

Via email: www.iasb.org

April 12, 2010

International Accounting Standards Board

Re: Exposure Draft ED/2010/1 *Measurement of Liabilities in IAS 37 Proposed amendments to IAS 37.*

The Accounting Principles and Auditing Standards Committee (the AP&AS “Committee”) of the California Society of Certified Public Accountants (CALCPA) is pleased to provide our comments to the International Accounting Standards Board (the “Board”) on this proposed standard.

The AP&AS Committee is the senior technical committee of CALCPA. CALCPA has approximately 32,000 members. The Committee is comprised of 50 members, of whom 67 percent are from local or regional firms, 23 percent are sole practitioners in public practice, 5 percent are in industry and 5 percent are in academia.

The Committee takes exception to recording liabilities if it is not probable that they have been incurred. We do not take exception to the “building block” approach once it is probable that a liability has been incurred.

Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraphs 36A–36F. Paragraphs BC2–BC11 of the 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?

The Committee does not agree with recording liabilities that are not probable of occurrence. The Board has defined a liability as: “ a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.”

There are two types of liabilities that are within the scope of this proposed Standard: those for which it may be uncertain that there is any liability at all, such as those arising from legal disputes and some environmental obligations and some asset retirement obligations, and those for which it is certain that there is a liability, but there are uncertainties in their measurement. The former may or may not be probable of occurrence; the latter are probable of occurrence.

For potential liabilities that are not probable of occurrence, any amount recorded is purely conjectural. Because they are not probable, they are not expected to result in a future outflow. At some level, an entity may be hypothetically willing to pay to be rid of the uncertainty, but it is not likely that they would pay very much, and more likely that they will avoid the liability based on its low probability. The Committee sees little merit in recording a hypothetical amount that is considered unlikely to be incurred.

The Committee acknowledges that the threshold under a “probable” criterion would be subject to differing interpretations. The Committee prefers to leave the interpretation in the hands of preparers of financial statements and their auditors.

Question 2 – Obligations fulfilled by undertaking a service

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 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?

The Committee does not agree with paragraph B8, for the reasons expressed in the “Alternative views on the exposure draft, Profit margin” in paragraphs AV2 through AV4.

The Committee finds the initial measurement requirements in paragraphs 36A and 36B to be ambiguous. Paragraph 36A states the overarching principle that “an entity shall measure a liability at the amount that it would rationally pay . . . to be relieved of the present obligation.” Paragraph 36B then goes into more detail on measurement, saying it is the lowest of three amounts, one of which is “(a) the present value of the resources required to fulfill the obligation” This amount may be lower than the other two alternatives, which are payments to either cancel the obligation or transfer it to a third party. This all makes sense and is explained in paragraphs B1 through B7.

But then, paragraph B8, dealing with obligations fulfilled by undertaking a service limits the measurement alternatives to amounts it would pay a contractor to undertake the services on its behalf, and completely ignores paragraph 36B(a) which would permit measurement based on the entity fulfilling the obligation itself. We suggest paragraph B8 be expanded to make it clear that one of the permitted measurements is the present value of the resources required to undertake the service at a future date, so that it is unambiguously consistent with paragraph 36B(a). This would have the additional advantage of removing the profit margin from the measurement if providing the service by the entity provides the lowest measure of the cost to be relieved of the obligation.

Question 3 – Exception for onerous sales 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?

Yes, we support it.

The Committee strongly believes in efforts to converge US GAAP and International Financial Reporting Standards. Proposed IAS 37 would mostly eliminate differences in the time at which entities recognize costs of restructurings, but otherwise broadens the differences between US GAAP and IFRS. The Board dismisses the broadening of the differences with a statement in BC18 that “it does not agree that requiring entities to measure liabilities on the basis of their most likely outcome would contribute to convergence.”

This statement is simply wrong. The measurement approach in the proposed amendments to IAS 37 create differences with US GAAP that currently do not exist, and introduction of those differences is what is not contributing to convergence. The Committee agrees with the Board that there are seeming inconsistencies in US GAAP, and believes changes may be appropriate. The Committee urges the Board to defer issuance of amendments to IAS 37 and work with the FASB to resolve differences between US GAAP and IFRS; convergence in measuring liabilities is too important for the Boards to not only fail to converge but to create more differences.

We thank you for the opportunity to comment on this matter. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Very truly yours,

A handwritten signature in black ink, reading "JoAnn Guattery". The signature is written in a cursive style with a large initial "J" and "G".

JoAnn Guattery, Chair
Accounting Principles and Auditing Standards Committee
California Society of Certified Public Accountants