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Ms Sue Lloyd
International Accounting Standards Board
1st Floor
30 Cannon Street
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Our ref MV/288

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Dear Ms Lloyd

Tentative agenda decision: IAS 37 – Costs considered in assessing whether a contract is onerous

We appreciate the opportunity to comment on the IFRS Interpretations Committee's (the Committee) tentative agenda decision *IAS 37 Provisions, Contingent Liabilities and Contingent Assets – Costs considered in assessing whether a contract is onerous* (IFRIC Update June 2017). We have consulted with, and this letter represents the views of, the KPMG network.

We support the Committee clarifying which standard applies when determining the costs to include in the assessment whether a contract in the scope of IFRS 15 *Revenue from Contracts with Customers* is onerous. We agree that the entity applies the requirements in IAS 37 – i.e. it does not apply the previous requirements in IAS 11 *Construction Contracts* on contract costs, nor does it apply the requirements in IFRS 15 on costs that relate directly to a contract.

However, we disagree with the Committee's decision not to add this issue to its agenda. We believe that the Committee should reconsider the possibility of pursuing a limited scope project to clarify the meaning of the term 'unavoidable costs' in IAS 37.

There are longstanding differences of views on what costs should be considered 'unavoidable' – some hold a view that it is an 'incremental' cost concept, while others argue that it is a 'full' cost concept. We are not aware that many, if any, stakeholders regard the identification of unavoidable costs as an accounting policy choice under IAS 37, as implied by the tentative agenda decision.

There is currently diversity in practice in this area and this diversity will become more extensive on adoption of IFRS 15 because a larger population of revenue-generating contracts will be subject to IAS 37 onerous contract requirements. The tentative agenda decision, as drafted, appears to condone a foreseeable increase in diversity.

We understand that the Committee believes that it may not be able to resolve the question of ‘unavoidable costs’ without conducting a comprehensive review of all requirements related to onerous contracts, including for example defining ‘economic benefits’. However, we note that the questions of economic benefits and costs usually arise in relation to different types of contracts. Also, a major area of current diversity in relation to economic benefits is operating lease contracts, which will fall away when IFRS 16 Leases becomes effective.

Therefore, we believe that the Committee should consider further the possibility of a limited scope project focused on the ‘unavoidable costs’ of fulfilling a loss-making contract under IFRS 15.

Please contact Mark Vaessen +44 (0)20 7694 8871 or Prabhakar Kalavacherla +1 415-963-5100 if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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