Our Ref: STA/001

12 March 2025

The International Accounting Standards Board,
Columbus Building, 7 Westferry Circus
Canary Wharf, London E14 4HD, UK

Submitted via the IASB website

Dear Sir/Madam,

ICPAU COMMENTS ON EXPOSURE DRAFT AND COMMENT LETTERS: PROVISIONS—TARGETED IMPROVEMENTS

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to comment on the IASB's Exposure Draft and comment letters: Provisions—Targeted Improvements.

We circulated the consultation for comment to our membership. The comments received during the consultation have been used to develop our response.

We detail our responses to the specific questions in the appendix to the letter below.

We hope you will find these comments helpful.

Yours faithfully,

CPA Charles Lutimba
DIRECTOR, STANDARDS AND REGULATION

Appendix: ICPAU Comments on IASB's Exposure Draft and comment letters: Provisions—Targeted Improvements.

APPENDIX:

ICPAU COMMENTS ON EXPOSURE DRAFT AND COMMENT LETTERS: PROVISIONS—TARGETED IMPROVEMENTS

Question 1—Present obligation recognition criterion

The IASB proposes:

- to update the definition of a liability in IAS 37 Provisions, Contingent Liabilities and Contingent Assets to align it with the definition in the Conceptual Framework for Financial Reporting (paragraph 10);
- to align the wording of the recognition criterion that applies that definition (the present obligation recognition criterion) with the updated definition of a liability (paragraph 14(a));
- to amend the requirements for applying that criterion (paragraphs 14A–16 and 72–81); and
- to make minor amendments to other paragraphs in IAS 37 that include words or phrases from the updated definition of a liability (Appendix A).

The proposals include withdrawing IFRIC 6 Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment and IFRIC 21 Levies (paragraph 108).

Paragraphs BC3–BC54 and BC86 of the Basis for Conclusions and Appendix A to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

Our Comment:

Yes, we agree that aligning the definition of a liability in IAS 37 with the definition in the Conceptual Framework for Financial Reporting is a reasoned progression. The conceptual framework provides a set of core principles and qualitative characteristics that should be applied when interpreting and applying accounting standards in situations where specific rules might not exist. Therefore, the definition under IAS 37 and the conceptual Framework needs to be aligned for consistency in reporting and cast out any confusion that may cause significant unintended consequences as to why there may be parallel definitions for the same concepts developed by the same Board, automatically notwithstanding any justification for the difference that the Board may give within the Basis for Conclusions.

IAS 37.14 currently provides three criteria that need to be met for a provision to be recognised: (a) an entity has a present obligation (legal or constructive) as a result of a past event; (b)it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. The ED aims to amend the *first criterion to address longstanding challenges related to the clarity and application of the present obligation recognition criterion. We thus appreciate the Board's wish to replace the 'obligating event' phrase with the three more distinct conditions of obligation, transfer, and past-event.*

Withdrawing IFRIC 6 and IFRIC 21, which were designed to address specific issues, could streamline the reporting framework by eliminating outdated or unnecessary guidance. However, it is important to ensure that the issues that these interpretations addressed will still be adequately covered by the updated standard. If these two IFRICs are withdrawn without a clear alternative mechanism, it could lead to gaps or confusion. It would be important to ensure that the areas they addressed, such as the recognition of liabilities related to specific markets or levies, are adequately addressed under the revised provisions of IAS 37. If they are not, a separate clarification or a new interpretation may be needed to fill those gaps.

We further raise some reservations as seen below:

*(a) The consideration under the proposed para 14G is such that if details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is **<u>virtually certain</u>** to be enacted as drafted. Virtual certainty does not mean 100% certainty. In law, obligations and possible sanctions originate and actually commence with the law, to the effect that in the absence of a law one cannot think of obligations and possible sanctions. We would propose that the phrase changes from '…..<u>virtually certain</u> to be enacted as drafted….' to '…. **<u>enacted</u>**….'*

(b) The Board may consider clarifying on the term "economic consequences" and how entities should interpret the same.

(c) The use of the term 'significantly worse' for example under para14F(ii) may breed unintended confusion. Although judgment will be implored in application of this requirement it is important to note that to be able to prudently apply para 14F(a)(ii), an entity will need to determine the economic consequences for not discharging the responsibility vis a vis the consequences of discharging it. It is until this assessment is made that an entity would be able to tell whether the responsibility for not discharging is significantly worse or not, than actually the consequences of discharging it. We recommend that more guidance is given on this determination.

(d) Additional practical implementation guidance especially for entities with complex obligations, such as telecommunication companies with significant environmental decommissioning responsibilities and companies within the scope of regulatory levies would also be helpful for preparers.

Question 2—Measurement—Expenditure required to settle an obligation

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

Our Comment:

We agree with the proposal to include all costs that are directly related to the obligation when measuring the expenditure required to settle the obligation. One of the main challenges we observe in financial reporting is the subjectivity involved in estimating future costs, especially for long-term or contingent obligations. With reference to paragraphs BC63-BC66, the proposals clearly specify the costs that relate directly to an obligation, thereby reducing the potential for discrepancies between entities, in respect to whether an entity is required to include the same type of costs (envisaged in para 68A) in measuring other types of provisions within the scope of IAS 7.

Guidance will also be needed in clarifying how to deal with changes in cost estimates over time. It is common for estimates of future obligations to change as circumstances evolve, so there should be guidance on how to reflect those changes accurately without causing unnecessary volatility in financial statements and consider flexibility for cases where costs cannot easily be predicted.

Question 3—Discount rates

The IASB proposes to specify that an entity discounts the future expenditure required to settle an obligation at a rate (or rates) that reflect(s) the time value of money—represented by a risk-free rate—with no adjustment for non-performance risk (paragraphs 47–47A).

The IASB also proposes to require an entity to disclose the discount rate (or rates) it has used and the approach it has used to determine that rate (or those rates) (paragraph 85(d)).

Paragraphs BC67–BC85 of the Basis for Conclusions and Appendix B to the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you agree with: (a) the proposed discount rate requirements; and (b) the proposed disclosure requirements? Why or why not? If you disagree, what would you suggest instead?

Our Comment

Yes, we agree with the proposal. The use of a risk-free rate for discounting obligations ensures that provisions are measured objectively, eliminating subjectivity. This approach ensures consistency across different entities and *situations. The proposed disclosure of discount rates and methodologies will enhance transparency, enabling users to better understand the assumptions underlying the measurement of provisions. However, these disclosures should only be required if the benefits exceed the costs.*

In respect to non-performance risk, paragraph 47A explicitly states that this should not be reflected in the discount rate. We agree with this for it cures any attempts to include unnecessary uncertainties into considerations of the discount rate.

However, it is unclear whether non-performance risk should be reflected in the estimated cash flows to settle an obligation, which may result in diversity in practice. If the Board made an explicit omission of non-performance risk in respect to discount rate, it should equally make an explicit direction on non-performance risk in respect to estimated cash flows.

Question 4—Transition requirements and effective date

4(a) Transition requirements The IASB proposes transition requirements for the proposed amendments (paragraphs 94B–94E).

Paragraphs BC87–BC100 of the Basis for Conclusions explain the IASB's reasoning for these proposals. Do you agree with these proposals? Why or why not? If you disagree, which aspects do you disagree with and what would you suggest instead?

4(b) Effective date If the IASB decides to amend IAS 37, it will decide on an effective date for the amendments that gives those applying IAS 37 sufficient time to prepare for the new requirements.

Do you wish to highlight any factors the IASB should consider in assessing the time needed to prepare for the amendments proposed in this exposure draft?

Our Comment:

We agree that the transition provisions should allow entities to implement the changes in a way that does not lead to undue burden or confusion for the preparers. The IASB's proposals aim to balance the need for consistency and comparability in financial reporting with the practical challenges that come with applying new standards. The retrospective approach for changes in provisions ensures a practical transition for entities. We implore the Board to provide more illustrative examples to ease the transition process for preparers.

We also agree that a change in accounting policy for the costs an entity includes in the measurement of provision should only be applied to obligations not yet settled at the date of initial application of the amendments, without restatement of comparative information. However, the Board may consider including an additional expedient for situations in which the amendments require entities to recognise new provisions in prior periods.

We also recommend that the Board should allow sufficient time for entities to prepare themselves for the changes. A period of 24-36 months from the date of issue would be appropriate as entities mobilise resources and build capacity.

Question 5—Disclosure requirements for subsidiaries without public accountability

The IASB proposes to add to IFRS 19 Subsidiaries without Public Accountability: Disclosures a requirement to disclose the discount rate (or rates) used in measuring a provision, but not to add a requirement to disclose the approach used to determine that rate (or those rates) (Appendix B).

Paragraphs BC101–BC105 of the Basis for Conclusions explain the IASB's reasoning for this proposal.

Do you agree with this proposal? Why or why not? If you disagree, which proposal do you disagree with and what would you suggest instead?

Our Comment:

We partially support the proposal. Just as disclosing the discount rate enhances transparency, disclosing the methodology/ approach applied in determining that rate would be equally important. This is essential information as it allows the users to evaluate its appropriateness and reliability.

Therefore, we believe the proposed requirement under para 258 should extend to disclosing the methodology/ approach applied in determining that rate, but with reduced disclosures as subsidiaries without public accountability usually have fewer resources and less complex financial structures than publicly accountable entities so as not to overwhelm the smaller entities.

In the alternative, the Board may consider a more concerted approach for reduced disclosure framework where certain disclosures may not be required from a subsidiary without public accountability if there is sufficient information in relation to those disclosures that is made available within the parent's publicly available IFRS consolidated financial statements.

Question 6—Guidance on implementing IAS 37

The IASB proposes amendments to the Guidance on implementing IAS 37 Provisions, Contingent Liabilities and Contingent Assets. It proposes: (a) to expand the decision tree in Section B; (b) to update the analysis in the illustrative examples in Section C; and (c) to add illustrative examples to Section C.

Paragraphs BC55–BC62 of the Basis for Conclusions explain the IASB's reasoning for these proposals.

Do you think the proposed decision tree and examples are helpful in illustrating the application of the requirements? If not, why not? Do you have any other comments on the proposed decision tree or illustrative examples?

<u>Our response</u>

The proposal to amend the guidance on implementing IAS 37 by expanding the decision tree, updating the analysis in illustrative examples, and adding new examples aims to clarify and improve the application of the standard is welcome. This will help illustrate the application of the requirements, reduce ambiguity, and improve consistency in applying the standard.