IFRS

STAFF PAPER

September 2017

IFRS Interpretations Committee Meeting

Project	Goods acquired for promotional activities		
Paper topic	Agenda decision to finalise		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee (Committee). Comments made on the application of IFRS Standards do not purport to set out acceptable or unacceptable application of IFRS Standards—only the Committee or the International Accounting Standards Board (Board) can make such a determination. Decisions made by the Committee are reported in IFRIC® *Update*. The approval of a final Interpretation by the Board is reported in IASB® *Update*.

Objective

1. This paper considers feedback on the IFRS Interpretation Committee's (Committee) tentative agenda decision IAS 38 *Intangible Assets*—Goods acquired for promotional activities. The paper:
   (a) analyses comments received on the tentative agenda decision, and
   (b) asks the Committee if it agrees with the staff recommendation to finalise the agenda decision.

Introduction

2. The Committee received a request to clarify how an entity accounts for goods that it distributes as part of its promotional activities. The submitter described a situation in which a pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The submitter asked how the entity accounts for any such goods that remain undistributed at its reporting date.

3. The Committee discussed the request at its June 2017 meeting. It noted that if an entity acquires goods to be used to undertake advertising or promotional activities,

paragraph BC46B of IAS 38 explains that such goods have no other purpose than to undertake those activities. In other words, the only benefit of those goods for the entity is to develop or create brands or customer relationships, which in turn generate revenues. However, applying IAS 38, the entity does not recognise internally generated brands or customer relationships as assets.

4. Accordingly, paragraph 69 of IAS 38 requires an entity to recognise any expenditure on such goods acquired solely for promotional activities as an expense when the entity has a right to access the goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. The entity, therefore, recognises any expenditure on those goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.

Comment letter analysis and staff analysis

5. We received six comment letters on the tentative agenda decision, reproduced in Appendix B to this paper.

6. ANC, FRC of Nigeria, Mazars and OIC agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons outlined in the tentative agenda decision. However, two of those respondents, Mazars and OIC, suggest some clarifications to the wording of the agenda decision.

7. Deloitte agrees with the Committee's decision not to add the matter to its standard-setting agenda but disagrees with the Committee's technical analysis and conclusions. ASCG does not agree with the tentative agenda decision.

8. Respondents' concerns, together with our analysis, are presented below.

Clarifications to the wording of the agenda decision

Clarifying that the doctors are not customers

9. OIC suggests the Committee clarify that the doctors to whom the entity distributes these promotional goods are not customers as defined by IFRS 15 *Revenue from Contracts with Customers*. This is to clarify that the requirements in IFRS 15 on identifying performance obligations do not apply to these goods.

Staff analysis

10. IFRS 15 applies to contracts with customers. Paragraph 6 and Appendix A of IFRS 15 define a customer as follows:

> A party that has contracted with an entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration.

11. Appendix A of IFRS 15 defines a contract as follows:

> An agreement between two or more parties that creates enforceable rights and obligations.

12. In the fact pattern described in the submission, we understand that there is no agreement between the parties relating to the distribution of the goods. Accordingly, these goods are not distributed pursuant to a contract and the distribution does not create any enforceable rights and obligations for either party. Consequently, IFRS 15 does not apply to this distribution.

13. We agree it would be useful to clarify in the agenda decision that the entity and the doctors do not enter into a contract in relation to the goods. We have revised the proposed wording of the agenda decision to reflect this clarification, as outlined in Appendix A to this paper.

Other clarifications

14. Mazars suggests clarifying that:

    (a) the assessment of the expected purpose of the acquired goods is made when those goods are acquired, and

    (b) if the entity acquired the goods for a purpose other than advertising and promotional activities, the entity would apply the requirements of the applicable Standards.

Staff analysis

15. We agree that an entity assesses the expected use of the goods when it acquires those goods. The tentative agenda decision reiterates the wording in paragraphs 69 and 69A of IAS 38. It states:

> …paragraph 69 of IAS 38 requires an entity to recognise any expenditure on such goods acquired solely for promotional activities as an expense when the entity has a right to access the goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them…

16. Because an entity is required to recognise expenditure on such goods typically when it owns them, it is implicit that it assesses their expected purpose when it owns or acquires the goods. We think no further clarification is needed in this respect.

17. We also think it is implicit that if an entity acquires goods for a purpose other than advertising and promotional activities, the entity would apply the requirements of other applicable Standards. The submitter specifically asked about the accounting for goods that an entity acquires for distribution as part of its promotional activities. We think it is not necessary to clarify that an entity applies applicable Standards if it acquires the goods for another purpose.

Scope of IAS 38 and alternate use of goods

18. Deloitte disagrees with the Committee's tentative conclusion that an entity applies IAS 38 to account for the goods. Paragraph 4 of IAS 38 states:

> Some intangible assets may be contained in or on a physical substance such as a compact disc (in the case of computer software), legal documentation (in the case of a licence or patent) or film. In determining whether an asset that incorporates both intangible and tangible elements should be treated under IAS 16 *Property, Plant and Equipment* or as an intangible asset under this Standard, an entity uses judgement to assess which element is more significant. For example, computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and it is treated as property, plant and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

19. Deloitte says paragraph 4 of IAS 38 requires an entity to use its judgement to assess whether the tangible or intangible aspect of the goods is more significant. It says the intangible element, ie the entity's branding, may not be more significant than the tangible aspect. It also says it is more appropriate for the entity to assess whether the goods have an alternative means by which the entity could generate value (other than giving them away as part of promotional activities). Deloitte provides examples of some situations in which an entity uses (or might use) goods for promotional activities but for which it says recognition of an asset is appropriate.

20. ASCG does not agree that if an entity acquires goods with the intention of using them for advertising and promotional activities, such goods have no other purpose. It says an entity recognises the cost of these goods as a marketing expense 'only if and as far as' the entity cannot use these goods for another purpose.

Staff analysis

Is the expenditure on the goods within the scope of IAS 38?

21. Paragraph 5 of IAS 38 states (emphasis added):

> This Standard applies to, among other things, expenditure on *advertising*, training, start-up, research and development activities. Research and development activities are directed to the development of knowledge. Therefore, although these activities may result in an asset with physical substance (eg a prototype), the physical element of the asset is secondary to its intangible component, ie the knowledge embodied in it.

22. In the fact pattern described in the submission, the entity uses the goods solely for promotional activities, ie for advertising. Accordingly, we think paragraph 5 of IAS 38 applies to any expenditure incurred on these goods and such expenditure is within the scope of IAS 38—regardless of the fact that the goods have a tangible or physical element. In our view, an entity does not consider paragraph 4 of IAS 38 in the context of expenditure on advertising and promotional activities.

23. Paragraph 69 of IAS 38 includes requirements that apply to the expenditure referred to in paragraph 5 of IAS 38—paragraph 69 specifically includes as examples expenditure on start-up, training, and advertising and promotional activities.

24. In addition, when the Board amended IAS 38 in May 2008 to clarify the meaning of 'incurred' in paragraph 69, it added requirements that specifically refer to 'the supply of goods'—in our view, this clarifies that, regardless of whether the expenditure is on tangible items, expenditure on advertising and promotional activities is within the scope of IAS 38.

25. We also think the dissenting opinion to the 2008 amendments supports our view. One of the Board members at the time of the amendments, James J Leisenring, dissented from these amendments. Paragraph D02 of his dissenting opinion acknowledges that an entity accounts for expenditure on tangible items applying IAS 38 if they relate to advertising and promotional activities. This paragraph states (emphasis added):

> Mr Leisenring believes that the Board's amendments introduce a logical flaw into IAS 38. Paragraph 68 states that 'expenditure on an intangible item shall be recognised as an expense when it is incurred unless' specific conditions apply. The amendments to *paragraph 69 include guidance on the accounting for expenditure on a tangible rather than an intangible item* and therefore the amendment to paragraph 69 is inconsistent with paragraph 68.

Considering alternate use

26. Paragraph 69 of IAS 38 requires an entity to recognise expenditure on advertising and promotional activities as an expense when it is incurred. In the case of the supply of goods, this paragraph requires an entity to recognise such expenditure as an expense when it has a right to access those goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them.

27. Paragraphs BC46B and BC46C of IAS 38 provide explanations for those requirements. These paragraphs state (emphasis added):

> BC46B The Board noted that advertising and promotional activities enhance or create brands or customer relationships, which in turn generate revenues. Goods or services *that are acquired to be used* to undertake advertising or promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods or

> services is to develop or create brands or customer relationships, which in turn generate revenues. Internally generated brands or customer relationships are not recognised as intangible assets.
>
> BC46C The Board concluded that it would be inconsistent for an entity to recognise an asset in respect of an advertisement that it had not yet published if the economic benefits that might flow to the entity as a result of publishing the advertisement are the same as those that might flow to the entity as a result of the brand or customer relationship that it would enhance or create. Therefore, the Board concluded that an entity should *not recognise as an asset goods or services that it had received in respect of its future advertising or promotional activities*.

28. We think it is clear from the requirements in IAS 38 and the Basis for Conclusions that an entity considers the purpose for which it has acquired the goods. If an entity acquires the goods solely for promotional purposes, we think it cannot recognise an asset simply because it could derive benefits from other potential uses.

29. Deloitte's and ASCG's views are similar to those held by Mr Leisenring who dissented from the amendments to IAS 38. Paragraph DO4 of his dissenting opinion states:

> Mr Leisenring believes that if an entity acquires goods, including items such as catalogues, film strips or other materials, the entity should determine whether those goods meet the definition of an asset. *In his view, IAS 38 is not relevant for determining whether goods acquired by an entity and which may be used for advertising should be recognised as an asset.*

30. For the reasons set out above, we agree with the tentative conclusions reached by the Committee at its June 2017 meeting. We think the Committee does not need to make any substantive changes to the tentative agenda decision in this respect.

31. Nonetheless, we think the wording in the tentative agenda decision could be improved by first setting out the applicable requirements in IAS 38 and then providing the rationale for those requirements using the wording in the relevant Basis for Conclusions paragraphs. The tentative agenda decision had discussed the rationale

first and then the requirements. We have revised the proposed wording for the proposed agenda decision as outlined in Appendix A to this paper.

Staff recommendation

32. On the basis of our analysis, we recommend finalising the agenda decision subject to the clarifications noted in paragraphs 13 and 31 of this paper. Appendix A to this paper outlines the proposed wording for the final agenda decision.

Question for the Committee
Does the Committee agree with the staff recommendation to finalise the agenda decision outlined in Appendix A to this paper?

Appendix A – Proposed wording for the agenda decision

A1. We propose the following wording for the final agenda decision (new text is underlined and deleted text is struck through):

> The Committee received a request to clarify how an entity accounts for goods ~~that~~ it distributes as part of its promotional activities. The submitter described a situation in which a pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The entity and the doctors do not enter into agreements that create enforceable rights and obligations in relation to those goods. The submitter asked how the entity accounts for any such goods that remain undistributed at its reporting date.
>
> If an entity acquires goods solely to be used to undertake advertising or promotional activities, it applies the requirements in paragraph 69 of IAS 38. Paragraph 69 requires an entity to recognise expenditure on such goods as an expense when the entity has a right to access those goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. The entity, therefore, recognises expenditure on those goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.
>
> In explaining the Board's rationale for the requirements in paragraph 69, paragraph BC46B of IAS 38 states ~~explains~~ that ~~such~~ goods acquired to be used to undertake advertising and promotional activities have no other purpose than to undertake those activities. In other words, the only benefit of those goods for the entity is to develop or create brands or customer relationships, which in turn generate revenues. However, applying IAS 38, the entity does not recognise internally generated brands or customer relationships as assets.
>
> ~~Accordingly, paragraph 69 of IAS 38 requires an entity to recognise any expenditure on such goods acquired solely for promotional activities as an expense when the entity has a right to access the goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. The entity, therefore, recognises any expenditure on these goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.~~

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to account for the goods described in the submission. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

Appendix B – Copies of comments letters

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IFRS Interpretations Committee
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24 July 2017

Re: IFRS Interpretations Committee tentative agenda decisions published in the June 2017 IFRIC Update

Dear Ms Lloyd,

We are pleased to have the opportunity to provide our comments on the IFRS Interpretations Committee ('IFRS IC') tentative agenda decisions included in the June 2017 IFRIC Update.

IAS 28—Acquisition of an associate or joint venture from an entity under common control

We think that this issue cannot be solved with non-authoritative guidance, because there is divergence in practice on how an entity should account for the acquisition of an interest in an associate or joint venture from an entity under common control. We think that these transactions are common in practice and may have a significant impact on the acquiring entity.

We strongly disagree with the IFRS IC conclusion that:
"*the requirements in IFRS Standards provide an adequate basis for an entity to account for the acquisition of an interest in an associate or joint venture from an entity under common control.*"
We note that this conclusion is inconsistent with the IFRS IC Agenda Decision published in May 2013, which states that:
"*…The Interpretations Committee was specifically concerned that this lack of clarity has led to diversity in practice for the accounting of the acquisition of an interest in an associate or joint venture under common control.*
The Interpretations Committee noted that accounting for the acquisition of an interest in an associate or joint venture under common control would be better considered within the context of broader projects on accounting for business combinations under common control and the equity method of accounting…"

We also think that the existing divergence in practice is confirmed by the IFRS accounting manuals of some accounting firms. According with these manuals the following views can be considered:

- View 1: There is no scope exemption in IAS 28 for such transactions; therefore, the normal measurement rules are applicable
- View 2: An entity may apply the common control scope exclusion in IFRS 3 by analogy to the accounting for common control transactions in separate financial statements. … In our view, the common control exemption in accounting for business combinations should also apply to the transfer of investments in associates and joint ventures between investors under common control. Although IAS 28 does not include an explicit exemption for common control transactions, equity accounting follows the methodology of acquisition accounting. Therefore, we believe that it is appropriate to extend the application of the common control exemption to those transfers.
- View 3: IAS 28 is not clear. Two possible approaches:
    - Acquisition accounting: the difference between the fair value of the underlying assets and the consideration given is goodwill or a gain
    - Pooling of interests: the scope exemption for BCUCC extends to transfers of associates and JVs within an existing group

We note that the tentative agenda decision states that:
"The Committee observed that in accounting for the acquisition of the interest, the entity would assess whether the transaction includes a transaction with owners in their capacity as owners—if so, the entity determines the cost of the investment taking into account that transaction with owners."
We think that this statement may have significant unintended consequences because it might be applied by analogy to all common control transactions that are not business combinations under common control, transfer of non-financial assets (eg property plant and equipment, inventories, investment properties), transfer of financial assets, and, with reference to Separate Financial Statements, to the transfer of investments in subsidiaries. These transactions are very common in practice and some may interpret this statement as requiring to assess whether any common control transactions includes a transaction with owners in their capacity as owners (ie whether it includes a distribution or a contribution). We also question how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners, given that no guidance is provided in IFRS.

Consequently, we recommend the IFRS IC to address the accounting for the acquisition of an interest in an associate or joint venture from an entity under common control issuing authoritative guidance (ie a Standard, an Interpretation or an Amendment). In doing this, we recommend to:
- carefully consider the potential consequences (especially in separate financial statements) on the accounting for other common control transactions that are not business combinations under common control;
- explain how an entity should assess whether the transaction includes a transaction with owners in their capacity as owners.

IFRS 3—Acquisition of a group of assets that does not constitute a business

We note that the tentative agenda decision states that:
"The Committee concluded that a reasonable reading of the requirements in paragraph 2(b) of IFRS 3 on the acquisition of a group of assets that does not constitute a business results in one of the two approaches outlined in this agenda decision. The Committee observed that an entity applies its reading of the requirements consistently to all such acquisitions … The Committee has

not obtained evidence that the outcomes of applying the two approaches outlined in this agenda decision would be expected to have a material effect on the amounts that entities report"
We do not support these conclusions. We think that the IFRS IC should clarify how an entity should apply the requirements in paragraph 2(b), because in an acquisition of a group of assets the transaction price may be different to the sum of the individual fair values of the acquired assets. This may happen, for example, because the seller in order to conclude an important transaction that involves many assets may be willing to grant a discount (that may be significant) that it would not grant if it sold only a single asset. In our view, if the discount is significant, the outcomes of the two approaches described in the tentative agenda decision may have a material effect on the financial statements of the buyer.

IAS 37—Costs considered in assessing whether a contract is onerous

We note that the tentative agenda decision states that:
"The Committee discussed two possible ways of applying the requirements in paragraph 68 of IAS 37 relating to the unavoidable costs of fulfilling the contract:

a. unavoidable costs are the costs that an entity cannot avoid because it has the contract (for example, an entity would include an allocation of overhead costs if those costs are incurred for activities required to complete the contract).
b. unavoidable costs are the costs that an entity would not incur if it did not have the contract (often referred to as 'incremental costs')."

We think that the IFRS IC should clarify the differences between the two possible ways of reading "unavoidable costs", for example specifying that an entity would not generally consider depreciation as an unavoidable cost if it applies the "incremental cost" approach (unless the entity has purchased a particular item of plant and equipment to fulfil the contract).
We also think that the IFRS IC should recommend the IASB to clarify the meaning of "unavoidable costs" in IAS 37, because the outcomes of the two approaches outlined in the tentative agenda decision may have a material effect on the entity financial statements. This should reduce the risks of difference in practice.

IAS 38—Goods acquired for promotional activities

We agree with the IFRS IC conclusions reported in this tentative agenda decision; however, we suggest clarifying in the fact pattern of the tentative agenda decision that "doctors" are not "customers" as defined by IFRS 15 *Revenue from Contracts with Customers.* This is to clarify that the guidance in IFRS 15 on identifying performance obligation does not apply to the promotional activities described in the tentative agenda decision.

Should you need any further information, please do not hesitate to contact us.

Yours sincerely,
Angelo Casò
(Chairman)

MAZARS

Mrs Sue Lloyd
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH
United Kingdom

Paris, August 2, 2017

Tentative Agenda Decisions – IFRIC Update March 2017

Dear Sue,

MAZARS is pleased to comment on the above IFRS Interpretations Committee tentative agenda decisions published in the June 2017 IFRIC Update.

With the exception of IAS 38 (Goods acquired from promotional activities), we have strong reservations on the tentative agenda decisions proposed by the Committee.

1. The agenda decision on IFRS 3 identifies two possible ways of applying the requirements of the standards, and both of them may lead in some instances to irrelevant outcomes. Therefore, without reducing diversity in practice, the agenda decision would make some entities change their current practice for a less relevant outcome.

2. Regarding the IAS 28 issue, the Committee changed its mind since the May 2013 agenda decision, and the current tentative decision would lead to increased costs and complexity for preparers by requiring significant restatements between the financial statements of the acquirer and those of the ultimate parent.
   Moreover, the tentative agenda decision includes a statement relating to "*transactions with owners in their capacity as owners*" which could be seen as establishing a principle of identifying – and separating – an embedded equity transaction in any transaction between entities under common control that is not made on terms equivalent to those that prevail in arm's length transactions.

3. IFRS 15 has deleted IAS 11 guidance regarding the costs to consider in an onerous construction contract. We encourage the IFRS Interpretations Committee or the Board to undertake a project to provide a consistent guidance under IAS 37 on measuring provisions for onerous contracts with customers, tackling with the questions of both the costs and the expected benefits to take into account.
   In the meantime, the issue could be partially dealt with through an agenda decision, but we strongly disagree with the tentative decisions made by the Committee. We do not think that incremental costs is a reasonable reading of the requirements in paragraph 68 of IAS 37. On the contrary, we believe that the costs that relate directly to a contract as

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described in IFRS 15 could be a relevant measure of the costs that the entity cannot avoid because it has the contract. We therefore do not understand the rationale for refusing that approach, which has the merit to rely on a consistency between the wording used in both IFRS 15 and IAS 37.

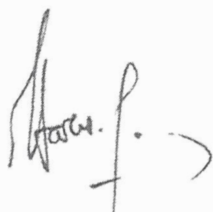
Our comments on the various tentative agenda decisions are detailed in the Appendices to this letter.

Should you have any questions regarding the above comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Yours faithfully

Michel Barbet-Massin

Financial Reporting Technical Support



Edouard Fossat

Financial Reporting Technical Support

Appendix 4

IAS 38 *Intangible Assets*—Goods acquired for promotional activities (Agenda Paper 3)

We agree with the proposed tentative agenda decision, which is consistent with the requirements of IAS 38.

We also agree with the wording of the agenda decision, but we think it could be helpful to specify that:

- the accounting treatment results from the assessment of the expected use of the purchased goods when they are acquired;
- if the entity acquires any of these goods for a purpose other than for advertising and promotional activities, the entity would apply the requirements of other applicable IFRS when accounting for these goods (as indicated by the staff in §22 of Agenda Paper 3).

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Chairman

Paris, 3rd August 2017

PDC N°70

Mrs Lloyd
IFRS Interpretations Committee
30 Cannon Street
LONDON EC4M 6XH
United Kingdom

June 2017- IFRS-IC tentative decisions

Dear Mrs Lloyd,

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative decisions published in June 2017 IFRIC Update. This letter sets out some of the most critical comments raised by interested stakeholders involved in ANC's due process.

IAS 38 – Goods acquired for promotional activities

ANC concurs with the IFRS-IC that goods acquired for promotional activities are immediately expensed.

IAS 37 – Costs considered in assessing whether a contract is onerous

ANC acknowledges and agrees that the notion of "unavoidable costs of fulfilling a contract" can be understood and applied in different ways. While we appreciate the pragmatic approach taken by the IFRS-IC at the eve of the adoption of IFRS 15, we believe that accepting two different approaches will not reduce the diversity in practice. Therefore, ANC encourages the IFRS-IC or the IASB to initiate a project to provide further guidance and to foster consistency in the application of IAS 37. This project could be undertaken as part of the IFRS 15 Post implementation review (or sooner). Among other things, such a project would explore whether further variants or approaches exist. It would also clarify whether these approaches are accounting policies or accounting estimates in light of the current IASB's project on this topic.

In the meantime ANC's view is that neither conclusion nor guidance should be introduced in the decision.

IAS 28 – Acquisition of an associate or joint venture from an entity under common control

As mentioned in the agenda paper, the request has already been discussed by the IFRS-IC in January and May 2013. It then concluded that "*it would be better to consider this matter within the context of broader projects on BCUCC and the equity method of accounting*". The scope of the BCUCC and equity method projects that is currently decided or contemplated will however not deal with that issue. Therefore, the Committee decided in March 2017 to reconsider the issue.

ANC fully supports the ambition of the Committee to address this issue but disagrees with the proposed wording for rejection and its conclusion. ANC believes that a more comprehensive analysis should be conducted before a conclusion can be made. For example, the IFRS-IC has not considered circumstances where a subgroup comprising subsidiaries and equity accounting investments are transferred within a group and whether it would be appropriate to apply the principles of predecessor accounting for the subsidiaries, and the principles of IFRS 3 for the equity accounted investments.

ANC therefore believes that the IFRS-IC should conclude consistently with its decision made in 2013 and encourage the IASB to enlarge the scope of its project on BCUCC to include this particular aspect.

ANC is also concerned by the reference to "*transactions with owners*". Those transactions cover a much wider scope than only transfers of equity accounted investments within a group, e.g. sale of goods as part of intercompany transactions. ANC suggests removing such reference which could give rise to unintended consequences.

IFRS 3/IFRS 9 – acquisition of a group of assets that does not constitute a business

ANC does not disagree with the two approaches suggested by the IFRS-IC. However, in light of the future amendment of IFRS 3 on the definition of a business, ANC believes that this issue could become far more widespread than currently observed based on the outreach conducted by the IFRS-IC. ANC therefore recommends that the IFRS-IC adds this issue to its agenda to foster consistency.

Yours sincerely,

Patrick de CAMBOURG

FINANCIAL REPORTING COUNCIL OF NIGERIA

Federal Ministry of Industry, Trade and Investment

August 17, 2017

The Chairman
International Accounting Standards Board
30, Cannon Street
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United Kingdom

RE: INVITATION TO COMMENT ON TENTATIVE AGENDA DECISION AND COMMENT LETTERS-IAS 38 GOODS ACQUIRED FOR PROMOTIONAL ACTIVITES

The Financial Reporting Council (FRC) of Nigeria welcomes the tentative agenda decision and comment letters - IAS 38

In view of the responses received from the constituents in Nigeria, the Council wishes to comment on the tentative agenda to IAS 38.

Tentative Agenda Decision

The Committee received a request to clarify how an entity accounts for goods that it distributes as part of its promotional activities. The submitter described a situation in which a pharmaceutical entity acquires goods (such as refrigerators, air conditioners and watches) to distribute to doctors as part of its promotional activities. The submitter asked how the entity accounts for any such goods that remain undistributed at its reporting date.

If an entity acquires goods to be used to undertake advertising or promotional activities, paragraph BC46B of IAS 38 explains that such goods have no other purpose than to undertake those activities. In other words, the only benefit of those goods for the entity is to develop or create brands or customer relationships, which in turn generate revenues. However, applying IAS 38, the entity does not recognise internally generated brands or customer relationships as assets.

Accordingly, paragraph 69 of IAS 38 requires an entity to recognise any expenditure on such goods acquired solely for promotional activities as an expense when the entity has a right to access the goods. Paragraph 69A of IAS 38 states that an entity has a right to access goods when it owns them. The

entity, therefore, recognises any expenditure on these goods as an expense when it owns the goods, or otherwise has a right to access them regardless of when it distributes the goods.

The Committee concluded that the requirements in IFRS Standards provide an adequate basis for an entity to account for the goods described in the submission. Consequently, the Committee [decided] not to add this matter to its standard-setting agenda.

COMMENTS

The Council agrees with the Committees decision not to add this matter to its standard-setting agenda that goods acquired for promotional activities that remain undistributed as at the reporting date should be expensed. This is consistent with the requirements of paragraph 69 of IAS 38 Intangible Assets.

If you require any further information or clarification do not hesitate to contact the Executive Secretary/Chief Executive Officer on (234) -7937405 or dasapokhai@financialreportingcouncil.gov.ng.

Yours sincerely,

VINCENT OKHIRIA
Assistant Director (Directorate of Accounting Standards, Public/Private)
For: Executive Secretary/CEO

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IFRS Technical Committee

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Berlin, 21. August 2017

Dear Sue,

IFRS IC's tentative agenda decisions in its June 2017 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the June 2017 *IFRIC Update*.

Please find our specific comments in the appendix to this letter. If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Comments on the tentative agenda decisions

IFRS 3 – Acquisition of a group of assets that does not constitute a business

We do not agree with the tentative decision, since we are not convinced that the IFRS IC's decision to offer a choice as to in which order the requirements in IFRS 3 and IFRS 9 shall be applied is appropriate. Unless there were only insignificant differences (e.g. resulting from transaction costs only) – which we do not expect to be the case –, we believe that there is only one appropriate reading of the relevant requirements.

We believe there are (only) a few reasons why a difference between the transaction price and the sum of the individual fair values could exist and (only) a few assets to which this difference should then be allocated. Based on our understanding, there are assets where there is more uncertainty – or less reliability – as regards their fair values than for other assets. This uncertainty is reflected in the (partial) transaction price deviating from the fair value of those assets. Hence, we believe that the difference should be allocated to those assets only.

Given the specific facts and circumstances provided, we deem the fair value of financial instruments to be more reliable than the fair value of non-financial instruments (e.g. PPE). Consequently, we deem only the "second approach" an appropriate reading of the requirements – which is, firstly, to measure financial instruments at their fair value (i.e. by first applying IFRS 9) and, secondly, to allocate the "difference" to all other assets based on their relative fair values (i.e. then applying IFRS 3).

IAS 28 – Acquisition of an associate or JV from an entity under common control

We agree with the tentative decision since it appropriately clarifies existing requirements and answers the narrow issue discussed. Whilst we agree that no analogy can be drawn from IFRS 3.2(c), we nevertheless question – and suggest the IASB reconsider – why there is no comparable scope exemption in IAS 28 (i.e. why there is unlike accounting in respect of interests acquired from an entity under common control).

This said, the issue discussed underlines that more fundamental and comprehensive questions around the accounting for business combinations under common control as well as the equity method are still unanswered and deserve further and timely work.

IAS 37 – Costs considered in assessing whether a contract is onerous

We do not fully agree with the tentative decision, as it lacks clarity in detail. In particular, the wording of the decision does not clarify, nor define, which costs are comprised in applying IAS 37.68 under alternative (a) (i.e. "costs that cannot be avoided when an entity has the contract") or (b) (i.e. "incremental costs"). Hence, we believe that this decision will not reduce diversity in practice.

We consider the sum of costs comprised in applying alternative (a) being more comprehensive than the sum of costs comprised in applying alternative (b). Further, we deem the wording under alternative (a) being "too wide" and the wording under alternative (b) being "too narrow" or restrictive. We believe that the answer to the question whether any of the two alternatives are an appropriate reading of IAS 37.68 depends on how (a) and (b) are defined. The proposed wording of the decision seems to be leaving maximum room for individual interpretation as to which costs shall be comprised in the assessment and therefore does not contribute to consistent application.

IAS 38 – Goods acquired for promotional activities

We do not agree with the tentative decision. From the wording of the decision, we understand that goods shall be expensed upon ownership or right to access, if their distribution was part of "promotional activities". Further, we understand that the IFRS IC interprets BC46B as implying that, if there are promotional activities, the respective goods have no other purpose than being distributed for marketing reasons. If our understanding was correct, we would disagree with the IFRS IC's thinking.

We consider the "intention to use" the goods for marketing purpose/activities to being only a necessary condition and the actual "usability" for marketing purposes to constitute the sufficient condition leading to an entity expensing the expenditures. However, we do not agree that the mere intention to use goods for marketing purposes implies that those goods necessarily have no other purpose. Instead, we think that only if and *as far as* those goods cannot be used for other purposes, any expenditure on such goods shall be recognised as marketing expenses. Hence, we would read BC46B to rather describe a (rebuttable) presumption, not a consequence.

Deloitte.

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21 August 2017

Sue Lloyd
Chair
IFRS Interpretations Committee
30 Cannon Street
London
United Kingdom
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Dear Ms Lloyd

Tentative agenda decision – IAS 38 *Intangible Assets*: Goods acquired for promotional activities

Deloitte Touche Tohmatsu Limited is pleased to respond to IFRS Interpretations Committee's publication in the June IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the request for clarification on the accounting for goods distributed as part of promotional activities.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda but do not agree with the assertion in the tentative agenda decision that the transaction described is within the scope of IAS 38 and, therefore, that such items should necessarily be recognised as an expense when the entity has a right to access the goods.

Whilst it is true that paragraph 4 of IAS 38 scopes in some assets (for example software on a compact disc) with a physical substance, that paragraph also requires a judgement to be made on whether the tangible or intangible aspect of the asset is more significant. In the circumstances described in the tentative agenda decision, the intangible element (the inclusion of the entity's branding) may not be more significant than the tangible aspect of a watch or an air conditioner.

We believe a more appropriate assessment is whether there is an alternative means (other than giving away as part of promotional activities) by which value could be generated from the item. As such, we believe that recognition as an asset is appropriate in circumstances such as the following:

- assets purchased with more than one potential use that are subsequently chosen for use in promotional activities;
- items of fungible inventory that might be given away as free samples; or
- items of property, plant and equipment used over an extended period of time as part of an entity's advertising and promotional activities.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

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Yours sincerely

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Global IFRS Leader