MASB MALAYSIAN ACCOUNTING STANDARDS BOARD
LEMBAGA PIAWAIAN PERAKAUNAN MALAYSIA

19 May 2010

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London ED 4M 6 XH
United Kingdom

Dear Sir David

IASB EXPOSURE DRAFT – MEASUREMENT OF LIABILITIES IN IAS 37 (PROPOSED AMENDMENT TO IAS 37)

The Malaysian Accounting Standards Board welcomes the opportunity to provide comments on the IASB Exposure Draft – Measurement of Liabilities in IAS 37 (Proposed amendment to IAS 37). We appreciate the IASB's commitment to develop this ED to provide additional guidance to specify more precisely how entities should measure liabilities within the scope of IAS 37.

Our detailed responses are enclosed in the Appendix of this letter.

If you need further clarification, please contact Ms Tan Bee Leng at +603 2240 9200 or by email at beeleng@masb.org.my.

Thank you.

Yours sincerely,

Mohammad Faiz Azmi
Chairman

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Appendix

Question 1 – Overall requirements

The proposed measurement requirements are set out in paragraph 36A-36F. Paragraph BC2-BC11 of the Basis of Conclusions explain the Board's reasons for these proposals.

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

Whilst we support the measurement requirements proposed in paragraphs 36A-36F, we disagree with the proposal in paragraph B8(b) to include in the liability measurement a profit margin the entity would charge another if it undertakes the service itself.

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.

Paragraph BC19-BC21 of the Basis of Conclusions explain the Board's rationale for this proposal.

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

We reiterate we disagree with the proposal in paragraph B8(b) and we concur with the alternative views stated in AV2(b) and (c).

In addition, we believe the inclusion of profit margin in the measurement of liability will fail the liability definition test as the hypothetical profit margin has no cash flow element when the liability is derecognised (note: a liability is defined as a present obligation of an entity arising from past events, the <u>settlement</u> of which is expected to <u>result in an outflow</u> from the entity of resources embodying economic benefits).

The liability should be measured at the entity's expected costs of fulfilling the obligation, including both direct and indirect costs, when the entity expects to undertake the service itself.

Appendix

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 fulfil its contractual obligations, rather than the amounts the entity would pay a contractor to fulfil them on its behalf

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

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

We support the limited exception for onerous contracts under IAS 18 Revenue and IFRS 4 Insurance Contracts in view of the ongoing projects to develop new standards to replace them. Our view is given on the premise that the approach in these new standards would to be consistent with the proposed requirements contained in the ED subject to our response to Question 2.

Other comments

We note that the IASB has retained the exposure draft proposal to require entities to measure liabilities based on the expected present value (i.e. the probability-weighted average of the present values of the outflows of the possible outcomes) despite disagreement from many constituents.

Whilst the expected present value approach, is appropriate for a large population of items, there are significant concerns in the application with regards to single obligation or liabilities arising from circumstances other than a large population. In such circumstances, we are concerned the proposed requirement might result in the measurement of a liability that reflects an outcome which might not happen nor more reliable than the most likely approach and whether it will provide more reliable and useful information to users of financial statements.

In this regard we recommend that the most likely approach be retained for the measurement of liabilities arising from circumstances other than a large population.