7 August 2009

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

Via email: standard@aasb.gov.au

Dear Mr Stevenson

Comments on ITC 21 Discussion Paper DP/2009/2 Credit Risk in Liability Measurement

Thank you for the opportunity to comment on the AASB ITC 21 Discussion Paper (DP) Credit Risk in Liability Measurement. CPA Australia, The Institute of Chartered Accountants in Australia, and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above discussion paper (DP) and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

Our response to matters on which specific comment is requested is included in the attached Appendix. Also attached is our submission to the IASB.

If you have any questions regarding this submission, please do not hesitate to contact either Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au , Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au or Tom Ravlic (NIA) at tom.ravlic@nia.org.au.

Yours sincerely

Geoff Rankin
Chief Executive Officer
CPA Australia Ltd

Graham Meyer
Chief Executive Officer
Institute of Chartered Accountants

Andrew Conway
Chief Executive Officer
National Institute of Accountants

The AASB would particularly value comments on whether:

(a) **there are any regulatory issues or other issues arising in the Australian environment that may affect the implementation of the proposals, particularly any issues relating to:**
   (i) **not-for-profit entities; and**
   (ii) **public sector entities;**

   Because we do not agree with approach in the DP for the private sector, we are similarly unable to support them for not-for-profit and public sector entities.

(b) **overall, the proposals would result in financial statements that would be useful to users; and**

(c) **the proposals are in the best interests of the Australian economy.**

   Given our concern about which of the different measurement models available should apply to the measurement of liabilities, we do not consider the DP would result in useful financial statements or would be in the best interest of the Australian economy.

7 August 2009

Sir David Tweedie
International Accounting Standards Board
30 Cannon Street
LONDON EC4M 6XH
UNITED KINGDOM

Via "Open to comment" page on www.iasb.org

Dear Sir David

Comments on Discussion Paper DP/2009/2 Credit Risk in Liability Measurement

Thank you for the opportunity to comment on the IASB Discussion Paper (DP) Credit Risk in Liability Measurement. CPA Australia, The Institute of Chartered Accountants in Australia (the Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered the above DP and our comments follow.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government, academia throughout Australia and internationally.

The Joint Accounting Bodies appreciate the concerns expressed in the DP about the place of 'own credit risk' in liability measurement and support the need for guidance and clarity on this issue. However, it is our view that these concerns cannot be resolved before addressing measurement models. In particular, the issue of credit risk in liability measurement must be addressed in conjunction with the fair value measurement project and not in isolation of it, as the credit risk issue can only be resolved once fair value has been defined. We think this fundamental issue is more appropriately addressed within the conceptual framework and definition of fair value, rather than the approach taken in the DP.

Our understanding of fair value measurement, consistent with the IASB *Fair Value Measurement* exposure draft on issue, is that credit risk is included in the fair value measurement of a liability. However, fair value is not the only measurement model on which the International Financial Reporting Standards are established. The IASB *Financial Instruments: Classification and Measurement* exposure draft currently on issue proposes two measurement models for financial liabilities – amortised cost and fair value. Other mixed measurement models currently used to measure liabilities on and following initial recognition under other accounting standards (for example, IAS 17 *Leases* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*) do not include 'own credit risk'.

With all the different measurement models available to measure liabilities, the Joint Accounting Bodies think that the attention of the Board should be focused on resolving how liabilities are to be measured and when is it appropriate to use fair value, given that liabilities measured at fair value includes 'own credit risk'. We therefore strongly suggest that the Board carefully consider which of the different measurement models available should apply to the measurement of liabilities.

In the context of the comments above we do not provide responses to the matters on which specific comment was requested.

If you have any questions regarding this submission, please do not hesitate to contact either Mark Shying (CPA Australia) at mark.shying@cpaaustralia.com.au, Kerry Hicks (the Institute) at kerry.hicks@charteredaccountants.com.au or Tom Ravlic (The National Institute of Accountants) at tom.ravlic@nia.org.au.

Yours sincerely

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