



Project **Liabilities—IFRS to replace IAS 37**

Topic **Project update**

1. This paper provides an update on the IASB project to develop a new IFRS to replace IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Exposure draft

2. In January 2010, the IASB published an exposure draft of revised measurement proposals for the IFRS. It also posted on its website a working draft of the entire IFRS so that interested parties could see the revised measurement proposals in the context of the IFRS as a whole.

Comments received

3. The comment letters reinforced the comments that the IASB received while talking to you and other interested parties during the comment period for the exposure draft.
4. Many respondents expressed concerns about the difficulties of applying the draft requirements to liabilities arising in legal disputes. Particular concerns were that:
 - (a) without a ‘probable outflows’ test, the recognition criteria could be more difficult to apply. The draft IFRS is still unclear how, in situations of uncertainty, entities should reach a judgement about whether a liability exists.
 - (b) the possible outcomes of some legal disputes are too uncertain for entities to estimate reliably the range of possible outcomes and their associated

This paper has been prepared for discussion at a public meeting of the Global Preparers Forum of the IASB.

The views expressed in this paper are those of the authors.

Comments made in relation to the application of an IFRS do not purport to be acceptable or unacceptable application of that IFRS—only the IFRIC or the IASB can make such a determination.

The tentative decisions made by the IASB at its public meetings are reported in *IASB Update*. Official pronouncements of the IASB, including Discussion Papers, Exposure Drafts, IFRSs and Interpretations are published only after it has completed its full due process, including appropriate public consultation and formal voting procedures.

probabilities. Hence, a requirement to measure such liabilities using expected values (ie the weighted average of all possible outcomes) would not be practicable.

- (c) the recognition threshold would be lower than that in US GAAP. The US legal system is such that recognising a liability might prejudice the outcome of a lawsuit.

5. Many respondents also expressed a view that the proposed expected value measurement model would lead to less relevant information for investors. However, this view was typically not shared by investors themselves. Most of the investors and analysts responding supported the proposed expected value model, on the grounds that measurements that take into account all possible outcomes are more robust and transparent. Some supported the proposed model without reservation. Others qualified their support:

- (a) they would prefer alternative measures for liabilities whose expected values cannot be measured reliably; and/ or
- (b) they think that, for liabilities with very few (eg only two) possible outcomes, measurements based on the most likely outcome along with disclosure of the other outcome(s) would be equally meaningful.

6. Other significant matters arising in the responses were that:

- (a) virtually all respondents opposed the proposal to require entities to measure future outflows of services using contractor prices. Respondents argued that contractor prices are not relevant measures of the entity's future outflows and, in the absence of a market, cannot be estimated reliably.

- (b) some respondents suggested that the reasons for adding a risk adjustment—and the way in which an entity would measure any adjustment—are unclear. As a consequence, they think that measurements that include risk adjustments might not be reliable or comparable.
- (c) many respondents argued that, given the time that has elapsed since the 2005 exposure draft, and the relationship between the proposed measurement requirements and other sections of the draft IFRS, the Board should re-expose the entire IFRS.

IASB discussion of comments

- 7. The IASB discussed these comments at its meeting in September. It decided to continue its deliberations on the project to replace IAS 37, on the grounds that parts of that standard are causing diversity in practice and need amendment.
- 8. However, the Board expressed a willingness to consider ways of addressing the matters raised by respondents. The IASB staff presented a plan identifying specific suggestions for further consideration by the Board. The suggestions included:
 - (a) giving clearer guidance to help entities decide whether they have a liability to recognise. One possible source of such guidance could be the IASB [*staff paper Recognising Liabilities arising from Lawsuits*](#), posted on the IASB's website in April 2010.
 - (b) considering whether to introduce different measurement requirements for liabilities whose expected values cannot be measured reliably. One approach might be to specify simpler measurement techniques. Another approach might be to specify that the liabilities should not be recognised at all because they do not satisfy the 'reliable measurement' recognition criterion. Entities would instead disclose clearly the existence of, and information about, the unrecognised liabilities.

- (c) reconsidering specific aspects of the measurement model, in particular, the requirements to:
 - (i) identify the *lowest* of the fulfilment, transfer and cancellation prices.
 - (ii) measure future outflows by reference to contractor prices.
 - (iii) add a risk adjustment.
9. At the meeting, the IASB expressed an intention to continue to liaise with interested parties—including those raising US-specific issues—on these matters. It also indicated that, once it had reached decisions on the matters raised by respondents, it would re-expose any revised draft IFRS in its entirety for further comment. The IASB expressed a desire to avoid unnecessary delay, but noted that, because of other priorities and the need to give proper consideration to the matters raised by respondents, it may not be able to issue an exposure draft before the second half of 2011.

Question for forum members

Do you have any comments or questions on the IASB plans?