

CPA Australia Ltd  
ABN 64 008 392 452

Level 20, 28 Freshwater Place  
Southbank VIC 3006 Australia

GPO Box 2820 Melbourne  
VIC 3001 Australia

T 1300 737 373

Outside Aust +613 9606 9677

[cpaaustralia.com.au](http://cpaaustralia.com.au)

21 March 2019

Kris Peach  
Chair  
Australian Accounting Standards Board  
PO Box 204, Collins St West  
MELBOURNE VIC 8007

By online submission:- [www.aasb.gov.au](http://www.aasb.gov.au)

Dear Kris

**Exposure Draft ED 287 – Onerous Contracts – Cost of Fulfilling a Contract**

CPA Australia represents the diverse interests of more than 163,000 members working in 125 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the proposal to clarify the point that, when assessing whether a contract is an onerous contract the cost of fulfilling a cost comprises the costs that relate directly to the contract, rather than only the incremental costs of the contract.

Paragraph BC6 in the Basis for Conclusions notes that the IASB has a research project to review IAS 37 but given the withdrawal of IAS 11 *Construction Contracts* and the application of IFRS 15 *Revenue from Contracts with Customers*, a narrow-scope amendment clarifying costs in determining onerous contracts is preferred. We support that reasoning, but note that similar inconsistencies in determining what constitutes economic benefits arising from a contract could also give rise to material differences in financial statements. Accordingly, as part of this project we suggest that the IASB develops and provides clarification around what constitutes economic benefits arising from a contract, when assessing whether a contract is an onerous contract.

In addition to the above comments, we have provided responses to the questions raised in the Exposure Draft as an attachment.

If you require further information on the views expressed in this submission, please contact Ram Subramanian, Policy Adviser – Reporting, on +61 3 9606 9755 or at [ram.subramanian@cpaaustralia.com.au](mailto:ram.subramanian@cpaaustralia.com.au).

Your sincerely



**Dr. Gary Pflugrath**  
Head of Policy and Advocacy

## Attachment

### Specific Questions/Comments

#### Question 1

**The Board proposes to specify in paragraph 68 of IAS 37 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). The reasons for the Board's decisions are explained in paragraphs BC16–BC28. Do you agree that paragraph 68 of IAS 37 should specify that the cost of fulfilling a contract comprises the costs that relate directly to the contract? If not, why not, and what alternative do you propose?**

CPA Australia supports the proposal to clarify the point that, when assessing whether a contract is an onerous contract, the cost of fulfilling a cost comprises the costs that relate directly to the contract, rather than only the incremental costs of the contract. However, we suggest that the IASB consider the following point in furthering its proposal:

The clarification appears to have been drafted with a focus on the provision of goods and services based on construction contracts previously within the scope of IAS 11 *Construction Contracts*, which included requirements for onerous construction contracts. Whilst we support the reasoning given in paragraph BC9 of the Basis for Conclusions as to why the clarification could apply to all contracts in the scope of IAS 37, we believe the clarification should also consider contracts other than construction contracts. Examples of such contracts include:

- Fixed price purchase contracts where the costs of the contract exceed the economic benefits arising from it.
- Contracts relating to short term and low value leases under IFRS 16 *Leases*.

The IASB could address this issue by providing a more comprehensive list of examples of costs in proposed paragraph 68A.

#### Question 2

**The Board proposes to add paragraphs 68A–68B which would list costs that do, and do not, relate directly to a contract. Do you have any comments on the items listed? Are there other examples that you think the Board should consider adding to those paragraphs? If so, please provide those examples.**

Please see our response to Question 1 above with respect to further examples that could be considered by the IASB.

We do not support the proposed drafting of paragraph 68B. The ability to explicitly charge general and administrative costs to the counterparty does not necessarily determine whether those costs directly relate to the contract.

#### Question 3

**Do you have any other comments on the proposed amendments?**

As stated in our cover letter, while we support the reasoning in paragraph BC6 to propose a narrow-scope amendment to costs relating to onerous contracts, we believe similar inconsistencies in determining what constitutes economic benefits arising from a contract could also give rise to material differences in financial statements. Accordingly, as part of this project, we suggest that the IASB develops and provides clarification around what constitutes economic benefits arising from a contract, when assessing whether a contract is an onerous contract.