STAFF PAPER

May 2019

IASB® Meeting

Project	**Onerous Contracts—Cost of Fulfilling a Contract (Proposed amendments to IAS 37)**
Paper topic	Feedback summary

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Introduction and purpose

1. The International Accounting Standards Board (Board) published Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract* (Exposure Draft) in December 2018, with a comment letter deadline of 15 April 2019.

2. The proposed amendments to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* 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 that report using IFRS Standards. 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. Entities would not be permitted to restate comparative information.

3. The purpose of this paper is to provide the Board with a summary of the feedback received on the Exposure Draft.

Structure of the paper and next steps

4. This paper includes:

   (a) background information;

   (b) feedback overview

      (i) Question 1 of the Exposure Draft—whether respondents agree that IAS 37 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract;

      (ii) Question 2 of the Exposure Draft—whether respondents have any comments on the proposed examples of costs that do, and do not, relate directly to a contract; and

   (c) other comments:

      (i) scope of the proposed amendments; and

      (ii) transition requirements.

5. There are three appendices to this paper:

   (a) Appendix A—summary of other comments;

   (b) Appendix B—summary of Global Preparers Forum (GPF) comments (March 2019 meeting); and

   (c) Appendix C—summary of Accounting Standards Advisory Forum (ASAF) comments (April 2019 meeting).

6. After discussion of comments received at this meeting, we plan to bring a paper to a future Board meeting analysing those comments and providing recommendations for the Board on the project direction.

Background information

7. IAS 37 defines an onerous contract as a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. IAS 37 also states that the unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

However, IAS 37 does not specify which costs to include in determining the cost of fulfilling a contract.

8. The IFRS Interpretations Committee (Committee) received a request to clarify which costs to include in determining the cost of fulfilling a contract. In particular, the request referred to construction contracts. These were previously within the scope of IAS 11 *Construction Contracts*, which included requirements for onerous construction contracts. IAS 11 has now been withdrawn and, for annual reporting periods beginning on or after 1 January 2018, an entity applies IAS 37 to assess whether such contracts are onerous. Accordingly, the Committee considered this matter urgent.

9. Research conducted by the Committee indicated that differing views on which costs to include applying IAS 37 could lead to material differences in the financial statements of entities that enter into some types of contracts. Consequently, the Committee recommended that the Board clarify which costs to include in determining the cost of fulfilling a contract. The Board agreed with the Committee's recommendation.

10. The Exposure Draft asked respondents:

    (a) whether they agree that IAS 37 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract rather than only the incremental costs (Question 1); and

    (b) whether they have any comments on the proposed examples of costs that do, and do not, relate directly to a contract (Question 2).

Feedback overview

11. 67 respondents commented on the Exposure Draft. Responses were received from national standard-setters, regulators, accounting bodies/firms, preparers and organisations representing groups of preparers.

12. We also obtained feedback from the GPF—see Appendix B, and the ASAF—see Appendix C.

Question 1

13. The Exposure Draft proposed adding a sentence to paragraph 68 of IAS 37 that would state:

> The cost of fulfilling a contract comprises the costs that relate directly to the contract.

Support for the proposals

14. A significant majority of respondents agreed that the cost of fulfilling a contract should comprise the costs that relate directly to the contract, rather than only the incremental costs of the contract. Those respondents said the proposals:

    (a) provide a more faithful representation of the cost of fulfilling a contract, as described in paragraphs BC16–BC23 of the Exposure Draft.

    (b) would increase comparability of financial statements.

    (c) are consistent with requirements in other IFRS Standards (although some commented on the lack of consistency in wording across the Standards, see paragraphs 27–31 of this paper).

    (d) are consistent with the objective of IAS 37 and the *Conceptual Framework on Financial Reporting*.

    (e) are consistent with how IAS 37 is currently applied in practice[1].

15. We also received one informal response from the CFA Institute. It agreed with the Board's proposals. In particular, it said from a user's perspective timely recognition of provisions for onerous (loss-making) contracts is very important.

16. Some[2] respondents explicitly stated agreement with the scope of the proposed amendments—ie all contracts within the scope of IAS 37.

[1] For example, Accounting Standards Committee of Germany [CL13] and Polish Accounting Standards Committee [CL14].

[2] The term 'some respondents' has been used throughout this paper to refer to five respondents or less; the term 'several respondents' has been used to refer to between five and ten respondents; the term 'many respondents' has been used to refer to more than ten respondents.

Disagreement

17. Six respondents disagreed with the proposed amendments. They said the cost of fulfilling a contract should include only incremental costs. The respondents said the proposals:

    (a) would impose additional costs on entities that measure costs using an incremental approach (see also paragraphs 18–20 of this paper)—some respondents said an incremental approach is the prevailing interpretation of the requirements in IAS 37[3]. Those respondents said the costs of the proposals may outweigh the expected benefits.

    (b) would not provide useful information if an entity prices contracts considering only incremental costs. In their view, the proposed amendments would produce an outcome that is inconsistent with commercial reality in that situation[4]. Some said this contract pricing is particularly common when an entity sells idle labour or machine capacity.

    (c) conflict with other requirements in IAS 37—for example, (a) those in paragraph 63 that prohibit an entity from recognising future operating losses; (b) the phrase ‘unavoidable’ in the definition of an onerous contract; and (c) those in paragraph 68 that compare the cost of fulfilling a contract with any compensation or penalties arising from failure to fulfil it when determining the unavoidable costs under a contract.

Other suggestions

18. Five respondents did not express agreement or disagreement with the Board’s proposals. In their view, the Board should:

    (a) address other aspects of IAS 37 at the same time—for example, the meaning of ‘economic benefits’ in the definition of an onerous contract (see paragraphs 43–47 of this paper for more information), and the definition of a ‘contract’ in the context of IAS 37 (see paragraph 51 of this paper for more information); or

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[3] For example, the Institute for the Accountancy Profession in Sweden [CL8].

[4] An example is included in the comment letter from BDO [CL10].

(b) perform additional analysis to determine the effect of the proposed amendments on contracts that were not previously accounted for applying IAS 11. Several respondents who agreed with the Board's proposals also suggested this.

19. The Accounting Standards Board of Japan (ASBJ) [CL19] disagreed with the Board and Committee's view that the matter is urgent. It noted that, since 2018, entities referred to in paragraph 8 of this paper must apply IAS 37 to assess whether a contract is onerous. The ASBJ suggested that the Board consider this matter as part of the Board's project on Provisions.

20. The Korea Accounting Standards Board (KASB) [CL40] said it was particularly concerned about the effect of the proposed amendments on large manufacturing entities, which it said might be immense. In its experience, such manufacturing entities typically include only incremental costs when assessing whether a contract is onerous.

21. Six respondents suggested alternatives to determining the cost of fulfilling a contract:

(a) Separate requirements for purchase and sales contracts—the Saudi Organization for Certified Public Accountants [CL21] said the existing requirements appear to work well for contracts to receive goods or services; therefore the proposed requirements should apply only to contracts to provide goods or services.

(b) Impairment—Rio Tinto [CL37] suggested that the Board redefine the onerous contract test to recognise an onerous contract only to the extent that an entity has an unallocated impairment loss on a Cash Generating Unit (CGU) to which that contract belongs.

(c) Pricing— The Austrian Financial Reporting and Auditing Committee [CL51] and Comité Técnico IFRS Universidad de Chile [CL53] suggested that the cost of fulfilling a contract for the purpose of assessing whether it is onerous should be the costs used in initially pricing that contract. They noted that some entities price contracts on a 'full-cost' basis while others consider only incremental costs.

(d) Grouping of contracts—Petrobras [CL59] suggested applying the onerous contract requirements to groups of similar contracts, rather than to individual contracts.

(e) Shared costs—Vodafone [CL63] suggested that the use of incremental costs should be permitted when it is probable that shared infrastructure costs will be covered by contracts with other customers. Vodafone said applying the proposed amendments would be complex and costly for the telecoms industry given the volume and nature of contracts with customers.

Question 2

22. The Exposure Draft proposed adding paragraphs 68A and 68B to IAS 37:

> 68A Examples of costs that relate directly to a contract to provide goods or services include:
>
> (a) direct labour (for example, salaries and wages of employees who manufacture and deliver the goods or provide the services directly to the counterparty);
>
> (b) direct materials (for example, supplies used in fulfilling the contract);
>
> (c) allocations of costs that relate directly to contract activities (for example, costs of contract management and supervision; insurance; and depreciation of tools, equipment and right-of-use assets used in fulfilling the contract);
>
> (d) costs explicitly chargeable to the counterparty under the contract; and
>
> (e) other costs incurred only because an entity entered into the contract (for example, payments to subcontractors).
>
> 68B General and administrative costs do not relate directly to a contract unless they are explicitly chargeable to the counterparty under the contract.

23. In explaining the Board's proposals, paragraph BC25 notes that the proposal to include both incremental costs and any other directly related costs in the cost of

fulfilling a contract is consistent with the approach adopted in other IFRS Standards for the measurement of non-monetary assets, including IFRS 15 *Revenue from Contracts with Customers*, IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment*, IAS 38 *Intangible Assets* and IAS 40 *Investment Property*. Paragraph BC27 also notes that the proposed approach is consistent with the requirements for onerous contracts in IFRS 17 *Insurance Contracts*.

24. The Board acknowledged that the terminology in each of these Standards is slightly different but decided to use the terminology ('costs that relate directly to a contract') in IFRS 15 because it is 'the most recent relevant example of terminology the Board has used'. The proposals in paragraph 68A and 68B are also based on costs listed in paragraphs 97–98 of IFRS 15.

25. Many respondents who commented on question 2 agreed with the Board's proposal to include costs that do (and do not) relate directly to a contract. However, many respondents had questions, or expressed concerns, about those proposals as described below.

Principle underpinning the examples

26. Some respondents suggested that the Board clarify the principle that underpins the proposed examples and include it as a requirement in IAS 37. For example, EY [CL44] suggested that the Board could include the wording of paragraph BC16(b) as a requirement. Paragraph BC16(b) says 'the directly related cost approach—includes all the costs an entity cannot avoid because it has the contract. Such costs include both the incremental costs of the contract and an allocation of other costs incurred on activities required to fulfil the contract.'

Examples in proposed paragraph 68A / requirements in other Standards

27. Several respondents commented on the requirements in Standards listed in paragraph BC25 and the examples listed in proposed paragraph 68A. Those respondents asked for clarity about the costs to include in the cost of fulfilling a contract applying the proposals:

    (a) Salaries and wages of employees—Some respondents, for example the South African Institute of Chartered Accountants (SAICA) [CL17], noted that proposed paragraph 68A(a) refers to 'salaries and wages of employees' but paragraph 17(a) of IAS 16 describes similar costs as ‘costs of employee benefits (as defined in IAS 19 *Employee Benefits*)’. Those respondents asked whether the difference is intentional and implies some costs (for example pension costs) should not be considered applying the proposed amendments.

(b) Production costs/fixed and variable overheads—Some respondents, including one GPF member, suggested basing the examples on those in IAS 2 relating to the cost of inventories, rather than those in paragraphs 97–98 of IFRS 15. They noted that IAS 2 refers to fixed and variable production overheads and indirect costs of production. Others asked for clarity about whether to include an allocation of production overheads. SAICA [CL17] noted that paragraph B65 of IFRS 17 requires an entity to include an allocation of fixed and variable overheads directly attributable to fulfilling insurance contracts that include ‘...the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities.’ SAICA asked for clarity in this respect because proposed paragraph 68B states that general and administrative costs do not relate directly to a contract (see paragraphs 32–34 of this paper for further discussion of general and administrative costs).

(c) Abnormal amounts of wasted materials—Some respondents asked why the proposals do not prohibit including costs of wasted materials, labour or other resources that relate directly to a contract, whereas IFRS 15, IAS 2 and IAS 16 do not permit entities to capitalise such costs.

28. Some respondents asked whether the proposals would result in any change compared to applying IAS 11 (for example, IAS 11 prohibited the inclusion of sales costs but included attributable borrowing costs).

29. Deloitte [CL42] said, in its view, IAS 16 and IAS 38 have a different concept of ‘directly attributable’ costs than IAS 2, and that IAS 2’s requirements (that include the allocation of production overheads) more directly link to the Board’s proposals. Deloitte suggested removing any reference to IAS 16 and IAS 38 from the basis for conclusions.

30. EY [CL44] suggested that the explanation in paragraph BC26 should be included in the Standard to better convey the Board's intentions. Paragraph BC26 says 'the Board concluded that, ideally, the way an entity determines the cost of fulfilling a contract to deliver goods should be consistent with the way in which it determines the cost of those goods when it holds them. Consistency ensures that resources needed to fulfil a contract are measured in the same way, regardless of whether the entity has yet obtained them.'

31. Several respondents said the Board should undertake a project (separate from this narrow-scope amendment) to harmonise the wording used to describe costs across the Standards listed in paragraph 23. The UK FRC [CL15] went further, saying 'we believe that the [Board] should undertake further research into the notion of costs and the role they should play in financial reporting. This could be linked with an exploration of the conceptual basis for historical cost accounting.'

Proposed paragraph 68B: general and administrative costs

32. Many respondents suggested clarifying the treatment of general and administrative costs in order to better distinguish between costs that relate directly to a contract and general costs of operating. In particular, those respondents asked about the interaction between proposed paragraphs 68A(c), 68A(e) and 68B. For example, Business Europe [CL31] said an entity may set up a subsidiary to fulfil a contract and it is unclear whether any general and administrative costs of operating that subsidiary would relate directly to the contract. It went on to say:

> 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.

33. Some respondents said general and administrative costs can never relate directly to a contract, even if the costs are explicitly chargeable to the counterparty under the contract. For example, Volkswagen Group [CL27] said:

> It is our opinion that [proposed paragraph 68B] may lead to an unnecessary diversity in practice because provisions can be influenced by the "mode" of recharging costs (implicitly or explicitly). Thus, general administration costs should not,

independent from their rechargeability, be part of the provision for anticipated losses in onerous contracts. For costs mentioned in IFRS 15.98 (b) we deem their inclusion questionable.

34. Other respondents suggested that the Board include more examples of costs that do not relate directly to the contract[5].

Other requests relating to proposed paragraphs 68A and 68B

35. Many respondents noted that proposed paragraph 68A includes examples only for contracts to provide goods or services. They said it would be helpful to have examples of costs that relate directly to other types of contracts, the most common type suggested being purchase contracts.

36. In contrast, Mazars [CL57] said it is 'not sure that adding other examples illustrating the costs to be included in the onerous contract assessment for non-IFRS 15 contracts would add clarity to the standard'.

37. Several respondents suggested including requirements on how an entity allocates costs that relate directly to contract activities for several contracts.

38. Some respondents suggested clarifying whether the costs listed in proposed paragraphs 68A and 68B are examples or an exhaustive list.

Other Comments

39. Various respondents commented on other aspects of the proposed amendments. The main matters identified relate to:

    (a) scope of the proposed amendments; and

    (b) transition requirements.

40. The paragraphs below discuss these matters. Appendix A summarises other matters raised by respondents.

[5] For example, the Institute of Certified Public Accountants of Kenya [CL50]

Scope of the proposed amendments

41. Paragraphs BC8–BC15 of the Exposure Draft explained the reasons for the scope of the proposed amendments, including why the Board did not propose additional requirements relating to measurement and the meaning of 'economic benefits' within the onerous contract definition.

42. Respondents commented on these and other aspects of the onerous contract requirements in IAS 37 as described in the following paragraphs.

Economic benefits

43. Paragraph BC15 explained that questions sometimes arise about the meaning of economic benefits in the IAS 37 definition of an onerous contract. However, the Board decided not to address this matter as part of the proposed amendments because (a) it is not a question prompted by the withdrawal of IAS 11 (as was the case for the cost of fulfilling a contract); and (b) expanding the scope of the project could cause delay.

44. As noted in paragraph 18 of this paper, some respondents said it would not be beneficial to consider the cost of fulfilling a contract without also considering the meaning of economic benefits within the definition of an onerous contract.

45. In addition, many respondents who agreed with the Board proposals regarding the costs of fulfilling a contract also suggested that the Board consider the meaning of economic benefits. Those respondents are concerned about clarifying one part of the onerous contract definition without clarifying the other. For example, the Institute of Certified Public Accountants of Uganda [CL48] said:

> The Board has chosen not to specify the term 'economic benefits' of a contract. Whereas this may appear as an extension of the Board's work, the truth in practice is that the effect of giving a more elaborate description and specification of what amounts to costs in order to calm the diversity of application of costs to a contract as a way of avoiding diversity of application in practice may now turn on to the benefit side, that is, the problem of diversity in practice which would have been resolved on the cost side will now be shifted to the benefit side.

46. Respondents identified the following for the Board's consideration if it were to address the meaning of economic benefits:

(a) Most respondents who commented on this topic said there is a question as to whether 'economic benefits' refers only to contract revenue or also includes wider benefits, such as access to new markets and/or contracts, maintaining good customer relationships or maintaining employee's technical skills and experience. This question may be linked to comments made about contracts to sell idle capacity. For example, the Accounting Standards Board of Canada [CL55] said:

> Addressing only the cost element can result in an overall beneficial contract becoming onerous. This is often the case when an entity enters into a new contract to utilize idle capacity that is beneficial to the entity because it absorbs more of the overhead costs. However, if these economic benefits are not captured, the additional allocated cost will make this contract onerous. This outcome would not provide useful information to users of financial statements.

(b) Some respondents asked how an entity measures any variable consideration to which it is entitled[6].

(c) The Singapore Accounting Standards Council [CL62] said it is unclear how to determine economic benefits when a contract does not generate cash inflows largely independent of other assets of the entity.

(d) The Institute of Chartered Accountants of India [CL16] asked whether economic benefits are considered to be nil when an entity determines the unavoidable cost of a contract to be the compensation or penalties arising from failure to fulfil it.

47. BusinessEurope [CL31] agreed with the Board's decision not to address economic benefits as part of this project. A further five respondents suggested that the Board consider economic benefits as part of its research project on Provisions.

[6] For example, see Dutch Accounting Standards Board [CL12].

Measurement

48. Paragraphs BC12–BC14 of the Exposure Draft discuss measurement of an onerous contract provision and explain why the Board decided not to develop additional requirements in this respect.

49. Several respondents suggested clarifying whether an entity is required to measure an onerous contract provision using the same costs as it used to identify the contract as onerous (noting that paragraph BC14 said an entity could measure it using the same costs).

50. Some other respondents, for example KPMG [CL38], asked for clarity as to whether and how the Board's proposals would affect the measurement of liabilities within the scope of IAS 37 that are not onerous contracts.

Definition of a contract

51. Several respondents, and one GPF member, suggested clarifying the definition of a 'contract' when applying the onerous contract requirements in IAS 37. Those respondents, for example the Israel Accounting Standards Board [CL5], noted that IFRS 15 includes requirements for combining contracts, and asked whether IAS 37 would apply to a combined contract as defined by IFRS 15 or to each contract that is legally separate.

Interaction with impairment

52. Paragraph 66 of IAS 37 states:

> Before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets dedicated to that contract (see IAS 36).

53. Several respondents suggested clarifying:

    (a) the order of applying the impairment requirements and recognising an onerous contract provision;

    (b) whether the requirements in paragraph 66 of IAS 37 apply to assets that are not subject to the impairment requirements in IAS 36; and

(c) what 'dedicated' means in the context of assets that are used to fulfil several contracts.

Transition requirements

54. The Board proposed that entities would be required to apply a 'modified retrospective' approach on transition—ie apply the amendments to contracts existing at the beginning of the annual reporting period in which the entity first applies the amendments. Entities would not be permitted to restate comparative information.

55. Respondents had mixed views about the proposed transition requirements. Some respondents supported the proposals, but several others did not. Those who disagreed said entities should be permitted to apply the requirements retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

56. Consejo Mexicano de Normas de Información Financiera [CL24] and Group of Latin American Accounting Standard Setters [CL26] said entities making a change as a result of the proposals would be making a change in an accounting estimate rather than a change in an accounting policy.

57. KPMG [CL38] asked whether 'contracts existing' has the same meaning as 'completed contracts' within the transition requirements of IFRS 15.

58. The ASBJ [CL19] suggested that the Board provide transition relief for first-time adopters. They said if a first-time adopter elects to apply the transitional requirements in IFRS 1 *First-time Adoption of International Financial Reporting Standards* in relation to variable consideration applying IFRS 15, the basis used to recognise revenue and the basis used to assess whether the contract is onerous could be different.

Question for the Board

Question for the Board
Does the Board have any comments or questions on the feedback on the Exposure Draft?

Appendix A—Summary of other comments

A1. The following table summarises other comments:

<table>
<tr><th>Topic</th><th>Summary of feedback</th></tr>
<tr><td>1. Unavoidable costs</td><td>Paragraph 68 of IAS 37 defines the unavoidable costs under a contract as ‘the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it’.
Some respondents provided the following suggestions regarding ‘unavoidable costs’:
a) delete ‘unavoidable’ because, considered together with paragraph 19 of IAS 37 (which requires the recognition of only obligations arising from past events existing independently of an entity’s future actions), it indicates that the incremental cost approach is more appropriate;
b) clarify whether the cost of fulfilling a contract need to be both unavoidable and direct, or whether ‘unavoidable costs’ refers to the lower of the two amounts;
c) redefine ‘unavoidable’ so that an entity would determine whether the cost of fulfilling a contract or the penalties from failure to fulfil it best reflect the manner in which the entity is expected to satisfy its obligation; and
d) emphasise the cost of failure to fulfil a contract, rather than only any compensation and penalties arising from failure to do so.</td></tr>
<tr><td>2. Timing of assessment or recognition</td><td>PwC [CL30] noted that paragraph 67 of IAS 37 states ‘Where events make such a contract onerous, the contract falls within the scope of this Standard and a liability exists which is recognised.’ PwC suggested clarifying whether a contract can be onerous from inception or only when subsequent events occur.
IFRScommunity.com [CL1] suggested requiring an assessment of whether a contract is onerous only when factors indicate that this might be the case.</td></tr>
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	The Dutch Accounting Standards Board [CL12] noted that paragraph 36 of IAS 11 identified when an entity recognises an expected loss but when an entity recognises an onerous contract is not considered in the Exposure Draft.
3. Requests for other clarifications	Some respondents suggested that the Board: a) conduct a comprehensive review of IAS 37 to clarify the principles for discounting in the measurement of provisions. b) provide examples of the information an entity might disclose about onerous contracts to meet the requirements in paragraph 85(b) of IAS 37 and paragraph 125 of IAS 1 *Presentation of Financial Statements*. c) clarify the link between these proposals and the presentation of ‘cost of sales’ when presenting expenses by function.

Appendix B—Summary of GPF comments (March 2019 meeting)

B1. This appendix reproduces the meeting summary from the March 2019 GPF meeting.

Onerous Contracts—Costs of fulfilling a contract

GPF members provided feedback on the Board's proposals in Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract*.

Members had mixed views on the Exposure Draft:

a) Some members agreed with the proposals—noting that the concept is well understood and is consistent with other IFRS Standards.

b) Other members did not agree with the proposals—they would prefer an incremental cost approach for some or all types of contracts. These members said for some types of contract (eg service contracts) it may be difficult for an entity to identify and track which costs to include in the cost of fulfilling a contract. Members also noted that developing new accounting or governance systems may be costly. One member said including more than incremental costs in the assessment could produce counter-intuitive results for a contract in which an entity sells idle capacity at a price that includes only incremental costs.

Other member comments included:

a) the proposed wording of the amendment does not set out clearly which costs to include and which costs to exclude. In particular, paragraph 68A(c) of the Exposure Draft in relation to 'costs that relate directly to contract activities' and paragraph 68B of the Exposure Draft could be amended so that they contain more examples.

b) the Exposure Draft addresses only one aspect of the onerous contract requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. Questions may also arise in identifying 'economic benefits' when assessing whether a contract is onerous.

Appendix C—Summary of ASAF comments (April 2019 meeting)

C1. This appendix reproduces the draft meeting summary from the April 2019 ASAF meeting.

Onerous Contracts—Cost of fulfilling a contract

The objective of this discussion was to obtain ASAF members' preliminary views on the Board's proposals in Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract*.

Five ASAF members (the Financial Reporting Council (FRC), Accounting Regulatory Department, Ministry of Finance PRC (ARD), Pan African Federation of Accountants (PAFA), European Financial Reporting Advisory Group (EFRAG) and Asian-Oceanian Standard-Setters Group (AOSSG)) indicated general support for the Board's proposals.

Some ASAF members suggested that the Board consider widening the scope of the project to address other aspects of the onerous contract requirements:

a) Measurement—The FRC, Group of Latin American Accounting Standard Setters (GLASS) and AOSSG members suggested that the amendments address how an entity would measure an onerous contract liability. In particular, they questioned whether an entity would include the same costs when measuring an onerous contract liability as it would in identifying that the contract is onerous.

b) Economic benefits—The Accounting Standards Board of Japan (ASBJ), PAFA and AOSSG members suggested that the Board consider the term 'economic benefits' in the definition of an onerous contract.

c) Unit of account—The ASBJ member suggested the Board clarify what IAS 37 means by 'contract'.

d) Impairment—The EFRAG member suggested that the Board consider clarifying whether an entity is required to allocate depreciation or amortisation costs to a contract before or after the related asset has been considered for impairment.

The PAFA, Korea Accounting Standards Board (KASB) and EFRAG members suggested that the Board consider the effects of the proposal on contracts other than those previous within the scope of IAS 11 *Construction Contracts.* The KASB member said that the Exposure Draft may have a significant and costly effect on some manufacturing entities.

The AOSSG and Canadian Accounting Standards Board (AcSB) members suggested that the Board clarify what costs are directly related to the contract. The FRC member suggest the Board consider management accounting concepts to clarify what costs an entity would include applying the proposals.

The AcSB member noted that it would send a comment letter but, in discussion, some of its board members had a preference to permit retrospective application of the proposed amendments.