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Onerous Contracts

Cost of Fulfilling a Contract - Amendments to IAS 37

Questionnaire: Survey on effect of the Amendments on non-IAS 11 contracts

Background

In 2017, the IFRS Interpretations Committee (IFRS IC) received a request to clarify the requirements of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* regarding the costs an entity should consider when assessing whether a contract is onerous. IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* did not specify which costs to include in estimating the cost of fulfilling a contract for the purpose of assessing whether that contract is onerous.

Following the IFRS IC discussion and recommendation, the IASB observed that, from January 2018, contracts that were within the scope of IAS 11 *Construction Contracts* are within the scope of IFRS 15 *Revenue from Contracts with Customers*, however, IFRS 15 includes no requirements for identifying, recognising and measuring onerous contract liabilities. Instead, entities should apply IAS 37 requirements when assessing whether a contract is onerous. It was observed that there were different views on which costs to include applying IAS 37. Such different views could lead to material differences in the financial statements of entities that enter some types of contracts.

Following the discussions, the IASB decided to clarify that cost of fulfilling a contract comprises not only the incremental costs of the contract but also the allocation of **costs that relate directly to the contract**.

In the Exposure Draft (ED) issued in December 2018, the IASB provided the examples of such costs. In its response to the ED, EFRAG noted that the amendments would affect the onerous assessment not only for long-term construction contracts previously in the scope of IAS 11 but rather for all contracts in the scope of IAS 37 onerous test. Among other, that comment was raised based on the observation that the wording of the proposed amendments contained the examples of costs that generally fit contracts previously in the scope of IAS 11 but not other types of contracts within the scope of IAS 37 onerous test.

Following its discussion on the feedback received and considering the urgency of the amendments following the withdrawal of IAS 11, the IASB decided to finalise the amendments with some editorial modifications, removed the examples and provided more explanations on how to apply the principle (see BC 21 of IAS 37). The IASB has not decided to limit the application scope and, therefore, the amendments apply to all contracts within the onerous test assessment of IAS 37. The full text of the amendments is available [here](#). The observed diversity in practice on which costs to include applying IAS 37 related to onerous contracts in general. The reason for removing the examples in the final Amendments was to specify examples for different types of contracts or to costs to be included could lead to confusion in respect to the application, to including or excluding costs simply because those costs were either included in, or omitted from, a list or lead to confusion over differences in the wording of examples in different IFRS Standards.

Status of the project

EFRAG has finalised its DEA on this Amendments, with a positive advice and a comment period ending September 7, 2020. EFRAG in this DEA concludes that the Amendments satisfy the criteria of endorsement for use in the DEA. EFRAG seeks inputs on the expected effects (if any) of the recent IASB's amendments to IAS 37 on contracts that, before IFRS 15 became effective, were not in the scope of IAS 11.

Purpose of the questionnaire

The purpose of this questionnaire is to collect the information necessary to finalise the Endorsement Advice regarding the assessment of whether the Amendments satisfy the criteria of endorsement for use in the DEA. EFRAG seeks inputs on the expected effects (if any) of the recent IASB's amendments to IAS 37 on contracts that, before IFRS 15 became effective, were not in the scope of IAS 11. Members are requested to verbally report the answers during this meeting and to report via email **by 15 August 2020**.

Question 1 – Unintended consequences or effects on non-IAS 11 contracts in the scope of IAS 37 – Onerous Contracts

Have you received expressed concerns about the amendments coming from entities in your jurisdictions? Based on your assessment, are you aware of any unintended consequences in applying the Amendments to the non-IAS 11 contracts?

- No
- Yes

If yes, please explain the concerns and the industry affected: [Click or tap here to enter text.](#)

Question 2 – Type of contracts affected (in case question 1 is answered yes)

If you have answered yes to Question 1, which type of contracts will be impacted?

EFRAG has identified the following types of non-IAS 11 contracts, mentioned by the constituents in their responses to the IASB's ED, that could be affected by the application of the new requirements. Which of these contracts could be adversely affected by application of the Amendments in your jurisdiction?

- Long term purchase contracts of goods/ minerals/ commodities (natural gas, oil, iron ore, coal) with minimum purchase quantities or fixed prices
- Short term and low value leases
- Purchase contracts or non-revenue contracts in general
- Service contracts under IAS 18
- Distribution arrangements
- Collective commercial agreements
- Commercial campaigns to capture new customers
- Other type of contracts [Click or tap here to enter text.](#)

Please explain, how these contracts are expected to be materially affected by the application of the Amendments: [Click or tap here to enter text.](#)