

STAFF PAPER

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IASB® Meeting

Project	Onerous Contracts—Cost of Fulfilling a Contract (Proposed amendments to IAS 37)		
Paper topic	Costs that relate directly to the contract		
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Introduction

1. The International Accounting Standards Board (Board) published [Exposure Draft *Onerous Contracts—Cost of Fulfilling a Contract*](#) (Exposure Draft) in December 2018.
2. [Agenda Paper 12](#) to the Board’s May 2019 summarises feedback on the Exposure Draft.
3. This paper analyses the feedback on the first question in 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.
4. Depending on the outcome of this meeting, at a future meeting we will provide the Board with staff analysis of responses to the second question in the Exposure Draft and other comments from respondents. The second question in the Exposure Draft asked whether respondents have any comments on the proposed examples of costs that do, and do not, relate directly to a contract.
5. This paper includes:
 - (a) background information (paragraphs 7–12);
 - (b) a feedback overview (paragraphs 14–21);
 - (c) the staff’s analysis of comments on:
 - (i) whether the proposals are consistent with other requirements in IAS 37 (paragraphs 22–27);

- (ii) whether the proposals would result in entities providing useful information in all circumstances (paragraphs 28–49); and
 - (iii) the cost of applying the proposals in particular industries (paragraphs 51–70);
 - (d) whether the benefits outweigh the costs (paragraphs 71–73);
 - (e) consideration of the interaction of these proposals with the Board’s research project on Provisions (paragraphs 74–77); and
 - (f) overall staff conclusion and recommendations (paragraphs 78–79).
6. As noted in paragraph 79 of this paper, we recommend that the Board:
- (a) proceeds with its project to make a narrow-scope amendment to IAS 37 to clarify which costs to include in determining the ‘cost of fulfilling’ a contract for the purpose of assessing whether the contract is onerous; and
 - (b) specify, as proposed in the Exposure Draft, that the costs comprise the costs that relate directly to the contract.

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 contracts 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.
10. In response, the Board developed proposals to clarify which costs to include and published an Exposure Draft.
11. 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.
12. The Exposure Draft also proposed to add examples of costs that relate directly to a contract to provide goods or services, to clarify that such costs include both:
 - (a) the incremental costs of fulfilling that particular contract; and
 - (b) an allocation of other costs that relate directly to contract activities.
13. The Exposure Draft proposed the amendments would apply to all contracts within the scope of IAS 37, not only construction contracts or contracts within the scope of IFRS 15 *Revenue from Contracts with Customers*.

Feedback overview

14. The Board received 67 responses to the Exposure Draft. Respondents included national standard-setters, regulators, accounting firms, accountancy bodies and preparers of financial statements (including organisations representing groups of preparers). The Board also received feedback from the Global Preparers Forum (GPF) and the Accounting Standards Advisory Forum (ASAF) and one informal response from a group representing users of financial statements.

Support for the proposals

15. Most respondents, including the group representing users of financial statements, most of the accounting firms and national standard-setters, and some preparers of

financial statements, supported the proposal to specify 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. In explaining their support, respondents said requiring entities to include all costs that relate directly to a contract would:

- (a) lead to entities providing a more faithful representation of the cost of fulfilling a contract, as described in paragraphs BC16–BC23 of the Exposure Draft.
 - (b) increase the comparability of financial statements.
 - (c) be consistent with requirements in other IFRS Standards.
 - (d) be consistent with the objective of IAS 37 and the *Conceptual Framework on Financial Reporting*.
 - (e) be consistent with how the respondents thought IAS 37 is generally applied in practice at present.
16. Some respondents explicitly agreed that the proposed amendments should apply to all contracts within the scope of IAS 37, not only construction contracts or contracts within the scope of IFRS 15.

Disagreement

17. Some respondents disagreed with the proposed amendments because they take the view that the cost of fulfilling a contract should include only incremental costs.
18. A few of those respondents expressed a concern that the proposed amendments would conflict with other requirements in IAS 37—for example, (a) requirements in paragraph 63 prohibiting an entity from recognising future operating losses; and (b) the phrase ‘unavoidable’ in the definition of an onerous contract.
19. Some respondents, including some who agreed with the proposed amendments, suggested the Board consider the implications for contracts other than construction contracts. IAS 37 has always applied to those other contracts and those respondents said many preparers of financial statements have applied IAS 37 by considering only the incremental costs of fulfilling a contract.

20. Some of the respondents that disagreed with the proposals expressed a view that requiring entities to, instead, include all costs that relate directly to a contract:
- (a) would not provide useful information in all circumstances; or
 - (b) could impose additional costs on entities.
21. The rest of this paper reports in more detail and discusses the concerns expressed about:
- (a) whether the proposals are consistent with other requirements in IAS 37 (paragraphs 22–27);
 - (b) whether the proposals would result in entities providing useful information in all circumstances (paragraphs 28–49); and
 - (c) the cost of applying the proposals in particular industries (paragraphs 51–70).

Consistency with other requirements in IAS 37

Matter raised by respondents

22. A few respondents expressed a concern that the proposals conflict with other requirements in IAS 37:
- (a) two national standard-setters, an accounting body and an accounting firm suggested that including costs beyond incremental costs would conflict with paragraph 63 of IAS 37, which states ‘provisions shall not be recognised for future operating losses’. In the view of the respondents, costs beyond incremental costs are future operating losses because they would be incurred by the entity, regardless of whether the entity entered into the contract being assessed.
 - (b) an accounting firm suggested that including costs beyond incremental costs would result in an entity including costs beyond those that are ‘unavoidable’, and so would be inconsistent with the definition of an onerous contract.

Staff analysis

23. As it developed the Exposure Draft, the Board considered whether the proposed amendments are consistent with other requirements in IAS 37.
24. Paragraph BC23 of the Exposure Draft explains why the Board does not agree that its proposals would require entities to recognise provisions for future operating losses. It states:
- However, the Board did not agree with this view because:
- (a) in recognising an onerous contract provision, an entity would not be recognising a provision for the costs themselves—ie it would not be identifying the costs as present obligations in their own right. Instead the entity would be recognising its present obligation to deliver goods or services in exchange for other economic benefits, measuring that obligation at an amount that includes all the costs of fulfilling it.
- (b) paragraph 63 of IAS 37 prohibits an entity from recognising future operating losses because such losses are not a liability; in other words, the entity does not have a present obligation to incur those losses. In contrast, in assessing whether a contract is onerous an entity determines the cost of fulfilling its present obligation under an existing contract.
25. As it developed the Exposure Draft proposals, the Board also considered the meaning of the term ‘unavoidable costs’ in the definition of an onerous contract. As described in paragraph BC16 of the Exposure Draft, the Board noted that the term could be interpreted in two different ways, as either:
- (a) the costs an entity *would* avoid if it *did not* have the contract—that is, the incremental costs of the contract; or
- (b) the costs an entity *cannot* avoid because it *does* have the contract—that is, the incremental costs of the contract and other costs that relate directly to contract activities.
26. The few respondents who argued that the proposals are not consistent with the definition of an onerous contract are applying the first interpretation (paragraph

25(a)). However, in developing the proposals, the Board applied the second interpretation (paragraph 25(b)). The fact that most respondents support the proposals suggests that most also accept the Board’s interpretation.

Staff conclusion

27. We conclude that the Exposure Draft proposals are consistent with other requirements in IAS 37.

Would the proposed amendments result in useful information in all circumstances?

28. Some respondents questioned whether the proposals would result in an entity providing useful information in all circumstances. Those respondents identified four matters for the Board to consider further:
- (a) contracts priced to exceed only incremental costs (paragraphs 29–36);
 - (b) contracts in which the penalties for not fulfilling a contract are higher than the incremental costs (paragraphs 37–41);
 - (c) the interaction of the proposed amendments with existing requirements to recognise impairment losses (paragraphs 42–46); and
 - (d) other non-construction contracts (paragraphs 47–49).

Contracts priced to exceed only incremental costs

Matter raised by respondents

29. Respondents identified two specific examples of contracts that, applying the proposed amendments, could be classified as onerous from the outset, even if they make a positive contribution to the entity’s results:
- (a) Contracts to sell idle capacity—Respondents noted that entities may price such contracts to exceed incremental costs and make a contribution to the costs of the capacity that would otherwise be idle.

- (b) Shorter-term leases—In some industries (for example shipping, drilling and similar industries), lessors often enter into shorter-term operating leases of plant or equipment with the asset being leased several times over its life. The price charged for each lease may vary over the life of the asset, in line with market price movements. Sometimes the price may be less than the cost that would be allocated to the contract (the depreciation allocated to the period of the lease).
30. In both examples discussed in paragraph 29, the assets used to fulfil the contract are not necessarily impaired—the entity may forecast that profits on other contracts will more than cover losses on the potentially onerous contract.
 31. Those respondents said, in their view, requiring an entity to assess those contracts by comparing the economic benefits with all costs that relate directly to the contract:
 - (a) would not provide useful information—Some respondents said the information produced by the proposals would be inconsistent with commercial reality: the entity would be commercially better off by obtaining some income from capacity that is otherwise idle but, applying the proposals, the entity would recognise a liability for that contract.
 - (b) would provide an incentive not to enter into such a contract—Some respondents suggested that, if an entity is required to recognise a provision for an onerous contract at inception, management may have an incentive not to enter into that contract. This would be the case even if the proceeds of the contract exceed the incremental costs and improve the entity’s financial performance overall.
 32. As a result of these concerns, a few respondents suggested that the cost of fulfilling a contract for the purpose of assessing whether it is onerous should be the costs considered in initially pricing that contract.

Staff Analysis

33. An entity might be making an economically sound decision by entering into a contract that contributes to the cost of idle capacity without fully covering that cost. But, by entering into the contract, the entity has a binding obligation to sell the capacity at a price that is not sustainable. In other words, if an entity were to price all its contracts

in such a way, it would not cover its costs in the long-term. Furthermore, by entering into a contract at that price, the entity has effectively crystallised a loss on that capacity for the life of the contract. It may have been able to sell that capacity for a higher price at a future date, or alternatively, to reduce capacity and avoid incurring those costs.

34. It could be argued, that in these circumstances, information about the extent to which the costs that relate directly to the contract exceed the expected economic benefits is relevant to users of financial statements, and faithfully represents the commercial reality of the situation.
35. Entering into a contract that contributes to, but does not fully cover, the cost of idle capacity would lead to the recognition of an expense at the start of the contract but would also improve the financial performance reported by the entity in the long term. If necessary for an understanding of the financial statements, the entity could explain in the notes the rationale for entering into the contract.

Staff Conclusion

36. In our view, the proposals in the Exposure Draft would result in an entity providing users with useful information, including for contracts priced to exceed only incremental costs.

Contracts in which the penalties for not fulfilling a contract are higher than the incremental costs

Matter raised by respondents

37. An accounting firm expressed concern about the outcome of applying the proposed amendments to a contract in which the costs that relate directly to a contract are greater than any compensation or penalties arising from failure to fulfil it. It says applying paragraph 68 of IAS 37 the entity would use the compensation or penalties arising to fulfil the contract to recognise and measure an onerous contract provision. This would be the case even if the entity intended to fulfil the contract, for example

because the incremental costs of fulfilling the contract are lower than the penalty for not doing so.

Staff Analysis

38. We think in this fact pattern an entity applying the proposed amendments would recognise an onerous contract provision but would not be required to measure the provision by reference to the penalties payable.
39. The ‘lower of’ requirement in paragraph 68 of IAS 37 ensures an entity recognises an onerous contract liability only if (as in this example) failure to fulfil a contract would result in penalties or compensation being payable. However, this requirement applies only for assessing whether the entity has an onerous contract—not to the measurement of the resulting liability.
40. Paragraph 66 of IAS 37 requires an entity to recognise and measure any onerous contract as a provision. Paragraph 36 of IAS 37 requires an entity to measure a provision at ‘the best estimate of the expenditure required to settle the present obligation at the end of the reporting period’. This measure does not necessarily have to be based on the penalties or compensation arising from failure to fulfil the contract—if management expects to fulfil a contract, the entity would measure the provision by reference to the best estimate of the costs required to do so.

Staff Conclusion

41. We think the concerns expressed in paragraph 37 of this paper are misplaced—the proposed amendments would not stop entities from measuring onerous contract provisions on basis of the intended method of settlement.

Interaction with the impairment requirements

Matter raised by respondents

42. A few respondents, including an accountancy body and a national standard setter, suggested that a requirement to include depreciation charges in the cost of fulfilling a contract may lead to ‘counter-intuitive’ outcomes when combined with IFRS requirements for recognising impairment losses. Paragraph 69 of IAS 37 requires

that, before an entity establishes a provision for an onerous contract, it recognises any impairment loss that has occurred on assets dedicated to that contract.

43. The respondents noted that if an entity subsequently reverses a previous impairment of an asset, the future depreciation on that asset would increase. They suggested that any onerous contract provision that had been recognised for a contract using that asset would then increase in size, taking account of the increased depreciation charge. They suggested the increase in the liability would be counter-intuitive because the reversal of impairment normally signals positive news for the entity.

Staff Analysis

44. If an entity recognised the reversal of an impairment loss, it would recognise a gain, and so would signal positive news. Some of that gain might be offset by an increase in an onerous contract liability but only to the extent that:
- (a) the increase in the estimate of future economic benefits that triggered the reversal of the impairment loss does not relate to the onerous contract (and so would not offset any increase in the estimate of the costs); and
 - (b) the increase in the future amount to be charged as depreciation is allocated to the onerous contract (being linked to the pattern of consumption of service potential, rather than to the economic benefits expected for that consumption).
45. Effectively, some of the gain on reversing an impairment loss may not be recognised immediately for the same reason that onerous contract provisions may be required in relation to assets that are not impaired (such as the shorter-term lease assets described in paragraph 29(b)).

Staff Conclusion

46. We think the proposals would not produce counter-intuitive results when an entity reverses any impairment loss previously recognised on an asset used to fulfil a contract.

Other non-construction contracts

Matter raised by respondents

47. One national standard-setter suggested the proposed amendments should apply only to contracts to *provide* goods or services, because existing requirements work well for contracts to *receive* goods or services (purchase contracts).

Staff Analysis and Conclusion

48. Questions about the costs to fulfil a contract typically arise in contracts to provide goods or services. They do not typically arise in contracts to receive goods or services because such contracts typically outline the cost of obtaining those goods or services and require the entity to transfer only cash or other financial assets.
49. Therefore, we expect the proposed amendments to have little effect on the way entities account for contracts to receive goods or services. For this reason, we think scoping such contracts out of the proposed amendments would have little effect on the way entities account for those contracts, whilst increasing the complexity of the requirements and risk of unintended consequences.
50. Accordingly, we think the Board should not restrict the scope of the proposed amendments to contracts to provide goods or services.

The cost of applying the proposals in particular industries

51. Some respondents expressed concern that, for entities that have previously applied an incremental cost approach, the costs of applying the proposed amendments in the Exposure Draft may outweigh the benefits. Some of those respondents referenced paragraphs 2.39–2.40 of the *Conceptual Framework for Financial Reporting*, which state that

2.39 Cost is a pervasive constraint on the information that can be provided by financial reporting. Reporting financial information imposes costs, and it is important that those costs are justified by the benefits of reporting that information. There are several types of costs and benefits to consider.

2.40 Providers of financial information expend most of the effort involved in collecting, processing, verifying and disseminating financial information, but users ultimately bear those costs in the form of reduced returns. Users of financial information also incur costs of analysing and interpreting the information provided. If needed information is not provided, users incur additional costs to obtain that information elsewhere or to estimate it.

52. In this section, we consider the costs of the proposed amendments for entities entering into contracts other than construction contracts. We consider:
- (a) existing practice applying IAS 37 (paragraphs 53–59);
 - (b) costs for manufacturing entities (paragraphs 60–64); and
 - (c) unit of account (paragraphs 65–70).

Existing practice applying IAS 37

Matter raised by respondents

53. A few respondents said that, in their experience, entities typically apply an incremental cost approach to determining whether a contract is onerous. Those respondents said changing to a directly related approach could be costly for some entities.

Staff Analysis

54. In reaching decisions on the scope of the proposed amendments, the Board and Committee considered existing practices applying IAS 37. The Board had gathered evidence in its Provisions research project. Chapter 4 of [Agenda Paper 14B](#) to the Board’s July 2015 meeting discusses the Board’s findings.
55. That paper notes diverse practice for contracts other than construction contracts—some entities apply IAS 37 on an incremental cost basis while others include all costs that relate directly to the contract.
56. The findings of the Board’s previous research have been reinforced by the feedback from respondents. A few respondents—including national standard-setters and accountancy bodies—said, in their experience, the prevailing

application of IAS 37 is an incremental cost approach. However, other respondents—including other national standard-setters—said, in their experience, the proposals are consistent with how IAS 37 is typically applied in practice.

57. This evidence suggests that some but not all entities would be required to change how they assess whether a contract is onerous. This effect was acknowledged by the Board in the Exposure Draft. Paragraph BC10 stated that:

The proposed amendments could require some entities to change their accounting policy. An entity would have to change its policy if it previously included only the incremental costs of fulfilling a contract in applying the IAS 37 onerous contract requirements. Changing to a policy of also including other costs that relate directly to the contract could result in the entity recognising onerous contract costs earlier. Contracts affected could include long-term service contracts.

58. Thus, respondents to the Exposure Draft were aware of the effects of the proposals when they were developing their views on the proposals. Most respondents supported the proposals knowing their implications.

Staff Conclusion

59. We conclude that, although the proposed amendments would require some entities to change their existing practices, any costs could be justified by the benefits of increased comparability resulting from reduced diversity in reporting practices.

Manufacturing entities

Matter raised by respondents

60. A few respondents highlighted specific types of entities, for which they say it will be particularly difficult to apply the proposals in the Exposure Draft. For example, a national standard setter highlighted large manufacturing entities, for which it said, the impact of the accounting change on practice might be immense. It states:

Large-scale manufacturing companies deal with numerous product delivery contracts. In order to determine whether each contract is onerous, it is necessary to forecast the future costs

of production, such as future capacity. Because of this, the costs of preparing the financial statements are likely to exceed the benefits, which is contrary to the ‘cost constraints on useful financial reporting’ as set out in the *Conceptual Framework for Financial Reporting*.

Staff Analysis

61. We understand that the concerns raised by this national standard setter relate to sales contracts of manufacturing entities producing standardised products on large scales. We acknowledge the proposed amendments could require such entities to gather more information about the costs of fulfilling a contract. However, in many cases, these entities should already have a significant amount of the information they need to gather.

62. The requirements in the Exposure Draft would require an entity to include an allocation of production overheads as well as any incremental costs in the assessment of whether a contract is onerous. Paragraphs BC24–BC27 of the Exposure Draft note that the proposed amendments are consistent with requirements for measuring costs in other IFRS Standards, such as IAS 2 *Inventories*. Paragraph 12 of IAS 2 requires an entity to include in the cost of inventory ‘a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods’. Accordingly, in a contract to supply inventory the entity would already have information about what costs it could reasonably expect to incur to fulfil a contract.

63. The proposed amendments would require an entity to estimate future costs rather than allocate past costs. However, the information used by an entity applying IAS 2 could be also used as a reasonable basis for estimating those future costs.

Staff Conclusion

64. We do not agree that the cost of applying the proposed amendments to manufacturing contracts would be prohibitively high.

Unit of account*Matter raised by respondents*

65. Some respondents raised concerns about the practicality of allocating future costs to large numbers of small contracts. For example, a telecommunications entity explained that it has approximately 200 million customers who subscribe to bundles of communication services served by mobile and fixed line telecommunications infrastructure. The telecommunications entity has high levels of capital investment and said allocating fixed infrastructure costs to individual contracts with different pricing structures would not be meaningful and would require significant time and expense.

Staff Analysis

66. The comment from the telecommunications entity highlights a difference between a typical construction contract and some service-type contracts.
67. In a construction contract an entity may use a single item of equipment to complete multiple contracts, but these contracts are fulfilled one at a time. For example, a construction entity may use a crane on one construction contract before using the same crane at a different site to fulfil a different contract.
68. However, for some service contracts, such as those operated by the telecommunications entity, an entity may use the same item of equipment to fulfil many contracts simultaneously. For example, a telecommunications mast can be used by an entity to provide the same telecommunications service to numerous customers simultaneously.
69. The telecommunications entity's comment raises a question about what unit of account an entity applies in assessing whether its contracts are onerous. IAS 37 contains no requirements on this matter. Evidence gathered by the Provisions research project team suggests questions often arise about whether and when entities should divide a single contract into components or combine groups of similar contracts. In the circumstances identified by the telecommunications entity, where an entity is essentially providing a single service to a large number of customers and no single customer contract could require a material onerous contract provision, it might be appropriate to apply the onerous contracts requirements in IAS 37 to a portfolio of

similar contracts. In which case, there would no need to allocate fixed infrastructure costs to individual contracts.

Staff Conclusion

70. The Exposure Draft did not include any requirements that would change the way entities applying IAS 37 select a unit of account for recognising and measuring provisions. The Board could make a statement to this effect in the Basis for Conclusions accompanying the amendments.

Whether the benefits outweigh the costs

71. For the reasons explained earlier in this paper, we think the amendments proposed in the Exposure Draft:
- (a) are consistent with other requirements in IAS 37 (see paragraphs 22–27);
 - (b) would result in entities providing more useful information to users of financial statements. The information would be useful even if an entity has committed itself to sell idle capacity for less than the cost of that capacity (see paragraphs 28–49); and
 - (c) would reduce diversity in reporting practices, thus making the information provided to users more comparable (see paragraphs 53–59).
72. We also think the amendments would not be significantly costly for entities to apply (see paragraphs 60–70 of this paper).
73. Consequently, we conclude that the benefits of the amendments would outweigh the costs.

Interaction with the Board’s research project on Provisions

Matter raised by respondents

74. A few respondents, including national standard-setters, suggested that the Board continue work on the proposals in the Exposure Draft as part of the Board’s project on Provisions, instead of finalising them ahead of other possible amendments to

IAS 37. Those respondents said doing so would allow the Board to consider related aspects of IAS 37 at the same time. Respondents suggested the Board also consider clarifying the meaning of ‘economic benefits’ in the definition of an onerous contract and the definition of a ‘contract’ in the context of IAS 37.

75. In addition, one national standard-setter disagreed with the Board and Committee’s view that the proposed amendments are needed urgently. It noted that entities that previously applied IAS 11 have been applying IAS 37 to assess whether those contracts are onerous since 2018.

Staff analysis

76. It could be argued that simply by publishing the Exposure Draft, the Board has done enough to address the questions raised by entities with construction contracts, and thus the need previously identified as urgent. The Exposure Draft provides reassurance that IAS 37 does not require entities with construction contracts to move to an ‘incremental cost’ approach for identifying onerous contracts.
77. However, there are other arguments for finalising the amendments in the Exposure Draft now, rather than absorbing them into a wider-scope project to amend IAS 37:
- (a) the feedback to the Exposure Draft has confirmed diversity in accounting for contracts other than construction contracts, and widespread support for eliminating that diversity by specifying a ‘directly related costs’ approach as a narrow-scope amendment to IAS 37.
 - (b) the Provisions project is still in its research phase. The Board has not yet decided whether to add a standard-setting project to its agenda and, if so, what the scope of that project should be and when it should start. Completing the project could take some years.
 - (c) none of the evidence gathered in the Provisions research project calls into question the conclusions underpinning the Exposure Draft proposals.

Overall staff conclusion and recommendations

78. In its Exposure Draft the Board proposed to specify in IAS 37 that, for the purpose of assessing whether a contract is onerous, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Having considered the feedback from respondents to the Exposure Draft we conclude that:
- (a) for the reasons explained in paragraphs 71–72, the benefits of the proposed amendment would outweigh the costs; and
 - (b) for the reasons described in paragraph 77, the Board should finalise the amendments now, rather than absorb them into a wider-scope project to amend IAS 37.
79. Accordingly, we recommend that the Board:
- (a) proceeds with its project to make a narrow-scope amendment to IAS 37 to clarify which costs to include in determining the ‘cost of fulfilling’ a contract for the purpose of assessing whether the contract is onerous; and
 - (b) specify, as proposed in the Exposure Draft, that the costs comprise the costs that relate directly to the contract.

Question for the Board

Does the Board agree with the staff recommendation in paragraph 79 of this paper?