

15 April 2019

International Accounting Standards Board  
Email: [commentletters@ifrs.org](mailto:commentletters@ifrs.org)

Cc: EFRAG

Dear Sir/Madam

## **Exposure Draft 2018/2: Onerous Contracts – Cost of Fulfilling a Contract**

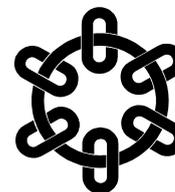
Norsk RegnskapsStiftelse (the Norwegian Accounting Standards Board – the NASB) is pleased to respond to your invitation to comment on the Exposure Draft ED/2018/2 proposing amendments to IAS 37 specifying the costs an entity includes in determining the *cost of fulfilling a contract* for the purpose of assessing whether a contract is onerous.

The NASB supports the proposed amendments for customer contracts within the scope of IFRS 15. However, the NASB suggests that the IASB conducts further research before concluding on amendments for contracts outside the scope of IFRS 15.

The comments above are more fully explained in the appendix to this letter. You are welcome to contact us if you would like to discuss any specific issues addressed in our response further.

Yours faithfully,

Karina Vasstveit Hestås  
Chair of the Technical Committee on IFRS of Norsk RegnskapsStiftelse



## Appendix

### *Responses to specific questions*

#### **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?

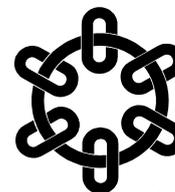
We support the IASB's aim to measure costs consistently across all standards. However, the scope of ED 2018/2 is too narrow to conclude on the most appropriate specification of costs of fulfilling a contract. The existing IAS 37 raises several issues not addressed by ED 2018/2 that may affect the assessments of costs of fulfilling a contract. Consequently, we suggest that the IASB extends the scope of its work to cover all aspects of onerous contracts.

For instance:

- Entities may enter contracts that are loss-making if all directly related costs are allocated to the contract, but it is still more profitable to enter the contracts than not. Is this an onerous contract on day 1, or does IAS 37.67 require a subsequent event for the contract to become onerous?
- Entities may enter long term leasing contracts expecting the asset to be used periodically in loss making contracts, e.g. due to market price fluctuations, but in total the contracts using the leased asset are expected to be profitable. Does IAS 37 require to assess each single contract when considering onerous contracts, or is it in accordance with IAS 37 to assess all contracts together?
- How is the interplay with IAS 36 supposed to work, ref IAS 37.69? The NASB is concerned that the inclusion of depreciation as a cost of fulfilling a contract, will cause unintended consequences. For instance, when an entity must recognise an impairment loss on assets *and* a loss (that includes depreciation on the impaired asset) on onerous contracts, a later reversal of the provision and a simultaneous reversal of the impairment loss due to the fulfilment of contracts, might cause recognition of profit in periods fully devoted to fulfilling onerous contracts. We are not convinced that such effects provide the most useful information for users.

#### **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.

If concluding that the cost of fulfilling a contract should comprise the costs that relate directly to the contract, we do not have many comments to the list as a list of relevant costs to include. However, we suggest that the IASB conducts further research on the inclusion of depreciation and other amortisation expenses (see comments above related to the interplay with IAS 36), including reversal of any impairments following the fulfilment of contracts. Moreover, IAS 37 refers to *net* costs when discussing unavoidable costs. This indicates that benefits must be considered, and the list should also specify the benefits to include.

### Question 3

Do you have any other comments on the proposed amendments?

We agree that the withdrawal of IAS 11 have caused a need to consider whether IAS 37 is appropriate for construction contracts. The proposed amendments seem to address this need, but, at the same time, they will imply changes in the recognition and measurement of other contracts, and these changes are not sufficiently discussed in the ED. Therefore, we suggest further research before concluding on contracts outside the scope of IFRS 15.