January 3, 2006

Ms. Suzanne Bielstein
Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: File Reference No. 1235-001

Dear Mr. Smith:

PricewaterhouseCoopers LLP appreciates the opportunity to respond to the Financial Accounting Standards Board's (FASB or "the Board") Invitation to Comment entitled Selected Issues Relating to Assets and Liabilities with Uncertainties (the "ITC").

We support the Board's efforts in working with the International Accounting Standards Board (IASB, collectively with the FASB, "the Boards") to develop a converged and improved conceptual framework. We believe that an agreement between the Boards on fundamental concepts is important to achieve worldwide "principles-based" standards and conceptual consistency within each Board's standards.

The ITC generally requests respondents' views on issues raised in the IASB's exposure draft, Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets and IAS 19 Employee Benefits (the "IASB Exposure Draft"). We noted that while certain questions set out in the ITC appear to be similar to the questions in the IASB Exposure Draft, those questions are subtly different. For example, the questions in the ITC focus on different aspects of the concept of unconditional and conditional rights and obligations (the "unconditional/conditional model") than the similar questions in the IASB Exposure Draft. We understand that those differences may have been intentional. In any event, our responses to the questions in the ITC are in agreement with the fundamental views articulated in the response letter on the IASB Exposure Draft that was submitted by the global organization of PricewaterhouseCoopers. Any perceived or apparent inconsistencies are attributable to the way in which the questions in the ITC are worded versus the way in which the questions in the IASB Exposure Draft are worded. Accordingly, our responses to the questions in the ITC are not intended to conflict with the positions taken in our global response letter on the IASB Exposure Draft.
We have included our responses to the specific questions in the ITC in Appendix A of this letter. Our responses reflect the following overarching concerns:

- We believe that certain aspects of the unconditional/conditional model require further consideration. For example, the identification of unconditional rights and obligations in complex situations or where multiple conditional or unconditional obligations or rights exist would seem to be especially challenging. We expect the Boards to consider how the model would work in such scenarios before adopting it.

- Although we agree with the notion that generally there is an unconditional right or obligation associated with every conditional right or obligation when a contractual arrangement exists, we have so far not been able to agree with this notion in connection with non-contractual arrangements. We recommend that both Boards give this further thought, including whether a conclusion about the existence of an asset in non-contractual settings will ever be more than a theoretical exercise that results in no balance sheet recognition. For example, even if a non-contractual unconditional right were considered to give rise to an asset, as suggested in Example 3 of the ITC, we believe the asset would not be recognized because the conditions in IAS 38, *Intangible Assets*, would not be met, making the determination of whether an asset exists theoretical at best.

- When developing the new model, we encourage the Boards to be mindful of the need for, and the benefits of, simplicity and understandability. As described in the ITC and in the IASB Exposure Draft, the unconditional/conditional model would not, in our view, be easily applied or understood. For example, we identified three or four possible interpretations of the model, including one in which the conditional right or obligation would affect the amount of the asset or liability attributable to the unconditional right or obligation, and one in which there would be two assets or two liabilities, one for the unconditional right or obligation and one for the conditional right or obligation. Before adopting a new model, we recommend that the Boards be satisfied that it will be understandable, intuitive, and easy to apply.

If you have any questions regarding our responses, please contact Valerie Wieman at (973) 236-5887 or Ken Dakdduk at (973) 236-7239.

Sincerely,

[Signature]

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Appendix A

Contingent Assets

**Question 1:** Do you agree with eliminating the notion of contingent asset? If not, why not?

We do not support eliminating the *notion* of a "contingent asset" because it adequately describes an asset that an entity could be entitled to dependent (conditional) on something that is not yet certain. We believe this notion is inherent in the IASB's proposed unconditional and conditional rights model. In our view, a conditional asset is the same as a contingent asset. What the IASB is proposing is the elimination of the term "contingent asset." We believe that the term used is less important than the concepts that underpin the relevant accounting. However, the term "contingent asset" is presently understood by preparers, users, and auditors and we are not aware that it has caused confusion in practice. For those reasons, retaining the term would seem to be appropriate. As the Boards continue deliberations on their conceptual framework projects, a compelling reason to eliminate the term "contingent asset" could become apparent and we would consider it at that time.

**Question 2:** Do you agree with the IASB's analysis of unconditional and conditional rights in contractual settings, as summarized in paragraphs 30 and 31 of this Invitation to Comment and paragraphs BC10-BC13 of the IASB Exposure Draft? If not, why not?

We agree that an unconditional contractual right satisfies the definition of an asset while the conditional right associated with the unconditional right does not. However, we believe that the discussion does not adequately address the interrelationship between the conditional and unconditional rights. For example, we have seen insurance policies under which coverage is cancelled after the insurance company makes a significant payout under the policy. In this case, we believe that the conversion of the conditional right (to receive reimbursement under the policy) to an unconditional right (to receive payment once an insured event occurs) results in the original unconditional right (to receive insurance coverage) no longer meeting the asset definition. We believe that this would result in the need to derecognize the original unconditional asset, if one was recorded. However, we do not believe that the guidance is clear about how these events should be considered. As another example, we ask you to consider an insurance policy under which the insurance company has already made payment for submitted claims up to the maximum allowed under the terms of the policy. In this case, we are unsure if application of the proposed model would indicate the continued existence of an unconditional right. While the policy continues to be in effect, there is no expectation of reimbursement in the event a future claim is incurred. We recommend that both Boards consider the application of the model to these scenarios and others like them in its future deliberations.
Question 3: If you answer yes to Question 2, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of Examples 1-3 in paragraphs 33-35 of this Invitation to Comment? If not, why not?

We believe that the IASB has not sufficiently explained the application of the conditional and unconditional rights model in non-contractual settings or developed the underlying conceptual support for it in those situations. While easier to understand in a contractual setting, the application of the model in non-contractual situations can be complex and, at the very least, would require some additional guidance to ensure that assets that are identified under the model in non-contractual settings are intuitive and are consistent with the definition of an asset in the IASB's Framework.

For example, paragraph 34 of the ITC (Example 2) notes that the IASB identifies as an asset an entity’s unconditional right to participate in the process of applying for an operating license. Presumably the entity meets the qualifications necessary for the awarding authority to consider its application by virtue of its past efforts, and that is why the IASB believes the participation right meets the first condition of the definition of an asset (i.e., a resource controlled by an entity as a result of past events). However, the example does not point this out and fails to demonstrate how the first condition of the asset definition is met.

Example 2 also lacks a reference to the second condition of the asset definition (i.e., a resource from which future economic benefits are expected to flow to the entity). It is difficult to see how a right to participate in the application process is demonstrative of this condition. Perhaps that assessment must consider the likelihood of the license being awarded and the future economic benefits that will arise from owning the license. But that assessment would seem to be more applicable in identifying the conditional right, not the unconditional right. Applying the model to assess whether the unconditional right gives rise to an asset would seem to blur the line between the unconditional right and conditional right. Further, it is unclear whether the IASB believes that there is a future economic benefit attributable solely to the right to apply for a license or whether consideration of the economic benefits that can be expected once the license is awarded must also be made in determining the existence of an asset for the unconditional participation right. Accordingly, this model would need to be more fully developed before we could agree with applying it in non-contractual settings.
Question 4: Do you agree with the IASB’s proposal to classify as intangible assets those unconditional rights that are associated with conditional rights and that satisfy the definition of an asset, without shifting the consideration of the uncertainty surrounding the conditional rights from recognition to measurement?

We agree with the proposal in connection with unconditional contractual rights. We believe that unconditional contractual rights may meet the asset definition and may meet the IAS 38 definition of an identifiable intangible asset. For example, in the case of an insurance policy, there is an unconditional right to insurance coverage. There is also a right to reimbursement only if an insured loss occurs (the conditional right). The uncertainty is related to whether a loss will occur and not whether the contract entitles the policy holder to collect in the event of a loss. Supported by the contract, there is no uncertainty about this unconditional right. Further, changes in the likelihood that a loss will occur may affect the value of the unconditional right, but would not change the fact that coverage, and hence an asset, exists.

We believe that non-contractual unconditional rights should not be considered intangible assets. Although non-contractual unconditional rights may meet the definition of an asset, we believe that such arrangements would not meet the separability criterion of IAS 38, and would therefore not meet the definition of an intangible asset and would not be recognized. Because no change is being proposed to the existing IAS 38 recognition criteria, in the interest of reducing complexity, the model should not require the identification of a non-contractual asset if in all cases the asset will not be recognized.

Contingent Liabilities

Question 5: Do you agree with eliminating the notion of contingent liability? If not, why not?

We do not support eliminating the notion of “contingent liability” because we believe it adequately describes a liability that an entity could have depending (conditional) on something that is not yet certain. We believe this notion is inherent in the proposed unconditional and conditional obligations model. In our view, a conditional liability is the same as a contingent liability. What the IASB is proposing is the elimination of the term “contingent liability.” We believe that the term used is less important than the concepts that underpin the relevant accounting. However, the term “contingent liability” is presently understood by preparers, users, and auditors and we are not aware that it has caused confusion in practice. For those reasons, retaining the term would seem to be appropriate. As the Boards continue deliberations on their conceptual framework projects, a compelling reason to eliminate the term “contingent liability” could become apparent and we would consider it at that time.
Question 6: Do you agree with the IASB's analysis of unconditional and conditional obligations in contractual settings, as summarized in paragraphs 39 and 40 of this ITC and paragraphs BC24-BC28 of the IASB ED? If not, why not?

We agree that an unconditional contractual obligation satisfies the definition of a liability while the conditional obligation associated with the unconditional obligation does not. However, refer to our response to Question 9.

Question 7: If you answer yes to Question 5, do you agree that the IASB has appropriately applied the notion and supporting reasoning referred to therein in the analysis of the example in paragraph 41 of this Invitation to Comment? If not, why not?

We believe that the IASB has not sufficiently explained how the conditional and unconditional obligations model would apply in non-contractual settings or developed the underlying conceptual support for it in those situations. While easier to understand in a contractual setting, the application of the model in non-contractual situations can be complex and would require additional guidance to ensure that the liabilities that are identified under the model in those settings are intuitive and are consistent with the definition of a liability in the IASB's Framework.

For example, we do not understand how the "obligation to stand ready" in a regulatory or legal setting represents an outflow of resources. In the example in paragraph 41 of the ITC, we believe that merely standing ready to perform if the court should decide that the entity must pay a judgment or other penalty does not create an obligation to transfer economic resources in the future. The entity in this situation would not settle an obligation to stand ready; it would settle the conditional obligation that is connected with its unconditional obligation to stand ready. But until the court has ruled, the entity has no liability and there would be no outflow of resources.

This differs from situations involving contractual obligations. In those situations, there is an exchange of value. The guaranteed party has an unconditional right to the guarantee coverage. The guarantor has an unconditional obligation to stand ready and has presumably been compensated for accepting that obligation. In a situation involving a lawsuit, no value has been exchanged and presumably the defendant will do everything in its power to avoid an unfavorable judgment and thus avoid any future outflow of resources. We view regulatory settings similarly. For example, a company that has a responsibility to avoid polluting the environment and is subject to governmental fines and other sanctions if it violates that responsibility would not, in our view, have a liability representing an unconditional obligation to comply with laws and regulations.

Accordingly, we believe the application of the conditional and unconditional obligations model in non-contractual settings needs further consideration.
Probability Recognition Criteria

Question 8: Do you agree with omitting the probability criterion for recognition of nonfinancial liabilities? If not, why not?

Additional work is needed on the conceptual approach of a conditional and unconditional obligations model to address the concerns we’ve expressed in our responses above. Under the IASB proposal, the likelihood of a future transfer of resources will always be considered probable for an unconditional obligation, and hence the application of a probability criterion would be unnecessary. Although this would seem to work for unconditional contractual obligations, we question its application in non-contractual settings. Accordingly, before any such change is adopted we recommend addressing the concerns we’ve expressed about applying the conditional and unconditional obligations model to non-contractual obligations.

We also believe that the proposal to omit the probability criterion for recognition purposes would result in a conflict with the IASB’s Framework. The IASB’s Framework is explicit that a liability consists of two elements, the past event and the expected outflow of economic benefits, and both must be present for a liability to be recorded. We believe that the expectation called for by the definition cannot be determined without considering probability. Before the IASB makes this change, it should undertake a comprehensive debate and revision of the IASB Framework.

Measurement

Question 9: Do you agree with the proposed measurement requirements for nonfinancial liabilities? If not, why not?

The IASB is proposing to eliminate any reference to the "best estimate" when measuring non-financial liabilities and simply go with the current description of “best estimate” in IAS 37, which is "the amount that [an entity] would rationally pay to settle the present obligation or to transfer it to a third party." The IASB notes that the settlement or transfer price for many stand-ready unconditional obligations is not easily determined. The IASB assumes, however, that if there were a market, the price would be determined by an analysis of the likelihood, amount, and timing of expected cash flows. While we agree that this would form the basis for a measurement that might be similar to fair value, we question whether sufficient information would be available for nonfinancial liabilities to make this estimate reliable. For example, in the case of the obligation to stand ready to make payment if called upon to do so by the courts, in the absence of a contract, the parameters of the stand-ready obligation may not be limited and because the entity would have no control over the court, it would seem difficult to determine when the court will require the entity to respond to the stand-ready obligation. To the extent that each jurisdiction and regulation within that jurisdiction is unique and independent of all others, it would seem even more difficult to create a general-purpose model.
Although an expected cash flow model, which the IASB proposes to be used to measure a stand-ready obligation, may be appropriate for large, homogeneous populations, we believe it may not be appropriate for liabilities with binary outcomes (i.e., only two possible outcomes, such as in a legal proceeding). In applying an expected cash flow model to large, homogeneous populations, it may be appropriate to rely on statistical modelling because of the size of the population. Although the probability criterion for a single transaction within that population may not be met, statistics and experience make it clear that there will be a "collective" liability. However, when applying the expected cash flow model to determine a binary liability, no outcome can have a zero probability of occurring, and thus any asserted claim against an entity will have a value attached. This would include even spurious claims where the entity is not at fault. Further, probability weighting between only two alternatives where the range of the potential financial impact is large could result in a significant value being ascribed to a remote contingency. We believe that remote contingencies should not be recognized as we believe that the cost and effort required to value and track remote matters exceeds the decision-usefulness to investors in that most remote matters, by definition, will not result in the need for cash settlement.

**Other**

- Paragraph 29 paraphrases the IASB's definition of an asset as "a resource that is currently controlled by an entity as a result of a past transaction or event." We believe it is important that the proposed model consider the remainder of the definition, which states "and from which future economic benefits are expected to flow to the enterprise."

- Paragraph 42 discusses when a liability exists if an obligation is created by a new law. Under the proposed model, an unconditional right does not exist until the new law is enacted. We are concerned that the lack of consideration of probability will create diversity. Investors are likely to consider the impact the pending law will have on the company in its investment decisions, while the company would not recognize the obligation until the law is enacted. The timing also appears to conflict with the rights model as discussed in paragraph 35, which states that it is the developing customer relationship, and not the actual contract, that qualifies as an unconditional right.

- We find the sentence in paragraph 48 that reads "Recognition criteria other than the probability recognition criterion might apply" to be unclear. We are unsure if this refers to the remaining recognition criteria in IAS 37, besides probability, listed in paragraph 11 of the IASB Exposure Draft, or if the intent is to address criteria that may exist in other pronouncements.

- We disagree with the statement in paragraph 53 that as the likelihood of future events is reflected in probability weighting of cash flows, the sufficient objective evidence criterion is meaningless. We believe that sufficient objective evidence would be needed to establish the probability weighting.