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Costs Considered in Assessing Whether a Contract is Onerous (Amendments to IAS 37) Cover Note and Overview of Comments Received

Objective

- 1 The purpose of the session is to consider the comments received in response to EFRAG's draft comment letter on the IASB Exposure Draft ED/2018/2 *Costs Considered in Assessing Whether a Contract is Onerous (Amendments to IAS 37)* (the 'ED') and agree to recommend to the EFRAG Board a final comment letter.
- 2 Based on the comments received, the EFRAG Secretariat has developed a draft EFRAG final comment letter that is presented as agenda paper 03-02 (marked-up version) and 03-03 (clean version).

Background

The IASB's ED

- 3 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 and, instead, IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* provides guidance on assessing whether a contract is onerous.
- 4 In response to a request to clarify what costs an entity considers when assessing whether a contract is onerous, in December 2018 the IASB issued the ED. The IASB tentatively decided that the cost of fulfilling a contract comprises the costs that relate directly to the contract and decided to provide a list of such costs.

EFRAG's draft comment letter

- 5 On 25 January 2019, EFRAG published its draft comment letter (DCL). EFRAG welcomed the IASB's efforts to clarify the requirements in IAS 37 regarding the assessment of whether, in a contract, the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. However, EFRAG also noted that the proposed amendments would affect the onerous assessment not only for long-term construction contracts previously in the scope of IAS 11 but for all contracts in the scope of IAS 37. Consequently, EFRAG encouraged the IASB to further assess the expected impact of the proposals. EFRAG also sought information from constituents about the likely impact of the proposals that should be considered by the IASB when finalising the amendments.

Summary of respondents' views

Comment letters received

- 6 As at 9 April 2019, eight comment letters on EFRAG's DCL have been received from the following six National Standard Setters:
 - (a) Accounting Standards Committee of Germany (ASCG, Germany);
 - (b) Comissão de Normalização Contabilística (CNC, Portugal);

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- (c) The Dutch Accounting Standards Board (DASB, the Netherlands);
 - (d) Polish Accounting Standards Committee (PASC, Poland);
 - (e) Financial Reporting Council (FRC, UK); and
 - (f) Instituto de Contabilidad y Auditoría de Cuentas (ICAC, Spain).
- 7 Two comment letters have been received from Business Organisations:
- (a) European Savings and Retail Banking Group (ESBG); and
 - (b) The Swedish Enterprise Accounting Group (SEAG).
- 8 The comment letters are available on the EFRAG website [here](#) under Documents/ Exposure Draft consultation.
- 9 The EFRAG Secretariat also received an informal comment from one user, who noted that clarification is needed of the unit of account when assessing whether a contract is onerous, and application of the impairment requirements in subsequent years.

Overview of responses

- 10 All respondents supported the IASB's efforts to clarify the requirements of IAS 37 regarding the assessment of whether, in a contract, the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.
- 11 Most respondents agreed with EFRAG's overall tentative position on the ED. However, some respondents expressed different views on some of the proposals, including that further assessment of the impact of the proposals on contracts other than those previously in the scope of IAS 11 is not needed, and that full retrospective application could be permitted.
- 12 A detailed analysis of comments received is provided in Agenda Paper 03-04 (draft EFRAG Feedback Statement). Based on these comments, the major changes proposed to the draft comment letter are:
- (a) adding a comment regarding clarification of the difference between the directly related cost approach and the incremental cost approach;
 - (b) explaining the reason to agree with limiting retrospective application of the proposals;
 - (c) adding a comment regarding impairment and onerous test in subsequent years.

Questions for EFRAG TEG

- 13 Does EFRAG TEG agree with the EFRAG Secretariat's recommendations for changing the draft comment as summarised in paragraph 14 above and explained in the draft Feedback Statement presented as agenda paper 03-04?
- 14 Does EFRAG TEG agree to recommend the proposed EFRAG's final comment letter to the EFRAG Board?

Agenda Papers

- 15 In addition to this cover note, agenda papers for this session are:
- (a) Agenda paper 03-02 – draft EFRAG Final Comment Letter (mark-up);
 - (b) Agenda paper 03-03 – draft EFRAG Final Comment Letter (clean version); and
 - (c) Agenda paper 03-04 – draft EFRAG Feedback Statement.