

## STAFF PAPER

November 2018

## IASB® Meeting

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| <b>Project</b>     | <b>Onerous Contracts: Cost of Fulfilling a Contract (Amendments to IAS 37)</b> |  |                     |
| <b>Paper topic</b> | Sweep issue—early application  |  |                     |
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This paper has been prepared for discussion at a public meeting of the International Accounting Standards Board (Board) and does not represent the views of the Board or any individual member of the Board. Comments on the application of IFRS® Standards do not purport to set out acceptable or unacceptable application of IFRS Standards. Technical decisions are made in public and reported in IASB® *Update*.

**Introduction and purpose**

1. At its July 2018 meeting, the International Accounting Standards Board (Board) decided to propose a narrow-scope amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. The proposed amendment relates to onerous contracts and, specifically, the ‘cost of fulfilling’ a contract in paragraph 68 of IAS 37.
2. The proposed amendment would:
  - (a) specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract;
  - (b) provide examples of costs that do, and do not, relate directly to a contract to provide goods or services; and
  - (c) include transition requirements for entities already reporting using IFRS Standards. Such entities would be required to apply a ‘modified retrospective’ approach whereby they would apply the proposed amendments to contracts existing at the date of initial application (the beginning of the annual reporting period in which the entity first applies the amendments).
3. The Board confirmed at its September 2018 meeting that it is satisfied that it has (a) complied with the applicable due process requirements and (b) undertaken sufficient consultation and analysis to begin balloting the proposed amendment to IAS 37.

4. Comments received on a draft of the proposed amendment highlighted that the proposals did not address early application. The purpose of this paper is therefore to ask the Board whether it agrees with our recommendation to propose to permit early application of the proposed amendment.

### Early application

5. The Board typically permits early application of new requirements and we see no reason not to permit early application of the proposed amendment to IAS 37.
6. The proposed amendment would clarify the cost of fulfilling a contract when assessing whether that contract is onerous. Some entities may already have an accounting policy for onerous contracts that reflects the proposed amendment whereas, for other entities, the proposed amendment could result in fewer or additional costs being included in the assessment.
7. If the proposed amendment would require an entity to change its accounting policy for onerous contracts, we think that entity should be permitted to make the change earlier than the effective date. Although such an entity could already voluntarily change its policy to reflect the proposed amendment, there is benefit in permitting early application. This is because an entity applying the amendment early would be able to use the proposed transition relief whereas a voluntary change in accounting policy requires retrospective application in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

### Question for the Board

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Does the Board agree with our recommendation to propose to permit early application of the proposed amendment to IAS 37?