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**International
Accounting Standards
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: 20 March 2007, London

Project: Liabilities - amendments to IAS 37

Subject: IAS 37 Redeliberations: Cover note (Agenda Paper 3A)

INTRODUCTION

1. In May 2006 the Board asked the IAS 37 project staff to consider how to distinguish between a liability and a business risk and to clarify the explanation of a 'stand ready obligation' in the IAS 37 ED. These issues are particularly pertinent in the context of the IAS 37 project, especially given the ED's proposal to require an entity to recognise all items that satisfy the definition of a liability. Consequently the Board's proposal to tackle these issues received almost unanimous support at the IAS 37 round-tables.
2. But tackling these issues has wider implications than the IAS 37 project. Most notably, the same issue needs to be resolved in the Board's work on the definition of a liability in phase B of the joint IASB/FASB Conceptual Framework project. For this reason, this paper and agenda papers 3B and 3C were prepared in conjunction with members of the Conceptual Framework team.
3. However, the IAS 37 project is not a joint project with the FASB. Also, the IAS 37 and Conceptual Framework projects are working towards different

objectives with different timelines. This note therefore outlines the next steps in both projects.

NEXT STEPS

Joint meeting with the FASB

4. In the short term, the staff proposes updating the analysis and conclusions in agenda papers 3B and 3C to reflect any additional points raised during the IASB meeting in March. The staff then plans to present revised versions of both agenda papers to both the FASB and the IASB in the context of the Conceptual Framework project at the Joint meeting in April.
5. *Paragraph omitted from observer notes.*

Future Board meetings

6. Distinguishing between a liability and a business risk also links to the Board's work on uncertainty about the existence of a present obligation ("element uncertainty") – an issue the staff plans to consider separately at a future Board meeting.
7. At this stage, the IAS 37 and Conceptual Framework project teams envisage working jointly on defining element uncertainty and identifying the circumstances when element uncertainty might arise. The IAS 37 team will then go on to develop indicators and evaluate the need for a 'more likely than not' threshold separately.

Testing the analysis

8. If both the IASB and the FASB are comfortable with the staff's analysis in agenda paper 3B, the staff plans to test the robustness of that analysis by applying it to other examples of business risks and liabilities. The Conceptual Framework team plans to complete these tests, with input from other teams as required. At this stage the staff envisages that these tests will require discussions with the leases, employee benefits, revenue recognition, government grants and insurance project teams, as well as on-going consultation with the IAS 37 team. The IAS 37 team will review the outcome

of this work and will inform the Board of any significant changes to the tentative conclusions in agenda papers 3B and 3C or any potential inconsistencies between amendments proposed by the Conceptual Framework team and the IASB's tentative conclusions after redeliberating other issues associated with the IAS 37 ED.

Using the outcomes

9. In the context of the IAS 37 project only, the staff plans to use any tentative conclusions reached by the IASB in March and April to revise the text of the IAS 37 ED (particularly focusing on the explanation of a stand ready obligation in paragraphs 22-26). The staff also plans to review the Illustrative Examples accompanying the ED to ensure that they tease out the tension points identified in agenda papers 3B and 3C.
10. In the context of the Conceptual Framework project only, the staff plans to incorporate any tentative conclusions reached by the IASB in March into the working definition of a liability (including the amplifying text) and present the revised working definition to both Boards at a future meeting.