

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

10 November 2017

Dear Mr Hoogervorst,

**Re: IASB ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)***

On behalf of the European Financial Reporting Advisory Group (EFRAG), I am writing to comment on the exposure draft ED/2017/4 *Property, Plant and Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16)*, issued by the IASB on 20 June 2017 (the 'ED').

This letter is intended to contribute to the IASB's due process and does not necessarily indicate the conclusions that would be reached by EFRAG in its capacity as advisor to the European Commission on endorsement of definitive IFRS in the European Union and European Economic Area.

EFRAG considers that the proposed amendments raise a number of substantive questions and is not convinced that these matters have been sufficiently explored in developing the ED. EFRAG also notes that the proposed amendments affect a wider range of transactions and circumstances than the issue submitted to the IFRS Interpretations Committee. EFRAG therefore suggests that the IASB should consider taking on a broader project that would address the underlying principles and issues, and assess the effects on current practices, more comprehensively. The IASB could also consider addressing the narrower issue submitted the IFRS Interpretations Committee in the shorter term.

EFRAG's detailed comments and response to the question in the ED are set out in the Appendix.

If you would like to discuss our comments further, please do not hesitate to contact Patricia McBride, Joachim Jacobs or me.

Yours sincerely,



Jean-Paul Gauzès  
**President of the EFRAG Board**

## **Appendix - EFRAG's response to the question raised in the ED**

### **Question – Proposed amendment**

The IASB is proposing to amend IAS 16 to prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognise those sales proceeds in profit or loss.

Do you agree with this proposal? Why or why not? If not, what alternative would you propose, and why?

### *EFRAG's response*

**EFRAG considers that the proposal to require the proceeds generated before an item of property, plant and equipment (PPE) is ready for its intended use by management to be recognised in profit or loss, together with the costs of producing those items, raises several substantive questions. EFRAG is not convinced that these questions have been sufficiently explored in developing the ED.**

**EFRAG also notes that the proposed amendments affect a range of transactions and circumstances that is broader than the issue submitted to the IFRS Interpretations Committee. EFRAG considers that the effects on current practices need to be assessed more thoroughly before proceeding with amendments of this significance.**

**Accordingly, EFRAG suggests that the IASB should consider taking on a broader project that would address the underlying principles and issues more comprehensively.**

**To the extent that the IASB determines that additional guidance is required on a shorter term basis, EFRAG recommends that the focus should be on addressing the specific issue submitted to the IFRS Interpretations Committee.**

- 1 EFRAG considers that the proposal to require the proceeds generated before an item of property, plant and equipment (PPE) is ready for its intended use by management to be recognised in profit or loss, together with the costs of producing those items, raises several substantive questions. EFRAG is not convinced that these questions have been sufficiently examined in the development of the ED. In absence of a more robust analysis of these issues, EFRAG considers that the proposal has the appearance of a rules-based solution. Accordingly, EFRAG suggests that the IASB should consider taking on a broader project that would address the underlying principles and issues more comprehensively.
- 2 The substantive questions raised by the proposal include:
  - (a) When an item of PPE is ready for its intended use by management;
  - (b) How the cost allocation for distinguishing cost of goods sold from other costs of the PPE could be allocated to a specific sale before the associated PPE is ready for its intended use;
  - (c) Whether the 'cost' of an asset is a gross or a net amount;
  - (d) Whether sales of items produced while making an item of PPE ready for its intended use are in the ordinary course of business; and

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*(Proposed amendments to IAS 16)*  
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- (e) The relation with other IFRS Standards such as IFRS 15, IAS 2 *Inventories* and IAS 23 *Borrowing Costs*.
- 3 Furthermore, the proposed amendments do not distinguish between proceeds generated during the testing phase from all other proceeds generated from the sale of items produced before the asset is ready for its intended use. Hence, the proposals might put more pressure on the identification of when an item of PPE is ready for its intended use. The determination is important because it establishes the time from which PPE is depreciated.
- 4 However, as noted in paragraph BC22 of the ED, the IASB indicated that providing such guidance would be a much broader project than the proposed amendments. EFRAG also notes that the IASB did not proceed with such a project as it would have affected the accounting for many items of PPE and additional research would have been required to assess any potential unintended consequences. In our view, such research is necessary in order to justify the proposed amendments to IAS 16.
- 5 EFRAG also notes that the proposed amendments affect a range of transactions and circumstances that is broader than the issue submitted to the IFRS Interpretations Committee. The issue submitted to the IFRS Interpretations Committee related to proceeds from testing in excess of the costs of testing, whereas the proposal addresses all proceeds generated before an item of PPE is ready for its intended use by management. EFRAG considers that the effects on current practices need to be assessed more thoroughly before proceeding with amendments of this significance. Such an effects analysis should investigate the range of circumstances in which material proceeds are generated before intended use, the prevalent existing accounting treatments and, if applicable, the pros and cons of these treatments. The practical issues around allocation of costs between the PPE and inventory/revenue should also be assessed.
- 6 EFRAG acknowledges that the main drawback of considering a much broader scope is that a new project would be subject to the IASB's agenda consultation processes which would delay the resolution of the underlying issues identified above. To the extent that the IASB determines that additional guidance is required on a shorter term basis, EFRAG recommends that the focus should be on addressing the specific issue submitted to the IFRS Interpretations Committee.