

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Cc
Efrag

Stockholm April 9, 2019

Exposure Draft ED/2018/2
Onerous Contracts – Cost of Fulfilling a Contract

Thank you for the opportunity to respond to the ED. The Swedish Enterprise Accounting Group (SEAG) has the following comments. Brief answers to the specific questions in the ED are provided in an appendix below.

To address the problem with diversity in practice (primarily due to the removal of guidance in IAS 11 regarding percentage of completion contracts) the Board has chosen to add a specification in IAS 37 on what costs to include when assessing whether a contract is onerous. Thus, the problem addressed mainly concerns construction contracts, but the proposed solution embraces all contracts within the scope of IAS 37. SEAG is not convinced that the consequences of the broad scope of the amendment has been fully appraised. Neither are we convinced that the amendment will curtail the diversity in practice it is aiming to address. The Board has chosen not to specify the 'economic benefits' of a contract. SEAG agrees that this would be an expansion of the project that most likely would cause delay. Nevertheless, in practice the effect of adding a more detailed specification of what costs to include may very well be that diversity in practice regarding accounting for onerous contracts remains, but that the source of the diversity is transferred from the cost side to the benefit side of the assessment.

Aside from the problems we see with the wide scope of the proposed amendment, SEAG agrees with the Board that the directly related cost approach provides the more faithful representation of the costs of fulfilling a contract than the incremental cost approach. We do however think that further guidance needs to be added regarding the allocation of directly related costs such as depreciation, contract management etc.

Yours sincerely,

CONFEDERATION OF SWEDISH ENTERPRISE



Sofia Bildstein-Hagberg

Appendix

Comments on some of the specific questions posed in the DP.

Q1 The Board proposes to specify in paragraph 68 of IAS 37 that the cost of fulfilling a contract comprises the costs that relate directly to the contract (rather than only the incremental costs of the contract). The reasons for the Board's decisions are explained in paragraphs BC16–BC28.

Do you agree that paragraph 68 of IAS 37 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract? If not, why not, and what alternative do you propose?

If the Board chooses to amend IAS 37 without further appraisal of the consequences, SEAG agrees that the directly related cost approach provides the more faithful representation of the costs of fulfilling a contract than the incremental cost approach.

Q2 The Board proposes to add paragraphs 68A–68B which would list costs that do, and do not, relate directly to a contract.

Do you have any comments on the items listed?

Are there other examples that you think the Board should consider adding to those paragraphs? If so, please provide those examples.

We think that further guidance needs to be added regarding the allocation of directly related costs that may relate to more than one contract such as depreciation, contract management etc., otherwise questions may arise regarding for example contracts that are entered into to make use of (unforeseen) spare capacity. Such contracts that are defensible from a commercial point of view but may be regarded as onerous depending on the method of cost allocation. One way of doing this could be to include some examples.

The Swedish Enterprise Accounting Group (SEAG) represents more than 40 international industrial and commercial groups, most of them listed. The largest SEAG companies are active through sales or production in more than 100 countries.