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Berlin, 19 March 2010

Dear Stig,

EFRAG's Draft Comment Letter on the IASB Exposure Draft ED/2010/1 Measurement of Liabilities in IAS 37

On behalf of the German Accounting Standards Board (GASB), I am writing to comment on EFRAG's draft comment letter on the IASB Exposure Draft ED/2010/1 Measurement of Liabilities in IAS 37 (herein referred to as 'ED'). We appreciate the opportunity to comment on EFRAG's draft comment letter.

The GASB shall discuss the first draft of its comment letter on the ED at its next Board meeting at the end of March. Therefore, I can give you only an overview of the decisions that we have tentatively reached. Our main issues with the proposal are:

- **Scope**

In our view a final assessment of the proposed measurement approach is only possible if the scope is sufficiently clear. We are not sure in which way warranties and guarantees shall be treated in the near future. In its Discussion Paper on revenue recognition, the IASB proposed that warranties and guarantees should be within the scope of IAS 18 in the future. A look at the IASB work plan shows that the final standards on liabilities and revenue recognition will be published at different times. Accordingly, the effective dates for the two standards might differ. Hence, it is questionable how entities should account for warranties and guarantees in the meantime.

- **Measurement objective**

In our opinion the measurement objective should reflect the way an entity would like to satisfy the obligation (management approach) and not the lowest amount of the three variants mentioned in paragraph 36B of the ED. Normally, entities fulfil their obligations themselves. Hence, this should also be reflected in the measurement objective. In some cases the entity has the intent and the possibility of cancelling or transferring the liability. In those cases a valuation at the time of cancellation or the transfer value may be appropriate.

- **Expected value approach**

We support the application of the expected value approach for large populations, but we would prefer the individual most likely outcome approach for single obligations.

- **Fulfilment value**

The GASB disagrees with the description of how the fulfilment value is to be determined in paragraph 8 of Appendix B of the ED. It seems to us that the IASB would like to introduce a measurement approach that is similar to a notion of fair value.

We disagree with the inclusion of a **profit margin**, which cannot be revenue because there is no transaction with a third party. The inclusion would distort the period results. For example, in period one an entity recognises a liability of 1,100 CU with a profit margin of 100 CU. In profit and loss the profit margin would be presented as an expense. The liability would be fulfilled in five years. After five years the entity would recognise a gain of 100 CU in profit and loss because of the profit margin being released. This approach, in our view, results in an inadequate presentation. Furthermore, in our opinion the valuation of profit margin is very subjective.

In principle, we would not take a **risk adjustment** into account; at our public discussion, however, a participant explained the current practice in his entity. This entity is currently only considering a risk adjustment for measuring warranties. In our view, it is appropriate to consider a risk adjustment in this case. Therefore, it is very important to define the scope clearly.

The GASB have not finally discussed the item ‘removal of the probability recognition criterion’ and other possible items of the working draft of IFRS [X] *Liabilities* yet.

We intend to send you our final comment letter later. If you would like to discuss any aspect of this overview in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President