

**Sue Lloyd
IFRS Interpretations
Committee
30 Cannon Street
London
EC4M 6XH
United Kingdom**

Ref: The IFRS Interpretations Committee's June 2017 tentative agenda decisions

Dear Mrs Lloyd,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the June 2017 IFRIC Update of the tentative agenda decisions related to the application of IFRS 3 *Business combinations* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

Acquisition of a group of assets that does not constitute a business – IFRS 3

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify how an entity accounts for the acquisition of a group of assets that does not constitute a business. ESMA notes that the IFRS IC concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches of allocation of transaction price to individual acquired assets and liabilities.

ESMA disagrees with the tentative decision not to address this issue because such decision perpetuates the diversity in practice and might even encourage inconsistent application to develop in jurisdictions where such diversity did not exist before. Furthermore, in light of the upcoming amendment to IFRS 3 on the definition of a business, ESMA is of the view that this issue could become far more widespread and material than currently observed based on the outreach conducted by the IFRS IC.

Consequently, in order to ensure consistent application of the IFRS, ESMA calls on the IFRS IC to use the opportunity to recommend to the Board to consider this issue in the currently discussed amendments of IFRS 3 on the definition of business. In the meantime, before any further guidance is provided, ESMA agrees with the IFRS IC that an entity shall apply its reading of the requirements consistently to all asset acquisitions.

Costs considered in assessing whether a contract is onerous – IAS 37

ESMA has considered the IFRS IC's tentative decision not to add to its standard-setting agenda the request to clarify which costs an entity considers when assessing whether to recognise an onerous contract provision applying IAS 37. ESMA notes that the IFRS IC concluded that reasonable reading of the requirements in paragraph 68 of IAS 37 on unavoidable costs of fulfilling a contract results in one of the two approaches; one defining unavoidable costs as the costs that an entity cannot avoid because it has the contract, i.e. including allocation of overhead costs; the other limiting unavoidable costs to incremental costs (referring to the costs that an entity would not incur if it did not have the contract).

ESMA regrets that the IFRS IC concluded that it would be unable to resolve the matter efficiently within the confines of existing IFRS Standards. Based on the enforcement experience in Europe, ESMA notes that the notion of '*unavoidable costs of fulfilling a contract*' can be understood and applied in different ways. ESMA believes that accepting two different approaches will lead to increased diversity in practice. Furthermore, ESMA believes that consistency should be ensured between the interpretation of the costs to be included in the calculation of the provision under IAS 37 and the definition of the costs to fulfil a contract in paragraph 95 of IFRS 15 *Revenue from Contracts with Customers*.

Consequently, ESMA disagrees with the IFRS IC tentative agenda decision. We consider that the issue is sufficiently narrow and thus can be efficiently addressed without opening all the conceptual issues related to IAS 37. However, in light of the inability of the IFRS IC to resolve the issue efficiently, ESMA suggests the IFRS IC refers the issue to the Board to consider addressing it in a narrow-scope amendment in order to provide additional guidance and foster consistency in the application of IAS 37.

In the meantime, ESMA agrees with the IFRS IC that an entity shall apply its reading of the requirements consistently to all applicable contracts.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M'.

Steven Maijoor