



April 28, 2010

Via website posting: <http://www.iasb.org/>

**RE: EXPOSURE DRAFT COMMENT:  
Measurement of Liabilities in IAS 37: Proposed amendments to IAS 37 (ED/2010/1)**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Measurement of Liabilities in IAS 37: Proposed amendments to IAS 37 (ED/2010/1)**. We have also provided additional comments at the end of our responses for expressing our view on certain related matters.

**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 reasons for these proposals.*

*Do you support the requirements proposed in paragraphs 36A–36F? If not, with which paragraphs do you disagree, and why?*

**Comments**

We concur with the Board’s intention of providing additional guidance on the measurement of liabilities in IAS 37, but have some concerns regarding the Board’s proposals in ED 2010:

- The proposals in the ED suggest a shift from the cost-based approach to a value-based approach. For example: the proposal to measure the service-related obligation at the value of the service including profit margin, even if the entity intends to fulfil this obligation in-house; and, also the proposal to make risk adjustment in the measurement of an obligation. The 2010 ED has not clearly explained the rationale for this shift in approach.
- The ED is not clear about expected present value calculation applicability to provisions, other than those under the fulfil approach.
- The ED provides no guidance regarding if, and how, credit risk (including the entity’s own credit risk) should be factored into the discount rate. The ED is also silent on how the diversification of the risks would affect the risk adjustment.
- The ED also does not provide guidance on the meaning of “changing the nature of an obligation”.

We believe that diversity in practice is likely to arise if the above-mentioned ambiguities are not addressed in the final standard.

## 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?*

## Comments

We have the same concerns regarding the Board’s proposal in paragraph B8, as do the dissenting members, and agree with their following contentions:

- Including a hypothetical margin in the measurement of liabilities would reduce the net profit at the initial recognition of the liability and increase the same when the liability is derecognised, thus creating inappropriate performance information for both periods.
- The market for the most types of services do not exist and the proposals are not clear as to what constitutes a market and how to determine the margin when there is not a market for the service.
- The lack of clear guidance concerning the risk adjustment is likely to result in significant diversity in practice.
- The proposals do not specify that a risk adjustment should be included only to the extent that the risk is non-diversifiable and no risk adjustment should be included for risks that are diversifiable.

We believe that the inclusion of profit margin in the measurement of liabilities breaches the basic economic principle that an entity cannot make gains/losses by selling goods or providing services to itself. The proposed requirement is internally inconsistent with the other IFRSs and foreshadows the IASB’s ongoing project: “Conceptual Framework for Financial Reporting: The Reporting Entity”. We also believe that this contentious and ambiguous requirement will increase the diversity in practice rather than decrease it.

## 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?*

## Comments

We agree with the Board’s objective with the proposed exception to avoid changing the current practices, pending the finalization of IAS18 and IFRS4. However, we express the following concerns in this respect:

- The exception proposals are not clear about their applicability, and can be miss-interpreted as limited to service related sales and insurance onerous contracts only, and not applicable to non-service related contracts.
- The prescribed measurement requirements for onerous sales and insurance contracts may result in a change in current practice for some entities.
- The exception proposals should also cover items like warranties, which are likely to be covered in future by the replacement revenue standard instead of IAS37.

### **Additional Comments**

We are concerned that the IASB may dilute its due diligence process by choosing to make only limited re-exposure of the measurement proposals, instead of the full re-exposure of the replacement standard, particularly in view of the fact that the original ED was exposed in 2005, and that there have been significant developments and changes in technology, business models, business law, regulation, corporate governance practices, and accounting theory since then. We are also concerned that finalization of an important project like this, ahead of the other Conceptual Framework Projects, may necessitate further changes in the future.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at [kgosalia@cga-canada.org](mailto:kgosalia@cga-canada.org) or, alternatively, the undersigned at [rlefevre@cga-canada.org](mailto:rlefevre@cga-canada.org).

Sincerely,

[Original signed by:]

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Vice-President, Research & Standards