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***IASB ED/2017/4 Property, Plant and Equipment – Proceeds  
before Intended Use (Proposed amendments to IAS 16)***  
**Comment letter**

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

[Date]

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 supports the amendment proposed in the ED, as we believe it will reduce diversity in practice and, therefore, improve the quality of financial reporting under IFRS Standards in regard to property, plant and equipment. However, EFRAG sees no need to include a definition for 'testing' as the proposed amendments do not distinguish between net proceeds from selling items produced during the testing phase from any other proceeds prior to the item of property, plant and equipment being available for use. EFRAG also recommends that the IASB should provide further guidance in IAS 16 to assist preparers in identifying when an item of PPE should be regarded as available for use.

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 supports the proposal of the IASB to prohibit the deduction of proceeds generated in the process of making an item of property, plant and equipment (PPE) ready for its intended use by management from the cost of that item.**

**EFRAG agrees that those proceeds and related costs should be accounted for in accordance with other applicable Standards, generally IFRS 15 *Revenue from Contracts with Customers* and IAS 2 *Inventories*.**

**However, EFRAG sees no need to include a definition for 'testing'.**

**EFRAG recommends that the IASB should provide further guidance in IAS 16 to assist preparers in identifying when an item of PPE should be regarded as available for use.**

**EFRAG supports the proposed transitional provision because EFRAG considers that the cost and complexity of restating items of PPE that are operating before the start of the earliest period presented would outweigh any benefits of full retrospective application.**

### *The proposed amendment*

- 1 EFRAG supports the IASB's initiative to address the issue in order to reduce the identified diversity in practice, and consequently to improve financial reporting.
- 2 However, EFRAG notes that the proposed amendments prohibit the deduction of proceeds from selling items produced while making the item of PPE ready for its intended use by management from the cost of PPE. The proposed amendments do not distinguish between proceeds generated during the testing phase from all other proceeds generated from sale of items produced before the asset is ready for its intended use. Hence, EFRAG sees no need to define the meaning of 'testing' as it will not assist in applying the proposals in the ED.
- 3 EFRAG acknowledges that judgement would have to be applied in distinguishing the costs that relate to the items sold before the asset is ready for its intended use from all other costs incurred before an item of PPE is available for use. However, EFRAG considers that the judgement required will not exceed the judgements already required in applying IAS 16 when an entity develops PPE that takes some time to make available for use. EFRAG therefore supports the recognition of proceeds as revenue but acknowledges that diversity could arise in the allocation (and hence quantification) of the related costs.
- 4 EFRAG considers that more relevant information would be provided to users of financial statements about an entity's revenue if all relevant revenue is recognised in accordance with IFRS 15. Further, by not offsetting proceeds from incidental

sales against the cost of PPE, the PPE will be recognised at the full cost of construction.

- 5 EFRAG notes that paragraph 21 of IAS 16 refers to incidental operations and associated income and expenses. We consider that the final sentence of that paragraph should be amended to avoid confusion with proposed paragraph 20A. That is, we recommend that the IASB clarify that proceeds and associated costs arising before an item of PPE is ready for its intended use, whether arising from incidental operations or from activities that are not incidental such as testing, should be recognised in profit or loss in accordance with applicable Standards.
- 6 EFRAG notes that that the accounting for proceeds generated during the period when an item of PPE is being prepared for its intended use and the determination of when that period ends are inter-related. In one sense the proposed amendment may take pressure off that determination by requiring that proceeds in all phases are accounted for in accordance with other applicable IFRS Standards. However, the determination will continue to be important because it will determine the point from which the PPE is depreciated and from which cost cease to be capitalised. Accordingly, EFRAG recommends that the IASB should provide further guidance in IAS 16 to assist preparers in identifying when an item of PPE should be regarded as available for use.

*Transitional provisions*

- 7 EFRAG agrees with the IASB's proposal to limit retrospective application of the amendments to items of PPE made available for use from the beginning of the earliest period presented. In this case, EFRAG does not support full retrospective application of the ED as this would require an entity to go back to initial recognition for each relevant item of PPE in order to ascertain whether any proceeds from selling items produced before the asset was available for use were deducted from the cost of the asset and then adjust PPE, income and expenses from that date. EFRAG considers that full retrospective application would be burdensome for entities to apply and that any benefits of restatement are likely to be outweighed by the costs.