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----- Original Message -----
From: Bob Buchanan [mailto:rbuchanan@ozemail.com.au]
Sent: 09 October 2005 23:42
To: Clark Peter
Subject: Fw: New IASB Exposure Drafts

I have only looked at the draft of IAS 37, but gather that theses are all part of a package that is doing essentially the same thing to all four standards.

My immediate reaction is that it is a big step in the right direction and that it sets a major precedent for the insurance project. My biggest problems are terminological, but I would also like to see it go further in a couple of directions.

I strongly dislike their use of the term "non-financial liabilities". The problem is that most of these liabilities are, in fact, financial liabilities. Using "non-financpial liabilities" leaves the impression that this standard refers only to liabilities that are settled in kind or by the provision of a service. What they mean is non-financial-instrument liabilities, but this is too much of a mouthful. I also dislike negative names. I would prefer to see "general liabilities", "other liabilities" or even, simply, "liabilities".

The standard still retains the binary condition "can be measured reliably". Reliability is a question of degree and should not be used as the basis for a yes/no decision. It helps that the standard suggests that reliable measurement will be possible in all but extremely rare cases, but drops the ball by giving no indication of what such circumstances might be, or of the criteria for "reliable measurement". I would prefer to see this condition removed. Anything that meets the definition of a liability should be recognised. Reliability should be a measurement and disclosure issue.

The definition of "liability" includes the phrase "is expected to result in". This does not sit well with the discussion and with the rest of the standard, and could be read to imply a "probable" test. It would be better to say "may result in".

The discussion of onerous contracts also seems to imply a binary choice. A contract either is or is not onerous. There is no discussion of what to do about contracts that may be onerous under some conditions, but not under others. This issue needs to be addressed. Two possible approaches are expected value with a risk margin, in which case it is an asset if the value is positive and a liability if the value is negative (this includes the case where the expected value is positive or zero, but the risk margin drives it into negative territory), and option pricing, where the expected value is modified by setting positive outcomes to zero.

The discussion of un-conditional and conditional obligations is confusing. There are no conditional obligations. If it is an obligation, it is unconditional. It is the amount of the obligation that is conditional. The discussion should refer to obligations of conditional and/or uncertain amount.

The discussion of "unavoidable costs" in 58 is too focussed on the legal position. There are many circumstances where a entity may need, for commercial reasons, to fulfil an onerous contract, even if it could escape the contract by paying a smaller penalty. The value should take be based on the expected value principle, taking into account the impact of commercial considerations.

Likewise, the discussion of constructive obligations in BC54ff does not address the issue of constructive obligations imposed by competitive and otherr commercial constraints.

The discussion of discounting adopts a time value of money approach but leaves open the possibility that the discount rate may be risk-adjusted. Ideally, these concepts should be separated. The discount rate should be for the time value of money only. Any adjustment should be explicitly a risk adjustment.

In 72, the restatement of earlier information is prohibited. Is this the intention or should restatement be allowed but not required?

There are a number of implications for the insurance project, if the decisions taken here are followed.

A fair value like approach has been adopted, without undue emphasis on market prices.

A prospective approach has been adopted, without regard to whether there is historic cost information available.

Discounting is required.

A risk margin is required.

Bob