

IAS 37: Meaning of “Extremely Rare”

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

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* defines a provision as a liability of uncertain timing or amount. No provision is recognized when one or more of the three specified conditions in paragraph 14 of IAS 37 are not met. One of the conditions relates to the ability to make a reliable estimate of the amount of the obligation. IAS 37 states that though provisions are more uncertain in nature than most other assets and liabilities, the use of estimates is an essential part of the preparation of financial statements. Notwithstanding this uncertainty, an entity is to determine a sufficiently reliable estimate of a provision “except in extremely rare cases.” In this instance, a liability exists that cannot be recognized and which, instead, is disclosed as a contingent liability. The issues for consideration include what factors should be considered in determining a reliable estimate, what is meant by the term “extremely rare” and whether a request should be made to the IFRS Interpretations Committee for clarification.

The members noted that the first step is to determine whether a reliable estimate can be made and, if not, then it may be an extremely rare case. Different situations involving uncertainty were described and the members discussed whether a reliable estimate could be determined. The members recommended that this issue not be brought to the attention of the IFRS Interpretations Committee because of the IASB’s current project on Liabilities – amendments to IAS 37.