Grupo Latinoamericano de Emisores de Normas de Información Financiera

Group of Latin-american Accounting Standard Setters

April 10, 2019

International Accounting Standards Board
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: Exposure Draft ED/2018/2, *Onerous Contracts—Cost of Fulfilling a Contract, Proposed amendments to IAS 37*

Dear Board Members:

The "Group of Latin American Accounting Standard Setters"[1] – GLASS welcomes the opportunity to comment on the ED/2018/2, *Onerous Contracts—Cost of Fulfilling a Contract, Proposed amendments to IAS 37*.

The response summarizes the points of view of the members of the countries that comprise GLASS, pursuant to the following due process.

Due Process

The discussions regarding the ED were held within a specified Technical Working Group (TWG) created in January 2019. All country-members had the opportunity to appoint at least one member to participate in this TWG. Each standard setter represented in the TWG undertook different tasks in their respective countries (e.g. surveys, internal working groups). All results were summarized, and this summary was the platform for the TWG discussion process.

The TWG discussed the different points of view included in the summary during several conference calls. In those calls the TWG developed a final document on the basis of the agreed-upon responses and the technical points of view of its members. Finally, the TWG document was submitted to and approved by the GLASS Board.

Overall Comments

We agree that all the costs to comply with the performance of a contract shall be included when determining if a contract is onerous. Additionally, the indirect costs that form part of the structure that an entity has to operate and fulfill its contract performance obligations, should also be considered when evaluating if a contract will be profitable or loss making. These costs are incurred as part of the operations the entity carries out when performing its business activity and are necessary to comply with its obligations, which is consistent with the application of other standards.

[1] The overall objective of the Group of Latin American Accounting Standard Setters (GLASS) is to present technical contributions with respect to all Exposure Drafts issued by the IASB. Therefore, GLASS aims to have a single regional voice before the IASB. GLASS is constituted by: Argentina (Vice Chairman), Bolivia, Brazil (Chairman), Chile, Colombia (Board), Costa Rica (Board), Dominican Republic, Ecuador, Guatemala, Honduras, Mexico (Board), Panama, Paraguay, Peru (Board), Uruguay (Board) and Venezuela (Board).

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Specific Comments

Attached please find our specific responses to the questions presented in the ED.

Contact

If you have any questions about our comments, please contact glenif@glenif.org

Sincerely yours,

Eduardo Pocetti
Chairman
Group of Latin American Accounting Standard Setters (GLASS)

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Exhibit

GLASS Comment Letter on the ED/2018/2, Onerous Contracts—Cost of Fulfilling a Contract, Proposed amendments to IAS 37

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 that the cost of fulfilling a contract shall comprise all the costs that relate directly to the contract. Furthermore, indirect costs that are part of the structure that an entity has in place to operate and fulfill the contracts, for which it has a performance obligation, shall also be considered when evaluating if a contract will be profitable or loss making. These costs are incurred as part of the operations the entity carries out when performing its business activity and are necessary to comply with its obligations, which is consistent with the application of other standards.

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 notice that paragraph 68A is identical to paragraph 97 of IFRS 15, *Revenue from Contracts with Customers*, and we do agree that the costs indicated in such paragraph depict properly the costs that relate directly to a contract to deliver goods or services. Therefore, these are costs that should be projected to determine if a contract is onerous or not. It is important that the final wording of the document mention that the list is not exhaustive, so that in each case entities can evaluate whether to include other concepts such as the financing costs of the model presented in IAS 23, *Borrowing Costs*.

Question 3
Do you have any other comments on the proposed amendments?

We believe that this is <u>not</u> a change in accounting principle, since IAS 37, *Provisions, Contingent Assets and Contingent Liabilities*, already requests that a provision be recognized when a contract is onerous. The amendment is made to clarify which costs have to be considered to determine if a contract is onerous. <u>Therefore, it is not a change in accounting principle, but a change in estimate</u>. However, the distinction between a change in accounting principle and an estimate would be difficult to determine and, as indicated in paragraph 35 of IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, "when it is

difficult to distinguish a change in an accounting policy from a change in an accounting estimate, the change is treated is treated as a change in an accounting estimate."

This will be a relief for entities when applying the amendment, as far as it will be difficult to apply retrospectively the change, even with a limited retrospective approach, since it would be almost impossible to make such limited retrospective application without using hindsight. A contract could be onerous since inception or it could subsequently become onerous due to changes in circumstances. It would be quite difficult, if not impossible, to determine when it became onerous.