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DATE:	8 JULY 2005
MEMO TO:	MEMBERS OF THE IPSASB
FROM:	LI LI LIAN
SUBJECT:	**STATUS OF IASB PROJECTS AS AT JUNE 2005**

ACTION REQUIRED

The Board is asked to **note** the update on the IASB work program.

AGENDA MATERIAL:

		Pages
Appendix 1:	IASB Timetable	11.358
Appendix 2:	IFRIC Update	11.359 – 11.360
Appendix 3:	Summary of proposed amendments to IAS 37	11.361 – 11.364

BACKGROUND

This memorandum provides an update of the developments in the IASB's work program since the IPSASB's meeting in Oslo in March 2005. The information contained in this update is drawn from IASB Updates (February 2005 – June 2005) and a review of the IASB web site www.iasb.org as at 7 July 2005. The timetable (located in Appendix 1) which is extracted from the IASB's Insight May/June 2005 edition shows the IASB's current expectations about the timing of projects on its active agenda. Some of the projects on the work program of the IASB have not been dealt with in this memo because they appear less relevant to the public sector.

Staff have also identified the Interpretations that have been issued and those that the IFRIC intends to issue during the first half of 2005. The issues currently being discussed by IFRIC are identified in Appendix 2.

DOCUMENTS ISSUED RECENTLY

Documents issued (and withdrawn) by the IASB and IFRIC since the last meeting are:

	Date of Issue	**Document**
1	6 April 05	IFRIC: Draft Interpretation D15, "Reassessment of Embedded Derivatives" (comment period closed 31 May 2005)
2	29 April 05	IASB: ED of Proposed Amendment to IFRS 1 and IFRS 6 (comment period closed 3 June 2005)
3	8 April 05	Staff questionnaire on possible modifications of the recognition and measurement principles in IFRSs for use in IASB standards for small and medium-sized entities (SMEs) (comment period closed 30 June 2005)

	Date of Issue	Document
4	14 April 05	IASB: Amendment to IAS 39 on cash flow hedge accounting of forecast intragroup transactions
5	19 May 05	IFRIC: D16, "Scope of IFRS 2" (comments due 18 July 2005)
6	19 May 05	IFRIC: D17, "IFRS 2 – Group and Treasury Share Transactions" (comments due 18 July 2005)
7	16 June 05	IASB: Amendment to IAS 39 on the fair value option
8	25 June 05	IASB: Withdrawal of IFRIC 3, "Emission Rights" (for reasons of withdrawal, please refer to Appendix 2 – IFRIC Update)
9	30 June 05	IASB: ED to amend IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" and IAS 19, "Employee Benefits" (comments due 28 October 2005)
10	30 June 05	IASB: ED on application of the purchase method (Business Combinations Phase II) (comments due 28 October 2005)
11	30 June 05	IASB: ED to amend IAS 27, "Consolidated and Separate Financial Statements" on minority interests arising from the Business Combinations Phase II project (comments due 28 October 2005)

DOCUMENTS ANTICIPATED TO BE ISSUED IN 2ND HALF OF 2005

Documents anticipated to be issued by the IASB and IFRIC in the second half of 2005 are:

	Document
1	IASB: IFRS 7, "Financial Instruments: Disclosures" (based on ED 7, "Financial Instruments: Disclosures, and replaced IAS 30, "Disclosures in the Financial Statements of Banks and Similar Financial Institutions"
2	IASB: IFRS to amend IFRS 4, "Insurance Contracts" and IAS 39 on financial guarantee contracts and credit insurance
3	IASB: ED to amend IAS 12, "Income Taxes"
4	IASB: ED to replace IAS 14, "Segment Reporting"
5	IASB: ED to amend IAS 38, "Intangible Assets"
6	IASB: ED to amend IAS 32, "Financial Instruments: Disclosure and Presentation" share puttable at fair value
7	IASB: ED on performance reporting from Segment A
8	IASB: Discussion Paper on measurement objectives
9	IASB: Discussion Paper on measurement commentary (MD&A)
10	IFRIC: IFRIC X, "Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First time"

	Document
11	IFRIC: IFRIC X, "Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment"
12	IFRIC: IFRIC X, "Changes in Contributions to Employee Share Purchase Plans (ESPP)"
13	IFRIC: IFRIC X, "Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions"

TECHNICAL PROJECTS

(i) Provisions, Contingent Liabilities and Contingent Assets

The PSC issued IPSAS 19, "Provisions, Contingent Liabilities and Contingent Assets" based on IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" in October 2002. On 30 June 05, the IASB issued an ED amending IAS 37 in mid-2005. The proposed changes may have implications for IPSAS 19 and the IPSASB's discussion of the social policy obligations projects.

In light of the numerous changes proposed to IAS 37 throughout the life of this project (since it commenced in 2003) and the interest on this project, staff have included an extract from the ED a summary of the main changes to IAS 37 in Appendix 3.

(ii) Revenue – Framework and IAS 18, "Revenue"

The PSC issued IPSAS 9, "Revenue from Exchange Transactions" based on IAS 18, "Revenue" in July 2001. It also issued an Invitation to Comment (ITC), "Revenue from Non-exchange Transactions (including Taxes and Transfers)". The IASB and the USA's Financial Accounting Standards Board (FASB) are working together on the revenue project. Their discussion on this issue may have implications for IPSAS 9 and may impact the IPSASB's consideration on non-exchange revenue. A discussion paper is anticipated to be issued the next year to seek public comment on proposed concepts and principles before developing EDs of amendments the "Framework for the Preparation and Presentation of Financial Statements" and IAS 18. There is no further update on this project as the IASB has not further discussed this project since the last IPSASB meeting.

(iii) Consolidation

The PSC issued IPSAS 6, "Consolidated Financial Statements and Accounting for Controlled Entities" based on IAS 27, "Consolidated Financial Statements and Accounting for Controlled Entities" in May 2000. IPSAS 6 is also currently being updated to converge with IAS 27 (December 2003 version) as part of the IPSAS Improvements project. The IASB's discussion on this issue may have implications for IPSAS 6. Currently, the IASB has 2 projects that impacts IAS 27:

- The first project proposes minor amendments on minority (non-controlling) interests emanating from the Business Combinations Phase II project. Further discussion on the Business Combinations project and consequential amendments to IAS 27 is discussed in item (ix) below.

- The second project is a longer-term project that also considers special purpose entities. There is no further update on the IASB's longer-term project on consolidation as the IASB has not further discussed or reviewed this project since the last IPSASB meeting.

(iv) Financial Instruments

IPSAS 15, "Financial Instruments: Disclosure and Presentation" was issued in December 2001. It was based on IAS 32, "Financial Instruments: Disclosure and Presentation". The IASB's discussion on the issues mentioned below may have implications for IPSAS 15. The IPSASB's work plan includes a discussion of the strategy related to financial instruments in 2007.

The IASB has nearly finalized IFRS 7, "Financial Instruments: Disclosure". It is anticipated that the IFRS will be published in July 2005. Amendments to IFRS 4, "Insurance Contracts" as a consequential change from IFRS 7 will be published later this year. The issue of IFRS 7 means that the IASB will have 3 standards on financial instruments: one on presentation (IAS 32), one on disclosure (IFRS 7) and one on recognition and measurement (IAS 39).

(v) Short-term Convergence: Segment Reporting

IPSAS 18, "Segment Reporting" was issued in June 2002. It was based on IAS 14, "Segment Reporting". The IASB's discussion on the issues mentioned below may have implications for IPSAS 18.

During 2004, the IASB agreed to consider a project to converge IAS 14 with the Financial Accounting Standards Board, USA (FASB)'s Statements of Financial Accounting Standards (SFAS) 131, "Disclosures about Segments of an Enterprise and Relates Information". Although both IAS 14 and SFAS 131 have the same objective, there are significant differences in the type of approaches adopted. IAS 14 puts emphasis on the disaggregation of an entity's consolidated financial statements, while SFAS 131 focuses more on disclosure of segment information based on the structure of an entity's internal structure (a more management approach).

In January 2005, the IASB discussed the approaches of IAS 14 and SFAS 131, and decided to adopt the management approach and to converge with SFAS 131 in the form of a new IFRS. The IASB will include questions in the invitation to comment on the Exposure Draft asking whether the proposed IFRS should depart from the management approach in SFAS 131 by setting requirements for:

- (a) the measurement of specified items; and/or
- (b) the disclosure of specified amounts that might otherwise not be given.

(vi) IAS 21 – Net investment in a foreign operation

The PSC issued IPSAS 4, "The Effects of Changes in Foreign Exchange Rates" based on IAS 21, "The Effects of Changes in Foreign Exchange Rates" in May 2000. IPSAS 4 is also currently being updated to converge with IAS 21 (December 2003 version) as part of the IPSAS Improvements Project. The IASB's discussion on this issue may have implications for IPSAS 4.

The IASB noted some inconsistency in applying paragraph 32 of IAS 21 for consolidated financial statements:

- Did the IASB intend to restrict the application of the requirement to monetary items denominated in the functional currency of either the reporting entity or the foreign operation?
- Did the IASB intend to restrict the application of the requirement to monetary items transacted between the reporting entity and the foreign operation, or would it also apply to a monetary item transacted between another member of the consolidated group and the foreign operation?

The IASB decided to amend IAS 21 as follows:

- The last two sentences of paragraph 33 would be deleted and replaced with wording that clarifies that a monetary item denominated in a third currency (a currency that is the functional currency of neither the reporting entity nor the foreign operation) may form part of the reporting entity's net investment in a foreign operation, provided that the criteria in paragraph 15 of IAS 21 are met.
- Paragraph 15 would be amended to clarify that the monetary item may be transacted between the foreign operation and any member of the consolidated group.

(vii) IAS 20, "Government Grants and Disclosure of Government Assistance"

The PSC issued an ITC on non-exchange revenue (which includes taxes and grants) in January 2004. The IASB's discussion on this IAS may impact the IPSASB's consideration on non-exchange revenue. The IASB had previously decided to amend IAS 20 by applying the accounting model for government grants contained in IAS 41, "Agriculture" to all government grants. There is no further update on this project as the IASB has not further discussed this project since the last IPSASB meeting.

(viii) Performance Reporting

The Performance Reporting Project falls within both the IPSASB's second priority to converge IPSASs with IFRSs and third priority to converge IPSASs with statistical bases of reporting.

The IASB and FASB are jointly working on the performance reporting project. As noted in the previous update, both Boards are looking at this project with a fresh start even though both Boards previously conducted projects on performance reporting independently.

Both Boards continued deliberations on the performance project. (Both Boards had a joint board meeting in April 2005.) Both Boards agreed that the goals associated with the project have such different characteristics that the work should continue to be performed in 2 segments – Segment A will focus on convergence on the required financial statement requirements; and Segment B (a longer-term project) will focus on more fundamental reconsideration of presentation and display issues for all financial statements, including the recycling and disaggregation issues.

Segment A – convergence

The Boards decided:

- That a full/complete set of financial statements includes:

  - A statement that shows balances of assets, liabilities, and equity at the beginning of the period—referred to as a *Beginning of the Period Statement of Financial Position*.
  - A statement that shows balances of assets, liabilities, and equity at the end of a period—referred to as the *End of the Period Statement of Financial Position*.
  - A statement that shows the changes in assets and liabilities occurring during the period, other than those arising from transactions with owners in their capacity as owners. That statement would include the currently required subtotal net income/profit or loss in FASB/IASB standards—referred to as a *Statement of Earnings and Comprehensive Income*.
  - A statement that shows the changes in assets and liabilities occurring during the period arising from transactions with owners in their capacity as owners—referred to as a *Statement of Changes in Equity*.
  - A statement that shows inflows and outflows of cash occurring during the period—referred to as a *Statement of Cash Flows*.
- That each individual financial statement within the full set of financial statements would be shown with equal prominence.
- To require a single Statement of Earnings and Comprehensive Income that presents a total for non-owners' changes in financial position (comprehensive income) and a required subtotal for net income/profit or loss.
- To require comparative information consisting at a minimum of full sets of financial statements for two annual periods (the current and prior annual period). This would mean an entity would present three statements of financial position and two statements of earnings and comprehensive income, statements of changes in equity, and statements of cash flows.
- Not to provide guidance on the presentation of financial information beyond the required minimum (ie full sets of financial statements for two annual periods) that an entity might provide voluntarily.
- To exclude from the scope of this project issues that would address the content of information in the notes to financial statements (other than consequential amendments).
- To exclude from the scope of this project issues that would address the content of information in interim financial statements (for IASB only).
- To publish a single ED for Segment A for both Boards.

Segment B – fundamental reconsideration

The Boards decided to:

- Develop a single standard under Segment A and Segment B that would apply broadly to all entities. (The scope of the FASB standard, however, would exclude not-for-profit organizations.)
- Include in Segment B consideration of SFAS 95, "Statement of Cash Flows", and IAS 7, "Cash Flow Statements" (equivalent IPSAS 2, "Cash Flow Statements", including whether to require use of the direct or indirect method and disaggregation and categorization issues.

The Boards will continue to explore in Segment B the issues of recycling, disaggregation, and related issues (including reconsideration of the statement of cash flows).

(ix) Business Combinations

The former IAS 22, “Business Combinations” (now replaced by IFRS 3, “Business Combinations” was part of the first phase of the Standards Program to develop an equivalent IPSAS. Consideration of IAS 22 by the IPSASB was deferred until the IASB had completed its review on business combinations. It has been further deferred pending more resources allocated to the IFRS convergence program.

As noted in the list of IFRSs/EDs issued recently, the IASB issued an ED emanating from the Business Combinations Phase II project on 30 June 05. The ED deals with the application of the acquisition method procedures (previously known as purchase method) and is a joint project with FASB.

As noted in item (iii), the section on accounting for minority (now renamed to non-controlling) interests in IAS 27 is impacted by the Business Combinations Phase II project. The ED proposing amendments to IAS 27 was issued simultaneously with the Phase II ED, ie 30 June 05. Proposed amendments include:

- Gains and losses on disposal of a subsidiary should include cumulative gains and losses reflected in equity that relate to the subsidiary and that are ‘recycled’ on loss of control of that subsidiary. Those amounts that are ‘recycled’ should be disclosed separately; and
- The portion cumulative gains and losses attributed to and reflected when an entity losses control of a subsidiary (and becomes a non-controlling interest) will not be ‘recycled’.

(x) Conceptual Framework

The IPSASB has a project to develop a conceptual framework (the current work program notes that work on this project will commence the next year).

Currently, the IASB and FASB are working towards an objective of having a single (common) conceptual framework used by both Boards. As previously reported, the Boards also agreed that the project should be divided into phases. Initially, the focus will be on aspects of the framework dealing with objectives, qualitative characteristics, elements, recognition, and measurement. The project will also incorporate decisions made from other ongoing projects such as the revenue recognition project, measurement project (currently conducted by the Canadian Accounting Standards Board), and the liabilities and equity project (joint project with FASB).

Issues that the IASB has considered and tentatively agreed are:

- Objectives of financial reporting. This includes discussion on the purposes of general purpose financial statements, who are the users of general purpose financial statements and relative roles of decision-usefulness and the stewardship or accountability of management; and
- Some of the qualitative characteristics of financial reporting information in IASB’s and FASB’s framework – relevance, predictive value, faithful representation, completeness, neutral, verifiable, comparability, understandability and materiality. The IASB also considered and rejected other types of possible characteristics such as transparency, credibility, high quality and internal consistency The IASB will continue discussion of other qualitative characteristics and trade-offs at its July 2005 meetings.

OTHER MATTERS

A IASB Technical Corrections Policy

The IASB has identified a need for a technical corrections policy to deal with certain practice problems that require changes to Standards. At present, the IASB has no means of making amendments to Standards, other than as part of a larger project, or by issuing small single issue exposure drafts. These are issues that:

- are not consequential amendments arising from other projects,
- could not be solved through interpretation by the IFRIC, and
- require a relatively quick answer.

A technical correction would address issues when it is clear that the words in a Standard are not properly conveying the IASB's intentions even when considered with the Basis for Conclusions and any related guidance. An identified technical correction should be resolved as soon as possible. If the IASB decided to amend a Standard, the proposed amendment would be published for comment on the IASB Website with notice in IASB Update. Generally, a 30-day comment period would apply. Technical corrections would be titled as such eg Technical Correction 1 (TC1), Technical Correction 2 (TC2) etc, ensuring that they are distinguishable from amendments to Standards.

The IASB discussed how issues would be filtered either as technical corrections or as those to be considered for interpretation by the IFRIC. The staff will further develop the policy in this respect. Once it is finalized, the IASB intends to publish the technical corrections policy on the IASB Website.

B Due Process of IASB and IFRIC

The International Accounting Standards Committee Foundation (IASCF)'s Trustees published for public comment two consultation documents—Due Process of IASB: Draft Handbook of Consultative Arrangements and IFRIC – Review of Operations: Consultative Document. The deadline for public comment on both documents is 31 July 2005. The procedures and arrangements described in the IASB's Draft Handbook reflect the current practice of the IASB. The handbook incorporates the recommendations developed and adopted by the IASB following its consultation in March 2004 and the relevant decisions taken by the Trustees as a result of their Constitution Review. The consultation documents *Due Process of IASB: Draft Handbook of Consultative Arrangements* and *IFRIC – Review of Operations: Consultative Document* can be viewed on the IASC Foundation Website (www.iascfoundation.org).

Appendix 1: IASB Update

The chart below shows the IASB's present expectations about the timing of projects on its active agenda, and lists the topics on its research agenda. This chart is extracted on IASB's *Insight* for April/May 2005. For projects on the IFRIC's agenda, see Appendix 2.

	2005			
	Qtr 2	**Qtr 3**	**Qtr 4**	**later**
THE ACTIVE AGENDA (see Note 1)				
Financial instruments:				
IAS 39 Fair value option	IFRS*			
IAS 39 and IFRS 4 Financial guarantee contracts and credit insurance		IFRS		
ED 7 Disclosures	IFRS			
IAS 32 Shares puttable at fair value			ED	
Joint projects with the FASB—				
A Business combinations and related issues:				
Phase II—Application of the purchase method	ED*			
Minority interests—amendment to IAS 27	ED*			
B Short-term convergence of IFRSs and US standards:				
IAS 12 *Income Taxes*			ED	
Amendment of IAS 20 (Government grants etc)				ED
Disclosures about segments (replacement of IAS 14)		ED		
IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* ED	ED*			
C Other joint projects:				
Reporting comprehensive income:				
• Segment A			ED	
• Segment B				DP
Revenue and related liabilities				DP
Conceptual framework				DP
Other IASB projects:				
Accounting standards for small and medium-sized entities (SMEs)				ED
Consolidation *possible joint project*:				
• Control ED				ED
• Special purpose entities				ED
Insurance contracts *phase II*				DP
Liabilities and equity				DP
Intangibles—amendment to IAS 38	ED			
THE RESEARCH AGENDA (see Note 2)				
Extractive activities				
Financial instruments, improvements to existing standards				
Hyperinflationary economies				
IAS 39 Interest margin hedging				
Intangible assets				
Investment entities				
Joint ventures				
Leases				
Management commentary		DP		
Measurement objectives	DP			

NOTES
1 Topics are placed on the active agenda after consultation with the Standards Advisory Council and a formal vote of the IASB in open meeting.
2 Topics that are candidates for the active agenda, but not yet under active deliberation by the IASB. They include topics being studied by other standard-setters or IASB working groups at the IASB's request.

Legend:
DP – Discussion Paper
ED – Exposure Draft
IFRS – International Financial Reporting Standard (IFRSs include International Accounting Standards and Interpretations)
* - Issued

Appendix 2: IFRIC Update

The new Chair for IFRIC is Mr Robert Garnett, an IASB member who has served as the IFRIC's acting chairman. Mr Garnett replaced Mr Kevin Stevenson (formerly also Technical Director of the IASB) following Mr Stevenson's departure. The IFRIC Chair is a non-voting chairman.

IFRIC has included on the IASB website a document identifying the items that have been considered but not added to its work program and reasons for rejecting them. The website address is: http://www.iasb.org/current/ifric_non_agenda.asp.

IFRICs Issued

1. IFRIC 1, "Changes in Existing Decommissioning, Restoration and Similar Liabilities" issued in May 2004
2. IFRIC 2, "Members' Shares in Co-operative Entities and Similar Instruments"
3. IFRIC 3, "Emission Rights" – At the IASB's June 2005 meeting, the IASB voted to withdraw IFRIC 3. IFRIC 3 specifies that emission rights (allowances) granted by government are intangible assets that should be recognized in the financial statements in accordance with IAS 38, "Intangible Assets" and that as a participant produces emissions, it recognizes a provision for its obligation to deliver allowances in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets". Some constituents had expressed concern about a resulting 'accounting mismatch' because the intangible asset is measured at historical cost while the provision is measured at the market value of the allowances needed to settle it. The IASB concluded that while IFRIC 3 is the appropriate interpretation of the existing requirements of IAS 37 and IAS 38, the 'accounting mismatch' problem suggests the need for a more comprehensive consideration of the issue. Pending that consideration, IFRIC 3 has been withdrawn.
4. IFRIC 4, "Determining whether an Arrangement contains a Lease"
5. IFRIC 5, "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"
6. IFRIC, "Amendment to SIC-12 Consolidation – Special Purpose Entities"

Draft Interpretations Issued – comment period closed

1. D1, "Emission Rights" (issued in May 2003, comment period closed on 14 July 2003)
2. D5, "Applying IAS 29 Financial Reporting in Hyperinflationary Economies for the First time" (issued on 11 March 2004, comment period closed on 14 May 2004)
3. D6, "Multi-employer Plans" (issued on 6 May 2004, comment period due on 9 July 2004) – Staff note: IFRIC decided not to proceed with this issue in light of respondents comments which note that participants in multi-employer plans are able to obtain information necessary for defined benefit accounting. This means that existing provisions in IAS 19 will apply.

4. D9, "Employee Benefit Plans with a Promised Return on Contributions or Notional Contributions" (issued 8 July 04, comment period closed 30 September 2004)
5. D10, "Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment" (issued 25 November 2004, comment period due on 11 February 2005)
6. D11, "Changes in Contributions to Employee Share Purchase Plans (ESPP)" (issued on 16 December 2004, comment period closed on 1 March 2005)
7. D12, "Service Concession Arrangements – Determining the Accounting Model" (comment period closed on 31 May 2005)
8. D13, "Service Concession Arrangements – the Financial Asset Model" (comment period closed on 31 May 2005)
9. D14, "Service Concession Arrangements – the Intangible Asset Model" (comment period closed on 31 May 2005)
10. D15, "Reassessment of Embedded Derivatives" (comment period closed on 31 May 2005)
11. D16, "Scope of IFRS 2" (comments due 18 July 2005)
12. D17, "IFRS 2-Group and Treasury Share Transactions" (comments due 18 July 2005)

Other issues currently being considered by IFRIC

1. Sale and leasebacks with repurchase agreements – in respect to IAS 17, "Leases"
2. Proposed amendments to IAS 38, "Intangible Assets" on emission rights
3. Outstanding issues in respect to IAS 19, "Employee Benefits": distinction between defined benefit and defined contribution arrangements, impact of a minimum funding requirement on asset ceiling;

Appendix 3: Proposed Amendments to IAS 37

Background

The IASB commenced the review of proposed amendments to IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" in Mary 2003. The proposed amendments to IAS 37 were a result of two projects: the Business Combinations Phase II project (Purchase Method) and the Short-term Convergence project with Financial Accounting Standards Board (FASB), USA. Consequently on 30 June 2005, the ED proposing amendments to IAS 37 was issued together with the ED on business combinations – purchase method. EDIAS 37 included proposed amendments to IAS 19, "Employee Benefits" relating to termination benefits due to decisions made in IAS 37.

The summary of proposed amendments (main changes) below is extracted from the ED.

SUMMARY OF MAIN CHANGES (IAS 37)

The following main changes are proposed:

Scope of IAS 37 and terminology

- IAS 37 defines a provision as a liability of uncertain timing or amount. The Exposure Draft does not use 'provision' as a defined term and instead proposes to use the term 'non-financial liability', which includes items previously described as provisions as well as other liabilities.

- The purpose of this amendment is to clarify that IAS 37, except in specified cases, should be applied to all non-financial liabilities that are not within the scope of other Standards.

Contingent liabilities

- IAS 37 defines a contingent liability as a possible obligation or a present obligation that is not recognised. A contingent liability that is a present obligation is not recognised either because it is not probable that an outflow of resources will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability. The Standard does not permit contingent liabilities to be recognised but requires them to be disclosed, unless the possibility of any outflow of economic resources in settlement of the contingent liability is remote. The Exposure Draft:
    - proposes eliminating the term 'contingent liability'.
    - uses the term 'contingency' to refer to uncertainty about the amount that will be required to settle a liability, rather than uncertainty about whether a liability exists.
    - specifies that a liability for which the settlement amount is contingent on one or more uncertain future events is recognized independently of the probability that the uncertain future event(s) will occur (or fail to occur).

- The purpose of these amendments is:
    - to clarify that only present obligations (rather than possible obligations) of an entity give rise to liabilities and that liabilities arise from unconditional obligations.
    - to require uncertainty about future events that affect the amount that will be required to settle a liability to be reflected in the measurement of the liability.

Contingent assets

- IAS 37 defines a contingent asset as a possible asset. It does not permit contingent assets to be recognised, but requires them to be disclosed if an inflow of economic benefits is probable. The Exposure Draft:
  - proposes eliminating the term ‘contingent asset’.
  - uses the term ‘contingency’ to refer to uncertainty about the amount of the future economic benefits embodied in an asset, rather than uncertainty about whether an asset exists.
  - specifies that items previously described as contingent assets, but satisfying the definition of an asset in the *Framework*, are within the scope of IAS 38 rather than IAS 37 (except for rights to reimbursements, which remain within the scope of IAS 37).
- • The purpose of the amendment is to clarify that only resources currently controlled by the entity as a result of a past transaction or event (rather than possible assets) give rise to assets and that assets arise from unconditional rights.

Constructive obligations

- IAS 37 defines a constructive obligation as an obligation that derives from an entity’s actions when the entity has (a) indicated to other parties that it will accept particular responsibilities and (b) as a result has created a valid expectation on the part of those other parties that it will discharge those responsibilities. The Exposure Draft proposes:
  - to amend the definition of a constructive obligation to clarify that the actions of an entity must result in other parties having a valid expectation that they can reasonably rely on the entity to discharge its responsibilities.
  - to provide additional guidance on determining whether an entity has incurred a constructive obligation.

Probability recognition criterion

- IAS 37 states that provisions should be recognised if it is probable that an outflow of resources embodying economic benefits will be required to settle the provision. In some cases, the examples accompanying the Standard apply this probability recognition criterion to what the Exposure Draft now analyses as conditional obligations. For example, in the case of a product warranty, the Standard explains that the entity considers the likelihood of claims arising under the warranty. In effect, this means that the entity considers whether it is probable that the *conditional* obligation will result in an outflow of resources embodying economic benefits. Consistently with the revised analysis of contingent liabilities, the Basis for Conclusions explains that the probable outflow criterion should always be applied to the liability (ie unconditional obligation). Therefore, if an entity has a non-financial liability arising from an unconditional obligation that is accompanied by a conditional obligation, the probability recognition criterion is applied to the unconditional obligation rather than the conditional obligation. For example, in the case of a product warranty, the criterion should be applied to the unconditional obligation to stand ready to honour warranty claims (ie to provide warranty coverage). As a result, the Basis for Conclusions highlights that the probability recognition criterion is always satisfied. The Exposure Draft therefore proposes omitting the criterion from the Standard.

Measurement

- IAS 37 states that provisions should be measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The best estimate is described as the amount that an entity would rationally pay to settle the obligation at the balance sheet date or to transfer it to a third party at that time. Although expected value is described as the basis for measuring a provision involving a large population of items, the Standard states that the best estimate of single obligations may be the individual most likely outcome. The Exposure Draft:
  - proposes that a non-financial liability should be measured at the amount that an entity would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date.
  - emphasises that an expected cash flow approach can be used as the basis for measuring a non-financial liability for both a class of similar obligations and a single obligation.
  - explains that measuring a non-financial liability for a single obligation at its most likely outcome would not necessarily be consistent with the Standard's measurement objective.

Reimbursement

- IAS 37 states that when expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement should be recognised when it is virtually certain that the reimbursement will be received. Consistently with the revised analysis of a contingent asset, the Exposure Draft proposes that if an entity has an unconditional right to receive reimbursement, that right should be recognised as an asset if it can be measured reliably.

Onerous contracts

- IAS 37 defines an onerous contract as one in which the unavoidable costs of meeting its obligations exceed the economic benefits expected. The entity recognises as a provision the present obligation under the contract. The Standard provides no further guidance about when the provision should be recognised. The Exposure Draft proposes:
  - additional recognition guidance to specify that if a contract will become onerous as a result of an entity's own action, the liability should not be recognised until the entity has taken that action.
  - specifying that in the case of an onerous operating lease, the unavoidable costs of meeting the obligation should be based on the unavoidable lease commitment less any sublease rentals that the entity could reasonably obtain for the property, regardless of whether the entity intends to sublease the property.

Restructuring provisions

- IAS 37 states that an entity that (a) has a detailed formal plan for restructuring and (b) has raised a valid expectation in those affected that it will carry out the restructuring has a constructive obligation. Therefore, it recognises a provision for the direct expenditures arising from the restructuring. The Exposure Draft proposes:
  - revising the application guidance for restructuring provisions to specify that a non-financial liability for a cost associated with a restructuring is recognised only when the definition of a liability has been satisfied for that cost. Accordingly, a cost

associated with a restructuring is recognised as a liability on the same basis as if that cost arose independently of a restructuring.

- specific guidance for accounting for costs that are often associated with a restructuring as follows:
- the cost of employee termination benefits is recognised in accordance with IAS 19 *Employee Benefits*.
- a liability for costs that will continue to be incurred under a contract for its remaining term without equivalent economic benefit to the entity is recognised when the entity ceases using the right conveyed by the contract (in addition to any liability recognised if the contract was previously determined to be onerous).
- the cost of terminating a contract before the end of its term is recognised when the entity terminates the contract in accordance with the contract terms.