OICV-IOSCO

International Organization of Securities Commissions
Organisation internationale des commissions de valeurs
Organização Internacional das Comissões de Valores
Organización Internacional de Comisiones de Valores

19 October 2017

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

RE: IASB Exposure Draft – Property, Plant and Equipment – Proceeds before Intended Use

Our Ref: 2017/PK/C1/IASB/99

Dear IASB Members:

The International Organization of Securities Commissions (IOSCO) Committee on Issuer Accounting, Audit and Disclosure (Committee 1 or C1) thanks you for the opportunity to provide our comments regarding the International Accounting Standards Board (IASB or the Board) Exposure Draft: *Property, Plant and Equipment – Proceeds before Intended Use (Proposed amendments to IAS 16)* (the "Exposure Draft" or "ED").

IOSCO is committed to promoting the integrity of international markets through promotion of high quality accounting standards including rigorous application and enforcement. Members of Committee 1 seek to further IOSCO's mission through thoughtful consideration of accounting and disclosure concerns and pursuit of improved transparency of global financial reporting. The comments we have provided herein reflect a general consensus among the members of Committee 1 and are not intended to include all of the comments that might be provided by individual securities regulator members on behalf of their respective jurisdictions.

Overall Comments:

We welcome the IASB's efforts to make improvements to IAS 16 in, as noted in paragraph BC5, a simple and effective way of removing identified diversity in practice in a manner that would improve financial reporting.

Calle Oquendo 12
28006 Madrid
ESPAÑA
Tel.: + 34 91 417.55.49 Fax: + 34 91 555.93.68
mail@oicv.iosco.org - www.iosco.org

Question for respondents:
The Board is proposing to amend IAS 16 to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity would recognize the proceeds from selling such items, and the costs of producing those items, in profit or loss.

Do you agree with the Board's proposal? Why or why not? If not, what alternatives would you propose, and why?

Response:
Most members agree with the Board's proposal because they believe that the amendments to prohibit deducting proceeds from selling items produced from the cost of an item of property, plant and equipment before an item of property, plant and equipment is available for use will reduce diversity and result in improved financial reporting.

One member remains unsure about the proposed deletion of the current guidance for deducting proceeds from costs, as the proposal seems to be aimed at solving a particular issue for specific industries, whilst the current guidance appears to have worked reasonably well in most other industries.

Several members do not believe adequate consideration has been given to the diversity in new judgements, particularly those relating to distinguishing between the nature of various costs incurred, that will likely result in diverse application in practice going forward if the proposed amendments are finalized. It is currently unclear whether the revisions, without additional implementation guidance, will result in an *overall* reduction in financial reporting diversity.

These members believe that despite the Board's assertion that existing requirements in IAS 2 and IAS 16 are helpful in differentiating the nature of costs incurred before an asset is ready for its intended use, additional implementation guidance is necessary in this regard. Members are concerned, for example, that there will be diversity in differentiating whether the nature of costs incurred should be considered testing property, plant and equipment, producing inventory, or abnormal costs.

Diversity in identifying the nature of costs may occur, for example, in scenarios in which costs are incurred:

- While testing property, plant and equipment and inventory is produced despite it being cost prohibitive to produce inventory
- That result in the production of goods that are unsellable due to pending regulatory approval or due to other legal restrictions
- That result in the production of goods that are of a reduced quality and value compared to inventory expected to eventually be produced

Some members believe diverse approaches will be utilized in practice to determine the amount of costs that should be included in profit or loss (e.g., cost of goods sold) relating to sales. In this regard, several practices may occur, including the use of a zero margin approach, standard costing approach, or an incremental costing approach. Each of these approaches will result in a different reflection of financial performance.

Additionally, while supportive of the proposal, several members believe that additional guidance is necessary to assist in assessing when an asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Given this judgement determines, among other things, the point at which an entity stops accumulating costs in the carrying amount of an asset and depreciation begins, these members strongly believe guidance should be provided to reduce known diversity in this judgement that is likely to continue.

Additional Observations

With regards to historical practice, we raise a question regarding the proposed amendment to IFRIC Interpretation 20, reflected on page 8 of the ED. After revising paragraph 2, it will note that *during the development phase of the mine (before production begins) stripping costs are accounted for applying IAS 16 Property, Plant and Equipment.* While it may be true that the predominant practice has been to analogize to IAS 16 in accounting for stripping costs during the development phase of a mine, it is unclear whether there is consensus among constituents that these costs are technically within the scope of IAS 16. In this regard, it is unclear whether it would be considered an error if an entity had not historically applied IAS 16 and instead had applied other authoritative guidance which may have resulted in different accounting.

We appreciate your thoughtful consideration of the comments raised in this letter. If you have any questions or need additional information on the recommendations and comments that we have provided, please do not hesitate to contact Jenifer Minke-Girard, Vice Chair of Committee 1 at +1 202-551-5300. In case of any written communication, please mark a copy to me.

****

Sincerely,

P K Nagpal bjm:

Parmod Kumar Nagpal
Chair
Committee on Issuer Accounting, Audit and Disclosure
International Organization of Securities Commissions