BELGIAN ACCOUNTING STANDARDS BOARD

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Dear Sir,

Invitation to comment – IASB ED *Measurement of Liabilities in IAS 37 (limited re-exposure of proposed amendments to IAS 37)*

The Belgian Accounting Standards Board (BASB) is pleased to respond to the questions raised in EFRAG's Draft Comment Letter on the Exposure Draft on Measurement of Liabilities in IAS 37 (the "Standard") issued by the IASB (the "Board") in January 2010 (hereinafter the "ED").
The ED proposes a new measurement model for liabilities in the scope of IAS 37; this model is based on the potential outflow that an entity would rationally pay at the end of the reporting period to be relieved of the obligation. This outflow is considered to be the lowest of the present value of the resources required to fulfill the obligation and the amounts to cancel or transfer the obligation. The calculation is based on a so-called expected present value technique taking into account the time value of money, the potential risk that the actual outflows of resources might differ from those expected and the probability of each outcome.

Our initial concern relates to the overall due process and the fact that the Board has opted to only re-expose a limited part of the proposed amendments and thus does not request any additional comments with regard to the working draft published in February 2010.
Our answers to the specific questions raised in the ED are included in the attached appendix to this letter. Should you wish to discuss the contents of this letter with us, please contact Jan Verhoeye at jan.verhoeye@cnc-cbn.be.

Yours faithfully,

Jan Verhoeye
Chairman BASB (CNC-CBN)

Appendix 1

Question 1 – Overall requirements
The proposed measurement requirements are set out in paragraph 36A-36F. Paragraphs BC2-BC11 of the Basis for Conclusion explain the Board's reason for these proposals.

Do you support the requirements proposed in paragraph 36A – 36F?

If not, with which paragraphs do you disagree, and why?

We are of the opinion that the proposed measurement requirements reflect the *management approach* for the measurement of liabilities.
The *Measurement Objective* and the *Basis for Conclusions § 11* of the ED states the following: *"Also, if an entity could cancel or transfer a liability for an amount lower than the required to fulfill the liability, it might have already done so."* Given the nature and uncertainty surrounding these Liabilities, we do not agree with the before-mentioned principle as an entity might have valid business reasons not to settle a liability at an early stage.

Appendix B (B15-B17) of the ED refers to a risk margin that should align the actual outflow of resources and the expected outflows of resources. The application of such a risk adjustment might raise questions with regard to the actual measurement of the liability. If an entity applies the principles, stated in paragraph 36A – 36F, we believe that an additional risk adjustment is inadequate.
With respect to the editorial aspects of the ED we would suggest including the Appendix B in the corpus of the Standard.

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 fulfill such obligations. It proposes that the relevant outflows are the amounts that the entity would rationally pay a contractor at the 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 support the proposal in paragraph B8.
Paragraph B8 states that the outflow of resources should be measured by reference to the amounts an Entity would pay to a contractor to undertake the service on its behalf. If there is no market for the service, the entity should estimate the amount it would charge another party at the future date. The estimate shall include the costs it will incur and the margin it would require to undertake the service for the other party.

The inclusion of a margin might be justifiable for liabilities that relate to the interaction with customers, however some liabilities, e.g. decommissioning liabilities, do not relate to the interaction with customers and hence an entity might capitalize an unearned profit applying IFRIC 1.

Question 3 – Exception of onerous sales contracts and insurance contracts
Paragraph B9 of appendix B proposes a limited exception for onerous contracts arising from transactions within the scope of IAS 18 *Revenue* or IFRS 4 *Insurance Contracts*. The relevant future outflows would be the costs the entity expects to incur to fulfill its contractual obligations, rather than the amounts the entity would pay a contractor to fulfill them on its behalf.

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

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

We agree with the proposed exception, but would suggest including additional guidance.