



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

12 April 2018

Dear Board Member,

**Re: Exposure Draft ED/2018/2: Onerous Contracts—Cost of Fulfilling a Contract**

BusinessEurope welcomes the opportunity to comment on the exposure draft Onerous Contracts—Cost of Fulfilling a Contract - Proposed amendments to IAS 37 (the ED).

Overall, we are in favour of the proposed amendments. However, we have two concerns with the proposals:

- We think that the treatment of general and administrative costs needs to be further refined; and
- Rather than to prohibit the restatement of comparative figures, we think entities should have the option to restate these.

Further explanation of these matters is provided in the responses to specific questions in the Appendix.

If you require any further information on our comments, please do not hesitate to contact us.

Yours sincerely,

Erik Berggren  
Senior Adviser  
Legal Affairs Department

## **APPENDIX**

### **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 with the proposal to specify in paragraph 68 that the cost of fulfilling a contract comprises the costs that relate directly to the contract. We think that this would provide a clearer and more practical approach than that in the current standard.

### **Question 2**

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.

Although we also agree with the proposal to list examples of costs that relate directly to a contract, we would bring to the Board's attention a potential conflict between paragraph 68A(e) and paragraph 68B. In order to facilitate management of some contracts, separate legal entities are created for the duration of the contract. The costs of operating these are clearly costs incurred only because an entity entered into the contract but would include costs which could be considered to be general and administrative costs and could therefore be seen to be ineligible costs for the purpose of onerous contracts.

It would therefore be helpful to include in paragraph 68B an additional proviso that general or administrative costs do not ordinarily relate directly to a contract unless it can be demonstrated that they are directly related. One form of drafting could be: "General and administrative costs do not *ordinarily* relate directly to a contract unless *it can be clearly demonstrated that they are directly related*".



### Question 3

Do you have any other comments on the proposed amendments?

- **Transitional provisions**

We agree with the proposal to apply the amendments only to those contracts existing at the beginning of the annual reporting period in which the amendments are first applied. However, we do not agree with the prohibition from restating comparative information. We think that entities should have the option to restate comparative information if they consider that it is useful and is feasible. We agree that entities who find it difficult and onerous to arrive at comparative figures should be provided with relief from doing so.

- **Impairment of dedicated assets**

We note that the Board is not proposing any amendment to paragraph 69 of IAS 37. We think there are other assets outside the scope of IAS 36 which might be related to the contract and note that paragraph 103 of IFRS 15 makes this point. These include items which may fall within the scope of IFRS 15, IFRS 9, IAS 2 and others. We think that the reference to IAS 36 should be amended to make it clear that the measurement of the provision for an onerous contract should take into account the impairment of all related assets in order to ensure that no costs are double-counted.

- **Expected economic benefits**

We agree with the Board's decision not to address the question of the nature of the economic benefits expected to be received under the contract. This issue is one which to our knowledge has not resulted in disagreements or diversity in interpretation.

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