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Chairman

Paris, 15 April 2019

N° 15/2019

Mr Gauzès

EFRAG President

35 Square de Meeûs

B-1000 Bruxelles

**DCL EFRAG on ED 2018/02 – Onerous contracts, costs of fulfilling a contract**

Dear Mr Gauzès,

*cher Jean-Paul,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to comment on the above EFRAG's draft comment letter on the IASB's ED published in December 2018.

We support the comments made by EFRAG on that exposure draft.

Please find attached our comment letter to the IASB.

Yours sincerely,

*Amicalement.*

*Patrick de Cambourg*

Patrick de Cambourg



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Chairman

Paris, 15 April 2019

N°16/2019

Mr Hoogervorst

IASB Chair

7 Westferry Circus, Canary Wharf

London, UK, E14 4HD

**ED 2018/02 – Onerous contracts, costs of fulfilling a contract**

Dear Mr Hoogervorst,

*Dear Hans,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to comment on the above exposure draft published in December 2018. We welcome that opportunity since removing IAS 11 has raised a need for clarification of the definition of “unavoidable costs of fulfilling a contract”, as discussed by the IFRS-IC in its June 2017 meeting and commented by ANC in its comment letter dated 3<sup>rd</sup> August 2017. We also welcome the Committee’s decision to eventually address the issue by an amendment instead of an agenda decision as originally contemplated.

We generally support the suggested amendments referring to “direct costs” that are consistent with IFRS 15 provisions and better reflect the economy of such contracts than “incremental costs”.

We stress the point that this targeted clarification does not address some other relevant application issues (e.g. the concept of economic benefits) that should be further undertaken in the current IASB project on “provisions”.

We finally welcome the transitional provisions aiming at a limited retrospective implementation.

Yours sincerely,

*Best regards!*

*Patrick de Cambourg*

Patrick de Cambourg

### *QUESTION 1*

*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?*

We agree that IAS 37.68 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract, rather than the incremental costs only of the contract. We also welcome the inclusion of examples of costs that relate directly to a contract in IAS 37.68A, which brings consistency with IFRS 15 provisions.

Some believe that incremental costs are more conceptually sound. In their opinion, in rejecting the incremental cost approach, the proposed amendments did not provide enough guidance to ensure that any onerous contract provision includes “only those obligations arising from past events existing independently of an entity’s future actions (i.e. the future conduct of its business)”, as required by IAS 37.19. We do not agree with this position. We believe it is similar to the accounting for inventories: when deciding what costs should constitute inventories, an entity is making a judgement on those costs that could be deferred rather than being immediately expensed. We are of the view that it is not in any manner taking in advance future losses or future activities.

We also believe that the decision to sell is more often made on the basis of direct or full costs rather than only incremental costs that could not absorb overheads. Extending that conclusion to other contracts (such as supply agreements) may however require to be further assessed and substantiated.

### *QUESTION 2*

*The Board proposes to add paragraphs 68A-68B which would list costs that do, and do not, relate directly to the 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 generally agree with the costs listed in IAS 37.68A-68B. The examples provided, even if limited to contracts within the scope of IFRS 15, are helpful and have the merit to be consistent with other standards.

### *QUESTION 3*

*Do you have any other comments on the proposed amendments?*

#### ***Further improvements expected***

The suggested amendments are narrow scope and do not deal with other elements of the definition of an onerous contract, particularly the other economic benefits expected to be received under the contract. We support addressing these elements in a more fundamental review of the determination of onerous contracts under IAS 37 that the Board already plans to undertake.

#### ***Transitional provisions***

We welcome the transitional provisions aiming at a limited retrospective implementation.