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Certified Management Accountant Program
Certified in Financial Management Program

October 6, 2005

Henry Rees
Project Manager
International Accounting Standards Board
30 Cannon Street
London, United Kingdom EC4M 6XH

Dear Sir:

The Financial Reporting Committee (FRC) of the Institute of Management Accountants is writing to provide its views on the proposed Amendment to IAS 37, *Provisions, Contingent Liabilities and Contingent Assets* (proposed Amendment). We do not support the changes proposed, because they represent a fundamental change in the recognition criteria that we do not believe results in an improvement in financial reporting. Although we understand that the Financial Accounting Standards Board has now issued an Invitation to Comment on this issue, at the moment the changes proposed would create a significant difference between International Accounting Standards and U.S. GAAP, in direct contrast to the goal of international convergence of accounting standards.

As indicated in the Introduction to the proposed Amendment, the reconsideration of the requirements on applying the purchase method in IFRS 3, *Business Combinations* (which is a joint project with the FASB), includes the reconsideration of the treatment in a business combination of the contingencies of an acquiree. As a result, the IASB has proposed to eliminate the terms “contingent asset” and “contingent liability” and reconsidered the probability recognition criterion in IAS 37. With respect to liabilities, the proposed Amendment indicates that when the amount that will be required to settle a liability is contingent on the occurrence or non-occurrence of one or more uncertain future events, the liability is recognized independently of the probability that the uncertain events will occur. Uncertainty about the future events is reflected in the measurement of the liability recognized. The proposed Amendment also indicates that except in extremely rare cases, an entity will be able to determine a reliable measure of a liability.

In a March 21, 2005 joint letter with the Committee on Corporate Reporting of Financial Executives International to the FASB on the joint Business Combinations project, we expressed our reservations about the pace at which the FASB was moving toward recognizing assets and liabilities for contingencies that are not probable of being realized and incorporating the uncertainty over whether cash will be realized or paid into the measurement. We struggle with an approach in which existing recognition principles become subservient to the measurement attribute selected.

While we respect the theory that probabilistic distributions of outcomes can approximate fair value for certain types of transactions, it does not necessarily follow that adopting such a theory for broadscale use in the recognition and measurement of contingencies will represent an improvement to the financial reporting model. By definition, contingent assets and liabilities often do not lend themselves to observable market values because they are not frequently exchanged or sold. As demonstrated by the challenges associated with the adoption of standards such as FASB Statement No. 143 for asset retirement obligations, significant difficulties can result in practice from the application of such measurement principles. Importantly, such an approach may be prone to abuse and create additional challenges relative to auditability. The impact of the changes being proposed is far-reaching, and we believe additional research and analysis is warranted to ensure such a change will represent an improvement in financial reporting.

Given that FRC does not agree with the proposed changes to accounting for contingent assets and liabilities within the scope of a business combination, it is logical that we would not support such a change in the broader context proposed by the IASB. At a minimum, the IASB should not make such broad changes to the accounting model without the benefit of the full due process of the business combinations proposal – and possibly even some experience after adoption to evaluate its impact on financial reporting, if the current proposed approach to contingencies is retained.

If we can provide any additional perspective on our views, please contact me at (513) 983-3874.

Sincerely,

Teri L. List

Teri L. List
Chair, Financial Reporting Committee
Institute of Management Accountants