30 April 2010

International Accounting Standards Board
30 Cannon Street
London, EC4M 6XH
United Kingdom

Dear Sirs:

Exposure Draft - Measurement of Liabilities in IAS 37

I am pleased to provide, in my personal capacity, comments on the above exposure draft.

Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraphs 36A–36F. Paragraphs BC2–BC11 of the Basis for Conclusions explain the Board's reasons for these proposals.
Do you support the requirements proposed in paragraphs 36A–36F? If not, with which paragraphs do you disagree, and why?

The Board uses the value maximizing model to determine the amount that an entity would rationally pay to be relieved of an obligation. To determine the amount, an entity has to determine the lowest of three measures: (a) the present value of fulfilling the obligation (b) the amount to cancel the obligation and (c) the price to transfer the obligation to a third party. The assumption in the value maximizing model in the proposed amendment is that an entity undertakes these decisions at the transaction level and decides at the transaction level, the optimal course of action. In reality, decisions to fulfill, outsource or terminate obligations are often determined at the entity level. An entity may determine what is optimal for the firm as a whole and determines a policy that it deems will reduce transaction costs for the entity, even if the sacrifice of resources for that transaction is not the lowest. For example, the entity may choose a policy of fulfilling its obligations rather than outsourcing to third party vendors to maintain standards of quality and the entity's reputation. The price to transfer an obligation to a third party may be the lowest of the three measures, but there are transaction costs that accrue to the entity in the form of reduced consumer satisfaction, complaints and other indirect costs. These costs are not included in the measures in paragraph 36B. It may therefore not be realistic or economically viable to make rational decisions at the transaction level.

The Board may wish to consider the business model as an alternative to the value maximizing model. The business model approximates the value maximizing model albeit at the entity level. Using the business model, the entity would determine the measure of a present obligation that is most in line with its likely course of action. The use of a business model will also reduce the need for firms to obtain information on hypothetical courses of action that may not even be considered in their decision-making processes. As it stands, the cost of complying with the proposed measures in IAS 37 is high. Obtaining reliable information through quotation and other means to determine the three measures is a costly and highly subjective process and auditing and interpreting the value of the information is likely to be high as well for auditors and market participants.

Question 2 – Obligations fulfilled by undertaking a service

Some obligations within the scope of IAS 37 will be fulfilled by undertaking a service at a future date. Paragraph B8 of Appendix B specifies how entities should measure the future outflows required to fulfil such obligations. It proposes that the relevant outflows are the amounts that the entity would rationally pay a contractor at the future date to undertake the service on its behalf. Paragraphs BC19–BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you support the proposal in paragraph B8? If not, why not?

In the absence of a market by which an entity can transfer its obligations to a third party, Paragraph B8 requires an entity to estimate an amount that it would charge another party at a future date to undertake the service. Paragraph B8 should be aligned with paragraph 36C. The absence of a market may be evidence that an entity could not cancel or transfer an obligation and the rationale for assuming a hypothetical market scenario may therefore be inappropriate.

Question 3 – Exception for onerous sales and insurance contracts

Paragraph B9 of Appendix B proposes a limited exception for onerous contracts arising from transactions within the scope of IAS 18 *Revenue* or IFRS 4 *Insurance Contracts*. The relevant future outflows would be the costs the entity expects to incur to fulfil its contractual obligations, rather than the amounts the entity would pay a contractor to fulfil them on its behalf. Paragraphs BC23–BC27 of the Basis for Conclusions explain the reason for this exception.

Do you support the exception? If not, what would you propose instead and why?

Further amplification is required on the measurement of onerous contracts. Paragraph BC23 indicates that at present, entities typically measure onerous contracts in a manner consistent with the definition of these contracts, by comparing the future costs with the expected benefits. More clarity is required in paragraph B9 on whether the expected benefits should be deducted from the expected outflows arising from onerous contracts. As it stands, paragraph B9 may be differently interpreted by constituents.

Yours sincerely

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