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EFRAG
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18th March 2010

Re: EFRAG draft comment letter on ED Measurement of Liabilities in IAS 37

Dear Sir/Madam

We are pleased to provide EFRAG with our comments in order to contribute to the finalization of the EFRAG comment letter on the IASB Exposure Draft *“Measurement of Liabilities in IAS 37” (limited re-exposure of proposed amendments to IAS 37)* ('the ED').

We broadly agree with the concerns expressed in your draft comment letter with regards to the due process. We believe that the measurement objectives and the recognition criteria are closely related, therefore we think that the re-exposure of the entire proposed standard and the possibility to comment on the entire proposed standard would have been appropriate. In our opinion it is not possible to comment on the measurement objectives without commenting on the recognition criteria.

The OIC's main comments can be summarized as follows:

1. We disagree with the removal of the “probability of outflows” recognition criterion because: (i) this amendment should be considered in the context of the Framework project, (ii) the measurement of the contingent liabilities can be complex and so the information provided cannot be reliable or useful;
2. We do not think that “the expected present value technique” may, in any case, provide useful information to the users of financial statements (paragraph 33 of EFRAG draft comment letter is a good example);
3. It is not clear what the risk adjustment is intended to represent, consequently it can cause significant diversity in practice, and it is not clear why the risk adjustment should be used;
4. We disagree with the inclusion of a profit margin in the measurement of a “service obligation”, because if an entity performs the service itself, it does not pay the profit

margin and, paradoxically, the entity shall recognise a profit when it fulfils its obligation.

Our replies to EFRAG's questions are as follows.

Question 1

What are constituents' views on the use of expected value?

The outreach with preparers highlighted that the costs outweigh the benefits, because: (i) entities must obtain more information than in the past, (ii) the estimation of the amount, probability and timing of each possible outcome can be onerous and time consuming, (iii) entities are also required to assign values and probabilities to unlikely scenarios and therefore the benefits can be limited by the lack of reliability of the results obtained.

The outreach showed us that the objective of providing useful information to the users of financial statements can be achieved by improving the disclosures requirements, because the "expected value technique" can imply a too high degree of judgment. We suggest to measure a liability at the most likely outcome and to provide, in the notes, additional information regarding the other scenarios (amounts, probability, timing, etc...). As a consequence the users will know: the most likely outcome, the maximum risk, the probability of each possible scenario and so on.

Finally, in order to anticipate diversity in practice, we suggest to clarify the circumstances in which a risk adjustment should be included in the measurement of a liability and how such a risk adjustment should be determined.

Question 2

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

We believe that "service obligations" shall be measured at the expected cost, therefore we agree to use cost as the basis for measuring onerous contracts.

Question 3

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

Service obligations: The outreach with the preparers showed us that there is not an efficient market for the service, therefore we agree with the Alternative View, paragraph AV2 of the ED. The impact of this proposed amendment on entities financial position, in many cases, can be significant.

If you have any queries concerning our comments, please do not hesitate to contact us.

Yours faithfully,
Angelo Casò
(Chairman)