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International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

**Comments on the Exposure Draft *Onerous Contracts-Cost of Fulfilling a Contract*
(Proposed Amendments to IAS 37)**

To the Board Members:

The Japanese Institute of Certified Public Accountants (“we” and “our”) appreciates the continued efforts of the International Accounting Standards Board on this project, and welcomes the opportunity to comment on the Exposure Draft *Onerous Contracts-Cost of Fulfilling a Contract (Proposed Amendments to IAS 37)* (“ED”).

We support the IASB’s immediate effort to clarify which costs are included in the cost of fulfilling a contract in order to remedy the diversity that occurs in practice when applying IAS 37 to identify onerous contracts.

Please find below our comments to the questions raised in the ED.

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?

Comment:

We agree.

We share the IASB’s opinion that the directly related cost approach provides a more faithful representation of the costs of fulfilling a contract than the incremental cost approach, as described in paragraph BC18 of the ED. This is based on our belief that an onerous contract provision should be identified when an entity has several service contracts that are expected to be profitable individually but are loss-making once shared costs are included.

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.

Comment:

We agree with the costs as listed.

We believe that paragraphs 68A–68B provide appropriate itemization of costs that do, and do not, relate directly to contracts to provide goods or services.

Question 3

Do you have any other comments on the proposed amendments?
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Comment:

Clarifying decisions on whether purchase contracts for goods or services are onerous

Hereafter we would like the IASB to separately address the issue of appropriately identifying which executory contracts for the compulsory purchase of goods and services (e.g., long-term fixed-price service contracts) are onerous. With regard to such contracts, we urge the IASB to consider clarifying the meaning of “economic benefits” and listing the costs of fulfilling contracts for comparison with economic benefits in the same way as for contracts to provide goods or services.

Yours faithfully,

Yoshio Yukawa

Executive Board Member – Accounting Standards and Practice/IFRS

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