



20 December 2018

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IASB EXPOSURE DRAFT
ED/2018/2 Onerous Contracts – Cost of Fulfilling a Contract
Proposed Amendments to IAS 37

Comments to be received by 8 March 2019

The Financial Reporting Standards Committee (FRSC) of the Hong Kong Institute of Certified Public Accountants (Institute) is seeking comments on IASB ED/2018/2. The Exposure Draft is available on the Institute's website:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/financial-reporting/exposure-drafts/>

Applying IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, a company determines that a contract will be loss-making and describes it as onerous if the costs the company expects to incur to fulfill the contract exceed the economic benefits the company expects to receive from it. However, IAS 37 does not specify which costs to include in determining the cost of fulfilling a contract. Most notably, IAS 37 does not specify whether the cost of fulfilling a contract comprises only the incremental costs of fulfilling that contract, or also includes an allocation of other costs that relate directly to the contract.

To provide greater clarity to companies and help ensure consistent application of the Standard, the International Accounting Standards Board (IASB) proposes to amend IAS 37 to specify that the costs of fulfilling a contract include both incremental costs, such as the costs of materials, and an allocation of other costs directly related to the contract, such as the depreciation charge for equipment that the company uses to fulfill the contract. The proposed amendments are most relevant for companies in the manufacturing, construction and services sectors, and may result in some companies recognising costs earlier than previously.

The FRSC invites your comments on the proposal by **8 March 2019** to allow your comments to be considered in developing its response to the IASB. Comments should be supported by specific reasoning and should be submitted in written form.

Comments may be sent by mail, fax or e-mail to:

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37th Floor, Wu Chung House
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Comments will be acknowledged and may be made available for public review unless otherwise requested by the respondent.