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International  
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Board

*This document is provided as a convenience to observers at IASB meetings, to assist them in following the Board's discussion. It does not represent an official position of the IASB. Board positions are set out in Standards.*  
*These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.*

## INFORMATION FOR OBSERVERS

**Board Meeting:** 19 September 2006, London

**Project:** Liabilities - amendments to IAS 37

**Subject:** IAS 37 Redeliberations: Approach to redeliberating the issues associated with the measurement principle proposed in the ED (Agenda Paper 8)

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## INTRODUCTION

1. In accordance with the redeliberation timetable, the Board will discuss issues associated with the ED's measurement principle in September and October 2006. The objective of this paper is to explain the staff's approach to redeliberating these issues. In doing so, this paper also places in context the four topics covered in agenda papers 8A – 8D.
2. At the February 2006 meeting the Board agreed that the proposed measurement principle and accompanying sub-principle in the ED were:

**Principle 3:** An entity shall measure a liability at the amount that it would rationally pay to settle the obligation or to transfer it to a third party on the balance sheet date.

**Sub-principle 3.1:** The basis of estimating a liability is to use an expected cash flow approach.

3. When developing the ED the Board decided to limit the scope of its amendments to clarifying the existing IAS 37 measurement principle. Therefore the purpose of the proposed principle and sub-principle was to emphasise that the existing IAS 37 measurement principle is a current settlement notion. However, the comment letters indicate that many respondents perceive the proposed amendments to be more significant than the Board intended. Therefore the staff thinks that considering respondents' concerns associated with the measurement principle and sub-principle is one of the main areas of focus in the overall redeliberation process.
4. The staff notes that there are overlaps between many of the concerns raised in the comment letters. Therefore in September the staff will need to state working assumptions about topics to be addressed in October.

## **GROUPING THE ISSUES**

5. In September the staff intends to address respondents' high-level concerns about the measurement principle itself and the scope of amendments proposed in the ED. In October the staff intends to address detailed concerns about aspects of the guidance accompanying the measurement principle and sub-principle.
6. The staff has prepared four papers for discussion in September (agenda papers 8A – 8D):
  - A. *Scope of the proposed amendments to the IAS 37 measurement principle.* This paper considers three alternatives to the limited scope underpinning the proposed amendments to the measurement principle in the ED.
  - B. *Reconsidering the existing IAS 37 measurement principle.* This paper revisits the Board's conclusion that the existing IAS 37 measurement principle is a current settlement notion and identifies why many respondents do not agree with this conclusion. The paper then goes on to consider how the ED closes this gap in understanding and whether there are further steps the Board might consider.

- C. *Does a measurement principle based on a current settlement notion provide useful information about liabilities within the scope of IAS 37?* This paper addresses respondents' concerns that a measurement principle based on a current settlement notion is not capable of providing useful information on a conceptual level. The arguments in this paper are based on the attributes of useful information described in the current IASB *Framework*.
- D. *Is more guidance on the IAS 37 measurement principle required?* This paper considers whether additional guidance on how to apply a current settlement notion to liabilities within the scope of IAS 37 is required. In particular this paper considers whether additional guidance is appropriate given the Board's previous decision to limit its amendments to emphasising the existing measurement principle and clarifying aspects of the measurement guidance.<sup>1</sup>
7. In October the staff proposes addressing detailed concerns about particular aspects of the guidance accompanying the measurement principle and sub-principle. Specifically the staff intends to discuss the following topics:
- A. *Perceived choice in the measurement principle.* In light of respondents' requests for clarification, this paper will consider whether there is a difference between the cash flows required to settle a liability at the balance sheet date and the cash flows required to transfer a liability at the balance sheet date.
- B. *Exceptions to the measurement principle.* This paper will consider whether an exception to the ED's measurement principle (or sub-principle) is required for all single obligations or a sub-set of single obligations such as lawsuits. The staff anticipates that this paper will consider whether all liabilities within the scope of IAS 37 are capable of reliable measurement.

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<sup>1</sup> The outcome of Board discussions on agenda paper 8D in September may necessitate further discussion of any unresolved issues associated with topics to be included in further measurement guidance.