

## **Appendix 2**

**Submission on exposure draft 2010/1 proposed amendment to IAS  
37 – measurement of liabilities in IAS 37**

3 June 2010

The Director – Accounting Standards  
New Zealand Institute of Chartered Accountants  
PO Box 11 342  
Wellington  
6142

Dear Sir/Madam

**SUBMISSION ON EXPOSURE DRAFT – ED 2010/1 PROPOSED  
AMENDMENT TO IAS 37 – MEASUREMENT OF LIABILITIES IN IAS  
37**

Thank you for the opportunity to comment on the Exposure Draft on the proposed amendment to IAS 38 – Measurement of Liabilities in IAS 37. Wellington City Council (the Council) is pleased to provide comments on this Exposure Draft.

Our specific comments are outlined in the attached appendix. In developing our comments we have considered the impact of the proposals on the Council as a reporting entity (for example, compliance costs and changes to information and reporting systems), and whether we believe the proposals are appropriate, from a standard setting perspective.

If you would like further clarification on the issues raised in our submission please don't hesitate to contact me.

Yours sincerely

Nicky Blacker  
**Manager, Financial Accounting**  
Wellington City Council

## **Appendix 1**

### **1. Do you agree with the proposals in the Exposure Draft? If you disagree, please provide reasons supporting your response.**

Wellington City Council (the Council) has a number of concerns with the proposals in the Exposure Draft. Although the Council appreciate that a probability based calculation may, in some cases, give a better estimate for a potential liability, especially for liabilities where there is a lot of uncertainty over the amount and timing of the future outflows, we have some concerns over the difficulty and cost involved in obtaining multiple outcomes and deciding on their relative probability weightings.

The Exposure Draft also mentions the use of a “risk adjustment”, used to measure the amount that the entity would rationally pay in excess of the liability already calculated, but there is little guidance on how or when to apply this adjustment. There is a risk that this lack of guidance could lead to very different uses of this risk adjustment in practice.

We also have concerns over the proposals to measure obligations to undertake a service. Instead of calculating the provision based on an estimate of the Council’s future costs, this would now be based on amounts that the Council would pay a contractor at the future date to undertake the service on its behalf. This would involve the Council sourcing external quotes for work that we intend to do ourselves. The Exposure Draft also proposes that if we are unable to source a company who would provide the service that we base the liability on our own costs and build in a profit margin. This would result in the creation of a liability for a profit margin which would later be released when the work is undertaken. We do not believe that including a profit margin in the calculation of a liability fairly reflects the estimated cost to an entity of fulfilling an obligation.

### **2. Are there any regulatory issues or other issues arising in the New Zealand environment that may affect the implementation of the proposed New Zealand pronouncement arising from Exposure Draft, particularly any issues relating to:**

- a) profit-oriented entities;**
- b) public benefit entities; or**
- c) the Privacy Act 1993?**

**Please provide reasons supporting your response.**

Other than the concerns outlined above, the Council have no other specific comments on regulatory issues or other issues arising in the New Zealand environment.

### **3. Are there any differential reporting concessions you believe should be available to qualifying entities in respect of the proposals**

**in the Exposure Draft? If so, please describe and provide reasons supporting your response.**

Although this would not be applicable to the Council, as we are not permitted to apply differential reporting concessions, we do have some CCOs and CCTOs who are permitted to apply these exemptions. We believe that since the proposals relate to measurement of liabilities, rather than disclosure requirements, it is not appropriate to give any concessions for entities applying the differential reporting framework.

**4. Are there any public benefit modifications, additional requirements or guidance you believe should be included as proposed amendments to NZ IFRSs as a result of the proposals in the Exposure Draft? If so, please describe and provide reasons supporting your response.**

The Council would also like to see more guidance and illustrative examples given on the “risk adjustment” due to our concerns expressed under questions 1. This guidance should be centred on what entities should be considering when deciding whether or not to apply the risk adjustment and the size of the adjustment that may be required.

**5. Do you consider that the proposed New Zealand pronouncement arising from the Exposure Draft is in the best interests of users of general-purpose financial reports in New Zealand and Australia? Please provide reasons supporting your response.**

There is a lot of confusion already in the area of provisions and the calculation of these types of liabilities currently comprises management’s “best estimate” of the liability at the balance sheet date. The Council does not believe that the Exposure Draft will make the calculation of these types of liabilities any more understood unless there is more disclosure and explanation included in IAS 37 to accompany the changes in measurement basis. Without seeing the proposed amendments to IAS 37 as a whole it would be difficult to determine whether or not these changes are in the best interests of users of general-purpose financial reports in New Zealand and Australia.