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International Accounting Standards Board

INFORMATION FOR OBSERVERS

Board Meeting: **February 2006, London**

Project: **IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and IAS 19 *Employee Benefits* (Agenda Paper 8)**

Amendments to IAS 37 – Comment Letter Summary and Preliminary Planning

INTRODUCTION

1. The Board issued its Exposure Draft *Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits* (ED) on 30 June 2005. The comment period ended on 28 October 2005 and the Board received 123 comment letters.[1]

2. The staff has now reviewed those comment letters and hence the redeliberation phase of the project can begin. At the February meeting, the staff will ask the Board to consider the main points raised in the comment letters and as a result:

   (a) affirm the project objectives;

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[1] The FASB issued an Invitation to Comment *Selected Issues Relating to Assets and Liabilities with Uncertainties* on 30 September 2005 as part of the Conceptual Framework project. The Invitation to Comment addresses certain issues raised in the IASB ED. The FASB comment period ended on 3 January 2006 but comment letters are still being received. At the time of writing the FASB has received 35 letters. We will circulate the FASB's comment letter summary once it is available. However, the view of both staffs is that, in general, the FASB comment letters are similar to the relevant parts of our letters. The ITC and comment letters can be viewed on the FASB's website (http://www.fasb.org/draft/itc_assets_liabilities_with_uncertainties.pdf and http://www.fasb.org/ocl/fasb-getletters.php?project=1235-001 respectively) .

(b) approve the initial staff assessment of matters for which the staff:

  (i) will undertake additional research and ask the Boards to reconsider, or

  (ii) expect to present to the Board for reaffirmation without additional research; and

(c) approve the staff's provisional project plan for the redeliberations.

3. The paper is divided into four sections:

  1 Confirming the project objective

  2 Principles reflected in the IAS 37 ED

  3 Staff analysis of the comment letters

  4 Provisional project plan.

4. The Appendix to the paper is a summary of the main issues raised by respondents to the ED. The staff will incorporate and expand on the comments in this summary as the specific issues are addressed in redeliberations.

SECTION 1: CONFIRMING THE PROJECT OBJECTIVE

5. The Board's objectives in issuing the ED were:

  (a) to converge the application guidance for accounting for costs associated with restructuring in IAS 37 with the more recent and conceptually superior requirements in SFAS 146 *Accounting for Costs Associated with Exit or Disposal Activities.* (As a consequence, the Board made complementary amendments to the termination benefit requirements in IAS 19.)

  (b) to analyse some items currently described as 'contingent assets' and 'contingent liabilities' in terms of assets and liabilities (ie in line with the *Framework*). The initial prompt for reanalysing these items was the reconsideration of the treatment of acquired contingencies in Phase II of the Business Combination project. However, the proposed amendments affect all liabilities previously described as contingent liabilities (and assets previously described as contingent) not just those acquired in a business combination.

6. Many respondents broadly agree with the objective of aligning the *application guidance* in IAS 37 for restructuring costs with SFAS 146 (even if a few of these respondents disagree in principle with the resulting amendments). However, very few respondents agree with the proposed amendments to the recognition and measurement *principles* in IAS 37 that arose from the reconsideration of contingencies. There are three main themes to their objections:

   (a) There is insufficient guidance about (i) determining when a liability exists, and (ii) the boundary between a liability and a business risk to ensure that the main recognition principle is practicable and can be applied consistently.

   (b) Probability has a role to play in recognition and not just measurement, particularly when there is uncertainty about whether a liability exists.

   (c) The combination of changes to the recognition principles and measurement shift IAS 37 to fair value accounting. Many question:

      (i) the relevance of the amounts recognised in the balance sheet—because in many cases the entity will not, or cannot, transfer the obligation, and

      (ii) the reliability of the amounts recognised in the balance sheet—because the data required to measure many IAS 37 liabilities is subjective.

7. But as well as making these specific comments about the proposals, many respondents question the Board's motivations for amending the main recognition and measurement principles in IAS 37 at this time. This is because they argue that reconsidering these principles:

   (a) is not justified by the business combinations project;

   (b) should be addressed in the concepts project before amending Standards; and/or

   (c) should be the subject of a joint project with the FASB to avoid creating or increasing differences with US GAAP (specifically SFAS 5 *Accounting for Contingencies*).[2]

[2] The few respondents who acknowledged some conceptual merit in the proposals also raised concerns about the relationship of the project with the concepts project and also the wisdom of the IASB pursuing the amendments alone.

8. Some therefore recommend that the Board restrict the objective of the project to make only the changes necessary to align the application guidance for restructuring costs with the requirements of SFAS 146.

9. Because of the extent of these comments, the staff thinks that the Board needs to reconsider the project objective before it considers the staff's initial assessment of the areas in the ED that require further analysis. Therefore, the staff considers each of the three main objections in turn below.

A Amendments to principles in IAS 37 not justified by the Business Combinations project

10. Some IFRS constituents accept that liabilities previously described as 'contingent liabilities' should be recognised in a business combination. However, they also argue that it is acceptable for the accounting treatment for such liabilities to be different depending on whether they are acquired in a business combination or are 'internally generated'. They note that similar inconsistencies arise in other areas; for example, many acquired intangible assets are not recognised by the acquiree prior to the business combination. Hence, they do not agree that the Business Combinations project justifies amending the principles in IAS 37.

Staff comment

11. The staff thinks that the above arguments fail to acknowledge the original reason why the Board decided to amend the principles in IAS 37. Namely, that the Board wanted to develop a principles-based business combination Standard. One of the main principles developed in the business combinations project was that an acquirer should recognise the identifiable *assets* acquired and *liabilities* assumed in a business combination. Retaining the existing understanding of contingent assets and contingent liabilities would be inconsistent with that principle. This is because it would result in an acquirer failing to recognise some items that the Board believes are identifiable assets and liabilities that should be recognised in a business combination. On the other hand, establishing an exception to the principle and requiring *all* contingent assets and contingent liabilities to be recognised in a business combination would not only conflict with the objective of a principles-based business combination Standard but also the *Framework*, because not all such items are assets and liabilities.

12. However, although the ED was presented as partly prompted by, and accompanying, the proposed amendments to IFRS 3, many of the proposed amendments have relevance to some of the Board's other projects. As Wayne Upton argued in his recent paper on precedential topics, the material relating to the definition of a liability (in particular the notion of a stand ready obligation) is an important building block in projects such as revenue recognition and insurance and potential projects such as leases and pensions. Hence the Board has already been using the principles in the ED in other projects for some time. *[Remainder of paragraph deleted]*

13. *[Deleted]*

B Issues should be first addressed in the concepts project

14. Many respondents argue that the ED introduces new concepts (for example, the notion of a stand ready obligation and fair value measurement for non-financial liabilities). Accordingly they think that many of the proposals should be first explored and introduced at the concepts level rather than introduced directly at the Standards level. By doing this, respondents argue that the ideas explored in the ED could be applied more broadly, for example to assets as well, rather than to a narrow class of liabilities. In support of this view, many respondents noted that the FASB issued aspects of the ED as an Invitation to Comment[3] to generate input into the concepts project, rather than as a precursor to amendments to SFAS 5. Some respondents also noted that the Board itself previously indicated one of the issues in the ED—the role of probability—would be addressed in a concepts project rather than Standards level project.[4] Many respondents also assert that some of the amendments are inconsistent with the existing *Framework* and hence think that the Board must amend the *Framework* before proceeding with the proposals.

Staff comment

15. *[Beginning of paragraph deleted]* We note the following:

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[3] See footnote 1

[4] Paragraph BC112 of IFRS 3 *Business Combination* states: 'Indeed, the probability recognition criterion applying to liabilities in IAS 37 and the *Framework* is fundamentally inconsistent with any fair value or expected value basis of measurement because expectations about the probability that an outflow of resources embodying economic benefits will be required to settle a possible or present obligation will be reflected in the measurement of that possible or present obligation. However, the Board agreed that the role of probability in the *Framework* should be considered more generally as part of a forthcoming Concepts project.'

(a) *[Beginning of paragraph deleted]* The existing notion of a contingent liability is not part of our *Framework* and harks back to the notion of a contingent loss that was included in the IAS 37's predecessor: IAS 10 *Contingencies and Events Occurring after the Balance Sheet Date*. The notion of a contingent loss, and its accounting treatment in IAS 10, was derived from SFAS 5. And SFAS 5 was issued in 1975, five years *before* the FASB Concepts Statement introduced the current definition of a liability. When IAS 37 was introduced it followed the *Framework* and shifted the focus to *liability* recognition and measurement. Nonetheless, IAS 37 essentially retained the notion of a contingent loss. The staff therefore thinks that the ED should be viewed as a logical continuation of the work IASC started when it issued IAS 37 in 1998.

(b) The changes to the recognition criteria would in general only affect single obligations for which the probability of an outflow of *some* economic resources to eventually settle the obligation is less than 50 per cent.

(c) The ED does not amend the existing measurement *principle* in IAS 37. Rather, it amends the *guidance* about how to apply that principle to single obligations (and thereby eliminates an inconsistency between the guidance and the principle).

16. The staff also notes that the concepts project is a long-term project. At the outset of the project the Board explained that its other standard-setting efforts could not await completion of the project. It also highlighted the relationship between the concepts project and some of its other current projects. That is to say the Board noted that its thinking at the concepts level and at the standards level would benefit each other. In the case of the IAS 37 project the timing appears to be particularly opportune: the redeliberation phase of the IAS 37 project will coincide with the Board's discussions of liabilities and the effects of uncertainties in the concepts project.

C The project should be undertaken jointly with FASB

17. Many respondents note that the FASB has not given any indication that it intends to amend SFAS 5. They therefore argue that if the IASB were to proceed with the ED, new and important differences with SFAS 5 would arise. Many therefore think that the issues raised in the ED should be addressed in a joint project with the FASB.

Staff comment

18. This comment suggests that SFAS 5 and IAS 37 are similar standards. The staff disagrees. In our view, IAS 37 is already very different from SFAS 5. This was also the view of the FASB staff in 1999, when the two standards were compared as part of the FASB's IASC-US Comparison Project[5]. Indeed, we would argue that IASC diverged from SFAS 5 when it issued IAS 37 in 1998. As noted above, it was IAS 37's *predecessor* (IAS 10 *Contingencies and Events Occurring after the Balance Sheet Date*) that was very similar to SFAS 5.

19. It is true that IAS 37 and SFAS 5 are similar in that they both use a probability assessment to determine whether a liability should be recognised. But the probability thresholds in the two Standards are generally understood to be quite different—an entity applying IAS 37 is likely to recognise a liability earlier than it would applying SFAS 5. Furthermore, the measurement objective in IAS 37 is a settlement notion and the guidance articulates many of the techniques used in fair value measurement. That notion is very different from the limited measurement guidance in SFAS 5 and its related Interpretation 14 *Reasonable Estimation of the Amount of a Loss*.

20. In addition, we think the comments fail to acknowledge that the FASB has in recent years developed specific requirements for some liabilities that might be described as contingent liabilities under the current IAS 37. These requirements depart from the principles of SFAS 5. For example, FAS 143 *Accounting for Asset Retirement Obligations* and its related Interpretation 47 *Accounting for Conditional Asset Retirement Obligations,* and FIN 45. The principles underpinning these more recent Standards are the same principles underpinning the ED. The staff thinks that the fact that FASB are updating their liability literature on a piecemeal basis should not mean that the IASB cannot update its general liability Standard.

Conclusion on project objective

21. The Staff does not recommend that the Board limit the scope of this project to amending the application guidance for restructuring costs. (Please note that this recommendation is not intended to prejudge your reconsideration of each of the issues

[5] Chapter 28 on IAS 37 in *The IASC-US Comparison Project: A Report on the Similarities and Differences between IASC Standards and US GAAP*.

in the ED. Rather, at this stage we are merely asking you to affirm the original project objective.)

22. However, because the impetus for amending the recognition and measurement principles in IAS 37 is not solely the Business Combinations project, the staff recommends that the project is repositioned as a standalone project (rather than accompanying the Business Combinations project). This emphasises that our objective is to improve our general guidance on applying the *Framework's* definition of a liability to items that are not financial instruments in order to improve the completeness, relevance and comparability of financial information about an entity's non-financial liabilities. *[Remainder of paragraph deleted]*

23. That said, the relationship with the Business Combinations project is still important. Unless the Board wants to add to exceptions to that project, we need to complete the IAS 37 project either before or at the same time as the Business Combinations project.

24. ***Does the Board agree?***[6]

Roundtable discussions

25. Reading the comment letters, the staff has been struck by three points.

 1 The introduction of the notion of a stand ready obligation has troubled many constituents. We think this is because many appear to be interpreting the notion more widely than the Board intended and are regarding some business risks (for example, *future* health and safety claims) as stand ready obligations. Coupled with the revised interpretation of the probability recognition criterion, this means that these constituents perceive that there is almost a limitless array of liabilities that now need to be considered.

 2 Some comment letters are dominated by concerns about the effects of the revised recognition and measurement principles on litigation. In particular,

[6] The staff considered whether the project should be divided into two parts so that the amendments to the application guidance for restructuring costs (and related amendments to IAS 19) could be issued this year separately from other amendments. This would mean that another of short-term convergence projects would be completed. In addition, the IAS 19 amendments would address some questions that the IFRIC is receiving about the distinction between termination benefits and post-employment benefits. However, we decided that dividing the project into two parts would impede the overall progress of the project and constituents are unlikely to appreciate two sets of amendments to IAS 37. Also there is a relationship between the amendments to the restructuring application guidance and the amendments to a constructive obligation. Hence, it would be difficult to separate the project into two parts.

the concerns that the ED would in many cases require earlier recognition of liabilities for litigation than at present and that measuring the liability reliably at this earlier point might not be possible. The staff notes that litigation poses particular difficulties, in that the accounting itself can affect the item that the accounting is attempting to depict. But it is possible that some constituents may have rejected some of the underlying principles, because they disagree with the way that the Board has applied those principles to the two examples of litigation in the ED.

3 There is a big gap between the way in which the Board is interpreting the *existing* measurement requirements and the way in which many of our constituents interpret them. The staff makes this comment because of the large number of comments disagreeing with the revised wording of the measurement objective, which we think is conceptually the same as the existing Standard.

26. Because of these observations, the staff thinks that it would be helpful to hold roundtable discussions with some of our constituents. Apart from exploring the issues in their comment letters, roundtables would allow us the opportunity to clarify and better explain aspects of the amendments, as well as our interpretation of the *existing* IAS 37. In particular, we could discuss the principles in the ED and explore concerns about these principles, before turning to the application of those principles to difficult examples such as litigation. *[Remainder of paragraph deleted]* .

27. The staff recommends the following with respect to the roundtables:

- We hold two or three sessions of about 2.5-3 hours with approximately 15 constituents at each. This is based on the Board's experience with the recent business combination roundtables.

- *[Beginning of paragraph deleted]* We extend an open invitation to all those who commented on the ED.

- We hold the roundtables in November. *[Remainder of paragraph deleted]*

- We prepare a short discussion paper prior to the roundtables. This would make the case for changing IAS 37, clarify aspects of the proposed amendments and update the amendments to reflect the Board's redeliberations.

28. Does the Board agree?

SECTION 2: PRINCIPLES RELFECTED IN THE IAS 37 ED

29. The staff has identified five principles in the IAS 37 ED which gave rise to the amendments proposed in the ED:

1 An entity shall apply IAS 37 to all liabilities that are not financial liabilities (as defined in IAS 32) except for those resulting from executory contracts (unless the contract is onerous) and those within the scope of another Standard.

2 An entity shall recognise a non-financial liability when (a) the definition of a liability has been satisfied and (b) the non-financial liability can be measured reliably.

3 An entity shall measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or to transfer it to a third party on the balance sheet date.

4 An entity shall disclose sufficient information to enable users of the financial statements to understand the amount and nature of an entity's non-financial liabilities and the uncertainty relating to the future outflows of economic benefits that will be required to settle them.

5 Assets arise from unconditional (non-contingent) rights.

30. The staff also identified 8 sub-principles supporting principles 2, 3 and 5:

2.1 Liabilities arise only from unconditional (non-contingent) obligations.[7]

2.2 Any liability that incorporates an unconditional obligation satisfies the probability recognition criterion in the *Framework*. Uncertainty about the

[7] Board members will note that the principle that liabilities arise from unconditional obligations is categorised as a sub-principle, whereas the corresponding principle for an asset is categorised as a principle. This reflects that the Board did not reconsider recognition and measurement for assets previously described as contingent assets. Rather, it merely explained that many contingent assets were in fact assets.

amount or timing of the economic benefits that will be required to settle a non-financial liability is reflected in the measurement of that liability.

2.3 A non-financial liability can be measured reliably, except in rare circumstances.

2.4 An entity has a liability arising from a constructive obligation only if its actions result in other parties having a valid expectation on which they can reasonably rely that the entity will perform.

2.5 Non-financial liabilities for costs associated with a restructuring should be recognised on the same basis as if they arose independently of the restructuring.

2.6 If an entity has a contract that is onerous, it shall recognise as a liability the present obligation under the contract. If the contract will become onerous as a result of the entity's own actions, the entity shall not recognise the liability until it has taken the action.

3.1 The basis of estimating a non-financial liability is to use an expected cash flow approach.

5.1 A right to reimbursement is an asset. An entity shall recognise a reimbursement right if it can be measured reliably. The amount recognised for the reimbursement right shall not exceed the amount of the related non-financial liability.

31. Do Board members agree that we have correctly identified the principles underpinning the amendments in the IAS 37 ED?

SECTION 3: STAFF ANALYSIS OF COMMMENT LETTERS

32. In this section, the staff presents its preliminary analysis of the comments received on IAS 37 and IAS 19. Our intention with this analysis is to highlight the main areas that we think need to be reconsidered in the redeliberations.

33. We are not asking the Board to reach any final conclusions at this meeting on any of the specific matters raised. We think all of the proposals should be discussed by the Board. However, for each issue we have indicated whether we plan to:

(a) undertake further research before we ask the Board to reconsider its proposal, or

(b) present the issue to the Board for affirmation without further research.

34. Therefore, we are particularly interested if the Board disagrees with any of the issues for which we propose no further research. (We emphasise that when these issues are brought to the Board for affirmation we will be presenting a full analysis of the comments received on the issue.)

Analysis of comment letters on propose amendments to IAS 37

35. The following table lists the proposals in the IAS 37 ED organised by principle. It cross-refers to the summary of the comment letters in the Appendix. For each issue, the staff presents its initial analysis of the main comments received. *[The staff analysis has been omitted from this table]*.

CL summary para ref	***Issue***	***Staff analysis***
Principle 1: An entity shall apply IAS 37 to all liabilities that are not financial liabilities as defined in IAS 32, except for those resulting from executory contracts (unless the contract is onerous) and those within the scope of another Standard.		
22 - 24	Extending the scope of IAS 37	The staff does not propose to analyse this issue any further before asking the Board to affirm Principle 1. *Does the Board agree?*
25 - 27	Withdrawing the term provision and use of the term ‘non-financial liability’	The staff proposes that the Board reconsiders its decision to use the term non-financial liability. *Does the Board agree?*
Principle 2: An entity shall recognise a non-financial liability when (a) the definition of a liability has been satisfied and (b) the non-financial liability can be measured reliably		
Principle 2.1: Liabilities arise only from unconditional (non-contingent) obligations.		
28 – 30 and 74- 76	Eliminating the term ‘contingent liability’	The staff proposes the Board should reconsider whether the focus on liabilities (rather than possible obligations) would result in a loss of useful and relevant information from the financial statements. *Does the Board agree?*
31 – 33 and 91	Identifying the obligating event	The staff thinks that reconsidering Principle 2 as it applies to non-contractual obligations, is one of the main areas of focus for the Board in the redeliberation process.

CL summary para ref	*Issue*	*Staff analysis*
		The issue cross-cuts with Sub-principle 2.2 because we will need to consider whether the existing probability recognition criterion is an effective way of determining whether there is a liability in these scenarios. We will also need to consider the meaning of the phrase 'expected to result in an outflow from the entity' in the liability definition. We will also consider how to clarify the use of the term stand ready obligation. *Does the Board agree?*
34 - 35	Analysing contingencies into conditional and unconditional obligations	The staff proposes that the Board should consider whether the guidance in the ED on contingencies can be simplified. *Does the Board agree?*
Sub-principle 2.2: Any liability that incorporates an unconditional obligation satisfies the probability recognition criterion in the *Framework*. An entity shall reflect uncertainty about the amount or timing of the economic benefits that will be required to settle a non-financial liability in the measurement of that liability.		
37 - 39	Omitting the probability criterion decreases the relevance of financial information provided to users	The staff proposes the Board should reconsider the omission of the criterion. *Does the Board agree?*
40 - 42	Omitting the probability criterion is inconsistent with the existing *Framework*	[The staff proposes the Board should reconsider this issue]. *Does the Board agree?*
43	Costs outweighing the benefits	The staff proposes to complete a cost benefit analysis at the end of the redeliberation process. *Does the Board agree?*
Sub-principle 2.3: A non-financial liability can be measured reliably, except in rare circumstances		
44	Principle is no longer valid	[The staff proposes that] the Board should reconsider whether it is appropriate to bring this principle forward from the current standard without amendment. *Does the Board agree?*
45	Meaning of reliable measurement	[The staff] acknowledges that in considering the previous issue about principle 2.3 the staff will be discussing the issue of what constitutes reliable measurement. Therefore, we propose the Board reconsider this issue in conjunction with the previous issue. *Does the Board agree?*
46	Retaining reliable measurement criterion is invalid	[The staff] do not propose analysing this issue further before asking the Board to affirm that the reliable measurement criterion should be retained. *Does the Board agree?*

CL summary para ref	*Issue*	*Staff analysis*
Sub-principle 2.4: An entity has a liability arising from a constructive obligation only if its actions result in other parties having a valid expectation on which they can reasonably rely that the entity will perform.		
47 - 51	Uncertainty about the practical effect of the change	The staff recommends that the Board reconsiders the objective of amending the definition of a constructive obligation. *Does the Board agree?*
Sub-principle 2.5: Non-financial liabilities for costs associated with a restructuring should be recognised on the same basis as if they arose independently of the restructuring.		
54	Inconsistency of restructuring application guidance with the guidance for constructive obligations and involuntary termination benefits.	The staff does not believe the Board needs to reconsider their conclusion that there is no need for an exception to the general liability recognition and measurement principles for restructurings. The staff therefore proposes to re-draft the wording in this section. *Does the Board agree?*
53, 55 and 81	The total cost of the restructuring is not disclosed	The staff proposes that the Board consider adding specific disclosure requirements for restructuring costs (similar to SFAS 146). *Does the Board agree?*
Sub-principle 2.6: If entity has a contract that it onerous, it shall recognise as a liability the present obligation under the contract. If the contract will become onerous as a result of the entity's own actions, the entity shall not recognise the liability until it has taken the action.		
56	Inconsistency with the guidance for constructive obligations and IFRS 5	[The staff does not propose that the Board reconsiders this issue.] *Does the Board agree?*
56	The amendments will have very little effect in practice.	The staff will therefore ask the Board to consider whether it is possible to apply a specific US GAAP rule to an IFRS general rule. *Does the Board agree?*
57	Clarification of proposed and existing requirements	The staff proposes to ask the Board if it would like to extend the scope of the amendments to include clarification on the existing requirements of IAS 37 for onerous contracts. *Does the Board agree?*
58 - 59	Sub-lease rentals	The staff does not consider that this issue merits further analysis. *Does the Board agree?*
Principle 3: An entity shall measure a non-financial liability at the amount that it would rationally pay to settle the present obligation or transfer it to a third party on the balance sheet date.		
60 - 63	Relationship with fair value	The staff proposes that the Board consider whether it is possible to clarify the existing measurement principle to emphasise that is a settlement notion (as proposed in the ED) or whether such amendments cannot be made until it is appropriate to reconsider more fundamentally the measurement objective.

CL summary para ref	***Issue***	***Staff analysis***
		Does the Board agree?
64 - 66	Decreasing the relevance of financial information	The staff will analyse these comments when the Board reconsiders the measurement principle, discussed above. *Does the Board agree?*
67 – 68 and 92	Reliable measurement	The staff will analyse this issue and ask the Board to consider adding guidance on subsequent measurement. *Does the Board agree?*
69	Choice permitted in measurement	[The staff] thinks that the Board should consider this issue when it reconsiders the amended measurement principle. *Does the Board agree?*
Principle 3.1: The basis of estimating a non-financial liability is to use an expected cash flow approach.		
70 – 71 and 79	Applying the expected cash flow approach to a single obligation is inappropriate	If the Board affirms the amendments to the measurement principle, the staff does not believe that the Board needs to reconsider this amendment. We will therefore ask the Board to affirm that the exception for measuring single obligations should be eliminated. However, the staff acknowledges that there is much work to be done in explaining this amendment better. The staff therefore proposes to address respondents' concerns with communication initiatives (eg Insight/website articles). We will also see how the Basis for Conclusions can better explain the Board's intentions. The staff will also consider whether the proposed disclosure are sufficient to ensure that users have adequate information about the nature and uncertainty associated with each class of liability. *Does the Board agree?*
72	Lack of guidance	If the Board affirms the scope of the proposed amendments to the measurement principle the staff proposes that the Board reconsider the level of guidance provided for issues such as discount rates and risk adjustments. *Does the Board agree?*
73	Difference with US GAAP	[The staff] do not propose to analyse these issue further before asking the Board to affirm the proposed requirements. *Does the Board agree?*
Principle 4: An entity shall disclose sufficient information to enable users to understand the amount and nature of an entity's non-financial liabilities and the uncertainty relating to the future outflow of economic benefits that will be required to settle them.		

CL summary para ref	*Issue*	*Staff analysis*
		The staff proposes that disclosure is considered as each individual issue is discussed. At the end of the redeliberation process the staff proposes to review the complete package of disclosure requirements. Any amendments will then be presented for Board's consideration. *Does the Board agree?*
77 - 78	Disclosure for liabilities with estimation uncertainty	The staff will analyse this issue and ask the Board to reconsider the proposed requirement. *Does the Board agree?*
Principle 5: Assets only arise from unconditional (non-contingent) rights.		
82	Eliminating the term 'contingent asset'	[The staff] will ask the Board to consider whether any additional disclosure requirements are required in IAS 38. *Does the Board agree?*
83 - 84	Including items previously described as contingent assets within the scope of IAS 38	The staff does not propose to analyse these comments further before asking the Board to affirm its conclusion that assets previously in the scope of IAS 37 should be in the scope of IAS 38 (except for reimbursement rights). The staff thinks that the Board should reconsider the examples [in the IAS 37 Basis used to illustrate the ideas of an unconditional right accompanied by a conditional right are in fact assets]. *Does the Board agree?*
Sub-principle 5.1: A right to reimbursement is an asset. An entity shall recognise a reimbursement right if it can be measured reliably. The amount recognised for the reimbursement right shall not exceed the amount of the related non-financial liability		
85 - 86		The staff does not propose to analyse [these] issue[s] further before it asks the Board to confirm that changes to reimbursement rights should be limited to (a) clarifying that a reimbursement right is an asset and (b) eliminating the 'virtual certain' probability recognition criterion. *Does the Board agree?*
OTHER		
80, 88 – 90, 93 - 97	Lawsuits	The staff thinks that the Board should reconsider the application of the principles in Illustrative Examples 1 & 2. The staff proposes the Board consider the concern that recognising, measuring and disclosing liabilities for lawsuits potentially prejudice an entity's position. *Does the Board agree?*
20 - 21	Effective date	The staff thinks that the Board should discuss the effective date towards the end of its redeliberations (and in conjunction with its discussion about Business

CL summary para ref	*Issue*	*Staff analysis*
		Combinations). However, we also think it would be helpful to constituents to indicate at the February meeting that we now do not expect to issue a final Standard in 2006. *Does the Board agree?*
7	The amendments should be made in a new IFRS rather than an amended IAS 37	The staff proposes that the Board reconsider the form of the final document towards the end of the redeliberation phase prior to drafting. *Does the Board agree?*

Analysis of comment letters on proposed amendments to IAS 19

36. Similarly, the following table lists the proposals in the IAS 19 ED organised by principle and cross-referenced to the Appendix. *[The staff analysis has been omitted from this table].*

CL summary para ref	*Issue*	*Staff analysis*
Principle 1: Termination benefits are employment benefits provided in connection with the termination of an employee's employment before the normal retirement date.		
98 - 99	Differentiating between termination benefits and post employment benefits	The staff acknowledges the issues raised and proposes that the Board reconsiders how IAS 19 should distinguish between termination benefits and post employment benefits. *Does the Board agree?*
Principle 2: A liability for termination benefits is recognised when incurred.		
100 - 103	The recognition point for voluntary termination benefits is inconsistent with the proposed amendments to IAS 37 recognition point for involuntary termination benefits.	The staff proposes the Board reconsider the recognition point for voluntary termination benefits. *Does the Board agree?*
Principle 3: Termination benefits provided in exchange for future employment services are recognised over the future service period.		
104 - 105	Criteria are also applicable to voluntary termination benefits	The staff proposes to analyse this issue at the same time as the point above. *Does the Board agree?*
Other comments		
106 - 109		The staff acknowledges the additional comments received. In particular the staff would like the Board to reconsider what is the obligating event for termination benefits, and whether the obligating event is the same for contractual and statutory termination benefits (paragraph 108 in the comment letter summary). *Does the Board agree?*

SECTION 4: PROVISIONAL PROJECT TIMETABLE

37. A provisional project timetable is outlined below. In compiling this timetable the staff gave priority to:

    (a) addressing the scope of the project early in the redeliberation process to confirm that the staff does not need to extend its analysis of issues into additional areas (or alternatively highlight the need to revise the provisional project timetable to accommodate any extension of scope); and

    (b) tackling the more controversial issues first. The comment letter analysis highlights that many respondents have reservations about identifying the changes to the recognition and measurement principles in the ED. The staff proposes to address these issues before other amendments resulting from the short-term convergence project. This approach would enable the Board to confirm and refine its thinking on these issues prior to discussion at roundtables.

38. The timetable identifies the Board meeting at which the staff expects to introduce each of the identified topics based on their current assessment. If considered necessary, the staff will request Board time for additional follow-up sessions which may also impact the overall timetable.

Meeting date	**Issue**
February 2006	**Re-deliberation overview** ▪ Affirm project objectives and scope (Section A: General comments). ▪ Discuss the comment letter summaries. ▪ Preliminary planning.
March 2006	**Scope of IAS 37** (principle 1) ▪ Confirm that IAS 37 is a default Standard for all liabilities not within the scope of another Standard. **Project scope** ▪ Consider whether the project scope should be extended to cover areas suggested by respondents (eg amending the recognition and measurement requirements of IAS 38 for assets currently described as contingent asset; measurement guidance for reimbursements; definition of onerous contracts).
May 2006	**Recognition I: existence of a liability** (principle 2/2.1)

Meeting date	Issue
	▪ Element uncertainty for non-contractual obligations. ▪ The role of probability in identifying a liability. ▪ Analysing contingencies into unconditional and conditional obligations. ▪ The boundary between a business risk and a (stand-ready) obligation.
June 2006	**Recognition II: probability recognition criterion** (principle 2/2.2) ▪ Relationship of principle 2.2 with the current *Framework*. ▪ Consider whether a stand-ready obligation always result in an outflow of resources. ▪ Consider whether there is a need for a probability recognition criterion for some non-contractual obligations.
July 2006	**Contingent assets** (principle 5) ▪ Guidance on assets formerly described as contingent assets
August 2006	**Begin preparation for roundtables** (no Board meeting)
September 2006	**Measurement I: the measurement objective** (principle 3/3.1) ▪ Measurement objective of IAS 37. ▪ Relationship of measurement objective to fair value. ▪ Use of an expected cash flow approach in IAS 37.
October 2006	**Measurement II: reliable measurement** (principle 2.3) ▪ Validity of principle 2.3 ▪ Meaning of reliable measurement ▪ Retaining a reliable measurement criterion ▪ Consider whether guidance on subsequent measurement is needed to reduce burden on preparers and limit potential for manipulation.
January 2007	**Constructive obligations** (principle 2.4) ▪ Consider whether the change in definition necessary. ▪ Consider whether there is a need to introduce the notion of enforceability into the definition.
February 2007	**Short term convergence amendments** ▪ Application guidance for restructuring costs (principle 2.5) ▪ Application guidance for onerous contracts (principle 2.6)
April 2007	**Termination benefits** (IAS 19 amendments) ▪ Defining termination benefit ▪ Recognition of termination benefits ▪ Criterion for determining when benefits are provided in exchange for employees’ future services
May 2007	**Other issues** ▪ Disclosures (principle 4) ▪ Effective date & transition requirements ▪ Form of the final document (IAS or IFRS)

Meeting date	Issue
	▪ Decision summary