent liability' (July 2006).</p> <p>Tentatively decided to incorporate the definitions of legal and constructive obligations into the text of any final standard (July 2007).</p>

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
obligations exceed its expected economic benefits.	
Recognition	
<p>11 An entity shall recognise a non-financial liability when:</p> <p>(a) the definition of a liability has been satisfied, and</p> <p>(b) the non-financial liability can be measured reliably.</p>	Subject to redeliberating the ED's measurement requirements, tentatively affirmed that the probability recognition criterion should be omitted from IAS 37 (June 2006 and February 2008.)
<i>Satisfying the definition of a liability</i>	
<p>12 Items are recognised as non-financial liabilities in accordance with this [draft] Standard only if they satisfy the definition of a liability in the <i>Framework</i>.</p>	Clarified that the phrase 'expected to' in the definition of a liability is <i>not</i> intended to imply that there must be a particular degree of certainty that an outflow of benefits will occur before an item meets the <i>Framework's</i> definition of a liability (May 2006).
<p>13 An essential characteristic of a liability is that the entity has a present obligation arising from a past event. For a past event to give rise to a present obligation, the entity must have little, if any, discretion to avoid settling it. A past event that creates a present obligation is sometimes referred to as an obligating event.</p>	<p>Tentatively concluded that the existence of a present obligation distinguishes a liability from a business risk. Tentatively decided that the existence of a present obligation distinguishes a liability from a business risk, emphasising that:</p> <ul style="list-style-type: none"> • an obligation exists when an entity has a duty or responsibility to an external party to act or perform in a particular way. • a present obligation exists independently of future events. • a potential outflow of economic benefits does not distinguish a
<p>14 Because most liabilities arise from legal obligations, settlement can be enforced by a court. Some liabilities arise from constructive obligations, in which the obligation is created by, or inferred from, an entity's past actions rather than arising from an explicit agreement</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>with another party or from legislation. In some jurisdictions, constructive obligations may also be enforced by a court, for example in accordance with the legal principle known in the United States as promissory estoppel or principles having the same effects under other legal systems.</p>	<p>liability from a business risk because both are capable of resulting in an outflow of economic benefits. A business risk is also capable of resulting in an inflow of economic benefits.</p> <p>Consequently:</p> <ul style="list-style-type: none"> • an action or event, by itself, does not give rise to a present obligation. A mechanism that enables an external party to call upon the entity to act or perform in a particular is also required. • a law (including contract law) or regulation, by itself, does not give rise to a present obligation; an action or event is also required. However, laws and regulations are examples of mechanisms that may enable an external party to call upon the entity to act or perform in a particular way. • a non-binding action or event in a jurisdiction where there is a mechanism that enables an external party to call upon the entity to act or perform in a particular way does not give rise to a present obligation. • planning a future action or event in a jurisdiction where there is a mechanism that enables an external party to call upon the entity to act in a particular way does not give rise to a present obligation. (March, May and July 2007).
<p>15 In the absence of legal enforceability, particular care is required in determining whether an entity has a present obligation that it has little, if any, discretion to avoid settling. In the case of a constructive obligation, this will be the case only if:</p> <p>(a) the entity has indicated to other parties that it will accept</p>	<p>Tentatively affirmed the words proposed in the ED and also tentatively concluded that any final standard should emphasise that:</p> <ul style="list-style-type: none"> • a recognised constructive obligation is a liability, not a business risk. Therefore, consistently with the Board's observations on distinguishing a business risk from a liability, a present obligation

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>particular responsibilities;</p> <p>(b) the other parties can reasonably expect the entity to perform those responsibilities; and</p> <p>(c) the other parties will either benefit from the entity's performance or suffer harm from its non-performance.</p>	<p>must exist.</p> <ul style="list-style-type: none"> • a management decision or an intention to incur a future outflow of economic benefits by itself is not sufficient to justify recognising a liability. (July 2007)
<p>16 In determining whether a liability exists at the balance sheet date, an entity takes into account all available evidence, for example the opinion of experts. The evidence considered includes any additional information provided by events after the balance sheet date, but only to the extent that the information provides evidence of circumstances that existed at the balance sheet date.</p>	<p>Tentatively agreed to include additional guidance on determining whether a present obligation exists (May 2006).</p> <p>Tentatively decided to use indicators to provide guidance on how to address uncertainty about the existence of a present obligation in any final standard. For example, past experience with similar items; the experience of other entities with identical or similar items; the opinion of experts; and additional evidence provided after the balance sheet date about conditions that existed on the balance sheet date. (July 2007)</p> <p>Acknowledged concerns that indicators could be perceived as a checklist of rules and therefore tentatively concluded that any final standard should emphasise that:</p> <ul style="list-style-type: none"> • addressing uncertainty about the existence of a present obligation requires judgement; • when exercising judgement an entity should consider all of the available evidence; and • indicators should not be read as a minimum list of conditions that must be satisfied before concluding that a present obligation exists. (July 2007)

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
	<p>Also considered including an explicit 'more likely than not' criterion, in addition to indicators, in the text of any final standard. The Board was split on this issue and decided to discuss this further at a future meeting (July 2007). The Board reconsidered the issue and tentatively decided not to include the criterion on the grounds that the assessment of whether an entity had a present obligation should be a matter for judgement, taken on the basis of all the available evidence (October 2007).</p> <p>The Board tentatively decided to add a requirement for entities to disclose information about situations of uncertainty in which they have judged that they do not have a liability, but might be wrong. Such situations would include those arising when legal, arbitration or governmental proceedings are in process, pending or threatened against the entity. (December 2008)</p> <p>The Board discussed what an entity should disclose when it is uncertain whether it has a present obligation, but has judged that it does not. The Board decided tentatively to help preparers identify when disclosure is required, by cross-referring from the disclosure requirement back to the discussion of uncertainty in the recognition section of the standard, and giving examples of situations involving uncertainty. The Board also tentatively decided that an entity should disclose the following, unless the possibility of any outflow of economic benefits in settlement is remote:</p> <ul style="list-style-type: none"> (a) a description of the circumstances; (b) an indication of the financial effects; (c) an indication of uncertainties relating to the amounts or timing of any outflow of economic benefits; and (d) the possibility of any reimbursement. (June 2009)
17 Only present obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its	See comments against paragraphs 13 and 14.

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>business) result in liabilities. For example, an entity has a liability for its obligation to decommission an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. Regardless of its future actions, the entity has little, if any, discretion to avoid settling that obligation.</p>	
<p>18 An intention to incur an outflow of economic resources embodying economic benefits in the future is not sufficient to give rise to a liability, even if the outflow is necessary for the continuation of the entity's future operations. For example, because of commercial pressures or legal requirements, an entity may intend or need to incur expenditure to operate in a particular way in the future (for example, by installing smoke filters in a particular type of factory). Because the entity has the discretion to avoid the future expenditure by its future actions, for example by changing its operations, it has no present obligation for that future expenditure and a liability does not exist.</p>	<p>See comments against paragraphs 13 and 14.</p>
<p>19 A present obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the specific party to whom the obligation is owed—indeed, the obligation may be to the public at large. Because a liability always involves an obligation to another party, it follows that a decision by the management of an entity does not normally give rise to a present obligation at the balance sheet date. A present obligation arises only if the decision has been communicated before the balance sheet date to those it affects in a sufficiently specific manner to raise a valid expectation in them that they can reasonably rely on the entity to perform.</p>	<p>See comments against paragraphs 13 and 14.</p>

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>20 An event that does not give rise to a present obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no present obligation to remedy the consequences. However, a present obligation arises if a new law requires the existing damage to be rectified or if the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.</p>	<p>See comments against paragraphs 13 and 14.</p>
<p>21 When a new law is proposed, a present obligation under the operation of that law arises only when the law is substantively enacted, which is when the remaining steps in the enactment process will not change the outcome. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make legislation substantively enacted in all jurisdictions. In some cases, substantive enactment does not occur until the legislation is actually enacted.</p>	<p>See comments against paragraphs 13 and 14.</p>
Contingencies	
<p>22 In some cases, an entity has a liability even though the amount that will be required to settle that liability is contingent (or conditional) on the occurrence or non-occurrence of one or more uncertain future events. In such cases, an entity has incurred two obligations as a result of a past event—an unconditional obligation and a conditional obligation.</p>	<p>Emphasised that a stand ready obligation is a liability, not a business risk therefore a present obligation must exist before an item can be described as a stand ready obligation. (March 2007)</p> <p>Tentatively decided to amend the ED's description of a stand ready obligation to explain that the term 'stand ready obligation' describes situations when there is uncertainty about the outflow of economic benefits required to settle a present obligation. Importantly, 'stand ready obligation' does not describe uncertainty about the existence of the present obligation. (May 2007)</p>
<p>23 When the amount that will be required to settle a liability is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability arising from the unconditional obligation is recognised independently of the probability that the uncertain future</p>	

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<p>event(s) will occur (or fail to occur). Uncertainty about the future event(s) is reflected in the measurement of the liability recognised.</p>	<p>Agreed that contractual situations provide the clearest and most frequent examples of stand ready obligations. However, the Board also tentatively concluded that the term applies to both contractual and non-contractual situations. (March 2007)</p>
<p>24 Liabilities for which the amount that will be required in settlement is contingent on the occurrence or non-occurrence of a future event are sometimes referred to as 'stand ready' obligations. This is because the entity has an unconditional obligation to stand ready to fulfil the conditional obligation <i>if</i> the uncertain future event occurs (or fails to occur). The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits.</p>	
<p>25 An example of a stand ready obligation is a product warranty. The issuer of a product warranty has an unconditional obligation to stand ready to repair or replace the product (or, expressed another way, to provide warranty coverage over the term of the warranty) and a conditional obligation to repair or replace the product if it develops a fault. The issuer recognises its liability arising from its unconditional obligation to provide warranty coverage. Uncertainty about whether the product will require repair or replacement (ie the conditional obligation) is reflected in the measurement of the liability.</p>	
<p>26 Similarly, an entity that is involved in defending a lawsuit recognises the liability arising from its unconditional obligation to stand ready to perform as the court directs. Uncertainty about the possible penalties the court may impose (ie the conditional obligation) is reflected in the measurement of the liability.</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<i>Reliable measurement</i>	
27 In many cases, the amount of a non-financial liability must be estimated. The use of estimates is an essential part of the preparation of financial statements and does not of itself undermine the reliability of the statements. Except in extremely rare cases, an entity will be able to determine a reliable measure of a liability.	June 2009 – Board considered concerns that circumstances in which litigation liabilities cannot be measured reliably are more frequent than ‘extremely rare’. The Board decided that no changes were needed.
28 In the extremely rare case in which an entity cannot measure reliably a non-financial liability, the liability does not qualify for recognition in accordance with this [draft] Standard. In such cases, the entity discloses information about the non-financial liability in accordance with paragraph 69. The non-financial liability is recognised initially in the period in which it can be measured reliably.	
<i>Measurement</i>	
<i>Amount that an entity would rationally pay to settle or transfer the obligation</i>	
29 An entity shall measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date.	Affirmed understanding that the both IAS 37 measurement objective and the proposed measurement objective are based on a current settlement notion – ie the amount an entity would pay to settle or transfer a liability <i>on the balance sheet date</i> , not in the future. (September 2006). Tentatively decided to add guidance clarifying that, if the amount the entity would pay to <i>settle</i> the obligation is different from the amount it would pay to <i>transfer</i> the obligation, the amount the entity would <i>rationally</i> pay is the lower of the two amounts. (February 2008)
30 In some cases, contractual or other market evidence can be used to determine the amount that would be required to settle or transfer the obligation on the balance sheet date. However, in many cases,	Tentatively decided to include an explanation of how measurements based on expected value provide useful information about liabilities within the scope of IAS 37. (December 2007)

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<p>observable market evidence of the amount that the entity would rationally pay to settle the obligation or to transfer it to a third party will not exist and the amount must be estimated.</p>	
<p>31 The basis of estimating many non-financial liabilities will be an expected cash flow approach, in which multiple cash flow scenarios that reflect the range of possible outcomes are weighted by their associated probabilities. An expected cash flow approach is an appropriate basis for measuring both liabilities for a class of similar obligations and liabilities for single obligations. This is because it is likely to be the basis of the amount that an entity would rationally pay to settle the obligation(s) or to transfer the obligation(s) to a third party on the balance sheet date. In contrast, a liability for a single obligation measured at its most likely outcome would not necessarily represent the amount that the entity would rationally pay to settle or to transfer the obligation on the balance sheet date.</p>	<p>Tentatively agreed that any final Standard should include more guidance on how to apply a measurement objective based on a current settlement notion than is presently in provided in the exposure draft. (September 2006)</p> <p>Following the roundtables, asked the staff to focus on developing guidance on the building blocks of an expected value calculation, similar to that in IAS 36 <i>Impairment of Assets</i>.</p> <p>The Board discussed how an entity could estimate this amount using expected cash flow techniques. The Board decided tentatively to clarify that a risk adjustment would be required only if, and to the extent that, uncertainty about the expected cash flows affects the amount that the entity would rationally pay to be relieved of its obligation.</p>
<p>32 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience with similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional information provided by events after the balance sheet date, but only to the extent that the information relates to the obligation existing at the balance sheet date.</p>	<p>The Board also discussed how an entity would use expected cash flow estimation techniques to measure an obligation to undertake a service, such as an asset retirement obligation. The Board decided tentatively that the relevant cash flows are the amounts that the entity would rationally pay a contractor to undertake the service on its behalf. In the absence of an efficient market for those services, the entity could estimate the amount it would rationally pay a contractor by estimating the amount it would itself charge another party to carry out the service. The latter amount would include the entity's estimates of the costs it expects to incur in fulfilling the obligation and the compensation it requires for providing the service inherent in the obligation. (April 2009).</p>
<p>33 When an entity is estimating the amount of a non-financial liability that is contingent on the occurrence (or non-occurrence) of one or more uncertain future events, the measurement of the liability reflects the uncertainty about the future event(s). For example, in estimating a liability for a product warranty obligation, an entity considers the likelihood of claims under the warranty occurring and the amount and</p>	

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timing of the cash flows that would be required to meet those claims.	
34 The non-financial liability is measured before tax, because the tax consequences of the liability, and changes in it, are accounted for in accordance with IAS 12.	
<i>Risks and uncertainties</i>	
35 In measuring a non-financial liability in accordance with paragraph 29, an entity shall include the effects of risks and uncertainties.	See comments above
36 Risk describes variability of outcome. A risk adjustment typically increases the amount at which a liability is measured relative to a measurement that does not include a risk adjustment, all other things being equal. This is because it reflects the price that entities demand for the uncertainties and unforeseeable circumstances inherent in the liability. Caution is needed in making judgements under conditions of uncertainty, so that liabilities are not understated. However, uncertainty does not justify deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated at the high end of the range of those reasonably expected, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a non-financial liability.	See comments above
37 The uncertainties about the amount or timing of the outflow of economic benefits are disclosed in accordance with paragraph 68(c).	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<i>Present value</i>	
<p>38 When an entity measures a non-financial liability using an estimation method that involves projections of future cash flows, it shall discount the cash flows using a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.</p>	See comments above
<p>39 Because of the time value of money, estimated cash outflows that arise soon after the balance sheet date are more onerous than those of the same amount that arise later. Therefore, cash flows are discounted.</p>	
<p>40 When an entity reflects the effects of risks and uncertainties by adjusting the discount rate rather than by adjusting the estimated cash flows, the resulting discount rate is typically lower than a risk-free rate.</p>	
<i>Future events</i>	
<p>41 When measuring a non-financial liability, an entity shall reflect the effects of future events that may affect the amount that will be required to settle the obligation.</p>	See comments above
<p>42 Only the effects of future events that may affect the amount that will be required to settle an obligation without changing the nature of the obligation are reflected in the measurement of a non-financial liability. For example, an entity's past experience may indicate that the cost of cleaning up a site at the end of its life may be reduced by future changes in technology. Accordingly, when measuring the liability, the</p>	

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<p>entity reflects an assessment of both the assumed effects of the future technology on the cost of cleaning up the site and the likelihood that such technology will be available. In contrast, the effects of future events that create new obligations (or change or discharge existing obligations) are not reflected in the measurement of a liability. For example, the effects of possible new legislation are not reflected in the measurement of a liability because they create or change the obligation itself.</p>	
<p><i>Subsequent measurement</i></p>	
<p>43 An entity shall review the carrying amount of a non-financial liability at each balance sheet date and adjust it to reflect the current amount that the entity would rationally pay to settle the present obligation or to transfer it to a third party on that date.</p>	
<p>44 An entity subsequently remeasures a non-financial liability in accordance with paragraphs 30-42. Therefore, remeasurement reflects any changes in:</p> <ul style="list-style-type: none"> (a) the expected amount and timing of the economic benefits that will be required to settle the obligation; (b) the risks and uncertainties surrounding the obligation; and (c) the discount rate used to measure the liability. 	
<p>45 Changes in the carrying amount of a non-financial liability resulting from the passage of time are recognised as a borrowing cost.</p>	

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Reimbursements	
<p>46 When an entity has a right to be reimbursed by a third party for some or all of the economic benefits that will be required to settle a non-financial liability, it recognises the reimbursement right as an asset if the reimbursement right can be measured reliably. The amount recognised for the reimbursement right shall not exceed the amount of the non-financial liability.</p>	<p>Tentatively decided to remove the ‘asset cap’ from IAS 37. The ‘asset cap’ limits the amount recognised for a reimbursement right to the amount recognised for the related liability. Also decided tentatively not to specify a measurement objective for reimbursement rights and that the standard should state explicitly that the assumptions used to measure a reimbursement right should be consistent with those used to measure the related liability. (June 2009).</p>
<p>47 Sometimes, an entity has a right to look to another party to provide part or all of the economic benefits that will be required to settle a non-financial liability (for example, through insurance contracts, indemnity clauses or suppliers’ warranties). The other party may either reimburse amounts paid by the entity or settle the amounts directly. Although the reimbursement itself is a conditional right, the unconditional right to receive reimbursement satisfies the definition of an asset and is recognised if it can be measured reliably.</p>	
<p>48 An entity shall not offset against the non-financial liability the amount recognised for the reimbursement right.</p>	
<p>49 Because the reimbursement is receivable from a third party, there would not be a legally enforceable right of set-off and, therefore, the non-financial liability and the reimbursement right are recognised separately. However, if the entity will not be liable for the amounts</p>	

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required to settle the obligation if the third party fails to pay, the entity has no liability for these amounts and they are not reflected in the measurement of the liability.	
50 In the income statement, the expense relating to a non-financial liability may be presented net of the income resulting from the reimbursement right.	
Derecognition	
51 An entity shall derecognise a non-financial liability when the obligation is settled, is cancelled or expires.	
Application of the recognition and measurement requirements	
<i>Future operating losses</i>	
52 An entity shall not recognise a liability for future operating losses.	
53 Future operating losses do not satisfy the definition of a liability because there is no present obligation arising from a past event.	
54 An expectation by the entity of future operating losses is an indication that some assets of the entity may be impaired or that some of its contracts may be onerous. An entity tests these assets for impairment in accordance with IAS 36 <i>Impairment of Assets</i> and accounts for its onerous contracts in accordance with paragraphs 55-59.	

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<i>Onerous contracts</i>	
<p>55 If an entity has a contract that is onerous, it shall recognise as a liability the present obligation under the contract. If the contract will become onerous as a result of the entity's own actions, the entity shall not recognise the liability until it has taken the action.</p>	<p>The Board tentatively decided to clarify in the standard what is meant by 'actions' in the requirements for contracts that become onerous because of the entity's own actions. (April 2008)</p>
<p>56 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party and, therefore, there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. If events or circumstances make such a contract onerous, the contract is within the scope of this [draft] Standard and a liability exists that is recognised. Executory contracts that are not onerous are outside the scope of this [draft] Standard.</p>	
<p>57 In some cases, contracts become onerous as a result of events outside the entity's control. For example, a contract that requires an entity to make specified payments regardless of whether it takes delivery of contracted products or services may become onerous if the market price of the products or services declines below the contracted price. In other cases, the event that makes the contract onerous is an action of the entity. In such cases, the liability for the onerous contract is not recognised until the entity has taken the action. For example, a contract may become onerous because the entity ceases to use the right conveyed by that contract, but continues to incur costs for its obligations under the contract. Therefore, in this example the entity does not recognise a liability until it ceases using the right conveyed</p>	<p>The Board tentatively decided to make minor drafting changes to the proposed requirements to avoid inferences that a decline in the market price of products or services necessarily makes a contract for their purchase onerous. (April 2008)</p>

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by the contract.	
58 A contract is onerous when the unavoidable costs of meeting its obligations exceed its expected economic benefits. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. If the contract is an operating lease, the entity determines the unavoidable cost by reference to the remaining lease rentals payable, reduced by estimated sublease rentals that could be reasonably obtained for the property, even if the entity does not intend to enter into a sublease.	
59 Before an entity recognises a liability for an onerous contract, it recognises any impairment loss that has occurred on assets related to that contract (see IAS 36).	
<i>Restructurings</i>	
60 The following are examples of events that are typically described as a restructuring: <ul style="list-style-type: none"> (a) sale or termination of a line of business; (b) closure of business locations in a country or region or relocation of business activities from one country or region to another; (c) changes in management structure, for example, eliminating a layer of management; and (d) reorganisations that affect the nature and focus of the entity's operations. 	
61 An entity shall recognise a non-financial liability for a cost associated with a restructuring only when the definition of a	The Board tentatively reaffirmed the proposals but noted concerns from constituents that the change in recognition requirements would lead to a loss

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<p>liability has been satisfied.</p>	<p>of information. Entities would no longer have to disclose the total cost of a planned restructuring when they started to implement, or had announced the main features of, a restructuring plan. (April 2008) The Board decided to add a requirement to disclose this information.</p> <p>The Board decided tentatively to require disclosure of:</p> <ul style="list-style-type: none"> • a description of the restructuring activity, including the facts and circumstances leading to the expected activity and the expected completion date; • for each reportable segment, the total amount of costs expected to be incurred in connection with the activity, the amount incurred in the period, and the cumulative amount incurred to date; • the expected timing of any resulting outflow of economic benefits. <p>The Board also decided tentatively to require the disclosure in the period in which an entity first implements a restructuring plan or announces its main features to those affected by it, and in any subsequent period until the restructuring is completed. (April 2009).</p>
<p>62 A liability involves a present obligation to others that leaves the entity with little, if any, discretion to avoid settling the obligation. A decision by the management of an entity to undertake a restructuring does not create a present obligation to others for costs expected to be incurred during the restructuring. Accordingly, a decision by the management of an entity to undertake a restructuring is not the requisite past event for the recognition of a liability. A cost associated with a restructuring is recognised as a liability on the same basis as if that cost arose independently of the restructuring. Paragraphs 63-65 provide additional guidance for applying the definition of a liability to specified costs that are often associated with a restructuring.</p>	

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<p><i>Termination benefits</i></p> <p>63 An entity shall apply the requirements in paragraphs 132-147 of [draft] IAS 19 to benefits that are provided in connection with the termination of an employee's employment.</p>	<p>The Board considered comments received on the exposure draft's proposals for termination benefits and made the following tentative decisions. (May 2008):</p> <ul style="list-style-type: none"> • In the proposed definition of voluntary termination benefits, the term 'short period' refers to a period between the offer for voluntary termination and the actual termination of the employment. • If an entity offers voluntary termination benefits and cannot withdraw that offer, the entity should recognise a liability in the same way as for involuntary termination benefits. • Before an obligation exists for involuntary termination benefits, employees need to know whether they are in the class of employees whose employment will be terminated. • Because the definition of voluntary termination benefits refers to a short period, voluntary termination benefits do not relate to future services. <p>The drafting will be discussed at a future meeting</p>
<p><i>Contract termination costs</i></p> <p>64 An entity shall apply the requirements in paragraphs 55-59 to costs to terminate a contract before the end of its term and to costs that will continue to be incurred under a contract for its remaining term without equivalent economic benefit to the entity. Accordingly, a liability for costs to terminate a contract that was not previously determined to be an onerous contract before the end of its term shall be recognised when the entity terminates the contract in accordance with the</p>	

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<p>contract terms. For example, termination would occur when the entity gives written notice to the counterparty within the notification period specified by the contract or has otherwise negotiated a termination with the counterparty. Similarly, a liability for costs that will continue to be incurred under a contract that was not previously determined to be onerous for its remaining term without economic benefit to the entity shall be recognised when the entity ceases using the right conveyed by the contract. For example, any additional liability for payments to be made under an operating lease for a factory that will no longer be used is recognised when the entity ceases to use the leased factory.</p>	
<p><i>Other associated costs</i></p> <p>65 Other costs associated with a restructuring include, but are not limited to, such costs as:</p> <ul style="list-style-type: none"> (a) retraining or relocating continuing staff; (b) consolidating or closing facilities; or (c) investing in new systems and distribution networks. <p>An entity shall recognise liabilities for such costs when the liability is incurred (generally, when goods or services associated with the activity are received).</p>	
<p>66 If an entity starts to implement a restructuring plan or announces its main features after the balance sheet date, disclosure is required in accordance with IAS 10 <i>Events after the Balance Sheet Date</i>.</p>	

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Disclosure	
<p>67 For each class of recognised non-financial liability, an entity shall disclose the carrying amount of the liability at the period-end together with a description of the nature of the obligation.</p>	
<p>68 For any class of recognised non-financial liability with estimation uncertainty, an entity shall also disclose:</p> <ul style="list-style-type: none"> (a) a reconciliation of the carrying amounts at the beginning and end of the period showing: <ul style="list-style-type: none"> (i) liabilities incurred; (ii) liabilities derecognised; (iii) changes in the discounted amount resulting from the passage of time and the effect of any change in the discount rate; and (iv) other adjustments to the amount of the liability (eg revisions in estimated cash flows that will be required to settle it). (b) the expected timing of any resulting outflows of economic benefits. (c) an indication of the uncertainties about the amount or timing of those outflows. If necessary to provide adequate information, an entity shall disclose the major assumptions made about future events, as described in paragraph 41. (d) the amount of any right to reimbursement, stating the amount of any asset that has been recognised for that right. 	

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<p>69 If a non-financial liability is not recognised because it cannot be measured reliably, an entity shall disclose that fact together with:</p> <ul style="list-style-type: none"> (a) a description of the nature of the obligation; (b) an explanation of why it cannot be measured reliably; (c) an indication of the uncertainties relating to the amount or timing of any outflow of economic benefits; and (d) the existence of any right to reimbursement. 	<p>Discussed the possibility of developing a disclosure principle that would allow users to evaluate an entity's determination of whether a liability exists in cases in which there is uncertainty about that determination. The Board, however, was concerned that such a principle would be impracticable. Therefore, the Board directed the staff to explore more specific disclosure requirements, for example to capture asserted legal claims for which the entity concludes that it has no present obligation. (July 2006)</p> <p>The Board tentatively decided that the revised IAS 37 should require entities to disclose information about possible obligations, such as those arising from legal, arbitration and governmental proceedings that are in progress, pending or threatened against the entity. The information disclosed should include an estimate of the amounts involved. (December 2008).</p> <p>The Board decided tentatively to help preparers identify when disclosure is required, by cross-referring from the disclosure requirement back to the discussion of uncertainty in the recognition section of the standard, and giving examples of situations involving uncertainty. The Board also tentatively decided that an entity should disclose the following, unless the possibility of any outflow of economic benefits in settlement is remote:</p> <ul style="list-style-type: none"> (a) a description of the circumstances; (b) an indication of the financial effects; (c) an indication of uncertainties relating to the amounts or timing of any outflow of economic benefits; and (d) the possibility of any reimbursement. (June 2009)
<p>70 In determining which non-financial liabilities may be aggregated to form a class, an entity considers whether the nature of the items is sufficiently similar for a single statement about them to fulfil the</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>requirements of paragraphs 67-69. Thus, it may be appropriate to treat as a single class of non-financial liabilities amounts relating to warranties of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts subject to legal proceedings.</p>	
<p>71 In extremely rare cases, disclosure of some or all of the information required by paragraphs 68 and 69 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the non-financial liability. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.</p>	<p>Considered whether recognition of a liability may prejudice the outcome of legal proceedings. The Board observed that it had proposed retaining the existing prejudicial disclosure exemption (paragraph 92 of IAS 37) and concluded that no further exemptions are required. (July 2006)</p>
<p><i>Transition and effective date</i></p>	
<p>72 An entity shall apply this [draft] Standard from the beginning of its first annual period commencing on or after [1 January 2007]. Comparative information shall not be restated. Earlier application is encouraged. However, an entity shall apply this [draft] Standard only from the beginning of an annual period commencing on or after [date the [draft] Standard is issued]. If an entity applies this [draft] Standard before the effective date, it shall disclose that fact.</p>	

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<p>Withdrawal of IAS 37 (issued 1998)</p> <p>73 This [draft] Standard supersedes IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> (issued in 1998).</p>	
<p><i>Proposed Amendments to International Accounting Standard 19</i></p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>EMPLOYEE BENEFITS</p> <p>For ease of reference, paragraphs proposed to be amended are shown with new text underlined and deleted text struck through. Proposed new paragraphs are not underlined.</p>	
<p>Definitions</p> <div data-bbox="199 628 1025 708" style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Paragraph 7 is amended as follows.</p> </div> <p>7 The following terms are used in this Standard with the meanings specified:</p> <p>...</p> <p><u>Termination benefits</u> are employee benefits payable as a result of provided in connection with the termination of an employee's employment. They may be either:</p> <p>(a) <u>involuntary termination benefits, which are benefits provided as a result of an entity's decision to terminate an employee's employment before the normal retirement date;</u> or</p> <p>(b) <u>voluntary termination benefits, which are benefits offered for a short period in exchange for an employee's decision to accept voluntary redundancy termination of employment in exchange for those benefits.</u></p> <p><u>The <i>minimum retention period</i> is the period of notice that an entity is required to provide to employees in advance of</u></p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p><u>terminating their employment. The notice period may be specified by law, contract or union agreement, or may be implied as a result of customary business practice.</u></p> <p>...</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>Termination benefits</p> <div data-bbox="197 440 1025 580" style="border: 1px solid black; padding: 5px;"> <p>Paragraph 132 is amended; paragraph 135 is moved, amended and renumbered as 133; paragraphs 134 and 135 are added; and paragraph 136 is moved and amended as follows.</p> </div> <p>132 This Standard deals with termination benefits separately from other employee benefits because, <u>except as described in paragraphs 139 and 140</u>, the event which that gives rise to an obligation is the <u>termination of employment</u> rather than employee service.</p> <p>135<u>133</u> An entity may be committed, by legislation, by contractual or other agreements with employees or their representatives or by a constructive obligation based on business practice, custom or a desire to act equitably, to make payments (or provide other benefits) to employees when it terminates their employment. Such payments are termination benefits. Termination benefits are typically lump-sum payments, but sometimes also include:</p> <ul style="list-style-type: none"> (a) enhancement of retirement benefits or of other post-employment benefits, either indirectly through an employee benefit plan or directly; and (b) salary until the end of a specified notice period if the employee renders no further service that provides economic benefits to the entity. <p>134 Involuntary termination benefits are often provided in accordance with the terms of an ongoing benefit plan. For example, they may be specified by statute, employment contract or union agreement, or may be implied as a result of the employer's past practice of providing</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>similar benefits. In other cases, they are provided at the discretion of the entity and are incremental to what an employee would otherwise be entitled to, for example because the entity has no ongoing benefit plan or provides benefits in addition to those specified by an ongoing benefit plan.</p> <p>135 Some entities offer benefits to encourage employees to accept voluntary termination of employment before normal retirement date. For the purpose of this [draft] Standard, such benefits are termination benefits only if they are offered for a short period. Other benefits offered to encourage employees to accept voluntary termination of employment (for example, those available under the terms of an ongoing benefit plan) are post-employment benefits because the benefits are payable in exchange for the employees' service.</p> <p>136 Some employee benefits are payable provided regardless of the reason for the employee's departure. The payment of such benefits is certain (subject to any vesting or minimum service requirements) but the timing of their payment is uncertain. Although such benefits are described in some countries jurisdictions as termination indemnities, or termination gratuities, they are post-employment benefits, rather than termination benefits and an entity accounts for them as post-employment benefits. Some entities provide a lower level of benefit for voluntary termination of employment at the request of the employee (in substance, a post-employment benefit) than for involuntary termination at the request of the entity. The additional benefit payable on involuntary termination of employment is a termination benefit.</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p><i>Recognition</i></p> <div data-bbox="199 440 1025 549" style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Paragraphs 133, 134, 137 and 138 are deleted and paragraphs 137-142 are added as follows.</p> </div> <p>137 An entity shall recognise a liability and expense for voluntary termination benefits when the employee accepts the entity's offer of those termination benefits.</p> <p>138 Except as specified in paragraph 139, an entity shall recognise a liability and expense for involuntary termination benefits when it has a plan of termination that it has communicated to the affected employees, and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. The plan shall:</p> <ul style="list-style-type: none"> (a) identify the number of employees whose employment is to be terminated, their job classifications or functions and their locations, and the expected completion date; and (b) establish the benefits that employees will receive upon termination of employment (including but not limited to cash payments) in sufficient detail to enable employees to determine the type and amount of benefits they will receive when their employment is terminated. <p>139 If involuntary termination benefits are provided in exchange for employees' future services, an entity shall recognise the termination benefits as a liability and an expense over the period of the employees' future services (ie from the date specified in paragraph 138 to the date that employment is terminated).</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p>140 In some cases, involuntary termination benefits are provided in exchange for employees' future services. For the purpose of this [draft] Standard, this is the case if those benefits:</p> <ul style="list-style-type: none"> (a) are incremental to what the employees would otherwise be entitled to receive (ie the benefits are not provided in accordance with the terms of an ongoing benefit plan); (b) do not vest until the employment is terminated; and (c) are provided to employees who will be retained beyond the minimum retention period. <p>141 In some cases, employers provide involuntary termination benefits that are expressed as an enhancement of the existing terms of an ongoing benefit plan. Examples are a doubling of benefits specified by employment legislation and an increase in retirement benefits to be provided through a post-employment benefit plan. If the termination benefits that are attributable to the enhancement of the ongoing benefit plan do not represent a change to the terms of the ongoing plan (and therefore would not apply to employees leaving service in the future) and satisfy the criteria in paragraph 140(b) and (c), they shall be recognised in accordance with paragraph 139.</p> <p>142 When termination benefits are provided through a post-employment benefit plan, the liability and expense recognised initially include only the value of the additional benefits that arise from providing those termination benefits. Other changes in any defined benefit obligation for the post-employment benefit plan resulting from employees leaving employment at a date earlier than originally assumed should be recognised either as actuarial gains or losses or as a curtailment.</p>	

EXPOSURE DRAFT	CURRENT PROPOSALS OF THE BOARD FOLLOWING REDELIBERATIONS
<p><i>Measurement</i></p> <div data-bbox="197 440 1025 580" style="border: 1px solid black; padding: 5px;"> <p>Paragraphs 139 and 140 are amended and renumbered as 143 and 145, and paragraph 144 and the illustrative example are added as follows.</p> </div> <p>139143 Where When termination benefits fall are due more than 12 months after the balance sheet date, they an entity shall be discounted them using the discount rate specified in paragraph 78 and shall subsequently follow the recognition and measurement requirements for post-employment benefits.</p> <p>144 Accordingly, when termination benefits are provided through a post-employment benefit plan, their initial measurement and subsequent recognition and measurement are consistent with the requirements of IAS 19 for the underlying post-employment benefit plan.</p> <p>140145 In the case of an offer made to encourage voluntary redundancy, the Measurement of a liability for unvested involuntary termination benefits shall be based on the number of employees expected to accept the offer reflect the likelihood of employees leaving voluntarily before the termination benefits vest.</p> <div data-bbox="197 1171 1025 1219" style="border: 1px solid black; padding: 5px;"> <p>Example illustrating paragraphs 138-145</p> </div> <p><i>Background</i></p> <p>As a result of a recent acquisition, an entity plans to close a factory in 12 months and, at that time, terminate the employment of all of the</p>	

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<p>remaining employees at the facility. Because the entity needs the expertise of the employees at the facility to complete some contracts, it announces a termination benefit plan as follows. Each employee who stays and renders service for the full 12-month period will receive as a termination benefit on the termination date a cash payment of three times the amount specified by employment legislation.</p> <p>The entity's usual practice is to pay only the minimum termination benefits specified by employment legislation. For the employees at the factory, this minimum amounts to 10,000 per employee. Employment legislation also requires the entity to give 60 days' notice of its intention to terminate employment.</p> <p>There are 120 employees at the factory, 20 of whom are expected to leave voluntarily before closure. Therefore, the total expected cash flows under the termination benefit plan are 3,200,000 (ie $20 \times 10,000 + 100 \times 30,000$).</p> <p>As required by paragraph 141, the entity accounts for the benefits provided in accordance with the ongoing benefit plan (ie employment legislation) and the enhancement separately.</p> <p><i>Ongoing benefit plan</i></p> <p>A liability of 1,200,000 (ie $120 \times 10,000$) for the termination benefits provided in accordance with the ongoing benefit plan is recognised when the plan of termination is announced. The liability represents the benefits of 1,200,000 that the entity is required to pay in accordance with legislation.</p> <p><i>Incremental benefits</i></p> <p>The expected cash flows for the termination benefits that are incremental to what the employees would otherwise be entitled to</p>	

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<p>receive (and relate to future services) are 2 million (ie $100 \times 20,000$). In this example, discounting is not required, so a liability and expense of 166,667 (ie $2,000,000 \div 12$) is recognised in each month during the future service period of 12 months. If the number of employees expected to leave voluntarily before closure changes, the entity makes corresponding adjustments to its estimate of the expected cash flows for termination benefits and hence the liability recognised.</p>	

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<p><i>Disclosure</i></p> <div data-bbox="199 440 1025 549" style="border: 1px solid black; padding: 5px;"> <p>Paragraph 141 is deleted and paragraphs 142 and 143 are amended and renumbered as 146 and 147 as follows.</p> </div> <p>142¹⁴⁶ As required by IAS 1, an entity discloses the nature and amount of an expense if it is material. The expense for Termination benefits may result in an expense needing to be disclosure disclosed in order to comply with this that requirement.</p> <p>143¹⁴⁷ Where <u>When</u> required by IAS 24, Related Party Disclosures an entity discloses information about termination benefits for key management personnel.</p>	
<p>Effective Date</p> <div data-bbox="199 999 1025 1078" style="border: 1px solid black; padding: 5px;"> <p>Paragraph 159D is added as follows.</p> </div> <p>159D An entity shall apply the amendments in [draft] paragraphs 7 and 132-147 from the beginning of its first annual period commencing on or after [1 January 2007]. Comparative information shall not be restated. Earlier application is encouraged. However, an entity shall apply the amendments only from the beginning of an annual period commencing on or after [date the amendments are issued]. If an entity applies the amendments before the effective</p>	

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date, it shall disclose that fact.	