

Provisions, Contingent Liabilities and Contingent Assets

This compiled Standard applies to annual periods beginning on or after 1 July 2026 but before 1 January 2027. Earlier application is permitted for annual periods beginning after 24 July 2014 but before 1 July 2026. It incorporates relevant amendments made up to and including 28 January 2026.

Prepared on 14 October 2026 by the staff of the Australian Accounting Standards Board.

Compilation no. 7

Compilation date: 30 June 2026



Australian Government

**Australian Accounting
Standards Board**

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Australian Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (as amended) is set out in paragraphs 1–105 and Appendix A. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles. AASB 137 is to be read in the context of other Australian Accounting Standards, including AASB 1048 *Interpretation of Standards*, which identifies the Australian Accounting Interpretations, and AASB 1057 *Application of Australian Accounting Standards*. In the absence of explicit guidance, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* provides a basis for selecting and applying accounting policies.

Comparison with IAS 37

AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* as amended incorporates IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as issued and amended by the International Accounting Standards Board (IASB). Australian-specific paragraphs (which are not included in IAS 37) are identified with the prefix “Aus”. Paragraphs that apply only to not-for-profit entities begin by identifying their limited applicability.

Tier 1

For-profit entities complying with AASB 137 also comply with IAS 37.

Not-for-profit entities’ compliance with IAS 37 will depend on whether any “Aus” paragraphs that specifically apply to not-for-profit entities provide additional guidance or contain applicable requirements that are inconsistent with IAS 37.

Tier 2

Entities preparing general purpose financial statements under Australian Accounting Standards – Simplified Disclosures (Tier 2) will not be in compliance with IFRS Standards.

AASB 1053 *Application of Tiers of Australian Accounting Standards* explains the two tiers of reporting requirements.

Accounting Standard AASB 137

The Australian Accounting Standards Board made Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* under section 334 of the *Corporations Act 2001* on 14 August 2015.

This compiled version of AASB 137 applies to annual periods beginning on or after 1 July 2026 but before 1 January 2027. It incorporates relevant amendments contained in other AASB Standards made by the AASB up to and including 28 January 2026 (see Compilation Details).

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*

Objective

The objective of this Standard is to ensure that appropriate recognition criteria and measurement bases are applied to provisions, contingent liabilities and contingent assets and that sufficient information is disclosed in the notes to enable users to understand their nature, timing and amount.

Scope

1 This Standard shall be applied by all entities in accounting for provisions, contingent liabilities and contingent assets, except:

- (a) those resulting from executory contracts, except where the contract is onerous; and
- (b) [deleted]
- (c) those covered by another Standard.

AusCF1

AusCF entities are:

- (a) not-for-profit entities; and
- (b) for-profit entities that are not applying the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*).

For AusCF entities, the term ‘reporting entity’ is defined in AASB 1057 *Application of Australian Accounting Standards* and Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity* also applies. For-profit entities applying the *Conceptual Framework for Financial Reporting* are set out in paragraph Aus1.1 of the *Conceptual Framework*.

2 This Standard does not apply to financial instruments (including guarantees) that are within the scope of AASB 9 *Financial Instruments*.

3 Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent. This Standard does not apply to executory contracts unless they are onerous.

4 [Deleted]

5 When another Standard deals with a specific type of provision, contingent liability or contingent asset, an entity applies that Standard instead of this Standard. For example, some types of provisions are addressed in Standards on:

- (a) [deleted]
- (b) income taxes (see AASB 112 *Income Taxes*);
- (c) leases (see AASB 16 *Leases*). However, this Standard applies to any lease that becomes onerous before the commencement date of the lease as defined in AASB 16. This Standard also applies to short-term leases and leases for which the underlying asset is of low value accounted for in accordance with paragraph 6 of AASB 16 and that have become onerous;
- (d) employee benefits (see AASB 119 *Employee Benefits*);
- (e) insurance contracts and other contracts within the scope of AASB 17 *Insurance Contracts*;

- (f) contingent consideration of an acquirer in a business combination (see AASB 3 *Business Combinations*); and
 - (g) revenue from contracts with customers (see AASB 15 *Revenue from Contracts with Customers*). However, as AASB 15 contains no specific requirements to address contracts with customers that are, or have become, onerous, this Standard applies to such cases.
- 6 [Deleted]
- 7 This Standard defines provisions as liabilities of uncertain timing or amount. In some countries the term ‘provision’ is also used in the context of items such as depreciation, impairment of assets and doubtful debts: these are adjustments to the carrying amounts of assets and are not addressed in this Standard.
- 8 Other Standards specify whether expenditures are treated as assets or as expenses. These issues are not addressed in this Standard. Accordingly, this Standard neither prohibits nor requires capitalisation of the costs recognised when a provision is made.
- 9 This Standard applies to provisions for restructurings (including discontinued operations). When a restructuring meets the definition of a discontinued operation, additional disclosures may be required by AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Definitions

10 The following terms are used in this Standard with the meanings specified:

A *provision* is a liability of uncertain timing or amount.

A *liability* is a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.¹

An *obligating event* is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

A *legal obligation* is an obligation that derives from:

- (a) a contract (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law.

A *constructive obligation* is an obligation that derives from an entity’s actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

A *contingent liability* is:

- (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- (b) a present obligation that arises from past events but is not recognised because:
 - (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or
 - (ii) the amount of the obligation cannot be measured with sufficient reliability.

A *contingent asset* is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

An *onerous contract* is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

¹ The definition of a liability in this Standard was not revised following the revision of the definition of a liability in the *Conceptual Framework for Financial Reporting* (as identified in AASB 1048 *Interpretation of Standards*) issued in 2019.

A restructuring is a programme that is planned and controlled by management, and materially changes either:

- (a) the scope of a business undertaken by an entity; or
- (b) the manner in which that business is conducted.

Provisions and other liabilities

11 Provisions can be distinguished from other liabilities such as trade payables and accruals because there is uncertainty about the timing or amount of the future expenditure required in settlement. By contrast:

- (a) trade payables are liabilities to pay for goods or services that have been received or supplied and have been invoiced or formally agreed with the supplier; and
- (b) accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions.

Accruals are often reported as part of trade and other payables, whereas provisions are reported separately.

Relationship between provisions and contingent liabilities

12 In a general sense, all provisions are contingent because they are uncertain in timing or amount. However, within this Standard the term ‘contingent’ is used for liabilities and assets that are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. In addition, the term ‘contingent liability’ is used for liabilities that do not meet the recognition criteria.

13 This Standard distinguishes between:

- (a) provisions – which are recognised as liabilities (assuming that a reliable estimate can be made) because they are present obligations and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations; and
- (b) contingent liabilities – which are not recognised as liabilities because they are either:
 - (i) possible obligations, as it has yet to be confirmed whether the entity has a present obligation that could lead to an outflow of resources embodying economic benefits; or
 - (ii) present obligations that do not meet the recognition criteria in this Standard (because either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or a sufficiently reliable estimate of the amount of the obligation cannot be made).

Recognition

Provisions

14 **A provision shall be recognised when:**

- (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.

If these conditions are not met, no provision shall be recognised.

Present obligation

15 In rare cases it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period.

- 16 In almost all cases it will be clear whether a past event has given rise to a present obligation. In rare cases, for example in a lawsuit, it may be disputed either whether certain events have occurred or whether those events result in a present obligation. In such a case, an entity determines whether a present obligation exists at the end of the reporting period by taking account of all available evidence, including, for example, the opinion of experts. The evidence considered includes any additional evidence provided by events after the reporting period. On the basis of such evidence:
- (a) where it is more likely than not that a present obligation exists at the end of the reporting period, the entity recognises a provision (if the recognition criteria are met); and
 - (b) where it is more likely that no present obligation exists at the end of the reporting period, the entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

Past event

- 17 A past event that leads to a present obligation is called an obligating event. For an event to be an obligating event, it is necessary that the entity has no realistic alternative to settling the obligation created by the event. This is the case only:
- (a) where the settlement of the obligation can be enforced by law; or
 - (b) in the case of a constructive obligation, where the event (which may be an action of the entity) creates valid expectations in other parties that the entity will discharge the obligation.
- 18 Financial statements deal with the financial position of an entity at the end of its reporting period and not its possible position in the future. Therefore, no provision is recognised for costs that need to be incurred to operate in the future. The only liabilities recognised in an entity's statement of financial position are those that exist at the end of the reporting period.
- 19 It is only those obligations arising from past events existing independently of an entity's future actions (ie the future conduct of its business) that are recognised as provisions. Examples of such obligations are penalties or clean-up costs for unlawful environmental damage, both of which would lead to an outflow of resources embodying economic benefits in settlement regardless of the future actions of the entity. Similarly, an entity recognises a provision for the decommissioning costs of an oil installation or a nuclear power station to the extent that the entity is obliged to rectify damage already caused. In contrast, because of commercial pressures or legal requirements, an entity may intend or need to carry out expenditure to operate in a particular way in the future (for example, by fitting smoke filters in a certain type of factory). Because the entity can avoid the future expenditure by its future actions, for example by changing its method of operation, it has no present obligation for that future expenditure and no provision is recognised.
- 20 An obligation always involves another party to whom the obligation is owed. It is not necessary, however, to know the identity of the party to whom the obligation is owed—indeed the obligation may be to the public at large. Because an obligation always involves a commitment to another party, it follows that a management or board decision does not give rise to a constructive obligation at the end of the reporting period unless the decision has been communicated before the end of the reporting period to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will discharge its responsibilities.
- 21 An event that does not give rise to an obligation immediately may do so at a later date, because of changes in the law or because an act (for example, a sufficiently specific public statement) by the entity gives rise to a constructive obligation. For example, when environmental damage is caused there may be no obligation to remedy the consequences. However, the causing of the damage will become an obligating event when a new law requires the existing damage to be rectified or when the entity publicly accepts responsibility for rectification in a way that creates a constructive obligation.
- 22 Where details of a proposed new law have yet to be finalised, an obligation arises only when the legislation is virtually certain to be enacted as drafted. For the purpose of this Standard, such an obligation is treated as a legal obligation. Differences in circumstances surrounding enactment make it impossible to specify a single event that would make the enactment of a law virtually certain. In many cases it will be impossible to be virtually certain of the enactment of a law until it is enacted.

Probable outflow of resources embodying economic benefits

- 23 For a liability to qualify for recognition there must be not only a present obligation but also the probability of an outflow of resources embodying economic benefits to settle that obligation. For the purpose of this

Standard,² an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, ie the probability that the event will occur is greater than the probability that it will not. Where it is not probable that a present obligation exists, an entity discloses a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote (see paragraph 86).

- 24 Where there are a number of similar obligations (eg product warranties or similar contracts) the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although the likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole. If that is the case, a provision is recognised (if the other recognition criteria are met).

Reliable estimate of the obligation

- 25 The use of estimates is an essential part of the preparation of financial statements and does not undermine their reliability. This is especially true in the case of provisions, which by their nature are more uncertain than most other items in the statement of financial position. Except in extremely rare cases, an entity will be able to determine a range of possible outcomes and can therefore make an estimate of the obligation that is sufficiently reliable to use in recognising a provision.
- 26 In the extremely rare case where no reliable estimate can be made, a liability exists that cannot be recognised. That liability is disclosed as a contingent liability (see paragraph 86).

Recognition of liabilities arising from local government and government existing public policies, budget policies, election promises or statements of intent

- Aus26.1 This paragraph and paragraph Aus26.2 relate to the recognition by a local government, government department or government of a liability arising from a local government or government existing public policy, budget policy, election promise or statement of intent. The intention to make payments to other parties, whether advised in the form of a local government or government budget policy, election promise or statement of intent, does not of itself create a present obligation which is binding. A liability would be recognised only when the entity is committed in the sense that it has little or no discretion to avoid the sacrifice of future economic benefits. For example, a government does not have a present obligation to sacrifice future economic benefits for social welfare payments that might arise in future reporting periods. A present obligation for social welfare payments arises only when entitlement conditions are satisfied for payment during a particular payment period. Similarly, a government does not have a present obligation to sacrifice future economic benefits under multi-year public policy agreements until the grantee meets conditions such as grant eligibility criteria, or has provided the services or facilities required under the grant agreement. In such cases, only amounts outstanding in relation to current or previous periods satisfy the definition of liabilities.
- Aus26.2 Some such transactions or events may give rise to legal, social, political or economic consequences which leave little, if any, discretion to avoid a sacrifice of future economic benefits. In such circumstances, the definition of a liability is satisfied. An example of such an event is the occurrence of a disaster, where a government has a clear and formal policy to provide financial aid to victims of such disasters. In this circumstance, the government has little discretion to avoid the sacrifice of future economic benefits. However, the liability is recognised only when the amount of financial aid to be provided can be measured reliably.

Contingent liabilities

- 27 **An entity shall not recognise a contingent liability.**
- 28 A contingent liability is disclosed, as required by paragraph 86, unless the possibility of an outflow of resources embodying economic benefits is remote.
- 29 Where an entity is jointly and severally liable for an obligation, the part of the obligation that is expected to be met by other parties is treated as a contingent liability. The entity recognises a provision for the part of the obligation for which an outflow of resources embodying economic benefits is probable, except in the extremely rare circumstances where no reliable estimate can be made.

2 The interpretation of 'probable' in this Standard as 'more likely than not' does not necessarily apply in other Standards.

- 30 Contingent liabilities may develop in a way not initially expected. Therefore, they are assessed continually to determine whether an outflow of resources embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs (except in the extremely rare circumstances where no reliable estimate can be made).

Contingent assets

- 31 **An entity shall not recognise a contingent asset.**
- 32 Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. An example is a claim that an entity is pursuing through legal processes, where the outcome is uncertain.
- 33 Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised. However, when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate.
- 34 A contingent asset is disclosed, as required by paragraph 89, where an inflow of economic benefits is probable.
- 35 Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognised in the financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent asset (see paragraph 89).

Measurement

Best estimate

- 36 **The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.**
- 37 The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.
- 38 The estimates of outcome and financial effect are determined by the judgement of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting period.
- 39 Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

Example

An entity sells goods with a warranty under which customers are covered for the cost of repairs of any manufacturing defects that become apparent within the first six months after purchase. If minor defects were detected in all products sold, repair costs of 1 million would result. If major defects were detected in all products sold, repair costs of 4 million would result. The entity's past experience and future expectations indicate that, for the coming year, 75 per cent of the goods sold will have no defects, 20 per cent of the goods sold will have minor defects and 5 per cent of the goods sold will have major defects. In accordance with paragraph 24, an entity assesses the probability of an outflow for the warranty obligations as a whole.

The expected value of the cost of repairs is:

$(75\% \text{ of nil}) + (20\% \text{ of } 1\text{m}) + (5\% \text{ of } 4\text{m}) = 400,000$

40 Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a major plant that it has constructed for a customer, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary.

41 The provision is measured before tax, as the tax consequences of the provision, and changes in it, are dealt with under AASB 112.

Risks and uncertainties

42 **The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.**

43 Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that income or assets are not overstated and expenses or liabilities are not understated. However, uncertainty does not justify the creation of excessive provisions or a deliberate overstatement of liabilities. For example, if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of a provision.

44 Disclosure of the uncertainties surrounding the amount of the expenditure is made under paragraph 85(b).

Present value

45 **Where the effect of the time value of money is material, the amount of a provision shall be the present value of the expenditures expected to be required to settle the obligation.**

46 Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting period are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material.

47 **The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.**

Future events

48 **Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.**

49 Expected future events may be particularly important in measuring provisions. For example, an entity may believe that the cost of cleaning up a site at the end of its life will be reduced by future changes in technology. The amount recognised reflects a reasonable expectation of technically qualified, objective observers, taking account of all available evidence as to the technology that will be available at the time of the clean-up. Thus it is appropriate to include, for example, expected cost reductions associated with

increased experience in applying existing technology or the expected cost of applying existing technology to a larger or more complex clean-up operation than has previously been carried out. However, an entity does not anticipate the development of a completely new technology for cleaning up unless it is supported by sufficient objective evidence.

- 50 The effect of possible new legislation is taken into consideration in measuring an existing obligation when sufficient objective evidence exists that the legislation is virtually certain to be enacted. The variety of circumstances that arise in practice makes it impossible to specify a single event that will provide sufficient, objective evidence in every case. Evidence is required both of what legislation will demand and of whether it is virtually certain to be enacted and implemented in due course. In many cases sufficient objective evidence will not exist until the new legislation is enacted.

Expected disposal of assets

- 51 **Gains from the expected disposal of assets shall not be taken into account in measuring a provision.**
- 52 Gains on the expected disposal of assets are not taken into account in measuring a provision, even if the expected disposal is closely linked to the event giving rise to the provision. Instead, an entity recognises gains on expected disposals of assets at the time specified by the Standard dealing with the assets concerned.

Reimbursements

- 53 **Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.**
- 54 **In the statement of comprehensive income, the expense relating to a provision may be presented net of the amount recognised for a reimbursement.**
- 55 Sometimes, an entity is able to look to another party to pay part or all of the expenditure required to settle a provision (for example, through insurance contracts, indemnity clauses or suppliers' warranties). The other party may either reimburse amounts paid by the entity or pay the amounts directly.
- 56 In most cases the entity will remain liable for the whole of the amount in question so that the entity would have to settle the full amount if the third party failed to pay for any reason. In this situation, a provision is recognised for the full amount of the liability, and a separate asset for the expected reimbursement is recognised when it is virtually certain that reimbursement will be received if the entity settles the liability.
- 57 In some cases, the entity will not be liable for the costs in question if the third party fails to pay. In such a case the entity has no liability for those costs and they are not included in the provision.
- 58 As noted in paragraph 29, an obligation for which an entity is jointly and severally liable is a contingent liability to the extent that it is expected that the obligation will be settled by the other parties.

Changes in provisions

- 59 **Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision shall be reversed.**
- 60 Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as borrowing cost.

Use of provisions

- 61 **A provision shall be used only for expenditures for which the provision was originally recognised.**
- 62 Only expenditures that relate to the original provision are set against it. Setting expenditures against a provision that was originally recognised for another purpose would conceal the impact of two different events.

Application of the recognition and measurement rules

Future operating losses

- 63 **Provisions shall not be recognised for future operating losses.**
- 64 Future operating losses do not meet the definition of a liability in paragraph 10 and the general recognition criteria set out for provisions in paragraph 14.
- 65 An expectation of future operating losses is an indication that certain assets of the operation may be impaired. An entity tests these assets for impairment under AASB 136 *Impairment of Assets*.

Onerous contracts

- 66 **If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.**
- 67 Many contracts (for example, some routine purchase orders) can be cancelled without paying compensation to the other party, and therefore there is no obligation. Other contracts establish both rights and obligations for each of the contracting parties. Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised. Executory contracts that are not onerous fall outside the scope of this Standard.
- 68 This Standard defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.
- 68A The cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract consist of both:
- (a) the incremental costs of fulfilling that contract—for example, direct labour and materials; and
 - (b) an allocation of other costs that relate directly to fulfilling contracts—for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling that contract among others.
- 69 Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract (see AASB 136).

Restructuring

- 70 The following are examples of events that may fall under the definition of restructuring:
- (a) sale or termination of a line of business;
 - (b) the closure of business locations in a country or region or the relocation of business activities from one country or region to another;
 - (c) changes in management structure, for example, eliminating a layer of management; and
 - (d) fundamental reorganisations that have a material effect on the nature and focus of the entity's operations.
- 71 A provision for restructuring costs is recognised only when the general recognition criteria for provisions set out in paragraph 14 are met. Paragraphs 72–83 set out how the general recognition criteria apply to restructurings.
- 72 **A constructive obligation to restructure arises only when an entity:**
- (a) **has a detailed formal plan for the restructuring identifying at least:**
 - (i) **the business or part of a business concerned;**
 - (ii) **the principal locations affected;**
 - (iii) **the location, function, and approximate number of employees who will be compensated for terminating their services;**
 - (iv) **the expenditures that will be undertaken; and**
 - (v) **when the plan will be implemented; and**

(b) has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

73 Evidence that an entity has started to implement a restructuring plan would be provided, for example, by dismantling plant or selling assets or by the public announcement of the main features of the plan. A public announcement of a detailed plan to restructure constitutes a constructive obligation to restructure only if it is made in such a way and in sufficient detail (ie setting out the main features of the plan) that it gives rise to valid expectations in other parties such as customers, suppliers and employees (or their representatives) that the entity will carry out the restructuring.

74 For a plan to be sufficient to give rise to a constructive obligation when communicated to those affected by it, its implementation needs to be planned to begin as soon as possible and to be completed in a timeframe that makes significant changes to the plan unlikely. If it is expected that there will be a long delay before the restructuring begins or that the restructuring will take an unreasonably long time, it is unlikely that the plan will raise a valid expectation on the part of others that the entity is at present committed to restructuring, because the timeframe allows opportunities for the entity to change its plans.

75 A management or board decision to restructure taken before the end of the reporting period does not give rise to a constructive obligation at the end of the reporting period unless the entity has, before the end of the reporting period:

(a) started to implement the restructuring plan; or

(b) announced the main features of the restructuring plan to those affected by it in a sufficiently specific manner to raise a valid expectation in them that the entity will carry out the restructuring.

If an entity starts to implement a restructuring plan, or announces its main features to those affected, only after the reporting period, disclosure is required under AASB 110 *Events after the Reporting Period*, if the restructuring is material and non-disclosure could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

76 Although a constructive obligation is not created solely by a management decision, an obligation may result from other earlier events together with such a decision. For example, negotiations with employee representatives for termination payments, or with purchasers for the sale of an operation, may have been concluded subject only to board approval. Once that approval has been obtained and communicated to the other parties, the entity has a constructive obligation to restructure, if the conditions of paragraph 72 are met.

77 In some countries, the ultimate authority is vested in a board whose membership includes representatives of interests other than those of management (eg employees) or notification to such representatives may be necessary before the board decision is taken. Because a decision by such a board involves communication to these representatives, it may result in a constructive obligation to restructure.

78 No obligation arises for the sale of an operation until the entity is committed to the sale, ie there is a binding sale agreement.

79 Even when an entity has taken a decision to sell an operation and announced that decision publicly, it cannot be committed to the sale until a purchaser has been identified and there is a binding sale agreement. Until there is a binding sale agreement, the entity will be able to change its mind and indeed will have to take another course of action if a purchaser cannot be found on acceptable terms. When the sale of an operation is envisaged as part of a restructuring, the assets of the operation are reviewed for impairment, under AASB 136. When a sale is only part of a restructuring, a constructive obligation can arise for the other parts of the restructuring before a binding sale agreement exists.

80 A restructuring provision shall include only the direct expenditures arising from the restructuring, which are those that are both:

(a) necessarily entailed by the restructuring; and

(b) not associated with the ongoing activities of the entity.

81 A restructuring provision does not include such costs as:

(a) retraining or relocating continuing staff;

(b) marketing; or

(c) investment in new systems and distribution networks.

These expenditures relate to the future conduct of the business and are not liabilities for restructuring at the end of the reporting period. Such expenditures are recognised on the same basis as if they arose independently of a restructuring.

- 82 Identifiable future operating losses up to the date of a restructuring are not included in a provision, unless they relate to an onerous contract as defined in paragraph 10.
- 83 As required by paragraph 51, gains on the expected disposal of assets are not taken into account in measuring a restructuring provision, even if the sale of assets is envisaged as part of the restructuring.

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 (ie 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.
- Comparative information is not required.
- 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 end of the reporting period 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 end of the reporting period, 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.**

Transitional provisions

- 93 [Deleted by the AASB]
- 94 [Deleted]
- 94A AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, added paragraph 68A and amended paragraph 69. An entity shall apply those amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments (the date of initial application). The entity shall not restate comparative information. Instead, the entity shall recognise the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Commencement of the legislative instrument

- Aus94.1 [Repealed]

Withdrawal of AASB pronouncements

- Aus94.2 This Standard repeals AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* issued in July 2004. Despite the repeal, after the time this Standard starts to apply under section 334 of the Corporations Act (either generally or in relation to an individual entity), the repealed Standard continues to apply in relation to any period ending before that time as if the repeal had not occurred.
- [Note: When this Standard applies under section 334 of the Corporations Act (either generally or in relation to an individual entity), it supersedes the application of the repealed Standard.]

Effective date

- 95 This Standard becomes operative for annual financial statements covering periods beginning on or after 1 January 2018. Earlier application is encouraged for periods beginning after 24 July 2014 but before 1 January 2018. If an entity applies this Standard for periods beginning before 1 January 2018, it shall disclose that fact.
- 96 [Deleted]
- 97 [Deleted]
- 98 [Deleted]
- 99 AASB 2014-1 *Amendments to Australian Accounting Standards*, issued in June 2014, amended paragraph 5 in the previous version of this Standard as a consequential amendment derived from the amendment to AASB 3. An entity shall apply that amendment prospectively to business combinations to which the amendment to AASB 3 applies.
- 100 AASB 2014-5 *Amendments to Australian Accounting Standards arising from AASB 15*, issued in December 2014, amended the previous version of this Standard as follows: amended paragraph 5 and deleted paragraph 6. An entity shall apply those amendments when it applies AASB 15.
- 101 AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (as amended) amended paragraph 2 in the previous version of this Standard. Paragraph 97, added by AASB 2010-7, was deleted by AASB 2014-1 *Amendments to Australian Accounting Standards*. Paragraph 98, added by AASB 2014-1, was deleted by AASB 2014-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2014)*. An entity shall apply those amendments when it applies AASB 9.
- 102 AASB 16, issued in February 2016, amended paragraph 5. An entity shall apply that amendment when it applies AASB 16.
- 103 AASB 17, issued in July 2017, amended paragraph 5. An entity shall apply that amendment when it applies AASB 17.
- 104 AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*, issued in December 2018, amended paragraph 75. An entity shall apply those amendments prospectively for annual

periods beginning on or after 1 January 2020. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact. An entity shall apply those amendments when it applies the amendments to the definition of material in paragraph 7 of AASB 101 and paragraphs 5 and 6 of AASB 108.

- 105 AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018–2020 and Other Amendments*, issued in June 2020, added paragraphs 68A and 94A and amended paragraph 69. An entity shall apply those amendments for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted. If an entity applies those amendments for an earlier period, it shall disclose that fact.

Appendix A

Australian simplified disclosures for Tier 2 entities

This appendix is an integral part of the Standard.

AusA1 The following do not apply to entities preparing general purpose financial statements that apply AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*:

- (a) paragraphs 84–92; and
- (b) in paragraph 75 the text “If an entity starts to implement a restructuring plan ... about a specific reporting entity.”

Guidance on implementing AASB 137

This guidance accompanies, but is not part of, AASB 137.

A Tables – Provisions, contingent liabilities, contingent assets and reimbursements

The purpose of these tables is to summarise the main requirements of the Standard.

Provisions and contingent liabilities

Where, as a result of past events, there may be an outflow of resources embodying future economic benefits in settlement of: (a) a present obligation; or (b) a possible obligation whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
There is a present obligation that probably requires an outflow of resources.	There is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources.	There is a possible obligation or a present obligation where the likelihood of an outflow of resources is remote.
A provision is recognised (paragraph 14).	No provision is recognised (paragraph 27).	No provision is recognised (paragraph 27).
Disclosures are required for the provision (paragraphs 84 and 85).	Disclosures are required for the contingent liability (paragraph 86).	No disclosure is required (paragraph 86).

A contingent liability also arises in the extremely rare case where there is a liability that cannot be recognised because it cannot be measured reliably. Disclosures are required for the contingent liability.

Contingent assets

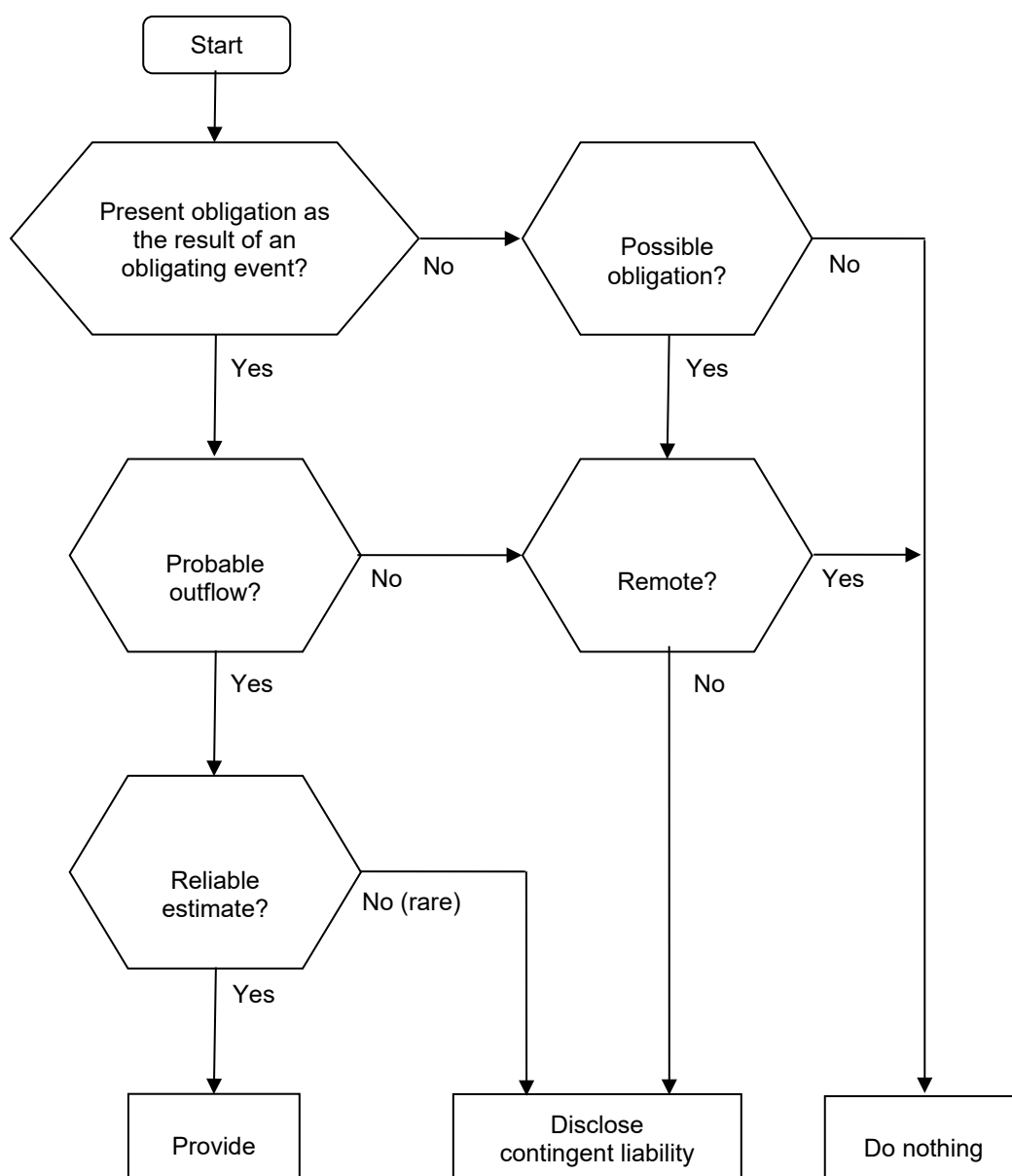
Where, as a result of past events, there is a possible asset whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.		
The inflow of economic benefits is virtually certain.	The inflow of economic benefits is probable, but not virtually certain.	The inflow is not probable.
The asset is not contingent (paragraph 33).	No asset is recognised (paragraph 31).	No asset is recognised (paragraph 31).
	Disclosures are required (paragraph 89).	No disclosure is required (paragraph 89).

Reimbursements

Some or all of the expenditure required to settle a provision is expected to be reimbursed by another party.		
The entity has no obligation for the part of the expenditure to be reimbursed by the other party.	The obligation for the amount expected to be reimbursed remains with the entity and it is virtually certain that reimbursement will be received if the entity settles the provision.	The obligation for the amount expected to be reimbursed remains with the entity and the reimbursement is not virtually certain if the entity settles the provision.
The entity has no liability for the amount to be reimbursed (paragraph 57).	The reimbursement is recognised as a separate asset in the statement of financial position and may be offset against the expense in the statement of comprehensive income. The amount recognised for the expected reimbursement does not exceed the liability (paragraphs 53 and 54).	The expected reimbursement is not recognised as an asset (paragraph 53).
No disclosure is required.	The reimbursement is disclosed together with the amount recognised for the reimbursement (paragraph 85(c)).	The expected reimbursement is disclosed (paragraph 85(c)).

B Decision tree

The purpose of this diagram is to summarise the main recognition requirements of the Standard for provisions and contingent liabilities.



Note: In rare cases, it is not clear whether there is a present obligation. In these cases, a past event is deemed to give rise to a present obligation if, taking account of all available evidence, it is more likely than not that a present obligation exists at the end of the reporting period (paragraph 15 of the Standard).

C Examples: recognition

All the entities in the examples have 31 December year-ends. In all cases, it is assumed that a reliable estimate can be made of any outflows expected. In some examples the circumstances described may have resulted in impairment of the assets—this aspect is not dealt with in the examples.

The cross-references provided in the examples indicate paragraphs of the Standard that are particularly relevant.

References to 'best estimate' are to the present value amount, where the effect of the time value of money is material.

Example 1 Warranties

A manufacturer gives warranties at the time of sale to purchasers of its product. Under the terms of the contract for sale the manufacturer undertakes to make good, by repair or replacement, manufacturing defects that become apparent within three years from the date of sale. On past experience, it is probable (ie more likely than not) that there will be some claims under the warranties.

Present obligation as a result of a past obligating event – The obligating event is the sale of the product with a warranty, which gives rise to a legal obligation.

An outflow of resources embodying economic benefits in settlement – Probable for the warranties as a whole (see paragraph 24).

Conclusion – A provision is recognised for the best estimate of the costs of making good under the warranty products sold before the end of the reporting period (see paragraphs 14 and 24).

Example 2A Contaminated land – legislation virtually certain to be enacted

An entity in the oil industry causes contamination but cleans up only when required to do so under the laws of the particular country in which it operates. One country in which it operates has had no legislation requiring cleaning up, and the entity has been contaminating land in that country for several years. At 31 December 20X0 it is virtually certain that a draft law requiring a clean-up of land already contaminated will be enacted shortly after the year-end.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land because of the virtual certainty of legislation requiring cleaning up.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of the clean-up (see paragraphs 14 and 22).

Example 2B Contaminated land and constructive obligation

An entity in the oil industry causes contamination and operates in a country where there is no environmental legislation. However, the entity has a widely published environmental policy in which it undertakes to clean up all contamination that it causes. The entity has a record of honouring this published policy.

Present obligation as a result of a past obligating event – The obligating event is the contamination of the land, which gives rise to a constructive obligation because the conduct of the entity has created a valid expectation on the part of those affected by it that the entity will clean up contamination.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the costs of clean-up (see paragraphs 10 (the definition of a constructive obligation), 14 and 17).

Example 3 Offshore oilfield

An entity operates an offshore oilfield where its licensing agreement requires it to remove the oil rig at the end of production and restore the seabed. Ninety per cent of the eventual costs relate to the removal of the oil rig and restoration of damage caused by building it, and 10 per cent arise through the extraction of oil. At the end of the reporting period, the rig has been constructed but no oil has been extracted.

Present obligation as a result of a past obligating event – The construction of the oil rig creates a legal obligation under the terms of the licence to remove the rig and restore the seabed and is thus an obligating event. At the end of the reporting period, however, there is no obligation to rectify the damage that will be caused by extraction of the oil.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of ninety per cent of the eventual costs that relate to the removal of the oil rig and restoration of damage caused by building it (see paragraph 14). These costs are included as part of the cost of the oil rig. The 10 per cent of costs that arise through the extraction of oil are recognised as a liability when the oil is extracted.

Example 4 Refunds policy

A retail store has a policy of refunding purchases by dissatisfied customers, even though it is under no legal obligation to do so. Its policy of making refunds is generally known.

Present obligation as a result of a past obligating event – The obligating event is the sale of the product, which gives rise to a constructive obligation because the conduct of the store has created a valid expectation on the part of its customers that the store will refund purchases.

An outflow of resources embodying economic benefits in settlement – Probable, a proportion of goods are returned for refund (see paragraph 24).

Conclusion – A provision is recognised for the best estimate of the costs of refunds (see paragraphs 10 (the definition of a constructive obligation), 14, 17 and 24).

Example 5A Closure of a division – no implementation before end of the reporting period

On 12 December 20X0 the board of an entity decided to close down a division. Before the end of the reporting period (31 December 20X0) the decision was not communicated to any of those affected and no other steps were taken to implement the decision.

Present obligation as a result of a past obligating event – There has been no obligating event and so there is no obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 72).

Example 5B Closure of a division – communication/implementation before end of the reporting period

On 12 December 20X0, the board of an entity decided to close down a division making a particular product. On 20 December 20X0 a detailed plan for closing down the division was agreed by the board; letters were sent to customers warning them to seek an alternative source of supply and redundancy notices were sent to the staff of the division.

Present obligation as a result of a past obligating event – The obligating event is the communication of the decision to the customers and employees, which gives rise to a constructive obligation from that date, because it creates a valid expectation that the division will be closed.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised at 31 December 20X0 for the best estimate of the costs of closing the division (see paragraphs 14 and 72).

Example 6 Legal requirement to fit smoke filters

Under new legislation, an entity is required to fit smoke filters to its factories by 30 June 20X1. The entity has not fitted the smoke filters.

(a) At 31 December 20X0, the end of the reporting period

Present obligation as a result of a past obligating event – There is no obligation because there is no obligating event either for the costs of fitting smoke filters or for fines under the legislation.

Conclusion – No provision is recognised for the cost of fitting the smoke filters (see paragraphs 14 and 17–19).

(b) At 31 December 20X1, the end of the reporting period

Present obligation as a result of a past obligating event – There is still no obligation for the costs of fitting smoke filters because no obligating event has occurred (the fitting of the filters). However, an obligation might arise to pay fines or penalties under the legislation because the obligating event has occurred (the non-compliant operation of the factory).

An outflow of resources embodying economic benefits in settlement – Assessment of probability of incurring fines and penalties by non-compliant operation depends on the details of the legislation and the stringency of the enforcement regime.

Conclusion – No provision is recognised for the costs of fitting smoke filters. However, a provision is recognised for the best estimate of any fines and penalties that are more likely than not to be imposed (see paragraphs 14 and 17–19).

Example 7 Staff retraining as a result of changes in the income tax system

The government introduces a number of changes to the income tax system. As a result of these changes, an entity in the financial services sector will need to retrain a large proportion of its administrative and sales workforce in order to ensure continued compliance with financial services regulation. At the end of the reporting period, no retraining of staff has taken place.

Present obligation as a result of a past obligating event – There is no obligation because no obligating event (retraining) has taken place.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

Example 8 An onerous contract

[Deleted]

Example 9 A single guarantee

[Deleted]

Example 10 A court case

After a wedding in 20X0, ten people died, possibly as a result of food poisoning from products sold by the entity. Legal proceedings are started seeking damages from the entity but it disputes liability. Up to the date of authorisation of the financial statements for the year to 31 December 20X0 for issue, the entity's lawyers advise that it is probable that the entity will not be found liable. However, when the entity prepares the financial statements for the year to 31 December 20X1, its lawyers advise that, owing to developments in the case, it is probable that the entity will be found liable.

(a) At 31 December 20X0

Present obligation as a result of a past obligating event – On the basis of the evidence available when the financial statements were approved, there is no obligation as a result of past events.

Conclusion – No provision is recognised (see paragraphs 15 and 16). The matter is disclosed as a contingent liability unless the probability of any outflow is regarded as remote (paragraph 86).

(b) At 31 December 20X1

Present obligation as a result of a past obligating event – On the basis of the evidence available, there is a present obligation.

An outflow of resources embodying economic benefits in settlement – Probable.

Conclusion – A provision is recognised for the best estimate of the amount to settle the obligation (paragraphs 14–16).

Example 11 Repairs and maintenance

Some assets require, in addition to routine maintenance, substantial expenditure every few years for major refits or refurbishment and the replacement of major components. AASB 116 *Property, Plant and Equipment* gives guidance on allocating expenditure on an asset to its component parts where these components have different useful lives or provide benefits in a different pattern.

Example 11A Refurbishment costs – no legislative requirement

A furnace has a lining that needs to be replaced every five years for technical reasons. At the end of the reporting period, the lining has been in use for three years.

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

The cost of replacing the lining is not recognised because, at the end of the reporting period, no obligation to replace the lining exists independently of the company's future actions—even the intention to incur the expenditure depends on the company deciding to continue operating the furnace or to replace the lining. Instead of a provision being recognised, the depreciation of the lining takes account of its consumption, ie it is depreciated over five years. The re-lining costs then incurred are capitalised with the consumption of each new lining shown by depreciation over the subsequent five years.

Example 11B Refurbishment costs – legislative requirement

An airline is required by law to overhaul its aircraft once every three years.

Present obligation as a result of a past obligating event – There is no present obligation.

Conclusion – No provision is recognised (see paragraphs 14 and 17–19).

The costs of overhauling aircraft are not recognised as a provision for the same reasons as the cost of replacing the lining is not recognised as a provision in example 11A. Even a legal requirement to overhaul does not make the costs of overhaul a liability, because no obligation exists to overhaul the aircraft independently of the entity's future actions—the entity could avoid the future expenditure by its future actions, for example by selling the aircraft. Instead of a provision being recognised, the depreciation of the aircraft takes account of the future incidence of maintenance costs, ie an amount equivalent to the expected maintenance costs is depreciated over three years.

D Examples: disclosures

Two examples of the disclosures required by paragraph 85 are provided below.

Example 1 Warranties

A manufacturer gives warranties at the time of sale to purchasers of its three product lines. Under the terms of the warranty, the manufacturer undertakes to repair or replace items that fail to perform satisfactorily for two years from the date of sale. At the end of the reporting period, a provision of 60,000 has been recognised. The provision has not been discounted as the effect of discounting is not material. The following information is disclosed:

A provision of 60,000 has been recognised for expected warranty claims on products sold during the last three financial years. It is expected that the majority of this expenditure will be incurred in the next financial year, and all will be incurred within two years after the reporting period.

Example 2 Decommissioning costs

In 2000, an entity involved in nuclear activities recognises a provision for decommissioning costs of 300 million. The provision is estimated using the assumption that decommissioning will take place in 60–70 years' time. However, there is a possibility that it will not take place until 100–110 years' time, in which case the present value of the costs will be significantly reduced. The following information is disclosed:

A provision of 300 million has been recognised for decommissioning costs. These costs are expected to be incurred between 2060 and 2070; however, there is a possibility that decommissioning will not take place until 2100–2110. If the costs were measured based upon the expectation that they would not be incurred until 2100–2110 the provision would be reduced to 136 million. The provision has been estimated using existing technology, at current prices, and discounted using a real discount rate of 2 per cent.

The example below illustrates the requirements in paragraph 85 of AASB 137. In particular, it illustrates how an entity might disclose information about plant decommissioning and site-restoration obligations even if their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial.

Example 2A Decommissioning and site-restoration obligations

Background

The entity is a manufacturer and has plant decommissioning and site-restoration obligations for its facilities. The entity assumes it will continue to maintain and operate some of its facilities for an extremely long time. Consequently, the costs required to settle the obligations related to these facilities will be incurred so far into the future that, when discounted to their present value, their effect on the carrying amount of the entity's plant decommissioning and site-restoration provision is immaterial. However, the costs to settle the obligations relating to these facilities will be high and there is a significant and increasing risk that the entity might be required to close the facilities earlier than it expects. This risk stems from efforts to transition to a lower-carbon economy, which might include shifting consumer demand for the entity's products and possible regulatory and policy actions to reduce greenhouse gas emissions in the jurisdictions in which the entity operates.

Application

Paragraph 85 of AASB 137 requires an entity to disclose information for each class of provision. The entity concludes that, although some of its plant decommissioning and site-restoration obligations have an immaterial effect on the carrying amount of its plant decommissioning and site-restoration provision (see the 'Background' section), information about these obligations is material. The entity reaches this conclusion after considering, among other factors:

- (a) *the size of the costs required to settle the obligations* – the costs of settling the obligations are high;
- (b) *the risk of early settlement* – the risk that the entity might be required to settle the obligations earlier than expected is significant and is increasing; and
- (c) *external climate-related qualitative factors* – the industry and jurisdictions in which the entity operates (including the entity's market, economic, regulatory and legal environments) make the information about the obligations more likely to influence the decisions that primary users of the entity's financial statements make on the basis of the financial statements.

In applying paragraph 85 of AASB 137, the entity discloses information about its plant decommissioning and site-restoration provision. This information includes information about the obligations that have an immaterial effect on the carrying amount of the provision. The information the entity discloses includes:

- (a) a brief description of the nature of the obligations and the expected timing of the outflows of economic benefits required to settle them.
- (b) an indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, the entity also discloses the major assumptions made concerning future events. These assumptions could include assumptions about the future use of each of the entity's main facilities – for example, when the entity expects to close the facilities.

An example is given below of the disclosures required by paragraph 92 where some of the information required is not given because it can be expected to prejudice seriously the position of the entity.

Example 3 Disclosure exemption

An entity is involved in a dispute with a competitor, who is alleging that the entity has infringed patents and is seeking damages of 100 million. The entity recognises a provision for its best estimate of the obligation, but discloses none of the information required by paragraphs 84 and 85 of the Standard. The following information is disclosed:

Litigation is in process against the company relating to a dispute with a competitor who alleges that the company has infringed patents and is seeking damages of 100 million. The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation. The directors are of the opinion that the claim can be successfully resisted by the company.

Compilation details

Accounting Standard AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* (as amended)

Compilation details are not part of AASB 137.

This compiled Standard applies to annual periods beginning on or after 1 July 2026 but before 1 January 2027. It takes into account amendments up to and including 28 January 2026 and was prepared on 14 October 2026 by the staff of the Australian Accounting Standards Board (AASB).

This compilation is not a separate Accounting Standard made by the AASB. Instead, it is a representation of AASB 137 (August 2015) as amended by other Accounting Standards, which are listed in the table below.

Table of Standards

Standard	Date made	FRL identifier	Commence- ment date	Effective date (<i>annual periods</i> ... on or after ...)	Application, saving or transitional provisions
AASB 137	14 Aug 2015	F2015L01607	31 Dec 2017	(<i>beginning</i>) 1 Jan 2018	see (a) below
AASB 16	23 Feb 2016	F2016L00233	31 Dec 2018	(<i>beginning</i>) 1 Jan 2019	see (b) below
AASB 2016-7	9 Dec 2016	F2017L00043	31 Dec 2016	(<i>beginning</i>) 1 Jan 2017	see (c) below
AASB 17	19 Jul 2017	F2017L01184	31 Dec 2022	(<i>beginning</i>) 1 Jan 2023	see (d) below
AASB 2018-7	18 Dec 2018	F2019L00021	31 Dec 2019	(<i>beginning</i>) 1 Jan 2020	see (e) below
AASB 2019-1	21 May 2019	F2019L00966	31 Dec 2019	(<i>beginning</i>) 1 Jan 2020	see (e) below
AASB 1060	6 Mar 2020	F2020L00288	30 Jun 2021	(<i>beginning</i>) 1 Jul 2021	see (f) below
AASB 2020-3	15 Jun 2020	F2020L00876	31 Dec 2021	(<i>beginning</i>) 1 Jan 2022	see (g) below
AASB 2021-7	20 Dec 2021	F2021L01883	31 Dec 2021	(<i>beginning</i>) 1 Jan 2022	see (g) below
AASB 2022-8	15 Dec 2022	F2023L00014	31 Dec 2022	(<i>beginning</i>) 1 Jan 2023	see (h) below
AASB 2022-9	15 Dec 2022	F2023L00015	30 Jun 2026	(<i>beginning</i>) 1 Jul 2026	see (i) below
AASB 18	7 Jun 2024	F2024L00708	31 Dec 2026	FP (<i>beginning</i>) 1 Jan 2027 NFP & superannuation entities (<i>beginning</i>) 1 Jan 2028	not compiled*
AASB 2026-1	28 Jan 2026	F2026L00062	27 Feb 2026	(<i>beginning</i>) 1 Jul 2025 that end on or after 28 Feb 2026	see (j) below
AASB 2026-2	21 Apr 2026	F2026L00728	30 Jun 2029	(<i>beginning</i>) 1 Jul 2029	not compiled*

* The amendments made by this Standard are not included in this compilation, which presents the principal Standard as applicable to annual periods beginning on or after 1 July 2026 but before 1 January 2027.

- (a) Entities may elect to apply this Standard to periods beginning after 24 July 2014 but before 1 January 2018.
- (b) Entities may elect to apply this Standard to annual periods beginning before 1 January 2019, provided that AASB 15 *Revenue from Contracts with Customers* is also applied to the same period.
- (c) AASB 2016-7 deferred the effective date of AASB 15 (and its consequential amendments in AASB 2014-5) for not-for-profit entities to annual reporting periods beginning on or after 1 January 2019, instead of 1 January 2018. However, earlier application of AASB 137 (2015) incorporating the text that relates to AASB 15 is permitted, provided that AASB 15 is also applied.
- (d) Entities may elect to apply this Standard to annual periods beginning before 1 January 2023, provided that AASB 9 *Financial Instruments* is also applied on or before the date of initial application of AASB 17. (AASB 17 was amended prior to its mandatory application by various amending Standards, including AASB 2022-8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*, made by the AASB on 15 December 2022.)
- (e) Entities may elect to apply this Standard to annual periods beginning before 1 January 2020.
- (f) Entities may elect to apply this Standard to annual periods beginning before 1 July 2021.
- (g) Entities may elect to apply this Standard to annual periods beginning before 1 January 2022.
- (h) Entities may elect to apply this Standard to annual periods beginning before 1 January 2023.
- (i) Entities may elect to apply this Standard to annual periods beginning before 1 July 2026.
- (j) Entities may elect to apply this Standard to annual periods beginning before 1 July 2025 or ending before 28 February 2026.

Table of amendments to Standard

Paragraph affected	How affected	By ... [paragraph/page]
AusCF1	added	AASB 2019-1 [page 23]
5	amended amended	AASB 16 [page 53] AASB 17 [page 83]
Aus5.1	added deleted	AASB 2022-8 [page 12] AASB 2022-9 [18]
10 – liability	amended	AASB 2019-1 [page 23]
68A	added	AASB 2020-3 [page 11]
69	amended	AASB 2020-3 [page 11]
75	amended	AASB 2018-7 [page 9]
94A	added	AASB 2020-3 [page 11]
Aus94.1	repealed	<i>Legislation Act 2003</i> , s. 48D
102	added	AASB 16 [page 54]
103	added	AASB 17 [page 83]
104	added	AASB 2018-7 [page 9]
105	added	AASB 2020-3 [page 12]
Appendix A	replaced	AASB 1060 [page 65]
AusA1	amended	AASB 2021-7 [37]

Table of amendments to guidance

Paragraph affected	How affected	By ... [paragraph/page]
Part C – Example 8	deleted	AASB 16 [page 54]
Part D – Example 2A	added	AASB 2026-1 [page 6]

Deleted IAS 37 text

Deleted IAS 37 text is not part of AASB 137.

- 93** The effect of adopting this Standard on its effective date (or earlier) shall be reported as an adjustment to the opening balance of retained earnings for the period in which the Standard is first adopted. Entities are encouraged, but not required, to adjust the opening balance of retained earnings for the earliest period presented and to restate comparative information. If comparative information is not restated, this fact shall be disclosed.