STAFF PAPER

13–14 May 2014

IFRS Interpretations Committee Meeting

Project	**IAS 37 *Provisions, Contingent Liabilities and Contingent Assets***		
Paper topic	Measurement of liabilities arising from emission trading schemes—Additional comment letter received		
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We received the attached comment letter on 30 April 2014 after we had posted Agenda Paper 7. Consequently, this comment letter is not considered in the discussions in Agenda paper 7.

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30 April 2014

Mr Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
UNITED KINGDOM

Dear Wayne

(a) **Re: Tentative Agenda Decision on Clarifying the measurement of liabilities under IAS 37**

The AASB is pleased to respond to the IFRS Interpretations Committee's tentative decision (published in the January 2014 *IFRIC Update)* not to add to its agenda a request to clarify the measurement of liabilities under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* in the context of emission trading schemes (ETSs).

The AASB appreciates the Committee's deliberation of this issue, and understands that the Committee considers the issue of whether the measurement of an obligation to deliver allowances in an ETS should reflect the current values of allowances is too broad for the Committee to deal with.

However, the AASB is concerned that the wording of the tentative agenda decision might inadvertently provide support for views that the measurement of liabilities under IAS 37 need not be a current value. This concern is not confined to the measurement of liabilities arising from ETSs. As mentioned in the AASB's letter dated 6 September 2013 on this issue[1], although the issue stemmed from considering how to account for liabilities under ETSs, the issue is also relevant to how to measure other liabilities under IAS 37.

The reason for the AASB's concern regarding the wording of the tentative agenda decision is that it includes:

> "The Interpretations Committee noted that one of the main issues in the IASB's project on emission trading schemes was whether the accounting for the liabilities arising from emission trading schemes should be considered separately from the accounting for the assets. Consequently the Interpretations Committee noted that it would be difficult for it to provide an interpretation of IFRS on the measurement of a liability arising from the obligation to deliver allowances without also considering the accounting for the allowances."

The AASB is concerned that making those comments in the tentative agenda decision without providing additional context might give a misleading impression of what IAS 37

(b) [1] http://www.aasb.gov.au/admin/file/content102/c3/AASB Letter to IFRS IC on IAS 37.pdf requires. This is because the AASB thinks the tentative agenda decision conflates two distinct issues, which are:

(c) whether IAS 37 permits entities to measure liabilities within its scope at amounts dependent on the measurement of 'linked' assets (and therefore, potentially, provides an exception to the Standard's requirement to measure provisions at a current value); and

(d) whether the measurement requirements specified under IFRSs in the future for obligations to deliver allowances in an ETS should be consistent with the measurement requirements in IAS 37.

Issue (a): Measurement requirements of IAS 37

The AASB considers that the answer to (a) above is clearly no, because "the best estimate of the expenditure required to settle the present obligation at the end of the reporting period", as referred to in paragraph 36 of IAS 37, is a current value logically unrelated to the measurement of any assets. This point is underlined by the statements in IAS 37 that:

> "The best estimate of the expenditure required to settle the present obligation is the
> amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time." (paragraph 37);
>
> "In measuring provisions at their present value, "The discount rate (or rates) shall ... reflect *current* market assessments of the time value of money and the risks *specific to the liability*." (paragraph 47, emphasis added); and
>
> "Provisions shall be reviewed at the end of each reporting period and adjusted to reflect the current best estimate." (paragraph 59)

IAS 37 makes no mention of the measurement of provisions taking into account the measurement of any linked assets.

However, the AASB is strongly concerned that readers of the tentative agenda decision might gain a different impression. The AASB's concern is heightened because the issue of whether liability measurement should be dependent on the measurement of linked assets has arisen in other IASB projects (e.g. Insurance Contracts, in relation to contracts where a link is specified to returns on underlying items) and, for this reason also, IFRS adopters might read more into the tentative agenda decision than was intended by the Committee.

As mentioned in the AASB's letter dated 6 September 2013, the AASB is aware of published evidence of divergent practice around the world in recognising and measuring ETS liabilities, and some of that evidence suggests variable application of IAS 37. The AASB is concerned that the issue raised in that letter may also be the subject of concerns in other jurisdictions internationally when IAS 37 is applied to non-ETS liabilities, and suggests that the Committee conducts further outreach to identify the extent to which divergent practice has emerged regarding the measurement of non-ETS liabilities under IAS 37.

In view of these developments, the matter noted in the paragraph preceding the one immediately above, and the fact that the IASB's project on ETSs is in its research stage, the

AASB considers there is an urgent need for clarification that any liabilities measured under IAS 37 must be measured at a current value determined independently of the measurement of any linked assets . The urgency of this request is due, in considerable part, to the fact that in jurisdictions—such as Australia—in which ETS schemes need to be accounted for before the IASB completes its ETS project, any domestic guidance on the measurement of obligations to deliver allowances in an ETS, developed to complement the requirements of IFRSs, would need to be based on IAS 37.

Issue (b): Whether ETS liabilities should be measured consistently with IAS 37

The AASB appreciates that the answer to issue (b) above is a separate matter for determination within the IASB's project on ETSs. The AASB thinks it would be entirely compatible with the Committee's view, quoted in page 1 of this letter, for the Committee to provide an Interpretation on issue (a) above.

For these reasons, the AASB urges the Committee to clarify that, if IAS 37 is applied to a liability, including an ETS liability, the liability must be measured at a current value independently of the measurement of any linked asset.

If the Committee were not to take that step, the AASB requests that, at a minimum, the Committee includes in its final agenda decision a clarification that the reason for rejecting the request to provide an Interpretation is that determining whether the measurement requirements of IAS 37 are appropriate for obligations to deliver allowances in an ETS is too broad an issue for the Committee to deal with.

If you require further information on the matters raised above, please do not hesitate to contact me or Nikole Gyles (ngyles@aasb.gov.au).

Yours sincerely

Kevin M. Stevenson
Chairman and CEO

[2] In this context, 'measurement' refers specifically to the amounts at which the assets are measured in the financial statements, which might differ from the assets' (e.g. emission allowances') current price.