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**International
Accounting Standards
Board**

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These notes are based on the staff papers prepared for the IASB. Paragraph numbers correspond to paragraph numbers used in the IASB papers. However, because these notes are less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

Board Meeting: 26 May 2006, London

Project: Amendments to IAS 37 (Agenda Paper 10D)

Amendments to IAS 37: Stand ready obligations

INTRODUCTION

1. The Exposure Draft of amendments to IAS 37 proposes introducing into IFRSs the notion of a stand ready obligation. Paragraph 24 of the ED explains that

liabilities for which the amount that will be required in settlement is contingent on the occurrence or non-occurrence of a future event are sometimes referred to as 'stand ready' obligations. This is because the entity has an unconditional obligation to stand ready to fulfil the conditional obligation *if* the uncertain event occurs (or fails to occur). The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits.
2. The text of the ED provides two examples of a stand ready obligation: an entity's obligation under a product warranty and an entity's obligation as a result of defending a lawsuit. These examples are developed (and further examples provided¹) in the illustrative examples accompanying the ED.
3. Many respondents to the ED are concerned by the proposal to introduce the notion of a stand ready obligation into IAS 37. In particular, a recurring theme articulated in the comment letters is that the explanation of a stand ready obligation in the ED is too broad and would lead to the recognition of an almost limitless number of items not previously regarded as liabilities. This paper focuses on this theme.

¹ The other examples are a single guarantee (example 5), joint and several liability (example 8), and refunds policy (example 9).

4. Accordingly, the objective of this paper is to first identify the specific reasons why respondents think that the notion of a stand ready obligation is too broad. Secondly this paper develops two examples. The purpose of these examples is to discuss whether some common scenarios give rise to stand ready obligations. This paper is primarily for information and discussion purposes and does not contain any staff recommendations. However, the Board's discussions on this paper will be used as a base when considering the nature and extent of any additional guidance on applying the notion of a stand ready obligation included in any final Standard.
5. For completeness, other concerns associated with applying the notion of a stand ready obligation raised in the comment letters are discussed in appendix A. The staff does not intend to discuss these additional concerns in the Board meeting, unless a Board member has a specific question or comment on the analysis included in the appendix.
6. The paper is divided into two sections:
 - (1) Comment letter analysis [*paragraphs 7 – 10*]
 - (2) Staff discussion
 - (a) Narrowing down the issue [*paragraphs 11 – 19*]
 - (b) Improving the explanation of a stand ready obligation [*paragraphs 20 – 24*]
 - (c) Examples applying the notion of a stand ready obligation [*paragraphs 25 – 68*]

COMMENT LETTER ANALYSIS

7. Some respondents support the proposal to introduce the notion of a stand ready obligation. In particular, some of the insurance industry respondents agree that the proposal would be a conceptual improvement to IAS 37. This is because it would result in an insurance policy qualifying for recognition as a liability regardless of (a) the likelihood of a claim arising under the policy and (b) whether or not the policy is part of a portfolio.²
8. Many respondents, however, express concern about the proposal. Their comments are inevitably linked with concerns about other aspects of the ED (eg the role of probability, reliable measurement, merit of splitting some liabilities into conditional and unconditional components, etc). However, the main theme in their comments about the proposal is that the notion of a stand ready obligation is too broad and seems to capture items that were not previously considered to be liabilities (whether recognised or only disclosed). Thus, some respondents are concerned that the ED may require entities to recognise as liabilities items that they believe are general business risks. For example, one respondent uses the example of occupational health and safety regulations and asks whether an entity has a liability because it stands ready to

² Analysed under the current IAS 37, an insurance policy would qualify for recognition only if either (a) a claim under that policy was considered to be probable (ie more likely than not) or (b) the policy was part of a portfolio of policies (and at least one claim in the portfolio was considered to be probable).

accept the financial consequences of possible non-compliance with these regulations just because the entity operates in a business subject to these regulations. This outcome contradicts both the *Framework* and the recognition principle underpinning the ED, namely that only *present* obligations give rise to liabilities.

9. Respondents also raise practical concerns. As they understand the notion of a stand ready obligation, they are concerned about when to stop finding stand ready obligations.
10. Respondents therefore ask the Board to clarify which transactions and events give rise to unconditional stand ready obligations and how such items are distinguished from general business risks.

STAFF DISCUSSION

Narrowing down the issue

A stand ready obligation is a liability

11. [Paragraph omitted from observer notes]
12. The difficulty with the phrase stand ready obligation is that some respondents focus only on the words ‘stand ready’. These respondents therefore think that an entity can be ‘standing ready’ for a whole range of possible obligations that will be triggered by the occurrence (or non-occurrence) of future events. However, whilst an entity might be ‘standing ready’ for possible obligations, in the sense of waiting for them to occur, the staff thinks that the essential characteristic of a stand ready obligation is that the entity has a *liability* whilst it is ‘standing ready’. Therefore, for a stand ready obligation to exist, there has to be a *present obligation* as a result of a past event that is expected to result in an *outflow of economic resources*.
13. To illustrate this distinction using a simple (and, hopefully, non-contentious) example: an entity operating a nuclear power station may regard itself as ‘standing ready’ to deal with the consequences of a meltdown of its reactor core. However, in the staff’s view there is no stand ready obligation/liability at the balance sheet date (unless the reactor core has melted). Of course, if the reactor core melts, there will be serious and unavoidable consequences. These consequences may be described as contingent, conditional or possible obligations. But there is no unconditional stand ready obligation associated with this contingency.
14. The staff notes that this view is supported by Example 16 in the ED. In this example, an entity operates a chain of retail outlets and is required to ensure the safety of its customers whilst they are on its premises. The example explains that an entity has an obligation only for accidents that have occurred. In other words, the entity is not standing ready to meet the consequences of future accidents.
15. Nonetheless, the staff acknowledges that the term ‘stand ready obligation’ is a new concept for many of our constituents. The term is not currently defined in the *Framework* or in other existing IASB literature. The ED explains the notion of a stand ready obligation (refer to paragraph 1 above) but does so

using the unconditional / conditional analysis used by the Board in developing the ED. But some respondents find this analysis confused or confusing³. Not surprisingly therefore, for some the ED's explanation of the notion of a stand ready obligation and the accompanying examples does not provide clear guidance.

The example of a disputed lawsuit is the principal source of concern

16. Other respondents see merit in introducing the notion of a stand ready obligation into IAS 37 and many agree that the notion works well in contractual situations (eg guarantees and insurance contracts). The staff therefore suspects that much of the confusion about applying the notion of a stand ready obligation has been caused by paragraph 26 and Example 1 in the ED. Example 1 states that the start of legal proceedings is an obligating event because 'it obliges the entity to stand ready to perform as the court directs and hence the entity has a present obligation'. Accordingly, whether the alleged event (selling harmful food in Example 1) actually occurred is irrelevant for determining whether an obligation exists (instead, uncertainty about whether the alleged event occurred is reflected in the measurement of the stand ready obligation).
17. Many respondents disagree that the entity necessarily has a liability when legal proceedings begin. These respondents would argue that in Example 1, if the entity did not in fact sell harmful food, the entity has no liability only a business risk (ie the risk that when operating a business an entity has to defend itself against unfounded lawsuits). Therefore, because these respondents disagree that there is necessarily a (stand ready) liability in this example, they are inevitably concerned about the notion of a stand ready obligation more generally.
18. As noted in agenda paper 10A, lawsuits are a contentious topic because they combine several related recognition issues as well as raising questions about the measurement principle in the ED, accounting for legal costs and the disclosure requirements of the ED. The staff therefore proposes to avoid lawsuits in this paper – we will consider the application of the ED's principles to a lawsuit at a later stage, including reconsidering whether a stand ready obligation does exist at the start of legal proceedings (paragraph 26 and Example 1).

Opportunities for improvement

19. Based on the analysis above, the staff has identified two potential opportunities for clarifying the notion of a stand ready obligation in the context of IAS 37:
 - (a) improving the explanation of the notion of a stand ready obligation in paragraph 24 of the ED, and

³ As noted in Agenda Paper 10A the staff intends to consider whether the unconditional / conditional analysis used in the ED is actually required. This topic is scheduled for discussion at the June 2006 Board meeting.

- (b) providing additional examples to illustrate the distinction between scenarios in which there is a stand ready obligation and in which there is no such obligation, only a business risk.

Improving the explanation of a stand ready obligation

- 20. Having reviewed the explanation of a stand ready obligation in paragraph 24 of the ED (reproduced in paragraph 1 above), the staff thinks that the final sentence is particularly useful: ‘The liability is the unconditional obligation to provide a service, which results in an outflow of economic benefits’. This is because it emphasises that (a) a stand ready obligation is a present (or unconditional) obligation, and (b) the present obligation is the provision of services during the period that the entity is standing ready. For example, the issuer of a product warranty is providing a service of risk protection to the counterparty for the duration of the warranty period.
- 21. *[Paragraph omitted from observer notes]*
- 22. *[Paragraph omitted from observer notes]*
- 23. *[Paragraph omitted from observer notes]*
- 24. **Therefore at this stage, the staff asks if the Board agrees, in principle, with the staff’s plan to clarify the explanation of a stand ready obligation in the ED?**

Applying the notion of a stand ready obligation

- 25. As noted above, the staff thinks it would be useful to provide illustrative examples in the final Standard that compare scenarios in which there is a stand ready obligation and in which there is no such obligation, only a general business risk.
- 26. Before considering the nature and extent of any examples or alternative guidance to be included in a final Standard, the staff would like to ascertain the Board’s opinion on when and why a liability (which may or may not result from a stand ready obligation) arises. Therefore in this paper the staff has developed two examples (one contractual and one non-contractual) to assist in distinguishing a liability from a general business risk. For each example the staff has developed two scenarios. The purpose of the first scenario is to confirm existing Board views on when a stand ready obligation/liability exists. The second scenario adds an additional layer of complexity to the first scenario. The purpose of the second scenario is to focus attention on the stress points resulting from the ED’s proposals. For each scenario the staff has provided an analysis of when and why a liability exists. When alternative interpretations are available, the staff has analysed both alternatives.
- 27. For each scenario the staff asks the Board to indicate whether they agree with (a) the staff’s explanation of when and why a liability exists, and (b) where alternative interpretations exist, which alternative is preferred.

Contractual Example

- 28. First, consider the following example of a product warranty:

Scenario 1: Entity X operates a store that sells CD players. Entity X sells its CD players with a product warranty. The product warranty requires the entity to replace or repair any CD players that develop a fault within one year from the date of sale. Entity X operates in a jurisdiction in which no consumer protection legislation applies. Entity X has made no promise to replace or repair any CD players that develop a fault unless the fault is covered by the terms and conditions of the product warranty.

Does Entity X have a liability? If so, what is the obligating event?

29. In this scenario the staff thinks that Entity X does have a liability. This is because the product warranty is a contractual obligation to repair or replace CD players that develop a fault within one year of sale. This obligation can be enforced by law, therefore Entity X has little or no discretion to avoid fulfilling its obligation.
30. The staff thinks that selling a CD player with a product warranty is the obligating event. This is because Entity X is unconditionally obligated to provide warranty coverage for one year from the date of sale. In other words, it must repair or replace the CD player if a fault occurs within the one year period. This obligation to provide the service of warranty coverage creates a stand ready obligation for the period of the product warranty. This conclusion is supported by paragraph 62(c) of the *Framework* which includes the provision of services as an example of an economic outflow which settles a present obligation.
31. *[Paragraph omitted from observer notes]*
32. **Does the Board continue to agree with this analysis?**
33. Next contrast scenario 1 with the following :

Scenario 2: Entity Z sells identical CD players to Entity X, but without a product warranty. Entity Z operates in a jurisdiction that has enacted consumer protection legislation. This legislation requires all goods sold to retail customers to be sold fit for purpose. Entity Z does not replace or repair any CD players that develop a fault unless the CD player sold is subject to the consumer protection legislation.

Does Entity Z have a liability? If so, what is the obligating event?

34. The staff has identified two alternative obligating events in scenario 2: View A, selling a CD player subject to the fit for purpose legislation and View B, selling a *faulty* CD player.

View A

35. View A argues that, in substance, scenarios 1 and 2 are the same. Therefore selling a CD player subject to fit for purpose legislation gives rise to a stand ready obligation.

[Paragraphs 36 - 41 omitted from observer notes]

View B

42. View B thinks that scenarios 1 and 2 are different: the sale of every CD player with a product warranty in scenario 1 gives rise to a liability, but there is only a liability in scenario 2 with respect to CD players that had faults at the time of sale.

[Paragraphs 43 – 50 omitted from observer notes]

51. **The staff asks Board members to comment on View A and View B.**

Non-contractual example

52. The staff thinks that scenarios 1 and 2 are useful because they build a very simple fact pattern to analyse when and why a stand ready obligation exists. But the staff notes that the comment letters indicate many respondents can accept the ED's proposals in the context of a contractual obligation (or equivalent). Their concern principally relates to non-contractual situations where general business risks more typically arise. Therefore this paper develops a second example using non-contractual facts and circumstances to assist in identifying when and why a liability exists.

53. Consider the following example:

Scenario 3: Entity Y is a construction company operating in a jurisdiction with occupational health and safety regulations. These regulations require an entity to pay any medical costs associated with a workplace injury caused by a breach of the health and safety regulations. Entity Y has no policy or pattern of past practice which creates an expectation that it will bear the financial consequences of workplace injuries over and above that required by the health and safety regulations.

As at 31 December 20X0 the management of Entity Y are not aware of any hazards on its building sites (in breach of the health and safety regulations) and there have been no accidents.

Does Entity Y have a liability? If so, what is the obligating event?

54. The staff thinks that Entity Y does not have a liability as at 31 December 20X0 and notes that prior Board discussions and the comment letters received indicate general agreement with this view.
55. The staff thinks that no liability exists as at 31 December 20X0 because the available evidence indicates that Entity Y has complied with the health and safety regulations therefore no present obligation exists and there is no potential outflow of resources. (Unless new information becomes available, between 31 December 20X0 and the date the financial statements are authorised for use, which provides evidence that a hazard existed or an accident occurred before the balance sheet date⁴.)
56. This conclusion is supported by the *Framework's* statement that a liability is 'a present obligation of the entity arising from past event ...'. The staff thinks

⁴ An adjusting balance sheet event, in accordance with IAS 10 *Events after the Balance Sheet Date*.

that the existence of health and safety regulations is not an event, it is the status quo. In other words, an entity does not have a stand ready obligation for future possible breaches in the law. Additionally, paragraph 17 of the ED states that only present obligations arising from past events existing independently of an entity's actions (ie the future conduct of its business) result in liabilities. In scenario 3 Entity Y can take steps to mitigate the risk of future possible hazards and accidents occurring on its building sites. This contrasts with the legal obligation arising in scenario 1 above. Once a CD player is sold, Entity X is unable avoid providing a service by standing ready to repair or replace the CD player.

57. The staff notes that some may disagree with the staff's view and may argue that Entity Y does have a liability. Proponents of this view would argue that Entity Y has little or no discretion to avoid its exposure to health and safety regulations (other than ceasing to operate a business subject to those regulations). Therefore Entity Y stands ready to accept the financial consequences of failing to comply with the health and safety regulations regardless of whether a hazard or an accident occurs. Proponents of this view may also draw an analogy between scenario 3 and scenarios 1 and 2. In scenarios 1 and 2 the customer is better off as a result of the product warranty or the consumer protection legislation. In scenario 3 the employee is better off as a result of the health and safety regulations. But the staff does not find these arguments compelling because (as noted above) in scenario 3 no past event has occurred and therefore a liability cannot exist. Therefore the staff would argue that exposure to health and safety regulations is a general business risk, not a liability as at 31 December 20X0.

58. Does the Board agree that Entity Y has no liability as at 31 December 20X0?

59. Next the staff would like to consider the following example:

Scenario 4: Entity Y continues to operate in the construction industry. There have been no changes in the jurisdiction's occupational health and safety regulations since 31 December 20X0.

As at 30 June 20X1 the management of Entity Y are aware of a problem with its scaffolding. This problem meets the definition of a hazard and is a breach of the health and safety regulations. As at 30 June 20X1 no accidents as a result of this hazard have been reported.

Does Entity Y have a liability? If so, what is the obligating event?

60. The staff thinks that this scenario is more problematic. Two alternative views have been identified: View A, Entity Y does not have a liability and View B, Entity Y does have a liability as a result of the hazard.

View A

61. Proponents of View A argue that Entity Y does not have a liability until an accident occurs. As at 30 June 20X1 the available evidence indicates that no accidents have occurred as a result of the hazard and therefore there is no potential outflow of resources. (Unless new information becomes available, between 30 June 20X1 and the date the financial statements are authorised for

use, which provides evidence that a hazard existed or an accident occurred before the balance sheet date⁵.)

62. *[Paragraph 62 omitted from observer notes]*

View B

63. Proponents of View B argue that Entity Y does have a liability because the existence of a hazard creates a stand ready obligation to accept the financial consequences of the hazard causing an accident. Entity Y has breached the health and safety regulations therefore it has little or no discretion to avoid the financial consequences of its actions. Uncertainty about whether the hazard will (or will not) cause an accident is reflected in the measurement of the liability.

64. *[Paragraph omitted from observer notes]*

65. *[Paragraph omitted from observer notes]*

66. **The staff asks the Board to provide their views on whether the existence of a hazard does give rise to a liability for Entity Y as at 30 June 20X1?**

67. *[Paragraph omitted from observer notes]*

68. **Does the Board agree that Entity Y has a stand ready obligation to pay a fine if the jurisdiction's regulator can impose a fine on Entity Y simply for non-compliance with the health and safety obligations (regardless of whether the breach causes a accident or not)?**

⁵ An adjusting balance sheet event, in accordance with IAS 10 *Events after the Balance Sheet Date*.

APPENDIX A: OTHER ISSUES ASSOCIATED WITH THE NOTION OF A STAND READY OBLIGATION

- A1. As noted in the introduction to this paper, the main concern expressed by respondents' in their comment letters is that notion of a stand ready obligation is too broad and seems to capture items that were not previously considered to be liabilities. The staff has analysed this issue in the main body of the paper.
- A2. Some respondents raise additional issues associated with the notion of stand ready obligation. The purpose of this appendix is to identify and analyse those additional issues.

COMMENT LETTER ANALYSIS

- A3. In their comment letters, several respondents raised the following specific questions:
- why a possible change in law (which an entity has little or no discretion to avoid because it operates in an environment subject to that law) does not create a stand ready obligation for the possible effects of that law⁶; and
 - the relationship between a stand ready obligation and an executory contract⁷. One respondent suggests that the Board clarify that a stand ready obligation is only assessed if it relates to an onerous contract, or a contract where there are no further future benefits to be received, such that they are not executory contracts.
 - whether a stand ready obligation always results in an outflow of resources and is therefore consistent with the *Framework's* definition of a liability and recognition criteria. (As noted in agenda paper 10A, this topic is scheduled for discussion in June therefore is not discussed as part of this paper.)
- A4. Some respondents recommend that the Board restrict application of the stand ready notion to contracts. In particular, these respondents disagree with paragraph 26 of the ED which states that the commencement of legal proceedings obligates an entity to stand ready to act as the court directs.
- A5. Several respondents (including those who agree with introducing the notion of a stand ready obligation into IAS 37) are concerned that this proposal increases divergence with US GAAP, contradicting the Board's short term convergence objective. These respondents note that thus far US GAAP only applies the notion of a stand ready obligation to guarantees, whereas the IASB is proposing to apply the notion more widely. These respondents suggest addressing this topic as part of the conceptual framework project first. Therefore they also recommend deferring any decision to introduce the notion of a stand ready obligation to IAS 37 until a later stage.

⁶ A concern also articulated in paragraph AV5 of the Alternative View in the ED.

⁷ The staff thinks this request has been made because it is possible to apply the notion of a stand ready obligation to an executory contract. For example, customer X has contractually agreed with retailer Y for the manufacture and delivery of a table. Customer X stands ready to pay retailer Y the amount agreed *if* retailer Y delivers the table ordered.

STAFF DISCUSSION

Why a possible change in law does not create a stand ready obligation

- A6. The staff thinks that a possible change in the law is a general business risk, rather than a stand ready obligation because a change in law is a possible future event. It is true that an entity has no discretion to avoid compliance with a new law or an amendment to an existing law once it is substantively enacted (assuming that the entity operates in an environment subject to that law). But before a new or amended law is substantively enacted, the entity has no *present obligation*⁸. This is because the new or amended law is not legally enforceable until it has been substantively enacted. The staff also notes that examples 10A and 10B in the illustrative examples accompanying the ED provide additional guidance on this point.
- A7. However, the staff acknowledges that this issue cannot be fully resolved until the Board has reconsidered whether the start of legal proceedings does give rise to a stand ready obligation (Example 1 in the ED). This is because many constituents perceive there to be inconsistency between Board's conclusions in Example 1 and Examples 10A and 10B. This is particularly the case in jurisdictions in which the courts make the law as well as interpreting the law (ie a ruling of the court might be regarded as equivalent to a change in the law). As noted in agenda paper 10A, identifying the obligating event in a lawsuit is a topic scheduled for discussion at the June 2006 Board meeting. Therefore, the staff proposes deferring any conclusion on this question until June.

The notion of a stand ready obligation should only apply to contracts

- A8. The staff does not agree that the notion of a stand ready obligation should only apply to contracts. The staff suspects that this suggestion was raised by respondents who disagree with example of a disputed lawsuit in the text and illustrative examples of the ED. That is to say, these respondents accept the notion of a stand ready obligation in the context of a guarantee or a warranty, but disagree that the commencement of legal proceedings results in a stand ready obligation. Hence these respondents have concluded that the notion of a stand ready obligation can only be applied to contracts.
- A9. The staff thinks that broader application of the notion of a stand ready obligation can be justified by considering (a) recent Board conclusions on uncertain tax positions, and (b) situations where the obligation to stand ready can be imposed by law.
- A10. First, applying the notion of a stand ready obligation to non-contractual situations is consistent with the Board's recent conclusions on uncertain tax positions⁹. In this context the Board used the notion of a stand ready obligation to conclude that an entity has an unconditional obligation to pay additional tax *if* the authorities do not accept the filed tax position – ie an entity stands ready to pay additional tax.

⁸ The staff also notes that enactment of a new or amended law does not automatically create a present obligation. As discussed in paragraph 55 in the main body of this paper, a present obligation only exists if an entity fails to comply with the new or amended law once it has been substantively enacted.

⁹ Discussed at the September 2005 Board meeting.

- A11. Secondly, the staff thinks situations can arise when the obligation to stand ready is imposed by law. For example FIN 47 *Accounting for Conditional Asset Retirement Obligations* states that uncertainty about whether performance will be required does not defer the recognition of an asset retirement obligation because a legal obligation to *stand ready* to perform the retirement activities still exists. Equally, as previously noted, in some jurisdiction an employee's right to long service leave obligation is established by law, rather than by a contract.
- A12. The staff notes that some may consider many of the examples of legally enforceable stand ready obligations to be contractual obligations. For example long service leave required under legislation may be viewed as a contractual term of employment that is imposed by legislation (rather than explicitly between the employer and employee). But the staff thinks that this view (ie that all stand ready obligations are contractual, it is just the form of the contract that varies) is too subtle and is likely to cause confusion, especially when translated into other languages.
- A13. Based on the analysis above, the staff continues to think that the notion of a stand ready obligation should not limited to contractual situations.

The relationship between a stand ready obligation and an executory contract

- A14. The staff agrees with respondents' observation that many executory contracts contain stand ready obligations. Indeed, the Board is making extensive use of the term to assist in analysing executory contracts in the revenue recognition project. However, the staff notes that paragraphs 2(a) and 3 of the ED propose continuing to exclude executory contracts from the scope of IAS 37, unless the contract is onerous. The Board affirmed the proposed scope of IAS 37 at its March 2006 meeting¹⁰. Therefore the staff thinks the ED already makes it clear that the application guidance provided in relation to stand ready obligations in the ED does not apply to executory contracts. Accordingly, the staff does not propose to analyse this issue further in the context of this project.

Introducing the notion of a stand ready obligation increasing divergence with US GAAP

- A15. The staff does not propose analysing this issue further because at the February 2006 meeting¹¹ the Board agreed with the staff view that:
- IAS 37 is already very different from SFAS 5 *Accounting for Contingencies*,
 - these comments fail to acknowledge that the FASB is already updating its liability literature (not limited to guarantees¹²) using the same principles as the principles underpinning the ED, and

¹⁰ Refer to March 2006 Agenda Paper 5A.

¹¹ Refer to February 2006 Agenda Paper 8.

¹² For example FIN 47 *Accounting for Conditional Asset Retirement Obligations* states that uncertainty about whether performance will be required does not defer the recognition of an asset retirement obligation because a legal obligation to stand ready to perform the retirement activities still exists.

- the Board reiterated earlier statements that its Standard setting initiatives, such as IAS 37, are not dependent on completing the conceptual framework project.

A16. Moreover the staff notes that US GAAP already includes the notion of a stand ready obligation in its literature. Concepts Statement No. 6 *Elements of Financial Statements* (paragraph 36) that the future transfer or use of assets required to settle a liability may not require cash settlement. Providing services, or standing ready to provide services, are listed as examples of non-cash settlements.