

AASB 137 Provisions, Contingent Liabilities and Contingent Assets and IFRS for SMEs Section 21 Provisions and Contingencies

1. Executive Summary

Main differences in recognition, measurement or presentation requirements

There are no significant differences between the recognition, measurement and presentation requirements of AASB 137 and Section 21 of the *IFRS for SMEs*.

Disclosure proposals

It is proposed to:

- exclude paragraph 84(b) and (e) to disclose, for each class of provision, the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate (while retaining the general requirement to disclose the increase during the period in the discounted amount) from the Reduced Disclosure Regime (RDR). This should be achieved by combining paragraph 84(b) and the simplified paragraph 84(e). This change should be presented by excluding paragraphs 84(b) and 84(e) from the RDR and adding paragraph RDR84.1 to set out the simplified requirements; and
- exclude paragraph 85(b) second sentence from the RDR.

2. Analysis of disclosure requirements

Text in AASB 137 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Text in <i>IFRS for SMEs Section 21 Provisions and Contingencies</i>	Comment
<p>Disclosure</p> <p>84. For each class of provision, an entity shall disclose:</p> <ul style="list-style-type: none"> (a) the carrying amount at the beginning and end of the period; (b) additional provisions made in the period, including increases to existing provisions; (c) amounts used (that is, incurred and charged against the provision) during the period; (d) unused amounts reversed during the period; and (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate. <p>Comparative information is not required.</p> <p>85. An entity shall disclose the following for each class of provision:</p> <ul style="list-style-type: none"> (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits; (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed 	<p>Disclosures</p> <p>Disclosures about provisions</p> <p>21.14 For each class of provision, an entity shall disclose all of the following:</p> <ul style="list-style-type: none"> (a) a reconciliation showing <ul style="list-style-type: none"> (i) the carrying amount at the beginning and end of the period; (ii) additions during the period, including adjustments that result from changes in measuring the discounted amount; (iii) amounts charged against the provision during the period; and (iv) unused amounts reversed during the period. (b) a brief description of the nature of the obligation and the expected amount and timing of any resulting payments. (c) an indication of the uncertainties about the amount or timing of those outflows. (d) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement. <p>Comparative information for prior periods is not required.</p>	<p>Paragraphs 84(a), 84(c) and 84(d) of AASB 137 and paragraphs 21.14(a)(i), (iii) and (iv) of the <i>IFRS for SMEs</i> correspond. Paragraphs 84(a), 84(c) and 84(d) should be retained in the RDR.</p> <p>Unlike the <i>IFRS for SMEs</i>, paragraph 84(b) of AASB 137 includes specific reference to increases in existing provisions. However, that reference is an elaboration rather than an additional disclosure requirement. Based on paragraph IN2 of this Appendix, the wording of paragraph 84(b) should be retained in the RDR. (However, paragraph 84(b) is presented as being excluded from the RDR because it is combined with a simplified paragraph 84(e) within proposed paragraph RDR84.1: see the Executive Summary and discussion below of paragraph 84(e).</p> <p>Paragraph 84(e) of AASB 137 requires a more detailed analysis of increases in provisions than paragraph 21.14(a)(ii) of the <i>IFRS for SMEs</i>. Additional details required by AASB 137 are the increase arising from the passage of time (the ‘unwinding of the discount’) and the effect of any change in the discount rate. The simpler disclosure requirements of the <i>IFRS for SMEs</i> are not the result of a difference in recognition or measurement requirements between the</p>

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<p>in paragraph 48; and</p> <p>(c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.</p>		<p>Standards. Based on the reasoning in paragraph IN3 of this Appendix, the less onerous disclosure requirements of paragraph 21.14(a)(ii) of the <i>IFRS for SMEs</i> should be included in the RDR. This should be achieved by combining paragraph 84(b) and a simplified paragraph 84(e). This change should be presented by excluding paragraphs 84(b) and 84(e) from the RDR and adding paragraph RDR84.1 to set out the less onerous requirements.</p> <p>Whereas paragraph 85(a) of AASB 137 requires disclosure of “the expected timing of any resulting outflows of economic benefits”, paragraph 21.14(b) of the <i>IFRS for SMEs</i> requires disclosure of “the expected <u>amount and</u> timing of any resulting payments” (emphasis added). Because it would often be necessary to disclose the expected amount of outflows when disclosing their expected timing, the difference between these paragraphs appears to be insignificant. Based on paragraph IN2 of this Appendix, the wording of paragraph 85(a) should be retained in the RDR.</p> <p>The <i>IFRS for SMEs</i> does not include the requirement in paragraph 85(b) of AASB 137 to disclose the major assumptions concerning future events when disclosing information about uncertainties. The omission does not reflect a substantive difference from the recognition and</p>

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		<p>measurement requirements of AASB 137. Based on the reasoning in paragraph IN3 of this Appendix, that disclosure in paragraph 85(b) should be excluded from the RDR.</p> <p>Paragraph 85(c) of AASB 137 and paragraph 21.14(d) of the <i>IFRS for SMEs</i> correspond. Paragraph 85(c) should be retained in the RDR.</p>
<p>86. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:</p> <p>(a) an estimate of its financial effect, measured under paragraphs 36-52;</p> <p>(b) an indication of the uncertainties relating to the amount or timing of any outflow; and</p> <p>(c) the possibility of any reimbursement.</p>	<p>Disclosures about contingent liabilities</p> <p>21.15 Unless the possibility of any outflow of resources in settlement is remote, an entity shall disclose, for each class of contingent liability at the reporting date, a brief description of the nature of the contingent liability and, when practicable:</p> <p>(a) an estimate of its financial effect, measured in accordance with paragraphs 21.7–21.11;</p> <p>(b) an indication of the uncertainties relating to the amount or timing of any outflow; and</p> <p>(c) the possibility of any reimbursement.</p> <p>If it is impracticable to make one or more of these disclosures, that fact shall be stated.</p>	<p>Paragraph 86 of AASB 137 and paragraph 21.15 of the <i>IFRS for SMEs</i> correspond. Paragraph 86 should be retained in the RDR.</p>
<p>87. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties</p>		<p>The <i>IFRS for SMEs</i> excludes the guidance in paragraph 87 of AASB 137. That guidance relates to the disclosures in paragraphs 84 – 86, which should generally be retained in the RDR. Therefore, based on the reasoning in paragraph IN7 of this Appendix, paragraph 87 should be retained.</p>

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<p>of different products, but it would not be appropriate to treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.</p>		
<p>88. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84-86 in a way that shows the link between the provision and the contingent liability.</p>		<p>The <i>IFRS for SMEs</i> excludes the guidance in paragraph 88 of AASB 137. That guidance relates to the disclosures in paragraphs 84 – 86, which should generally be retained in the RDR. Therefore, based on the reasoning in paragraph IN7 of this Appendix, paragraph 88 should be retained.</p>
<p>89. Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36-52.</p>	<p>Disclosures about contingent assets</p> <p>21.16 If an inflow of economic benefits is probable (more likely than not) but not virtually certain, an entity shall disclose a description of the nature of the contingent assets at the end of the reporting period, and, when practicable without undue cost or effort, an estimate of their financial effect, measured using the principles set out in paragraphs 21.7–21.11. If it is impracticable to make this disclosure, that fact shall be stated.</p>	<p>The main difference from AASB 137 in the first two lines of paragraph 21.16 of the <i>IFRS for SMEs</i> is the latter’s reference to disclosure of contingent assets not being required if an inflow of economic benefits is virtually certain. However, this is not a substantive difference between the Standards. Both Standards indicate that, if an inflow of economic benefits is virtually certain, an asset (rather than a contingent asset) exists [see AASB 137, paragraph 35 and <i>IFRS for SMEs</i>, paragraph 21.13]. Based on paragraph IN2 of this Appendix, the wording of AASB 137 on this aspect should be retained.</p> <p>The other difference between paragraph 89 of AASB 137 and paragraph 21.16 of the <i>IFRS for SMEs</i> is the latter’s addition of an ‘undue cost or effort’ exemption from disclosing an estimate of the financial effect of contingent assets. This is an extension of</p>

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		the ‘impracticability’ exemption for this disclosure in AASB 137. Based on paragraph IN2 of this Appendix, the wording in paragraph 89 should be retained.
90. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.		The <i>IFRS for SMEs</i> excludes the application guidance in paragraph 90 of AASB 137. That guidance relates to the disclosures in paragraph 89, which should be retained in the RDR. Therefore, based on the reasoning in paragraph IN7 of this Appendix, paragraph 90 should be retained.
91. Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.		The requirement in paragraph 91 of AASB 137 is incorporated separately in paragraphs 21.15 and 21.16 of the <i>IFRS for SMEs</i> . Based on paragraph IN2 of this Appendix, paragraph 91 should be retained.
92. In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.	<p>Prejudicial disclosures</p> <p>21.17 In extremely rare cases, disclosure of some or all of the information required by paragraphs 21.14–21.16 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.</p>	Paragraph 92 of AASB 137 and paragraph 21.17 of the <i>IFRS for SMEs</i> correspond. Paragraph 92 should be retained in the RDR.

3. AASB 137 Provisions, Contingent Liabilities and Contingent Assets: Text of Proposed Disclosures

The following are the disclosure requirements of AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, showing requirements from which it is proposed entities applying the RDR should be exempt as shaded text.

Disclosure

84. For each class of provision, an entity shall disclose:

- (a) the carrying amount at the beginning and end of the period;
- (b) additional provisions made in the period, including increases to existing provisions;
- (c) amounts used (that is, incurred and charged against the provision) during the period;
- (d) unused amounts reversed during the period; and
- (e) the increase during the period in the discounted amount arising from the passage of time and the effect of any change in the discount rate.

RDR84.1 Entities applying the Reduced Disclosure Regime (RDR) should disclose additional provisions made in the period, including increases to existing provisions and adjustments that result from changes in measuring the discounted amount. Entities applying the RDR need not provide comparative information.

85. An entity shall disclose the following for each class of provision:

- (a) a brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits;
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph 48; and
- (c) the amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

86. Unless the possibility of any outflow in settlement is remote, an entity shall disclose for each class of contingent liability at the reporting date a brief description of the nature of the contingent liability and, where practicable:

- (a) an estimate of its financial effect, measured under paragraphs 36-52;
- (b) an indication of the uncertainties relating to the amount or timing of any outflow; and
- (c) the possibility of any reimbursement.

87. In determining which provisions or contingent liabilities may be aggregated to form a class, it is necessary to consider whether the nature of the items is sufficiently similar for a single statement about them to fulfil the requirements of paragraphs 85(a) and (b) and 86(a) and (b). Thus, it may be appropriate to treat as a single class of provision amounts relating to warranties of different products, but it would not be appropriate to

treat as a single class amounts relating to normal warranties and amounts that are subject to legal proceedings.

88. Where a provision and a contingent liability arise from the same set of circumstances, an entity makes the disclosures required by paragraphs 84-86 in a way that shows the link between the provision and the contingent liability.
- 89. Where an inflow of economic benefits is probable, an entity shall disclose a brief description of the nature of the contingent assets at the reporting date, and, where practicable, an estimate of their financial effect, measured using the principles set out for provisions in paragraphs 36-52.**
90. It is important that disclosures for contingent assets avoid giving misleading indications of the likelihood of income arising.
- 91. Where any of the information required by paragraphs 86 and 89 is not disclosed because it is not practicable to do so, that fact shall be stated.**
- 92. In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose the information, but shall disclose the general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed.**