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WORKING DRAFT

19 FEBRUARY 2010

International Financial Reporting Standard [X]

Liabilities

References

Next to each paragraph in this working draft is a reference to the corresponding paragraph in existing standards and previous proposals. Paragraphs are treated as corresponding if they broadly address the same matter, even though the guidance may differ. The documents referred to are:

IAS 37	IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
2005 ED	Exposure Draft of Proposed Amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits*, June 2005. Available via a link from the project page at http://go.iasb.org/Liabilities
Decision Summary	A summary of the decisions that the IASB has made since publishing the 2005 exposure draft. It is available via a link from the project page at http://go.iasb.org/Liabilities.
IFRIC 5	IFRIC Interpretation 5 *Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*

[Draft] International Financial Reporting Standard X *Liabilities*

Objective

1 The objective of this [draft] IFRS is to ensure that entities provide users of their financial statements with useful information about *liabilities* that are not within the scope of other IFRSs.

Scope

2 An entity shall apply this [draft] IFRS to all liabilities except:

(a) those whose treatment is specified by another IFRS; or

(b) those resulting from an *executory* contract, unless the contract is *onerous*.

3 If the treatment of a liability is specified by another IFRS, an entity applies that other IFRS rather than this one. Liabilities whose treatment is specified by another IFRS include:

(a) share-based payment liabilities within the scope of IFRS 2 *Share-based Payment*;

(b) insurance contract liabilities within the scope of IFRS 4 *Insurance Contracts*;

(c) liabilities arising from the contracts within the scope of IAS 11 *Construction Contracts*;

(d) tax liabilities within the scope of IAS 12 *Income Taxes;*

(e) finance lease liabilities within the scope of IAS 17 *Leases;*

(f) liabilities arising from the application of the revenue recognition criteria in IAS 18 *Revenue;*

Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
		1.1
Objective	1	
1, 11	2	1.2
2 and 4-7	4,7,	1.2 For complete-ness have added references to IAS 20 and IFRS 2.

(g) liabilities for employee benefits within the scope of IAS 19 *Employee Benefits*;

(h) liabilities arising from the application of the grant recognition criteria in IAS 20 *Accounting for Government Grants and the Disclosure of Government Assistance*; and

(i) financial liabilities within the scope of IAS 39 *Financial Instruments: Recognition and Measurement.*

4 Liabilities that are within the scope of this [draft] IFRS include, but are not limited to:

(a) obligations to decommission plant and equipment;

(b) environmental restoration and rehabilitation obligations;

(c) legal or regulatory claims against the entity (other than claims that affect the recognition and measurement of assets or liabilities addressed by another standard);

(d) onerous contracts, if another IFRS does not specify their treatment. Onerous contracts whose treatment is not specified by another IFRS, and hence are within the scope of this [draft] IFRS, include those arising from:

(i) operating leases within the scope of IAS 17;

(ii) contracts within the scope of IAS 18; and

(iii) loan commitments excluded from the scope of IAS 39.

5 This [draft] IFRS does not specify whether the recognition of a liability (or change in the measurement of a liability) results in an expense or in an adjustment to the cost of an asset. Other standards address this matter.

6 This [draft] IFRS does not prescribe the terms that entities should use to describe their liabilities. In some jurisdictions, entities describe some classes of liability within the scope of this [draft] IFRS as 'provisions'. Although this [draft] IFRS does not use the term provision, it does not prohibit the use of the term in financial statements.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
5(c) and 9	5 and 6	Have given more examples of items that **are** in the scope at request of commen-tators.
8	8	
None	9	

Recognition

7 **An entity shall recognise an item as a liability if:**

(a) the item meets the definition of a liability (paragraphs 8-22); and

(b) the entity can measure the liability reliably (paragraphs 23 and 24).

Definition of a liability

8 The *Framework* defines a liability as a present obligation of an entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.

Obligation

9 An essential characteristic of a liability is that the entity has an obligation. An entity has an obligation only if:

(a) it has a duty or responsibility to perform in a particular way; and

(b) it owes that duty or responsibility to another party or parties, who will either benefit from the entity's performance or suffer from its non-performance.

10 A management decision or intention to act or perform in a particular way is not sufficient in itself to create an obligation, even if the entity is economically compelled to act or perform in that way either as a result of commercial pressures or to enable it to continue its existing operations. Unless the entity has a duty or responsibility to another party to act or perform in that way, it could avoid doing so. For example, because of legal requirements, an entity might need to incur expenditure to install smoke filters if it is to operate in a particular way

Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
14, plus guidance on probability of outflows criterion in 23 and 24.	11	3.1
27-35 prohibit recognition of contingent assets and liabilities.		2.1
10 (definition)	12	
17	13	2.3
18 20 (second third)	18 19 (second half)	

in the future. Because the entity could avoid the expenditure by changing its operations, it does not have an obligation for that expenditure.

11 It is not necessary for the entity to know the identity of the party or parties to whom it owes the obligation. Indeed, the obligation might be owed to the public at large.

12 Most obligations are legally enforceable: they arise from contracts, statutes or other operations of law. The legal system provides a mechanism that clarifies the existence and extent of the entity's obligations. In the absence of legal enforceability, particular care is required in identifying whether an entity has an obligation. An entity might have a constructive obligation, but only if:

(a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated that it will accept specific responsibilities;

(b) it has indicated its acceptance of those responsibilities to the parties that will benefit from their performance or suffer harm from their non-performance; and

(c) as a result, the entity has created a valid expectation among those parties that they can reasonably rely on it to discharge its responsibilities.

Uncertainty about existence of present obligation

13 In some situations, for example if governmental, legal or arbitration proceedings are in progress, pending or threatened against the entity, there might be uncertainty about whether the entity has an obligation. It might be uncertain:

(a) whether the events that would give rise to an obligation occurred; or

(b) how the law applies to those events.

14 In such situations, the management of the entity shall judge whether an obligation exists, taking into account all available evidence and giving more weight to the evidence that is more persuasive. The nature and extent of the available evidence will depend on the circumstances. It could include:

Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
20 (first third)	19 (first half)	
Definition in 10 20 (last third)	Definition in 10 14-15	2.7
15-16	16	2.6

(a) the entity's own experience with similar items;

(b) other entities' experience with similar items;

(c) information provided by a claimant;

(d) reports from those investigating the claim;

(e) opinions of experts; and

(f) additional evidence provided by events after the reporting period, to the extent that the evidence relates to conditions that existed at the end of the reporting period.

This list is not exhaustive. If other sources of evidence exist, management shall also consider the evidence from those other sources.

15 The start of proceedings against an entity is not in itself an event that gives rise to an obligation. However, it might provide evidence that is relevant to the assessment of whether such an event has occurred.

16 If the management of the entity concludes from the available evidence that the entity has an obligation, and the other recognition criteria in paragraph 7 are met, the entity recognises a liability. If the management concludes from the available evidence that the entity does not have an obligation, the entity does not recognise a liability. Instead, it discloses the information required by paragraph 51 of this [draft] IFRS.

Present obligation

17 The definition of a liability requires the entity to have a *present* obligation arising from past events. The existence of a present obligation distinguishes a liability from a business risk.

18 A present obligation is an unconditional obligation that exists independently of future events. If an entity can avoid an obligation through its future actions, it does not have a present obligation.

19 Sometimes, an entity has a present obligation to stand ready to perform some act if a future event occurs and the future event is one that the entity cannot prevent from occurring. It is important to distinguish the present 'stand-ready' obligation from any new obligations that might arise if and

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
15-16	16	Items (c) and (d) reword the original staff proposal in more neutral terms.
None	26	2.8
16(b)	None	
19	17	2.4
None	22-25	2.5 Have changed

when the future event occurs. Suppose for example, that an entity is responsible for another party's environmental rehabilitation obligations if the other party fails to discharge them. The entity does not have a present obligation to undertake environmental rehabilitation because that obligation is conditional on a future event (default by the party). However, the entity does have a present obligation to stand ready to undertake environmental rehabilitation if the other party defaults. The measurement of this obligation takes into account the range of possible outcomes and their associated probabilities. In some situations, the available evidence might suggest that the probability of an adverse outcome is so low that the liability is immaterial.

20 If a new law is proposed, any obligation arising under the operation of that law becomes a present obligation only when the law is substantively enacted. A law is substantively enacted if the remaining steps in the enactment process will not change the outcome. Different enactment processes mean that different steps constitute substantive enactment in different jurisdictions. In some cases, a law is not substantively enacted until it is actually enacted.

21 Appendix C sets out application guidance on identifying and recognising liabilities in relation to restructuring activities, onerous contracts and asset decommissioning and environmental rehabilitation obligations.

Expected to result in an outflow of resources

22 The *Framework* defines a liability as a present obligation 'the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits'. This part of the definition does not require a particular degree of certainty that an outflow of resources will occur. Present obligations that are capable of resulting in an outflow of resources meet the definition of a liability even if the likelihood of an outflow is low.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
		example because warranties will be within scope of revenue standard.
21-22	20-21	
None	None	IAS 37 and 2005 ED have application guidance in body of standard
None	None	2.2

Reliable measurement

23 Many liabilities within the scope of this [draft] IFRS have uncertain outcomes and are measured using estimates. 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 is able to identify a range of possible outcomes and determine a measure of a liability that is sufficiently reliable to meet the recognition criteria.

24 In the extremely rare cases in which an entity cannot measure a liability reliably, it does not recognise the liability. The entity instead discloses the information required by paragraph 50. If circumstances change, the entity initially recognises the liability when it can first measure the liability reliably.

[Paragraphs 25-35 not used]

Measurement*

Initial measurement

36A An entity shall measure a liability at the amount that it would rationally pay at the end of the reporting period to be relieved of the present obligation.

36B The amount that an entity would rationally pay to be relieved of an obligation is the lowest of:

(a) the present value of the resources required to fulfil the obligation, measured in accordance with Appendix B;

(b) the amount that the entity would have to pay to cancel the obligation; and

(c) the amount that the entity would have to pay to transfer the obligation to a third party.

Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
25	27	3.2 3.3
26	28	
36-37	29	4.1(a)
None	30	4.1(b)

* This section reproduces the proposals in the Exposure Draft ED/2010/1 *Measurement of Liabilities in IAS 37*, published in January 2

Para	Text	Corresponding paragraphs: IAS 37	Corresponding paragraphs: 2005 ED	Decision summary reference
36C	An entity might be unable to cancel or transfer some obligations within the scope of this IFRS. If there is no evidence that an entity could cancel or transfer an obligation for a lower amount, the entity measures the liability at the present value of the resources required to fulfil the obligation in accordance with Appendix B.	None	None	4.1(c)
36D	The amount that an entity would have to pay to cancel or transfer an obligation is the price that the counterparty or a third party would demand, plus any costs of cancellation or transfer.	None	None	
	Subsequent measurement			
36E	**An entity shall adjust the carrying amount of a liability at the end of each reporting period to the amount that it would rationally pay to be relieved of the present obligation at that date.**	59	43	
36F	Changes in the carrying amount of a liability resulting from the passage of time are recognised as a borrowing cost.	60	45	
	Reimbursement rights			
37	**An entity shall recognise a reimbursement right relating to a liability if it can measure the right reliably.**	53	46	5.3
38	Sometimes, an entity has a right to look to a third party to provide some or all of the resources required to settle a liability. Such reimbursement rights can arise, for example, through insurance contracts, indemnity clauses or participation in decommissioning, rehabilitation or environmental rehabilitation funds. The third party might reimburse the entity for expenditure that the entity has incurred, or settle the liability directly.	55	47	
39	An entity shall measure the reimbursement right using assumptions that are consistent with those it uses to measure the related liability.	None	None	5.1 5.2

40 **An entity shall present the reimbursement right as an asset in the statement of financial position rather than offset it against the liability.**

41 Because the reimbursement is receivable from a third party, there is not a legally enforceable right of set-off and, therefore, the liability and the reimbursement right asset are presented separately. If the entity is not liable for amounts required to settle the obligation if the third party fails to pay, the entity has no liability for those amounts and does not reflect them in the measurement of the liability.

42 In the statement of comprehensive income, the entity may present the expense relating to the liability net of the income resulting from the reimbursement right asset.

Derecognition

43 **An entity shall derecognise a liability when the obligation is fulfilled, cancelled or transferred to a third party or expires.**

Disclosures

44 **An entity shall identify the nature of its liabilities and the amounts recognised in its statement of financial position in respect of those liabilities.**

45 To comply with paragraph 44, an entity shall disclose for each class of recognised liability:

(a) a description of the nature of the obligation;

(b) the carrying amount of the liability at the end of the reporting period;

(c) a description of any interest that the entity has in funds established to fund the liability, and any restrictions on the entity's access to the assets in the fund; and

(d) the amount of the asset recognised for any right to reimbursement.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
53 (second sentence)	48	
56-58	49	
54	50	
61 and 62	51	
None	None	Principles required for standards in IFRS format.
85(a)	67	
within 84	67	
IFRIC 5, para 11.	None	
85(c)	68(d)	

		Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
46	In determining which liabilities may be aggregated to form a class, an entity considers whether the nature of the liabilities is sufficiently similar for a single statement about them to fulfil the [draft] requirements of paragraphs 44 and 47.	87	70	
47	**An entity shall disclose the uncertainties surrounding its liabilities.**	None	None	Principle
48	To comply with paragraph 47 and entity shall disclose the information required by paragraphs 49-51.			
49	For each class of recognised liability that is subject to estimation uncertainty, an entity shall disclose:			
	(a) a reconciliation of the carrying amounts of the liability at the beginning and end of the reporting period showing: (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; (iv) other adjustments to the amount of the liability, such as those arising from revisions to estimates.	85(b)	68(a)	
	(b) the expected timing of any resulting outflow of resources.	85(a)	68(b)	
	(c) an indication of the uncertainties about the amount or timing of the future outflows of resources. Where necessary to satisfy the [draft] requirements of paragraph 47, an entity shall disclose the major assumptions regarding future events.	85(b)	68(c)	
50	If an entity does not recognise a liability because it cannot measure the liability reliably, the entity shall disclose: (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 about the amounts or timing of any outflows of resources; and (d) the existence of any right to reimbursement.	86, 88 and 91	69	

	Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
51 If, in situations of uncertainty described in paragraphs 13-15, an entity has judged that it does not have a liability, it shall disclose, unless the possibility of any outflows of resources is remote: (a) a description of the circumstances; (b) an indication of the possible financial effects; (c) an indication of the uncertainties about the amounts or timing of any outflows of resources; and (d) the existence of any right to reimbursement.	Contingent liabilities 86, 88 and 91 (Contingent assets 89-90.)	None	6.1
52 An entity shall disclose information that identifies the current and expected future costs of its restructuring activities.	None	None	Principle
53 To comply with paragraph 52, the entity shall disclose for each restructuring: (a) a description of the nature of the restructuring, including the facts and circumstances leading to it and the expected completion date; (b) for each reportable segment, the total costs expected to be incurred in connection with the restructuring, the amount incurred in the period and the cumulative amount incurred to date; and (c) the expected timing of future outflows of economic benefits.	None	None	6.2
54 An entity shall disclose the information required by paragraph 53: (a) in the period in which it starts to implement a restructuring plan or announces the main features of the plan to those affected by it; and (b) in any subsequent periods until it has completed the restructuring.	None	None	6.2
55 **In extremely rare situations, disclosure of some or all of the information required by paragraphs 44-54 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the liability. In such situations, an entity need not disclose the information that would be seriously prejudicial. It shall instead disclose the general nature of the dispute together with the fact that, and reason why, the information has not been disclosed.**	92	71	

Effective date and transition

Effective date

56 An entity shall apply this [draft] IFRS in its annual financial statements for periods beginning on or after [date not yet decided]. Earlier application is permitted. If an entity applies this [draft] IFRS in its financial statements for an earlier period, it shall disclose that fact.

Transition

57 [The Board has yet to discuss transitional arrangements.]

Withdrawal of IAS 37, IFRIC 5 and IFRIC 6

59 This [draft] IFRS supersedes IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, IFRIC 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds* and IFRIC 6 *Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment.*

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
95	72	
93-94	72	
None	73	

Appendix A
Defined terms

This appendix is an integral part of the [draft] IFRS.

		Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
executory contract	A contract under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.	3	3	
liability	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.	10, 12 and 13	10	
onerous contract	A contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.	10	10	

Appendix B
Measuring the present value of the resources required to fulfil an obligation[*]

This appendix is an integral part of the [draft] IFRS.

The elements of the calculation

B1 The present value of the resources required to fulfil an obligation shall be estimated taking into account:

(a) the expected outflows of resources and the time value of money—see paragraphs B2-B14; and

(b) the risk that the actual outflows of resources might ultimately differ from those expected—see paragraphs B15-B17.

Expected outflows of resources and time value of money

Expected present value technique

B2 The amount or timing of the outflows of resources required to fulfil an obligation might be uncertain. In other words, more than one outcome might be possible. All possible outcomes affect the amount that an entity would rationally pay to be relieved of an obligation. The more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the amount that the entity would rationally pay. Thus, if the outcome is conditional on the occurrence or non-occurrence of uncertain future events, the measurement of the liability reflects the uncertainty about these events.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
42	35	4.1(d)
39 and 40	31 and 33	

[*] This section reproduces the proposals in Appendix B of the Exposure Draft ED/2010/1 *Measurement of Liabilities in IAS 37*, published in January 2010.

B3 The range of outcomes and their effects shall be taken into account by estimating the expected present value of the outflows. Estimating the expected present value involves:

(a) identifying each possible outcome;

(b) making an unbiased estimate of the amount and timing of the outflows of resources for that outcome (see paragraphs B5-B13);

(c) determining the present value of these outflows (see paragraph B14); and

(d) making an unbiased estimate of the probability of each outcome.

The expected present value is the probability-weighted average of the present values of the outflows for the possible outcomes.

B4 In some cases, an entity might have access to extensive data and be able to identify many outcomes. In other cases, the information available to the entity might be more limited. Even if there is evidence to support many outcomes, it is not always necessary to consider distributions of literally all possible outcomes using complex models and techniques. Rather, a limited number of discrete outcomes and probabilities can often provide a reasonable estimate of the distribution of possible outcomes.

Estimates of the outflows of resources (paragraph B3(b))

General requirements

B5 The estimates of the outflows of resources required to fulfil the obligation shall:

(a) incorporate, in an unbiased way, all available information about the amount, timing and probability of the relevant future outflows.

(b) be consistent with observable market prices, if such prices are

Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
None	None	4.3
None	None	4.3
None	None	4.3

available.

Relevant future outflows

B6 The relevant future outflows are those that affect the amount that the entity would rationally pay to be relieved of the present obligation.

Obligations fulfilled by making payments to the counterparty

B7 If the obligation will be fulfilled by making payments to the counterparty, the relevant outflows include:

(a) payments to the counterparty; and

(b) associated costs, such as external legal fees or the costs of an in-house legal department attributable to that obligation.

Obligations fulfilled by undertaking a service

B8 Some types of obligation will be fulfilled by undertaking a service at a future date. Subject to the exception in paragraph B9, the relevant outflows for such obligations are the amounts that the entity would rationally pay a contractor at the future date to undertake the service on its behalf:

(a) if there is a market for a service, the amount is the price that the entity estimates a contractor would charge at the future date to undertake the service on the entity's behalf.

(b) if there is not a market for the service, the entity estimates the amount it would charge another party at the future date to undertake the service. The estimates shall include the costs the entity expects to incur and the margin it would require to undertake the service for the other party.

B9 If the obligation is an onerous contract arising from a transaction within the scope of IAS 18 *Revenue* or IFRS 4 *Insurance Contracts*, the relevant future outflows are the costs the entity expects to incur to fulfil its contractual obligations.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
None	None	4.1(e)
None	None	4.1(e)
None	None	4.1(e)
None	None	4.5

Income tax

B10 The relevant outflows are measured before tax because IAS 12 *Income Taxes* applies to the tax consequences.

Sources of evidence

B11 The estimates of the amount, timing and probability of the future outflows are determined by the judgement of the management of the entity, supplemented by experience with similar transactions and, in some cases, input from independent experts. Management needs to ensure that it has used all available evidence to identify the range of possible outcomes and the outflows associated with each, giving more weight to evidence that is more persuasive. The evidence considered includes any additional information provided by events after the reporting period, but only to the extent that the information relates to the obligation existing at the end of the reporting period.

Future events

B12 An entity takes into account future events that might affect the outflows of resources required to fulfil the present obligation. For example, an entity's experience might indicate that contractor prices for cleaning up a site might reduce in the future as a result of advances in technology. The entity would identify an outcome in which the new technology is available. On the basis of evidence about that technology, it would estimate the effects of the technology on future prices and the probability of the outcome occurring.

B13 An entity takes into account future events that might affect the outflows of resources without changing the nature of the obligation. However, an entity does not take into account future events—such as a change in legislation—that would change or discharge the present obligation or create new obligations.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
41	34	
38	32	
48 and 49	41and 42	
50	42	

Present value (paragraph B3(c))

B14 The expected outflows shall be discounted to their present value using rates that reflect:

(a) current market assessments of the time value of money; and

(b) risks specific to the liability (but only if and to the extent that the risks are taken into account by adjusting the discount rate rather than by the other methods discussed in paragraph B16).

Risk

B15 An entity shall consider the risk that the actual outflows of resources might ultimately differ from those expected. A risk adjustment measures the amount, if any, that the entity would rationally pay in excess of the expected present value of the outflows to be relieved of this risk.

B16 A risk adjustment can be included by:

(a) adjusting estimates of the future outflows;

(b) adjusting the rate used to discount the future outflows to their present values; or

(c) calculating the expected present value of the future outflows and adding a risk adjustment to the amount so calculated.

The most appropriate method of including a risk adjustment depends on the nature of the risk and the pattern of the estimated future outflows. If the risk adjustment for a liability is included by adjusting the discount rate, the adjusted discount rate is typically lower than a risk-free rate.

B17 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. Care is needed to avoid duplicating adjustments for risk with consequent overstatement of the liability. For example, if the estimated outflows for a particularly adverse outcome are increased to take account of risk, that outcome is not then also treated as more probable than is realistically the case. Similarly, the discount rate does not reflect risks for which future cash flow estimates have been adjusted.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
45-47	38 and 39	
42	35	4.4
	40	
43	36	

Subsequent measurement

B18 Paragraph 36E requires an entity to adjust the carrying amount of a liability at the end of each reporting period to the amount that the entity would rationally pay to be relieved of the present obligation at that date. Remeasurement of the present value of the resources required to fulfil the obligation takes into account changes in estimates of:

(a) the expected outflows of resources;

(b) market assessments of the time value of money; and

(c) the risk that the actual outflows of resources might ultimately differ from those expected.

Changes in estimates of the expected outflows of resources could arise from changes in estimates of the amount of the outflows associated with a particular outcome, the timing of those outflows and the probability of the outcome occurring.

B19 Estimates are subjective. It is important not only that estimates faithfully represent conditions at the end of the reporting period, but also that changes in estimates faithfully represent changes in conditions during the period.

	Corresponding paragraphs		Decision summary reference
	IAS 37	2005 ED	
B18	None	44	
B19	None	None	

Appendix C
Application guidance

This appendix is an integral part of the [draft] IFRS.

Future operating losses

C1 An entity shall not recognise a liability for future operating losses. Future operating losses do not satisfy the definition of a liability because there is no present obligation arising from a past event.

C2 An expectation by the entity of future operating losses is an indication that some assets of the entity might be impaired or that some of its contracts might be onerous. An entity tests the assets for impairment by applying IAS 36 *Impairment of Assets* and recognises liabilities for onerous contracts by applying paragraphs C7-C10.

Restructuring costs

C3 Examples of events that are typically described as restructurings include:

(a) the sale or termination of a line of business;

(b) the 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, such as eliminating a layer of management; and

(d) reorganisations that affect the nature and focus of the entity's operations.

C4 An entity has a liability for a cost associated with a restructuring only once it has incurred a present obligation—ie a present duty or responsibility to pay another party—in respect of that cost. A decision by the management of an entity to undertake a restructuring does not create such an obligation. Even when an entity announces or starts to

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
63 and 64	52 and 53	
65	54	
70	60	
71	61 62 (first half) and BC68	7.1

implement a restructuring plan, it does not incur an obligation for costs that it could avoid by changing or recalling the plan.

C5 Thus, an entity shall recognise a liability for a cost associated with a restructuring on the same basis as if that cost arose independently of the restructuring. For example:

(a) an entity shall apply the requirements in paragraphs [132]-[143] of IAS 19 *Employee Benefits* to benefits that it provides in connection with the termination of an employee's benefits.

(b) an entity shall apply the [draft] requirements for onerous contracts in paragraphs C7-C10 to:

  (i) unavoidable costs that will continue to arise for the remaining term of a contract in excess of any remaining economic benefits that the entity expects to receive under the contract; and

  (ii) costs to terminate a contract before the end of its term.

(c) an entity shall recognise liabilities for other costs associated with a restructuring—such as the costs of retaining or relocating continuing staff, consolidating or closing facilities or investing in new systems and distribution networks—when it incurs a liability for each of the costs. An entity usually incurs a liability when it receives the goods or services associated with the activity.

C6 An entity shall disclose information about its restructuring activities in accordance with paragraphs 52-54. If, after the reporting period, an entity starts to implement a restructuring plan or announces the main features of the plan to those affected by it, the entity shall apply the disclosure requirements of IAS 10 *Events after the Reporting Period*.

Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
72-83	62 (second half) 63 64 65	References in (a) will be updated when the Board finalises its amend-ments to IAS 19 require-ments for termination benefits.
75 (second half)	66	Additional cross reference to highlight existence of new disclosure requirement.

Onerous contracts

C7 Many contracts (such as some routine purchase orders) can be cancelled without paying compensation to the other party and therefore do not give rise to obligations while they remain executory. Other contracts establish both rights and obligations for each of the contracting parties, even while they remain executory. Such contracts become onerous if the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. If events or circumstances make a contract onerous, an entity recognises a liability.

C8 In some situations, contracts become onerous as a result of events outside the entity's control. For example, suppose a contract requires an entity take delivery of products or services at a fixed price. The contract might become onerous if the market price of the products or services declines. It would become onerous if, as a consequence of the decline in market price, the benefits that the entity can obtain from the products or services are expected to be less than the prices it is contracted to pay for them.

C9 In other situations, the event that makes the contract onerous is an action of the entity. In such situations, the entity shall not recognise a liability for the onerous contract until it has taken the action. For example:

(a) a contract might become onerous because the entity ceases to use the rights conveyed by the contract but continues to incur obligations to make payments under the contract. The entity shall not recognise a liability until it ceases to use the rights conveyed by the contract.

(b) an entity might decide to terminate a contract that it has not previously determined to be onerous. If the termination costs make the contract onerous, the entity shall recognise a liability when it terminates the contract in accordance with the contract terms. For example, termination would occur when the entity gives written notice to the counterparty within the notification period specified by the contract.

	Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
C7	66-67	55 (first sentence) 56	
C8	None	57 (first half)	7.2.
C9	None	55 (2nd sentence) 57 (2nd half) 64	7.2 2005 ED had guidance for contract termination costs within guidance for restruc-turing costs, ie at C5(c)(ii) above. But it applies to *any* contract termination costs, so propose moving here.

Corresponding paragraphs IAS 37	Corresponding paragraphs 2005 ED	Decision summary reference
68	58	7.2
69	59	
19	17	

C10 The liability is measured at the amount that the entity would rationally pay at the end of the reporting period to be relieved of the onerous contract, in accordance with paragraphs 36A-36F. For example, if an operating lease for property has become onerous because the entity no longer uses the property, the entity measures the onerous operating lease at the lowest of:

(a) the present value of the remaining lease rentals payable, reduced by estimated sublease rentals that the entity could reasonably obtain for the property. The sublease rentals are taken into account even if the entity does not intend to enter into a sublease.

(b) the penalties the entity would have to pay the lessor to terminate the lease at the end of the reporting period, plus any other costs of termination.

(c) the amount that a third party would demand to take over the lease at the end of the reporting period, plus any costs of transfer.

If there is no evidence that the entity could cancel the lease or transfer it to a third party for a lower amount, the entity measures the onerous operating lease liability at the amount measured in (a).

C11 Before an entity recognises a liability for an onerous contract, it recognises any impairment loss that has occurred on assets related to that contract, applying IAS 36.

Decommissioning and environmental rehabilitation

Decommissioning and environmental rehabilitation obligations

C12 An entity might incur obligations to decommission plant (such as nuclear plant) or some types of equipment (such as cars) or to undertake environmental rehabilitation (for example, to rectify water pollution or restore mined land). Only present obligations, ie those that exist independently of the entity's future actions, give rise to liabilities. For example, an entity operating an oil installation or a nuclear power station might have a present obligation to rectify damage caused to the environment by its past operating activities. However, the entity does not have a present obligation to rectify future damage even if the entity expects to cause further damage by continuing its operations.

Decommissioning and environmental rehabilitation funds

C13 Sometimes entities contribute to separate funds (decommissioning funds) that segregate assets to fund some or all of the costs of decommissioning plant or equipment or undertaking environmental rehabilitation.

C14 The [draft] requirements in paragraphs C15-C19 apply if an entity contributes to a decommissioning fund in which:

(a) the assets are administered separately (being held either in a separate legal entity or as segregated assets within another entity); and

(b) the entity's right to access the assets is restricted.

Interests in the fund

C15 The entity shall recognise its interest in a decommissioning or environmental rehabilitation fund separately from its liability for the related decommissioning or environmental rehabilitation costs unless the entity is not liable to pay the costs if the fund fails to pay.

C16 The entity shall determine whether it has control, joint control or significance influence over the fund by reference to IAS 27 *Consolidated and Separate Financial Statements*, IAS 28 *Investments in Associates*, IAS 31 *Interests in Joint Ventures* and SIC-12 *Consolidation—Special Purpose Entities*. If it does, the entity shall account for its interest in the fund in accordance with those standards.

C17 Otherwise, the entity shall recognise and measure a right to receive reimbursement in accordance with the [draft] requirements of paragraphs 37-42 of this [draft] IFRS. The entity shall recognise changes in the carrying amount of the right to receive reimbursement, other than contributions to and payments from the fund, in profit or loss when these changes occur.

C18 Any residual interest in a fund that extends beyond a right to reimbursement—such as a contractual right to distributions once the

Corresponding paragraphs IAS 37	2005 ED	Decision summary reference
IFRIC 5 paragraph 1		
IFRIC 5 paragraph 4		
IFRIC 5 paragraph 7		
IFRIC 5 paragraph 8		
IFRIC 5 paragraph 9		9.1
IFRIC 5 paragraph		

decommissioning has been completed or on winding up the fund—is not within the scope of this [draft] IFRS. It might be an equity instrument within the scope of IFRS 9 *Financial Instruments*.

Obligations to make additional contributions

C19 The entity might have an obligation that requires it to make additional contributions, for example, in the event of the bankruptcy of another contributor or if the assets held by the fund are insufficient to fulfil the fund's reimbursement obligations. If the obligation is within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 4 *Insurance contracts*, the entity shall apply those standards to the obligation. Otherwise, it shall apply this [draft] IFRS.

Corresponding paragraphs		Decision summary reference
IAS 37	2005 ED	
5		
IFRIC 5 paragraph 10		9.2

Appendix D
Amendments to other IFRSs

[Not yet drafted].

Approval of IFRS X by the Board

[To be inserted after voting.]

Basis for Conclusions

[Not yet drafted].

Illustrative examples

These examples accompany, but are not part of, [draft] IFRS X.

The Board has not yet approved illustrative examples for the IFRS. The following table sets out preliminary staff thoughts about the examples proposed in the 2005 Exposure Draft and possible further examples that could be included in the IFRS.

Reference	Subject	Staff remarks
Examples in 2005 Exposure Draft		
Example 1	Disputed lawsuit	The Board has reconsidered this example since issuing the exposure draft. It has decided that the original conclusion was wrong—an entity does not have a liability to stand-ready to act as the court directs. Suggest retaining example but with conclusion that no liability is recognised (based on requirements of paragraphs 14-15 of the draft IFRS).
Example 2	Potential Lawsuit (hospital example)	Remains applicable. Can be expanded to explain how it illustrates uncertainty about a past event (and so about whether obligation exists), rather than uncertainty about future events (and so about the outcome of the obligation). It can thus help clarify the tentative decisions about stand-ready obligations (see point 2.5 in the decision summary).
Example 3A	Contaminated land—legislation substantively enacted	Remains applicable.
Example 3B	Contaminated land—constructive obligation	Remains applicable.
Example 4A	Extended product warranty	Suggest deleting. This type of liability will be within the scope of the new IFRS on revenue recognition. So it will no longer be within the scope of this IFRS.

Continues on next page/

Reference	Subject	Staff remarks
Example 4B	Extended product warranty	Suggest deleting. This type of liability will be within the scope of the new IFRS on revenue recognition. So it will no longer be within the scope of this IFRS.
Example 5	Single guarantee	Suggest deleting. This type of liability will be within the scope of the new IFRS on insurance contracts. So the requirement of this IFRS will no longer be relevant.
Example 6	Offshore oilfield	Remains applicable.
Example 7	Conditional asbestos removal	Remains applicable.
Example 8	Joint and several liability	Remains applicable.
Example 9	Refunds policy	Suggest deleting. This type of liability will be within the scope of the new IFRS on revenue recognition. So it will no longer be within the scope of this IFRS.
Example 10A	New legislation 1	Remains applicable.
Example 10B	New legislation 2	Remains applicable.
Example 11	Closure of division	Remains applicable.
Example 12	Onerous contract	Suggest deleting. The Board proposes to amend the requirements for leases. Lessees would recognise assets and liabilities for all leases. If a lease becomes onerous, the lessee would recognise an impairment loss on the lease asset, not an onerous contract liability.
Example 13	Legal requirement to install smoke filters	Remains applicable.
Example 14	Staff retraining	Remains applicable.
Example 15	Repairs and maintenance	Remains applicable.
Example 16	Self-insurance	Remains applicable.

Continues on next page/

Reference	Subject	Staff remarks
Example 17	Measurement of decommissioning obligation.	Suggest replacing with illustrative example in Exposure Draft ED/2010/1 *Measurement of Liabilities in IAS 37*. Same subject matter but updated to reflect revised measurement proposals.
Example 18	Disclosure of warranty obligation	Suggest deleting. This type of liability will be within the scope of the new IFRS on revenue recognition. So it will no longer be within the scope of this IFRS.
Example 19	Disclosure of decommissioning obligation	Remains applicable.
Example 20	Disclosure exemption	Remains applicable.
Possible further examples		
IFRIC 6	Waste electrical and electronic equipment	IFRIC Interpretation 6 addresses a specific historical accounting issue. However, it also illustrates more generally the meaning of present obligation. The staff think it lends itself to becoming an example in the new IFRS, allowing withdrawal of the Interpretation.
IASB meeting July 2007 Agenda Paper 10A, Example 1 'Digger'	Land restoration	This example illustrates a point not illustrated by other examples. In the example, laws require entities with mining operations to restore land after operations cease if the mine is more than 10 metres deep. The example illustrates that until the entity has mined beyond 10 metres, it has no obligation.