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RÉPUBLIQUE FRANÇAISE



AUTORITE DES NORMES COMPTABLES

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Paris, 19th October, 2017

Chairman

Mr Hans HOOGERVORST

Chairman of the IASB

30 Cannon street

London EC4M 6XH

United Kingdom

PDC N 95

IASB ED/2017/4 Proceeds before Intended Use (Proposed amendments to IAS 16)

Dear Hans,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the above-mentioned IASB ED/2017/4 issued in June 2017 on Proceeds before Intended Use (Proposed amendments to IAS 16). This letter sets out the most important comments raised by interested stakeholders involved in ANC's due process. Our Board has reviewed and approved this letter on October 6th 2017.

- 1) Are the amendments a simple and effective way of addressing the identified diversity in practice?

Acknowledging that the current provisions in IAS 16.17.e do rely on a practical rather than conceptual basis, the amendments suggest a practical expedient to situations where proceeds exceed costs of testing. This proposal would however not be limited to such situations but would also apply when proceeds are lower than costs of testing. An impact assessment would be helpful to ensure that situations of proceeds exceeding costs of testing are actually a matter of concern.

Indeed, French constituents have reported that, in many industries, costs of testing largely exceed proceeds which are marginal and incidental. Changing the former practical expedient (deducting proceeds from asset base) to a new one (recognising these proceeds as revenue) may raise new practical and conceptual issues as compared with the current situations and would not be simpler.

2) Issues raised by the amendment

Recognising revenue on proceeds made during the testing requires also a cost allocation of the testing costs to that revenue i.e. distinguishing such costs from those remaining in the fixed assets (PPE).

It may however be difficult to identify costs attributable to the proceeds made. Indeed, in the testing phase, absent a proper industrial process:

- direct costs (energy, raw materials) may be consumed in quantities unrelated with the output;
- allocation formula of indirect costs is still not defined;
- amortisation cost of the asset itself (PPE under construction) cannot be taken into account.

All in all, users may encounter difficulties in interpreting the profitability on revenue recognised on testing proceeds.

Some may consider contradictory that conditions for recognising revenue are completed as long as costs allocation is not feasible. We understand that such practical difficulties are good reasons supporting the current (simple and efficient) accounting treatment in most cases.

Finally, the amendments leading to recognise revenue sooner would not help clarifying the allocation of costs (between that revenue and the PPE in construction) and therefore may not help reducing the current diversity in practice.

As a consequence, we suggest not amending the current IAS 16, but instead encourage IASB to clarify when an item is “capable of operating in the manner intended by management”.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

A handwritten signature in black ink that reads "Patrick de Cambourg". The signature is written in a cursive, slightly slanted style.

Patrick de CAMBOURG