

**Organismo Italiano di Contabilità – OIC**  
**(The Italian Standards Setter)**  
Via Poli 29, 00187 Rome, Italy  
Tel. +39/06/6976681 fax +39/06/69766830  
e-mail: presidenza@fondazioneoic.it

EFRAG  
35 Square de Meeûs  
B-1000 Brussels  
BELGIUM  
commentletter@efrag.org

7th May 2010

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

Dear Sir/Madam

We are pleased to provide EFRAG with our additional 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 have already submitted our reply and therefore we will comment only on the additions.

First of all, we agree with your decision to comment on the entire Working Draft of IAS 37 (hereinafter “WD”).

We broadly agree with the additional concerns expressed in your amended comment letter.

Our replies to EFRAG’s additional questions are as follows.

#### **Question 1**

***Do constituents agree with the IASB proposal that when there is uncertainty management should assess whether an obligation exists without applying a probability threshold?***

Regarding the recognition requirements of the WD, we disagree with the removal of the “probability of outflows” recognition criterion for the reasons mentioned in our previous letter. We carefully read the IASB Staff Paper “Recognising liabilities arising from lawsuits” dated 7 April 2010 and we understand that:

- this amendment intends to shift the focus from the “probability of outflows” criterion to judging whether the entity has an obligation;
- in many cases the change in focus would not affect the recognition decision (if a present obligation exists then an outflow of resources should be probable)

We agree that an entity shall not recognise a liability if an outflow of resources is probable but a present obligation does not exist. However we believe that, also for practical reasons, the probability of outflows recognition criterion should be used, especially when there are uncertainties about the existence of an obligation. We think that the guidance provided in paragraphs 13 - 16 of the WD could generate diversity in practice. Indeed the outreach that we carried out with some preparers showed us that the proposed recognition criteria are more complex than the existing ones and therefore could cause errors in the financial statements. Consequently some preparers believe that they will spend a lot of time in judging if an obligation exists and in measuring contingent liabilities.

## **Question 2**

***Do constituents believe that the principle and guidance on uncertainty in paragraphs 13 and following of the working draft is sufficient? If not, what type of additional guidance is needed?***

As already mentioned, we think the probability of outflows recognition criterion is needed, at least when there are uncertainties about the existence of an obligation

***Do constituents believe that an entity should recognise a provision in a scenario as the one presented in paragraph 36 above (where the entity is uncertain about the existence of an obligation but will incur unavoidable cost)?***

We think that paragraph 36 is a good example of the complexity of the proposed recognition requirements. We believe that if the entity incurs unavoidable costs it should recognize such a liability. In our opinion the focus on the unavoidable outflows brings useful information to users.

***What are constituents' views about constructive obligations?***

In our opinion an entity should recognise a liability if it has no realistic alternative to comply with a past practice or a public statement. In other words an entity should recognise a liability if the only available alternatives generate serious adverse consequences to the entity.

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

Yours faithfully,  
Angelo Casò  
(Chairman)