

15 April 2019

Hans Hoogervorst  
Chair  
International Accounting Standards Board  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD

Dear Mr Hoogervorst

**Exposure Draft 2018/2 – Onerous Contracts – Cost of Fulfilling a Contract (proposed amendments to IAS 37)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the International Accounting Standards Board's ('the IASB's') exposure draft *Cost of Fulfilling a Contract (proposed amendments to IAS 37)*.

We support the decision of the Board to limit the proposed amendments to the addition of a definition of what constitutes cost of fulfilling a contract when assessing whether a contract is onerous in order to address the void left by the withdrawal of IAS 11. In the context of this limited scope amendment, we agree that defining the cost of fulfilling a contract as those costs that *relate directly to the contract* provides the most relevant information for the reasons stated in BC18 to BC20.

Our detailed responses to the questions in the invitation to comment are included in the Appendix to this letter.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



**Veronica Poole**  
Global IFRS Leader

## Appendix

### 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?*

We agree with the proposed amendment. Considering that IAS 37 requires that onerous contracts be identified at the contract level, we agree that the directly related cost approach provides a more faithful representation of the cost of fulfilling a contract than the incremental cost approach for the reasons explained in the Basis of Conclusions.

### 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.*

We agree with the examples provided and have not identified other examples that the Board should consider.

### Question 3

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

BC24 indicates that “the directly related cost approach is consistent with the requirements in other Standards for the measurement of non-monetary assets”. BC25 includes a list of Standards that use the notion of “directly attributable” and/or “directly related” to describe the cost of non-monetary assets, namely IAS 2, IAS 16, IAS 38 and IAS 40. We believe that the concept of “directly attributable” in IAS 16 and IAS 38 is different from the concepts applied in the measurement of costs of conversion in IAS 2. The latter include a systematic allocation of fixed and variable production overheads that are incurred in converting materials into finished goods. Such systematic allocation of fixed overheads is not appropriate under IAS 16 and IAS 38 because these Standards look to capitalise only directly attributable costs.

For this reason, we believe that the comments in BC24-BC26 are a potential source of confusion and should not be carried to the final amendment