

STAFF PAPER

September 2018

IASB[®] meeting

Project	Costs considered in assessing whether a contract is onerous (IAS 37)		
Paper topic	Due Process Steps		
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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

1. At its meeting in July 2018, the International Accounting Standards Board (Board) tentatively decided to propose amending IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to clarify the meaning of the term ‘unavoidable costs’ in the definition of an onerous contract. The proposed amendment would:
 - (a) specify that the ‘cost of fulfilling’ a contract in paragraph 68 of IAS 37 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.
 - (c) propose no new requirements for entities to disclose information about onerous contracts.
 - (d) propose specific 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.
 - (e) propose no specific transition requirements for entities adopting IFRS Standards for the first time.

Objective

2. The purpose of this paper is to:
 - (a) set out the due process steps that the Board has taken in developing the proposed amendments to IAS 37; and
 - (b) ask the Board to confirm it is satisfied that it has complied with the applicable due process requirements.

Structure of the paper

3. The paper is structured as follows:
 - (a) comment period;
 - (b) intention to dissent;
 - (c) proposed timetable for balloting and publication;
 - (d) confirmation of due process steps; and
 - (e) questions for the Board.
4. Appendix A to this paper summarises the due process steps taken in developing the proposed amendments.

Comment period

5. Paragraph 6.7 of the [IFRS Foundation Due Process Handbook](#) (Due Process Handbook) states:

The IASB normally allows a minimum period of 120 days for comment on an Exposure Draft. If the matter is narrow in scope and urgent the IASB may consider a comment period of no less than 30 days, but it will only set a period of less than 120 days after consulting, and obtaining approval from, the DPOC. [Due Process Oversight Committee]

6. We recommend a comment period of 120 days for the Exposure Draft of proposed amendments to IAS 37 (Exposure Draft). We see no reason to suggest anything other than what is normal for such a document.

Intention to dissent

7. In accordance with paragraph 6.9 of the Due Process Handbook, we are asking whether any Board member intends to dissent from the Exposure Draft.

Proposed timetable for balloting and publication

8. We plan to begin the balloting process in September 2018 and expect to issue the Exposure Draft in the fourth quarter of 2018.

Confirmation of the due process steps

9. In Appendix A to this paper, we have summarised the due process steps taken in developing the Exposure Draft. We note that the applicable due process steps to date for issuing the Exposure Draft have been completed.

Questions for the Board

1. **Comment period**—does the Board agree with our recommendation to have a comment period of 120 days for the Exposure Draft?

2. **Dissent**—does any Board member intend to dissent from the issuance of the Exposure Draft?

3. **Permission to ballot**—is the Board satisfied that it has complied with the applicable due process requirements and that it has undertaken sufficient consultation and analysis to begin the balloting process for the Exposure Draft?

Appendix A: Due Process steps

A1. The following table sets out the due process steps taken by the Board:

Step	Actions
The Board and IFRS Interpretations Committee (Committee) meetings are held in public, with papers being available for observers. All decisions are made in public sessions.	<p>The proposed amendments to IAS 37:</p> <p>The Board discussed the matter at its meetings in December 2017 (see Agenda Paper 12A) and July 2018 (see Agenda paper 12C). The Committee discussed this matter at its meetings in November 2017 (see Agenda Paper 5), March 2018 (see Agenda Paper 5) and June 2018 (see Agenda Paper 6).</p> <p>The project webpage has up-to-date information.</p>
Consultation with the Trustees and the Advisory Council	The Trustees and the Advisory Council will be informed about the proposed amendments to IAS 37 as part of the regular reporting to them.
Analysis of likely effects of the forthcoming Standard or major amendment, for example, costs or ongoing associated costs.	The proposed amendments are narrow in scope. Consequently, we do not see a need to have a separate effects analysis. The matter arose because of identified diversity in the application of the onerous contract requirements in IAS 37. The main effect is therefore expected to be more consistent application of those requirements in IAS 37.
Finalisation	
Due process steps are reviewed by the Board.	This step will be met by this Agenda Paper.
The Exposure Draft has an appropriate comment period	The comment period is being considered by the Board at this meeting—see paragraphs 5 and 6 of this paper.
Drafting	
Drafting quality assurance steps are adequate.	<p>The translations, taxonomy and editorial teams will review drafts during the balloting process.</p> <p>We will perform an editorial review of the pre-ballot draft with some external parties, including Committee members.</p> <p>The pre-ballot draft will be made available to members of the International Forum of Accounting Standard Setters.</p>
Publication	
Press release to announce publication of the Exposure Draft.	A press release will be published with the Exposure Draft.
Publication of the Exposure Draft	The Exposure Draft will be made available on our website when issued.