Please note that the comments expressed herein are solely my personal views

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- File Reference No. EITF-12D
- Liabilities (Topic 405)
- Obligations Resulting from Joint and Several Liability Arrangements

Dear Sir.

Thank you for giving us the opportunity to comment on your Proposed Accounting Standards Update: Liabilities (Topic 405); Obligations Resulting from Joint and Several Liability Arrangements.

Proposal

Current US GAAP does not include guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date. This lack of guidance has resulted in diversity in practices. Some entities record the entire amount of the obligation subject to joint and several liability on the basis of the concept of a liability and the guidance[1] that must be met to extinguish a liability. Other entities record less than the total amount of the obligation on the basis of the guidance for contingent liabilities.[2] In order to improve comparability of financial statements and reduce diversity in practices, this proposed accounting standards update would require an entity to measure obligations resulting from joint and several liability arrangements for which the total amount under the arrangement is fixed at the reporting date using the guidance in Subtopic 450-20, Contingencies - Loss Contingencies.

[1] See Subtopic 405-20, Liabilities - Extinguishments of Liabilities.
[2] See Subtopic 450-20 and Subtopic 410-30, Asset Retirement and Environmental Obligations - Environmental Obligations.

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Answers to other specific questions raised by the FASB

Question 1: Do you agree with the types of obligations resulting from joint and several liability arrangements that are included in the scope of this proposed Update (that is, the total amount under the arrangement is fixed at the reporting date and not otherwise covered by existing US GAAP)? Are there other forms of joint and several liability arrangements that should be included in the scope of this proposed Update? If certain arrangements should be excluded or included, please explain why.

Yes, I fully agree with the types of obligations resulting from joint and several liability arrangements that are included in the scope of the proposed Update. This is where the main diversity in practices arises. I agree that liabilities subject to a contingency are adequately accounted for under the guidance in Topic 450.

Question 2: Do you agree that the scope of this proposed Update should include all entities that have joint and several liability arrangements within the scope of the proposed Update, including entities that are under common control, related parties, and unrelated parties? If not, please explain why.

Yes, I agree that the scope of this proposed Update should include all entities that have joint and several liability arrangements within the scope of the proposed Update. I support the conclusions presented in paragraph BC10.

Question 3: Are you aware of joint and several liability arrangements among unrelated parties? If yes, please describe such arrangements and describe why those arrangements should be included or excluded from the scope of this proposed Update.

Joint and several liability arrangements among unrelated parties exist in many industries, e.g. construction, tourism and office services, and in joint ventures. For completeness, such arrangements should be included in the scope of the proposed Update.

Question 4: Under this proposed Update, if the primary role of a reporting entity in the joint and several liability arrangement is that of a guarantor, then it should account for the obligation under Topic 460. This proposed Update includes some guidance on when the primary role is that of a guarantor. Is that guidance sufficient to distinguish between joint and several liability arrangements that should be accounted for under Topic 460 and those that should be accounted for under Subtopic 450-20? If not, please explain what additional guidance the Task Force should consider including to assist preparers in distinguishing between the two.

Yes, this guidance referred to is sufficient.

Question 5: Do you agree that obligations resulting from joint and several liability arrangements that are included in the scope of this proposed Update should be measured as a loss contingency in accordance with Subtopic 450-20? If not, please explain why.

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Yes, I agree that obligations resulting from joint and several liability arrangements that are included in the scope of this proposed Update should be measured as a loss contingency in accordance with Subtopic 450-20. This approach is not overly complex to apply, is less costly than the alternative approaches and will provide more meaningful information to users of financial statements.

Question 6: Do you agree with the disclosure requirements for obligations resulting from joint and several liability arrangements that would be included in the scope of this proposed Update? If not, please explain why.

I agree with the disclosure requirements. This will provide useful information on the risks associated with obligations resulting from joint and several liability arrangements.

Question 7: Do you agree that the guidance in this proposed Update should be applied retrospectively to all prior periods presented for obligations resulting from joint and several liability arrangements that exist at the beginning of an entity's fiscal year of adoption? If not, please explain why. Also, do you think the transition guidance should be the same for obligations in which the primary role of the reporting entity is that of a guarantor and that are to be accounted for under Topic 460? If not, please explain why. Do you agree that an entity may elect to use hindsight for the comparative period(s) if it changed its accounting as a result of adopting this proposed Update? If not, please explain why.

I agree with these proposals. They are reasonable, cost-effective and will provide more meaningful information to users of financial statements.

Question 8: The proposed amendments would apply to public and nonpublic entities. Should any of the proposed amendments be different for nonpublic entities? If yes, please identify those proposed amendments and describe how and why you think they should be different.

For completeness, the proposed amendments should apply to both public and non-public entities.

Yours faithfully

C.R.B.

Chris Barnard