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GROUP OF 100

Level 20, 28 Freshwater Place
Southbank VIC 3006 AUSTRALIA
www.group100.com.au

Telephone: (03) 9606 9661
Facsimile: (03) 9670 8901
Email: g100@group100.com.au

ABN: 55 398 301 216

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC 4M 6XH
UNITED KINGDOM.

Dear Sir David

ED/2010/1 Measurement of Liabilities in IAS 37

The Group of 100 (G100) is an organization of chief financial officers from Australia's largest business enterprises with the purpose of advancing Australia's financial competitiveness. The G100 is pleased to provide comments on the Exposure Draft.

The G100 does not support these proposals which seem to be directed at achieving fair value measurement by stealth. The proposals represent a significant change in the basis of measurement on a piecemeal basis in advance of issues relating to measurement being addressed in a comprehensive manner as part of the conceptual framework project.

The G100 supports the current approach to the recognition and measurement of liabilities and believes that the transfer price approach in the proposals will impose an unnecessary layer of complexity in place of an approach which is well understood in practice and is consistent with the way in which directors view liabilities. However, we acknowledge the proposed approach may be appropriate in specialized circumstances such as the measurement of insurance liabilities and accordingly should be addressed as part of the insurance project.

Q1 Overall Requirements
The proposed measurement requirements are set out in paragraphs 36A-36F. Paras BC2-BC11 of the Basis for Conclusions explains the Board's reasons for these proposals. Do you support the requirements proposed in paras 36A-36F? If not, with which paras do you disagree, and why?

No. The G100 disagrees with the transfer price approach because it believes that liabilities included in the scope of the Standard should be measured on the basis of the cost to the entity (discounted to present value where appropriate) to discharge the obligation when it becomes due. In the vast majority of cases the objective of the entity is to discharge/settle the liability and not to transfer the obligation to another party or otherwise be relieved of that obligation. The proposed approach is not consistent with the way in which management normally addresses liabilities.

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For the vast majority of liabilities recognized by our members settlement of obligations by transfer is rare. For example, in the case of the obligation to rehabilitate a mine site, which in Australia is typically an operating requirement necessary to obtain the right to mine, transfer of the obligation to a third party without first obtaining consent of the grantor of the right to mine (usually the Government) is neither practicable nor feasible.

Firstly, a grantor of the right to mine would be unlikely approve a transfer of the obligation to a third party without sufficient guarantee or similar commercial arrangement to ensure settlement to secure performance of the obligation by the third party. As such, it is difficult to envisage a situation in practice where the rehabilitation obligation would be transferred independently of a transfer to the third party of the mine asset.

Secondly, if a third party were hypothetically assigned the rehabilitation obligation, appropriate consideration for the transfer of the obligation would be difficult to determine. In addition to any contingency already included in any assessment of the rehabilitation obligation, a third party would require compensation for assuming this obligation and would also be likely to require an additional contingency to cover the risk of future changes (such as technical processes or regulatory requirements) that would impact on the cost of meeting the rehabilitation obligation. Any hypothetical value at which a third party would be prepared to accept the risk of future changes would be difficult to determine and verify.

The G100 believes that the carrying amount of a liability should be adjusted at each reporting date as presently occurs. However, the G100 does not support the approach in para 36E.

The G100 considers that the approach in para 36F, if applied pragmatically, is reasonable. However, the usefulness of identifying a borrowing cost in all cases would not be justified by the costs incurred to identify these amounts.

The proposed change to determining borrowing costs could trigger debt covenant issues through distorting an entity's true borrowing costs. Where the effect of accretion is already recognized as borrowing costs this treatment does lead to questions from analysts and investors who seem to be more interested in cash interest paid to banks on actual borrowings. The concept of accretion on provisions seems to be regarded as an accounting adjustment rather than a reflection of the entity's operating and financial performance and cash interest paid on actual borrowings.

There would appear to be an inconsistency with other standards which require assets to be tested to ensure that their carrying value is not greater than their fair value/value in use with the impairment being recognized in the profit and loss whereas this proposal requires that a liability is to be recorded at an amount less than its face value (excluding time value factors).

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The G100 does not support the proposed approach to recognizing and measuring contingent liabilities because of the uncertainty of their occurrence and the resulting difficulties in estimating and measuring the amount of the liability reliably.

For example, pending litigation may be settled for say, 0%, 1%, 10%, 50% or 100% of the gross claim. We believe that it is reasonable to draw a distinction between recognizing contingent liabilities in a business combination as part of the process of determining the amount of goodwill, if any, and recognition in the normal course of events. If the IASB is to proceed with this proposal further guidance will be needed for preparers to adequately determine whether those events that have not yet occurred would qualify as obligations.

Q2 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. Para 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. Paras BC19-BC22 of the Basis for Conclusions explain the Board's rationale for this proposal. Do you support the proposal in para B8? If not, why not?

No. The G100 finds the arguments outlined in para BC20 and the alternative views persuasive. We believe that this proposal will lead to overstatement of liabilities and open the possibilities of 'gaming' and potentially misleading representations of financial performance. The inclusion of a so-called contractor's profit margin in the measurement presumes that an open market exists for the extensive range of services and as such observable market prices are unlikely to be readily available in a range of industries and jurisdictions.

The G100 does not consider that the amount management would rationally pay to discharge the obligation would include a perceived profit margin as a general case. It is acknowledged that where contractors (for whatever reason) are engaged, a profit would be included in the contracted amount. However, this would constitute the cost to the entity.

In addition, a rational management may, for a variety of reasons, such as taking a longer term view to develop a skill base and capacity internally and to manage sustainability issues. For example the cost to the entity in respect of a decommissioning/rehabilitation project, for a variety of reasons, may be greater or less than a contractor price. The liability should be based on the cost to the entity irrespective of whether it is satisfied through internal efforts or by contracting externally.

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Q3 Exception for onerous sales and insurance contracts
Para 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. Paras 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?

Yes. However, the need for providing an exception demonstrates that the proposed measurement approach requires further consideration which the G100 believes should occur as part of a comprehensive approach to measurement and not on a piecemeal basis.

If these exceptions are being made pending the conclusion of the revenue and insurance projects, the G100 finds it difficult to justify proceeding with these proposals before measurement is dealt with in a comprehensive manner. Presumably, if the wording is ambiguous in other areas similar concerns would apply in respect of this exception criteria.

Yours sincerely
Group of 100 Inc

Peter Lewis
President