Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Berlin, 21. August 2017

Dear Hans,

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

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's ED/2017/4 *Proceeds before Intended Use* (herein referred to as the 'ED'). We appreciate the opportunity to comment on this ED.

We are not convinced that the IASB's proposed amendment represents the best way in dealing with what appears to be a specific issue in specific industries – e.g. mining, commodities. These industries typically incur significant proceeds from selling items or material before the intended use of a production facility ("the item of PPE") and, in particular, while testing it. Further, there is a high probability that the proceeds could (and in many cases do) exceed the costs of testing. For instance, a company operating a gold mine might carve bigger or smaller traces of gold out of the stone while preparing the shaft for its intended use. Whilst we agree that a clarification of whether or not the current accounting treatment is appropriate in those circumstances is needed, we have significant doubts as to a general deletion of the (established) principle in IAS 16.17(e) under which certain sales proceeds are deducted from the costs to be capitalised. We therefore agree with the dissenting board member's opinion. In this context, we also flag that IAS 23.12 constitutes a corresponding principle of deducting income from costs by requiring (or allowing) investment income to be deducted from borrowing costs.

Having said this, we acknowledge that maintaining the current requirement in IAS 16.17(e) would not solve the specific issue mentioned above. We believe that more work on clarifying several aspects and terms is needed:

- Firstly, we agree that the meaning of "testing" requires clarification.

- Secondly, we agree with clarifying that only sales proceeds from testing be deductible from the costs of testing. This would require to clearly define the nature or quality of items that are produced from testing – in order to distinguish them from items produced from non-testing activities (but before the asset is available for its intended use), or that are produced while testing but sold after testing (but still before the asset is available for its intended use). In that regard, the IASB should look into how much additional work, cost and processes are required to sell items produced from testing: If a product was readily marketable straight out of the testing process without any further processing, certifications etc. and without incurring more than only insignificant further cost, then it would appear that those products are not related to testing. If, for instance, raw materials such as ore or gold were dug out of the earth and readily available for sale, it would seem questionable why the accounting treatment should be different compared to sales outside of the testing period.
- Thirdly, we agree that a robust principle is needed why only sales proceeds from testing, but no other sales proceeds, be deductible. Admittedly, there are potentially more aspects that deserve clarification should the principle of deducting proceeds from costs of testing be retained.

We understand and acknowledge that both the IASB and the IFRS IC have discussed the issue over a long period and have reached varying decisions during their deliberations. We further understand that both bodies seem to acknowledge that solving the issue holistically would require a more fundamental review of the requirements surrounding testing. However, we feel that simply prohibiting an established principle for pragmatic reasons seems to have the potential to create unintended consequences – which is why, on balance, we have a preference of retaining the deductability of sales proceeds from costs of testing, along with clarifying it as suggested before.

If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President