

**Mr Jean-Paul Gauzès**  
**President**  
**European Financial**  
**Reporting Advisory Group**  
**(EFRAG)**  
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**Belgium**

**Ref: EFRAG's comment letter on IASB's Exposure Draft *Property, Plant and Equipment – Proceeds before Intended Use – Proposed amendments to IAS 16***

Dear Mr Gauzès,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to contribute to EFRAG's draft comment letter regarding the IASB's Exposure Draft (ED) *Property, Plant and Equipment – Proceeds before Intended Use*. We are pleased to provide you with the following comments with the aim of improving the transparency and enforceability of financial statements.

Like EFRAG, ESMA generally supports the IASB's approach to reduce diversity in practice. This diversity may endanger the consistent application of IFRS and reduce the degree of investor protection in the European Union. Therefore, ESMA in principle agrees with the proposed amendments to IAS 16 to achieve improved consistency in the application of the notion of 'testing', as well as in the treatment of proceeds from selling items produced while bringing an asset to the location and condition to be capable of operating in the manner intended by management.

However, ESMA acknowledges that the pragmatic solution has conceptual flaws which have been highlighted in the alternative view by Mr. Zhang. Nevertheless, ESMA believes that, on balance, the benefits arising from reducing diversity in practice outweigh the costs related to these conceptual flaws.

Unlike EFRAG, ESMA shares the concerns that the amendments may open up possibilities for earnings management if no guidance is provided regarding the point in time at which an asset is available for use and therefore capitalisation of any testing costs shall end. Therefore ESMA encourages the IASB to provide additional guidance in this area.

Finally, ESMA recommends the IASB to consider including in the body of the standard, rather than in the basis for conclusions, the clarifications with respect to the notion of testing and



depreciation of inventories that are included in paragraphs BC10 and BC11 of these proposed amendments.

Please do not hesitate to contact us should you wish to discuss all or any of our comments.

Yours sincerely,

A handwritten signature in blue ink, consisting of a stylized 'S' followed by a horizontal line and a small flourish.

Steven Maijor