

This paper has been prepared by the EFRAG Secretariat for discussion at a public meeting of EFRAG TEG. The paper forms part of an early stage of the development of a potential EFRAG position. Consequently, the paper does not represent the official views of EFRAG or any individual member of the EFRAG Board or EFRAG TEG. The paper is made available to enable the public to follow the discussions in the meeting. Tentative decisions are made in public and reported in the EFRAG Update. EFRAG positions, as approved by the EFRAG Board, are published as comment letters, discussion or position papers, or in any other form considered appropriate in the circumstances.

IASB ED/2018/2 Onerous Contracts - Cost of Fulfilling a Contract ***Proposed amendments to IAS 37*** **Cover Note**

Objective

- 1 The objective of the session is to agree to recommend to the EFRAG Board a draft comment letter on Exposure Draft ED/2018/2 *Onerous Contracts - Cost of Fulfilling a Contract - Proposed amendments to IAS 37*, issued by the IASB on 13 December 2018 (the 'ED').

Background

- 2 From January 2018, contracts that were within the scope of IAS 11 *Construction Contracts* are within the scope of IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 does not include requirements for identifying, recognising and measuring onerous contract liabilities. Instead, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides guidance on assessing whether a contract is onerous.
- 3 Paragraph 68 of IAS 37 defines an onerous contract as one in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. IAS 37 also explains that unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it, and any compensation or penalties arising from failure to fulfil it. However, IAS 37 includes no further guidance on which costs to include in the cost of fulfilling a contract and does not specify whether the cost of fulfilling a contract to deliver goods or services comprises only the incremental costs of fulfilling that contract or, additionally, includes an allocation of other costs that relate directly to the contract.
- 4 In 2017, the IFRS Interpretations Committee (IFRS IC) received a request to clarify what costs an entity considers when assessing whether a contract is onerous. The IFRS IC decided that the application of IFRS 15 makes clarification of the IAS 37 onerous contract requirements necessary and urgent and, accordingly, recommended the IASB amending IAS 37 to clarify the onerous contract requirements separately from the IASB's research project on provisions.
- 5 The IASB concluded that cost of fulfilling a contract comprises the costs that relate *directly* to the contract. Moreover, in the ED, the IASB proposed to provide a list of such costs.
- 6 The ED, in proposed paragraphs 68A and 68B identifies the categories of costs that are or are not related directly to the contract.

7 Comments are due to the IASB by 15 April 2019.

Questions for EFRAG TEG

- 8 Does EFRAG TEG have comments on the proposed draft comment letter in agenda paper 02-02?
- 9 Does EFRAG TEG agree to recommend the draft comment letter to the EFRAG Board?

Agenda Papers

- 10 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 02-02 - EFRAG Secretariats proposal for the Draft Comment Letter on the ED; and
 - (b) Agenda paper 02-03 - ED/2018/2 *Onerous Contracts - Cost of Fulfilling a Contract - Proposed amendments to IAS 37*.