

Amendment Comment Letter to IASB ED “Measurement of liabilities in IAS 37(limited re- exposure of proposed amendments to IAS 37)”

Appendix 1

Questions to constituents

37 Do constituents agree with the IASB proposal that when there is uncertainty management should assess whether an obligation exists without applying a probability threshold?

No, we do not agree with IASB proposal. We believe that this will conflict with the disposition of § 91 of the Conceptual Framework.

38 Do constituents believe that the principle and guidance on uncertainty in paragraphs 13 and following of the working draft is sufficient? If not, what type of additional guidance is needed?

We support EFRAG’s views expressed on § 35 and 36 of the Appendix 1 of the draft amended comment letter.

We consider that IASB should reconsider the due process related to this project and further reflect about the entire standard and not only about measurement issues, even because measurement and recognition criterion are closely related.

39 Do constituents believe that an entity should recognise a provision in a scenario as the one presented in paragraph 36 above (where the entity is uncertain about the existence of an obligation but will incur unavoidable cost)?

Yes, we agree with the recognition of a provision in the scenario presented on § 36 of the Appendix 1 of the draft amended letter on ED of IAS 37, if the recognition criterion in the actual IAS 37 is met.

40 What are constituents’ views about constructive obligations?

In our opinion, the recognition and measurement of “constructive obligations” should continue to be established in the new revised standard.

Our concern about legal liabilities should also be extended to “constructive Obligations”.

Appendix 2

Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraphs 36A-36F. Paragraphs BC2-BC11 of the accompanying Basis for Conclusions explain the Board’s reasons for these proposals.

Do you support the requirements proposed in paragraphs 36A-36F? If not, with which paragraphs do you disagree and why?

We support EFRAG’s answer, because we also think that the measurement objective should be to provide useful information for users of financial statements and to have in mind the cost-benefit assumption established in the Conceptual framework.

The requirement for entities to take into account the probability-weighted average of the present values of the expected outflows for the possible outcomes, the time value of money and to include an adjustment for the risk that the actual outflows may differ from those expected, will increase the complexity of the measurement.

In our opinion it is not clear that the new measurement proposed on ED of IAS 37 provide more reliable and relevant information than the actual measurement of IAS 37 based on the expected outflow of resources.

We also support EFRAG’s concern about the proposed model based on the expected value, paired with the removal of the “probability of outflows recognition criterion”, as in many cases it is unlikely to provide decision- useful information.

We are also concerned about the possible inconsistency that this project could rise regarding the recognition criterion of liabilities.

Questions to constituents

69 What are constituents’ views on the use of expected value?

We agree with EFRAG’s view that instead of applying a rigorous expected value model, a more pragmatic alternative would be to make the assumption that outcomes have a normal distribution unless there is a reliable evidence to the contrary.

If this is the case the entity could apply an expected value approach. If there is no evidence that the entity has access to reliable evidence to support the calculation, it could use the mid-point of the range in the distribution.

Additionally if there is a low probability of a huge amount of outflows it would be better to disclose this information than trying to reflect information about such uncertainty by adjusting the measurement of the liability.

Including a risk adjustment

We have the same opinion of EFRAG as to the introduction of a risk adjustment.

In fact if an entity uses an unbiased assessment of the probability of each possible outcome, this would become worst by adding an additional adjustment on top of the expected value.

Question 2 – Obligations fulfilled by undertaking services

Some obligations within the scope of IAS 37 will be fulfilled by undertaking a service at a future date. Paragraph B8 of Appendix B specifies how entities should measure the future outflows required to fulfil such obligations. It proposes that the relevant outflows are the amounts that the entity would rationally pay a contractor at a future date to undertake the service on its behalf.

Paragraphs BC19-BC22 of the Basis for Conclusions explain the Board's rationale for this proposal.

Do you support the proposal in paragraph B8? If not, why not?

We have the same concerns of EFRAG regarding §B8:

- To include a margin when the value to fulfill a service obligation is measured in the absence of a market.
- The requirement to use an observable market price is not consistent with the requirement to measure the liability at the amount that an entity would rationally pay.

We believe there could be some liabilities that are not comparable and have no active market and because of that no margin should be included.

If this kind of measurement can be somehow appropriate if the obligation is linked to a sale transaction, there are other obligations not related to sale transactions, such as an obligation arising from damages to third parties where such measurement is not appropriate.

Question 3 – Exception for onerous sales contracts

Paragraph B9 of Appendix B proposes a limited exception for onerous contracts arising from transactions within the scope of IAS 18 Revenue and IFRS 4 Insurance Contracts. The relevant future outflows would be the costs the entity expects to incur to fulfil its contractual obligations rather than the amounts the entity would pay a contractor to supply them on its behalf.

Paragraphs BC23-BC27 of the Basis for Conclusion explain the reason for this exception.

Do you support the exception? If not, what would you propose instead?

We agree with the proposal, because we think that liabilities should be measured based on the future outflows.

Questions to constituents

89 Do you agree with the view expressed in relation to the proposed exception for the measurement of onerous contracts?

We have not anything else to add to the answer we have given to question 3.

90 Are there other aspects of the proposals in the ED that constituents believe it would be appropriate to address?

We think that the ED proposed by IASB on IAS 37 is not suitable to be applied since it doesn't address conveniently all the issues regarding the recognition, measurement and disclosures of liabilities. IASB should, therefore, discuss further these matters and reconsider the due process.

Lisbon, 12th May 2010