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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 includes no 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.
- 3 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.
- 4 The IASB concluded that cost of fulfilling a contract comprises the costs that relate *directly* to the contract and decided to provide a list of such costs.
- 5 EFRAG TEG discussed the initial draft comment letter in December 2018 and requested a number of changes, including:
 - (a) considering more specifically that the scope of the amendments is broader than restoring the previous status quo for construction contracts;
 - (b) assessing the interactions with the guidance on impairment and inventory write-downs; and
 - (c) discussing further the concept of 'directly attributable cost' and the different articulations of this concept in other IFRS Standards.
- 6 Given the extent of the changes, we have not provided a marked-up copy of the letter.
- 7 Comments on the ED are due to the IASB by 15 April 2019. The ED can be found [here](#).

Questions for EFRAG TEG

- 8 Do you have comments on the proposed draft comment letter in Agenda Paper 08-02?
- 9 Do you agree to recommend the draft comment letter to the EFRAG Board?

Agenda Papers

- 10 In addition to this cover note, Agenda Paper 08-02 - EFRAG Secretariat's proposal for the draft comment letter on the ED has been provided.