National Australia Bank

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Comment Letters
International Accounting Standards Board
1st Floor 30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Ms Brown

Exposure Draft ED/2010/1 Measurement of Liabilities in IAS 37

Thank you for the opportunity to comment on Exposure Draft ED/2010/1 Measurement of Liabilities in IAS 37 (the ED or Exposure Draft). Our comments on the specific questions included in the ED are addressed in the Appendix.

National Australia Bank (NAB) is an international financial services organisation that provides a comprehensive and integrated range of financial products and services through our group of business. NAB is listed on the Australian Stock Exchange and is a financial institution which continues to hold a AA rating.

We have the following general comments on the Exposure Draft:

- We do not believe that due process has been adhered to. Re-exposing only the measurement proposals within the liabilities project does not permit constituents the ability to provide complete comments on the original ED. Further, we consider the recognition and measurement provisions of the liabilities standard to be linked and that re-exposing one without the other is inappropriate. This is evidenced by the release of the IASB Staff Paper issued 7 April 2010 "Recognising liabilities arising from lawsuits[1]" which clarified the recognition provisions within the original ED. The need to issue such a paper indicates that the intended application of the proposed recognition criteria is unclear and that re-exposure of those proposals is necessary.

- We support the IASB Staff Paper (the IASB Staff Paper or the Paper) released on "Recognising liabilities arising lawsuits" however are unsure how the proposals and principles in the Paper apply to other transactions within the scope of IAS 37 for example, financial guarantee contracts. The IASB should support the Paper by incorporating it into approved IASB guidance and clarify its wider application.

Please contact me on +61 3 8634 0292 or Marc Smit, Head of Group Accounting Policy on +61 3 8634 3117 if you require any further clarification.

Yours sincerely

Michael Domann
General Manager, Group Finance

[1] Not part of the official pronouncements of the IASB

Appendix

Detailed Answers to Questions

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 no, with which paragraphs do you disagree, and why?

We are unable to answer this question as we are unsure how the IASB Staff Paper on recognition impacts the measurement of certain items such as financial guarantee contracts. Further we are unsure whether the Paper is supported by the IASB and will become an official pronouncement of the IASB.

If the IASB support the Paper and clarify how the principles to determine a present obligation apply to other transactions within the scope of IAS 37, we would be in a better position to comment on the measurement proposals included in the Draft. NAB agrees that an entity shall measure a liability at the amount that it would rationally pay at the end of the reporting period to be relieved of the present obligation and should be estimated at the lowest alternative to settle the present obligation, subject to our comments outlined below for question 2.

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?

Although these proposals do not directly affect our business we think it is important to comment on them.

We do not agree with the IASB's proposals to include a profit margin into the obligation which will be fulfilled by undertaking a service. This overestimation of the provision when being internally undertaken will cause volatility in the income statement which we do not consider to be decision useful to users of the financial statements. We agree with the alternative view presented in the Draft and that the inclusion of a profit margin to fulfil an obligation by undertaking the service itself is a hypothetical amount not representative of any payment of cash or an actual outflow of the entity's resources. Including this hypothetical margin in the measurement of the IAS 37 liability would reduce the net profit at the initial recognition of the liability and realise a profit in the period the liability is derecognised. As such we concur that the accounting creates inappropriate performance information for users and does not assist them in users to predict future cash flow generation by the entity.

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?

We support the exception to exclude onerous contracts arising from transactions within the scope of IAS 18 and IFRS 4. These two areas should be addressed in the subsequent issue of new guidance for Revenue Recognition and Insurance Contracts.