AUSTRALASIAN
COUNCIL OF
AUDITORS-GENERAL

22 March 2010

Mr Kevin Stevenson
Chairman
Australian Accounting Standards Board
PO Box 204
Collins Street West
Victoria 8007

Dear Mr Stevenson

EXPOSURE DRAFT ED 191 MEASUREMENT OF LIABILITIES IN AASB 137

Attached is a copy of the Australasian Council of Auditors-General (ACAG) response to ED/2010/1 'Measurement of Liabilities in IAS 37'.

The views expressed in this submission represent those of all Australian members of ACAG.

In addition to our submission to the IASB, ACAG recommends that the AASB include the current Australian paragraphs within AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* in any revised standard.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

PO Box 275, Civic Square ACT 2608, Australia
Phone/Fax: 1800 644 102 Overseas phone/fax: +61 2 9262 5876
Email: soneill@audit.sa.gov.au
Website: www.acag.org.au
ABN 13 922 704 402

ACAG AUSTRALASIAN COUNCIL OF AUDITORS-GENERAL

22 March 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sir David

EXPOSURE DRAFT ED 2010/1 MEASUREMENT OF LIABILITIES IN IAS 37

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely

Simon O'Neill

Simon O'Neill
Chairman
ACAG Financial Reporting and Auditing Committee

cc: Mr Kevin Stevenson, Chairman, Australian Accounting Standards Board

PO Box 275, Civic Square ACT 2608, Australia
Phone/Fax: 1800 644 102 Overseas phone/fax: +61 2 9262 5876
Email: soneill@audit.sa.gov.au
Website: www.acag.org.au
ABN 13 922 704 402

EXPOSURE DRAFT ED/2010/1 MEASUREMENT OF LIABILITIES IN IAS 37

ACAG provides the following comments on ED/2010/1 'Measurement of Liabilities in IAS 37'.

<u>Specific Comments</u>

Question 1

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

ACAG generally supports the requirements proposed in paragraphs 36A-36F, except for the specific issues with Appendix B, which are covered below.

ACAG believes that in many cases, in the public sector, transfer or cancellation of the liability will not be possible, or if possible, will not result in the lowest value. This will mean that entities will measure most liabilities at present value in accordance with Appendix B.

ACAG agrees that the techniques explained in Appendix B are essentially more detail on what constitutes a 'best estimate' under the current standard. There is some concern that complex process and level of judgement involved in calculating the probability-weighted average of the present values of the outflows for the possible outcomes (paragraph B3) may be problematic in practice. For example, obtaining the data required to estimate the present value of a legal liability from an ongoing litigation matter.

ACAG is also concerned with the practical application of measurement criteria in paragraph 36B. Where all three options are available, would the entity be required to perform a calculation for each measurement criteria to determine the lowest amount? In relation to paragraph 36C, what onus would be placed on the entity to provide evidence that the cancellation or transfer of an obligation are not options? It may be difficult for auditors to ascertain that these conclusions are reasonable where appropriate supporting evidence is not available.

Question 2

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?

ACAG does not support paragraph B8 that requires a profit margin to be included for obligations that will be fulfilled by undertaking a service. We agree with the reasoning presented in the alternative views in paragraphs AV2 to AV4. No exception would be required for onerous contracts under the alternative views.

Question 3

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?

ACAG supports the exception allowed under B9 for onerous contracts within the scope of *IAS 18 Revenue* or *IFRS 4 Insurance Contracts,* which are currently the subject of replacement projects.

Other Comments

Paragraph B16 allows three different methods for including a risk adjustment but does not clearly prescribe when a risk adjustment is required. This may lead to inconsistency in practice.

PO Box 275, Civic Square ACT 2608, Australia
Phone/Fax: 1800 644 102 Overseas phone/fax: +61 2 9262 5876
Email: soneill@audit.sa.gov.au
Website: www.acag.org.au
ABN 13 922 704 402