

IFRS Foundation

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This document is provided as a convenience to observers at IFRS Foundation meetings, to assist them in following the discussion.

INFORMATION FOR OBSERVERS

IFRS Foundation Trustees Meeting, Washington, 6 July 2010

AGENDA PAPER 7B



IASB Staff Paper

Date

25 June 2010

Project	Liabilities—IFRS to replace IAS 37
Topic	Due process

1. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is the accounting standard for liabilities ‘of uncertain timing or amount’ that are not within the scope of other IFRSs. Typically, these liabilities are non-contractual—they are statutory (eg environmental) liabilities or liabilities to pay penalties or compensation for acts of wrongdoing.
2. The IASB is undertaking a project to amend IAS 37 and plans to issue the amended requirements as an IFRS. It published the proposed amendments for public comment in 2005. In the light of comments received, it has since revised the proposed requirements for *measuring* the liabilities, primarily to add more guidance. On 5 January 2010, the IASB published an exposure draft of the revised measurement proposals for further comment. On 19 February 2010, it posted a working draft of the entire IFRS on its website to enable interested parties to assess the revised

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measurement proposals in the context of the IFRS as a whole. The comment period closed on 19 May 2010.

3. The trustees have received a letter signed by three business associations. The signatories ‘urge the Trustees to review the due process aspects of this project and to strongly encourage the IASB to re-expose the revised proposals in their entirety’. In the appendix to this paper, the IASB staff comment on some of the assertions in that letter.
4. The signatories to this letter are not alone in calling for re-exposure of the entire IFRS. Many of those responding to the exposure draft of the revised measurement proposals have expressed a similar view. Typically, these respondents have gone on to express their continuing opposition to two aspects of the *original* proposals, which the IASB exposed for comment in 2005 and has not withdrawn since. Thus, it is possible that the calls for re-exposure reflect dissatisfaction with the IASB’s *response to* previous consultations, rather with the *extent of* the consultations. The IASB has not amended its original proposals as much as many respondents would have liked, and those respondents are possibly arguing for re-exposure as a means of keeping the debate open.
5. In response, the IASB will revisit the two matters that are continuing to cause most concern when it starts to discuss the responses to the latest exposure draft. Taking into account the latest feedback, it will again assess the evidence for its previous conclusion that the proposed requirements would improve financial reporting and consider whether exemptions from the general requirements might be appropriate in

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some limited circumstances. To the extent that it re-affirms its original conclusions, it will do more to explain its reasons.

6. With the benefit of hindsight, we think that the IASB could have improved its communication and perhaps avoided some of the adverse feedback by:
- (a) waiting until the entire working draft IFRS was ready before publishing the exposure draft of the revised measurement proposals; and
 - (b) including *with* the working draft IFRS a feedback statement summarising the Board's responses to the comments on the 2005 exposure draft, including its reasons for not withdrawing (and instead only refining) some of the proposals. Although there are documents on the website that explain these matters, the explanations were not sufficiently accessible.

However, we do not think that the IASB would gain new insights by re-exposing the entire IFRS.

APPENDIX

Summary of views expressed in letter and IASB staff comments

View in letter

IASB staff comments

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<i>View in letter</i>	<i>IASB staff comments</i>
<p>The IASB has expanded the scope of the project without bringing the change in scope to the attention of the Trustees or IFRS Advisory Council.</p>	<p>The project dates back to 2002. Its original aim was to make changes required by two other projects. However, the IASB took the opportunity to propose further changes to address areas where IAS 37 is not clear and is open to misinterpretation. The IASB reported the proposals to, and discussed them with, the (then) Standards Advisory Council in February 2005, ie before publishing the exposure draft. The scope of the project has not changed since then.</p>
<p>The proposed amendments are so fundamental that the IASB should have aired them in a discussion paper before proceeding to an exposure draft in 2005.</p>	<p>The IASB <i>Due Process Handbook</i> does not require a discussion paper for all projects. It states that ‘the IASB normally publishes a discussion paper as its first publication on any major new topic’.</p> <p>The <i>Due Process Handbook</i> now requires the IASB to state its reasons if it does not publish a discussion paper. However, this requirement came into effect in July 2005, ie after IASB had published its exposure draft.</p> <p>Had it needed to explain its approach, the IASB could have noted that this project seeks to address specific weaknesses in the <i>existing</i> accounting model in IAS 37, not develop a fundamentally new model. Thus, this project is different from other IASB projects—such as the revenue, insurance contracts and leasing projects—in which the IASB is starting with a clean sheet and developing new accounting models.</p> <p>The signatories refer to changes that are less fundamental than they suggest:</p> <ul style="list-style-type: none"> • the change in the way in which the scope of IAS 37 is defined will have little (or perhaps no) practical effect. Its purpose is to make the scope clearer. • the change in the criteria for recognising liabilities make the

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	<p>criteria in IAS 37 the same as those in other IFRSs. It would affect only a very limited range of liabilities that at present are ‘off balance sheet’.</p>
<p>The IASB is proposing fundamental changes to the requirements for measuring liabilities. It is characterising the changes as ‘clarifications’ and has not engaged in any debate on aspects of the changes.</p>	<p>The proposed measurement requirements are an interpretation of the existing measurement requirements. They will require a change in practice because many entities have interpreted the existing requirements differently up until now. The IASB has engaged in extensive consultation on the proposed new measurement requirements:</p> <ul style="list-style-type: none"> • exposing them for comment in the 2005 exposure draft • discussing them at round-table meetings in 2006 • revising the proposals, specifically adding more guidance in response to comments that aspects of the proposed requirements were unclear • re-exposing the revised proposals in January 2010 • participating in dozens of outreach meetings in 2010 to explain the revised proposals. <p>The IASB will start to debate the responses to the latest exposure draft in September. In finalising its approach to the issues in this project, it will consider carefully the comments it has received.</p>

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<p>The IASB has substantially changed its proposals for identifying and recognising uncertain obligations. It had difficulties reaching its new conclusions. It should re-expose the ‘appreciably different approach’ now proposed.</p>	<p>The IASB needed only two meetings (May and June 2006) to reconsider its 2005 proposals and make the change to which the signatories refer here. It discussed the change with participants in round-table meetings later in 2006. The change reversed one of the original proposals in response to comments received. The effect is to revert towards an approach closer to the existing approach in IAS 37, not to introduce a new one.</p>
<p>The revised measurement proposals cannot be assessed in abstracto without assessing the whole of the proposed new IFRS.</p>	<p>As it promised when it published the exposure draft in January 2010, the IASB posted a working draft of the entire IFRS on its website in February to enable respondents to assess the revised measurement guidance in the context of the IFRS as a whole. It also extended the comment period to three months from the date of posting the working draft, to give people more time to understand the recognition requirements.</p> <p>The revisions to the proposed measurement requirements are unlikely to affect respondents’ views about the criteria for recognising liabilities (or vice versa)—the new aspects of the guidance relate to liabilities to perform services, for which the criteria for recording liabilities are uncontroversial.</p>

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<p>The IASB had significant difficulties in reaching a decision on re-exposing only the measurement requirements and guidance</p>	<p>The IASB reached a decision on re-exposure at its October 2009 public meeting by considering the criteria for re-exposure in the <i>Due Process Handbook</i>. Seven Board members would have preferred to re-expose the whole standard. However, eight took the view that re-exposing proposals that the Board had previously exposed would serve no useful purpose and impose unnecessary burdens on respondents.</p>