



DRAFT COMMENT LETTER ON IASB'S ED/2018/2 ONEROUS CONTRACTS – COST OF FULFILLING A CONTRACT: PROPOSED AMENDMENTS TO IAS 37

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ICAEW welcomes the opportunity to comment on EFRAG's draft comment letter on *ED/2018/2 Onerous Contracts – Cost of Fulfilling a Contract: Proposed Amendments to IAS 37*, published in January 2019, a copy of which is available from this [link](#).

We are currently in the process of finalising our response to the IASB's ED/2018/2 Onerous Contracts – Cost of Fulfilling a Contract: Proposed Amendments to IAS 37. Although we are not yet able to confirm our final comments, we expect to support the proposals but recommend that the IASB ensures that proper consideration is given to how the proposed amendments would affect all contracts within IAS 37 and not just those previously within the scope of IAS 11.

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KEY POINTS

SUPPORT FOR IASB PROPOSALS

1. We are currently in the process of finalising our response to the IASB's *ED/2018/2 Onerous Contracts – Cost of Fulfilling a Contract: Proposed Amendments to IAS 37*. Although we are not yet able to confirm our final comments to the IASB, we expect to support the proposals, which aim to clarify which costs should be taken into consideration when determining the 'cost of fulfilling' a contract for the purpose of assessing whether a contract is onerous.
2. However, in our draft response we also recommend that the IASB ensures that proper consideration is given to how the proposed amendments would affect all contracts within IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and not just those previously within the scope of IAS 11 *Construction Contracts*.

ANSWERS TO SPECIFIC QUESTIONS

Question 1

EFRAG notes that the impact of the proposals goes beyond contracts with customers in the scope of IFRS 15. What is your perceived impact of the amendments that should be considered by the IASB when finalising the amendments? Please provide the relevant contract examples.

3. In our draft response to the IASB we note that although the proposed amendments have been prompted by the withdrawal of IAS 11 and the introduction of IFRS 15 *Revenue from Contracts with Customers*, the changes would affect all contracts within the scope of IAS 37. Therefore, although we are not able to comment in detail on the possible impact of the amendments, we do recommend that the IASB ensures that proper consideration has been given to how the proposed amendments would affect all contracts within the scope of IAS 37 and not just those previously within the scope of IAS 11.
4. In addition, we note that the proposed amendments could result in an entity making a provision for contracts which would be marginally profitable but for the allocation of existing fixed costs that are 'directly related' to that contract. This seems more likely to be a possibility for contracts previously within the scope of IAS 11 and therefore we suggest that the IASB considers this concern further as part of its review of how the proposed amendments would affect all contracts.