IAS 37: Discount Rate

Excerpt, IFRS Discussion Group Report on Meeting – September 16, 2010

The requirements on when to recognize and how to measure a provision are included in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Where the effect of the time value of money is material, a provision is measured at the present value of the expenditures expected to be required to settle the obligation. Paragraph 47 of the standard requires an entity to use a discount rate that is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The issue for consideration is whether the discount rate used to determine provisions should be credit adjusted (if the cash flow estimates have not been adjusted to reflect that risk) and whether a request should be made to the IFRS Interpretations Committee for clarification.

The members recommended that this issue be brought to the attention of the IFRS Interpretations Committee because there appears to be diversity in practice. Although the IASB has a current project on IAS 37, the Group thought the diversity in practice was causing significant differences in the measurement of these liabilities that needed to be addressed urgently and the Committee could address this issue on a more timely basis.

Source: www.frascanada.ca/ifrs-discussion-group