



# STAFF PAPER

March 2020

## IFRS® Interpretations Committee meeting

Project	Training Costs to Fulfil a Contract (IFRS 15)		
Paper topic	Comment letters on tentative agenda decision		
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## Introduction

1. In September 2019, the IFRS Interpretations Committee (Committee) published a tentative agenda decision in response to a submission asking whether particular training costs meet the criteria in paragraph 95 of IFRS 15 *Revenue from Contracts with Customers* for an entity to recognise those costs as an asset.
2. In the fact pattern described in the submission:
  - (a) an entity enters into a contract with a customer that is within the scope of IFRS 15. The contract is for the supply of outsourced services.
  - (b) to be able to provide the services to the customer, the entity incurs costs to train its employees (as described in paragraph 15 of IAS 38 *Intangible Assets*) so that they understand the customer's equipment and processes. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.
  - (c) the contract permits the entity to charge to the customer the costs of training
    - (i) the entity's employees at the beginning of the contract, and
    - (ii) new employees that the entity hires as a result of any expansion of the customer's operations.

3. In considering the question, the Committee observed that in the fact pattern described in the submission:
  - (a) before assessing the criteria in paragraph 95 of IFRS 15, the entity first considers whether the training costs incurred to fulfil the contract are within the scope of another IFRS Standard.
  - (b) paragraph 5 of IAS 38 states that ‘this Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities’.
  - (c) paragraph 69(b) of IAS 38 lists ‘expenditure on training activities’ as an example of expenditure that an entity recognises as an expense when incurred.
4. Accordingly, the Committee concluded that, in the fact pattern described in the submission, the entity recognises as an expense when incurred the training costs to fulfil the contract with the customer.
5. The objective of this paper is to:
  - (a) analyse the comments on the tentative agenda decision; and
  - (b) ask the Committee whether it agrees with our recommendation to finalise the agenda decision.
6. There are three appendices to this paper:
  - (a) Appendix A—Proposed wording of the agenda decision;
  - (b) Appendix B—Other comments; and
  - (c) Appendix C—Comment letters.

## Comment letter summary

7. We received 17 comment letters by the comment letter deadline. All comments received, including any late comment letters, are available on our [website](#)<sup>1</sup>. This agenda paper includes analysis of only the comment letters received by the comment letter deadline, which are reproduced in Appendix C to this paper.
8. Nine respondents (the Accounting Standards Committee of Germany (ASCG), BDO, David Hardidge, Deloitte, EY, the Institute of Indonesia Chartered Accountants (IAI), the Accounting Standards Board of the Institute of Chartered Accountants of India (ICAI), the Institute of Chartered Accountants of Nigeria (ICAN) and the National Board of Accountants and Auditors (NBAA) [Tanzania]) agree with the Committee's decision not to add the matter to its standard-setting agenda for the reasons set out in the tentative agenda decision. Four of these respondents (BDO, David Hardidge, Deloitte and EY) suggest clarifications to the agenda decision.
9. Four respondents (ACTEO, the Autorité des Normes Comptables (ANC), Peter Herzog and PwC) disagree with the Committee's technical analysis and suggest considering an amendment to IFRS Standards.
10. Mazars and the Saudi Organisation for Certified Public Accountants (SOCPA) agree with the Committee's analysis but question the relevance of the accounting outcome. They suggest considering an amendment to IFRS Standards.
11. ENGIE suggests the Committee reconsider its preliminary technical conclusion. The Malaysian Accounting Standards Board (MASB) comments on a fact pattern different from the one described in the submission.
12. Further details about the matters raised by respondents, together with our analysis, are presented below.

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<sup>1</sup> At the date of posting this agenda paper, there were two late comment letters.

## Staff analysis

### ***Training costs specific to a contract with a customer***

#### *Respondents' comments*

13. Five respondents (ACTEO, the ANC, ENGIE, Mazars and SOCPA) comment on the difference they see between training costs specifically related to a contract with a customer and general training costs.

14. ACTEO and the ANC disagree with the Committee's technical analysis. They also suggest that if the Committee confirms its technical analysis, then it should recommend an amendment to IFRS Standards. For example, the ANC states:

From our point of view, it is difficult to consider that these specific costs are similar in essence to the ones incurred as a result of a general training to maintain or develop employees' overall competences. These specific training costs are rather a component of the direct labour costs relating to a contract, referred to in IFRS 15.97(a), and as such should be included in the costs to fulfil a contract. Indeed, with regard to the three criteria set out in IFRS 15.95, these specific costs fulfil the prerequisites to their recognition as assets, whereas the costs of a generic training would obviously not.

15. ENGIE suggests that the Committee reconsider its preliminary conclusion, noting that an entity should not systematically recognise all training costs as an expense when incurred.

16. Mazars and SOCPA agree with the Committee's analysis applying existing IFRS Standards. They nonetheless suggest considering an amendment to the Standards to require the application of IFRS 15 to the training costs described in the submission. ACTEO, the ANC and ENGIE also say recognising training costs immediately as an expense while recognising related revenue later would not depict the performance of the contract.

## *Staff analysis*

### Committee's analysis in the tentative agenda decision

17. We continue to agree with the Committee's analysis of the fact pattern described in the submission—ie the entity applies IAS 38 in accounting for the costs incurred to train its employees to fulfil the contract with the customer, recognising those costs as an expense when incurred.
18. Paragraph 95 of IFRS 15 applies to costs incurred in fulfilling a contract with a customer only if those costs are not within the scope of another Standard. Paragraph 5 of IAS 38 states 'this Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities'.
19. The expenditure on training to which IAS 38 applies is training of an entity's employees (as described in paragraph 15 of IAS 38). Paragraph 69(b) of IAS 38 includes 'expenditure on training activities' as an example of expenditure that is recognised as an expense when incurred—paragraph 69 refers to such expenditure as that 'incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised'. The reason for not recognising an asset for such training costs is explained in paragraph 15 of IAS 38:
 

An entity may have a team of skilled staff and may be able to identify incremental staff skills leading to future economic benefits from training. The entity may also expect that the staff will continue to make their skills available to the entity. However, an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset...
20. Paragraph 15 of IAS 38 does not exclude the possibility of an entity having control over the expected future economic benefits arising from its skilled employees, and therefore arising from training those employees. For example, this might be the case if the employment contracts associated with trained employees ensure that the future economic benefits attributable to the training will flow to the entity. Consequently, IAS 38 neither requires an entity to systematically recognise as an expense all costs

associated with training its employees—even though recognition as an expense when incurred is usually the outcome—nor does it distinguish between training costs specifically required to fulfil a contract with a customer and general training costs. Instead, IAS 38 distinguishes between employee training that meets the definition of an intangible asset in IAS 38, and that which does not.

#### Wording of the agenda decision

21. The tentative agenda decision describes the training as costs incurred to train the entity’s employees so that they can fulfil the contract with the customer, noting that the training is not identified as a performance obligation. It also includes a reference to paragraph 15 of IAS 38 in describing the training. However, the tentative agenda decision is not explicit in explaining that the entity has no control over the expected future economic benefits arising from the training and, thus, why IAS 38’s definition of an intangible asset is not met. We recommend making an amendment to bullet (b) of the fact pattern (new text underlined, deleted text struck through) to clarify this point:

(b) to be able to provide the services to the customer, the entity incurs costs to train its employees (~~as described in paragraph 15 of IAS 38 *Intangible Assets*~~) so that they understand the customer’s equipment and processes. The training costs are as described in paragraph 15 of IAS 38 *Intangible Assets*—ie the entity has no control over the expected future economic benefits arising from the training because employees can leave the entity’s employment. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.

22. In referring to the application of IAS 38, we also recommend including additional explanation from paragraph 69 of IAS 38, which links to the requirements in paragraph 15, as follows:

Paragraph 69(b) of IAS 38 ~~includes lists~~ ‘expenditure on training activities’ as an example of expenditure that is incurred to provide future economic benefits to an entity, but no intangible or other asset is acquired or created that can be recognised.

Consequently, paragraph 69 states that such expenditure on training activities is recognised ~~an entity recognises~~ as an expense when incurred. Paragraph 15 of IAS 38 explains that ‘an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset’.

#### Amendment to IFRS Standards

23. In our view, IFRS Standards should not be amended to require an entity to apply IFRS 15, rather than IAS 38, to employee training costs incurred to fulfil a contract with a customer. This is because the outcome of applying paragraph 95 of IFRS 15 to those training costs would be the same as that applying IAS 38.
24. Paragraph 95 of IFRS 15 states that an entity recognises an asset from the costs incurred to fulfil a contract with a customer only if those costs meet all three criteria listed in that paragraph. The criterion in paragraph 95(b) requires the costs incurred by the entity to ‘generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future’. In explaining the rationale for the criteria in paragraph 95, paragraph BC308 notes that the criteria in paragraph 95 ensure only costs that meet the definition of an asset are recognised as such. That paragraph also notes that the criteria ensure an entity is precluded from deferring costs merely to normalise profit margins throughout a contract by allocating revenue and costs evenly over the life of the contract.
25. In the fact pattern described in the submission, trained employees can leave the entity’s employment. Accordingly the costs of training those employees do not **(emphasis added)** ‘generate or enhance **resources of the entity that will be used** in satisfying (or in continuing to satisfy) performance obligations in the future’ as is required by paragraph 95(b) to recognise the costs as an asset. The entity has no control over whether and when employees might leave its employment and, therefore, in our view it could not conclude that the training costs generate or enhance resources of the entity that *will be used* in satisfying performance obligations in the future.

26. The recognition of the training costs as an expense applying either IAS 38 or paragraph 95 of IFRS 15 aligns with the Board’s rationale in developing the criteria in paragraph 95. As noted above, the Board developed the criteria in paragraph 95 to ensure only costs that meet the definition of an asset are recognised as such. It would be counter to this rationale if particular costs would fail to meet the definition of an asset applying one IFRS Standard (in this case, IAS 38) and, yet, meet the criteria in paragraph 95 for recognition as an asset.
27. Accordingly, we see no benefit in undertaking standard-setting to require the application of IFRS 15.

### **Scope of IFRS 15 and IAS 38**

#### *Respondents’ comments*

28. The ANC, Deloitte, Peter Herzog and PwC comment on the interaction between paragraph 95 of IFRS 15 and paragraph 3(i) of IAS 38. Paragraph 3(i) of IAS 38 states ‘this Standard does not apply to:...(i) assets arising from contracts with customers that are recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*’.
29. Peter Herzog and PwC disagree with the Committee’s analysis. They suggest that the Committee explain why paragraph 3(i) of IAS 38 does not apply to the training costs described in the submission and, instead, why paragraph 5 does. PwC suggests the following:

...that the Committee revisits the agenda decision and its conclusion. The Committee should consider in particular how paragraph 3(i) of IAS 38 applies in the context of the other guidance referred to in the tentative agenda decision and in particular why paragraph 5 of IAS 38 applies and paragraph 3(i) does not. We also suggest that the Committee consider whether an amendment to the standards is required to determine which standard is applied to this situation....



30. The ANC suggests clarifying the interaction between paragraph 95 of IFRS 15 and paragraph 3(i) of IAS 38, noting the need to distinguish between training costs required to fulfil a contract with a customer and other training costs.
31. Deloitte agrees with the Committee's analysis but also suggests that it may be helpful to clarify the interaction between those paragraphs.

### *Staff analysis*

32. As noted earlier, paragraph 95 of IFRS 15 requires an entity to first assess whether costs incurred to fulfil a contract with a customer are within the scope of another IFRS Standard before applying the criteria in that paragraph to those costs—this is because paragraph 95 applies only to costs that are *not* within the scope of another Standard. Paragraph 95 is explicit that it does not apply to costs within the scope of IAS 38—it states ‘if the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard (for example...IAS 38 *Intangible Assets*)...’. Paragraph 96 of IFRS 15 requires an entity to account for costs within the scope of another Standard applying that other Standard. Therefore, in the fact pattern described in the submission, the entity first assesses whether the training costs are within the scope of IAS 38.
33. Paragraphs 2–7 of IAS 38 describe its scope. Paragraph 3(i) of IAS 38 excludes from its scope ‘assets arising from contracts with customers that are recognised in accordance with IFRS 15 *Revenue from Contracts with Customers*’. Paragraph 5 states that IAS 38 applies to expenditure on training.
34. Some view the requirements in paragraph 95 of IFRS 15 and paragraph 3(i) of IAS 38 to be circular—in the context of training costs incurred to fulfil a contract with a customer, paragraph 95 requires an entity to first assess the scope of IAS 38 while paragraph 3(i) implies an entity first assesses whether an asset is recognised applying IFRS 15.
35. In our view, the scope paragraphs of IAS 38 should be read as a whole, and not each paragraph or sentence in isolation. Paragraph 3(i) of IAS 38 contains a general scope exclusion for assets arising from contracts with customers. The Board included paragraph 3(i) in order to exclude from the scope of IAS 38 those assets that are

clearly within the scope of IFRS 15 (for example, contract assets and assets recognised for incremental costs of obtaining a contract)—for such assets, IFRS 15 includes specific recognition, measurement and disclosure requirements. In contrast, paragraph 5 of IAS 38 specifically requires an entity to apply IAS 38 to expenditure on training—IAS 38 has specific requirements for expenditure on training in paragraphs 15 and 69. Therefore, because training costs are explicitly included within the scope of IAS 38, an entity applies IAS 38 to the training costs described in the submission. We note that paragraph BC307 of IFRS 15 states that ‘if the other Standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15’.

36. In addition, we see no conflict between those two paragraphs even if paragraph 3(i) of IAS 38 were to be read in isolation. This is because the training costs incurred to fulfil the contract with the customer would not give rise to an asset applying IFRS 15 (see paragraphs 23–26 of this paper). Therefore paragraph 3(i)—which refers to *assets* recognised applying IFRS 15—does not capture those training costs.
37. After considering respondents’ comments, we recommend clarifying in the agenda decision why paragraph 5 of IAS 38 applies to the training costs described in the submission. As noted in Appendix A, we propose adding the following:

Paragraphs 2–7 of IAS 38 describe the scope of that Standard—paragraph 5 explicitly includes expenditure on training within its scope, stating Paragraph 5 of IAS 38 states that ‘this Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities’.  
Accordingly, the Committee...

### **Staff recommendation**

38. On the basis of our analysis, we recommend finalising the agenda decision as published in IFRIC Update in September 2019, with the changes recommended in paragraphs 21, 22 and 37 of this paper. Appendix A sets out the proposed wording of the final agenda decision.

**Question for the Committee**

Does the Committee agree with our recommendation in paragraph 38 of this paper to finalise the agenda decision as set out in Appendix A?

## Appendix A—Proposed wording of the agenda decision

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

### **Training Costs to Fulfil a Contract (IFRS 15 *Revenue from Contracts with Customers*)**

The Committee received a request about training costs incurred to fulfil a contract with a customer. In the fact pattern described in the request:

- a. an entity enters into a contract with a customer that is within the scope of IFRS 15. The contract is for the supply of outsourced services.
- b. to be able to provide the services to the customer, the entity incurs costs to train its employees (~~as described in paragraph 15 of IAS 38 *Intangible Assets*~~) so that they understand the customer's equipment and processes. The training costs are as described in paragraph 15 of IAS 38 *Intangible Assets*—ie the entity has no control over the expected future economic benefits arising from the training because employees can leave the entity's employment. Applying IFRS 15, the entity does not identify the training activities as a performance obligation.
- c. the contract permits the entity to charge to the customer the costs of training (i) the entity's employees at the beginning of the contract, and (ii) new employees that the entity hires as a result of any expansion of the customer's operations.

The request asked whether the entity recognises the training costs as an asset or an expense when incurred.

#### **Which IFRS Standard applies to the training costs?**

Paragraph 95 of IFRS 15 requires an entity to recognise an asset from the costs incurred to fulfil a contract with a customer not within the scope of another IFRS Standard, only if those costs meet all three criteria specified in paragraph 95. Consequently, before assessing the criteria in paragraph 95, the entity first considers whether the training costs incurred to fulfil the contract are within the scope of another IFRS Standard.

Paragraphs 2–7 of IAS 38 describe the scope of that Standard—paragraph 5 explicitly includes expenditure on training within its scope, stating Paragraph 5 of IAS 38 states that

‘this Standard applies to, among other things, expenditure on advertising, training, start-up, research and development activities’. Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity applies IAS 38 in accounting for the training costs incurred to fulfil the contract with the customer.

### **Application of IAS 38**

Paragraph 69(b) of IAS 38 includes lists ‘expenditure on training activities’ as an example of expenditure that is incurred to provide future economic benefits to an entity, but no intangible or other asset is acquired or created that can be recognised. Consequently, paragraph 69 states that such expenditure on training activities is recognised an entity recognises as an expense when incurred. Paragraph 15 of IAS 38 explains that ‘an entity usually has insufficient control over the expected future economic benefits arising from a team of skilled staff and from training for these items to meet the definition of an intangible asset’.

In addition, in explaining the requirements in IFRS 15 regarding costs to fulfil a contract, paragraph BC307 of IFRS 15 states that ‘if the other Standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15’.

Accordingly, the Committee concluded that, in the fact pattern described in the request, the entity recognises as an expense when incurred the training costs to fulfil the contract with the customer.

The Committee concluded that the principles and requirements in IFRS 15 and IAS 38 provide an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer. Consequently, the Committee {decided} not to add this matter to its standard-setting agenda.

**Appendix B—Other comments**

B1. The following table summarises respondents’ other comments together with our analysis and conclusions.

<b>Respondents’ comments</b>	<b>Staff analysis and conclusions</b>
<p><i>1. Reference to paragraph 97 of IFRS 15</i></p> <p>EY suggests stating that an entity’s ability to recharge the customer (paragraph 97(d) of IFRS 15) for the costs of training its own employees is not relevant to assessing whether to recognise those training costs as an asset.</p>	<p><i>We recommend no change to the tentative agenda decision in this respect.</i></p> <p>The section of the agenda decision discussing the Committee’s analysis and conclusion makes no reference to the fact that the entity is permitted to charge the customer for training costs, even though the fact pattern described in the agenda decision includes this fact.</p> <p>For this reason, we think the agenda decision already addresses the point raised by EY.</p>
<p><i>2. Application of requirements in IFRS 15</i></p> <p>BDO and EY suggest clarifying that an entity assesses whether it controls the resources in applying the criterion in paragraph 95(b) of IFRS 15.</p> <p>EY also suggests that the Committee remind constituents that, regardless of whether recognised as an asset or an expense, costs may be included in a cost-based measure of progress for performance obligations satisfied over time.</p>	<p><i>We recommend no change to the tentative agenda decision in this respect.</i></p> <p>The tentative agenda decision explains that IAS 38, and not IFRS 15, applies to the training costs described in the submission.</p> <p>It would therefore go beyond the scope of the agenda decision to discuss the application of paragraph 95(b) or the requirements on measuring progress in IFRS 15.</p>

<p>3. <i>Amendment to IAS 2 Inventories</i></p> <p>Peter Herzog suggests an amendment to IAS 2 to include within its scope costs to fulfil a service contract in addition to goods that will be transferred to a customer.</p>	<p><i>We recommend no change to the tentative agenda decision in this respect.</i></p> <p>The tentative agenda decision explains that IAS 38 applies to the training costs described in the submission.</p> <p>Considering an amendment to IAS 2 goes beyond the scope of the submission.</p>
<p>4. <i>Other fact patterns</i></p> <ul style="list-style-type: none"> <li>• David Hardidge refers to a fact pattern in which an entity recognises an asset for work-in-progress.</li> <li>• MASB identifies a fact pattern in which an entity retains its staff through a special employment bond.</li> <li>• Deloitte suggests distinguishing costs to train the entity’s own employees to enable them to provide services to a customer from training costs that form part of the entity’s performance obligation to the customer.</li> </ul>	<p><i>We recommend no change to the tentative agenda decision in this respect.</i></p> <p>We have not analysed the fact pattern specified in these comment letters, which are different from the fact pattern submitted to the Committee. We suggest no further action in this respect.</p> <p>We note the tentative agenda decision already specifies that the entity does not identify the training activities as a performance obligation.</p>

## Appendix C—Comment letters



The Chairman of the IFRS IC

Columbus Building, 7  
Westferry Circus

Canary Wharf

London E14 4HD.

19 October 2019

**Dear Ms Lloyd,**

**Re : Tentative agenda decision “Training costs to fulfil a contract”**

We are pleased to provide comments on the above-mentioned tentative agenda decision of the IFRS Interpretations Committee (IFRIC).

We think that training costs may, in certain circumstances, satisfy the definition of ‘costs to fulfil a contract’ and should be therefore recognised as assets.

We agree with the committee that before assessing the criteria in paragraph IFRS 15.95, the entity should first consider whether the training costs incurred to fulfil the contract are within the scope of another IFRS Standard. In doing so, the entity will naturally analyse how IAS 38 should be applied to the specific training cost under review.

While we also agree with the Committee that IAS 38 considers the accounting treatment for some “training costs”, we disagree that this standard could provide the right answer in all cases.

Indeed, we believe that IAS 38 does not specifically deal with training costs relative to sale contracts but provides only general rules that avoid an asset being inappropriately recognised in a situation where the entity does not obviously control the underlying expected benefits arising from a team of skilled staff. This will be the case for all generic training provided to employees without direct and obvious link to a future economic benefit. We therefore believe that an entity can conclude that IAS

38 does not apply to the specific training costs under assessment and should then go back to IFRS 15 to conclude on the appropriate accounting treatment.

Under IFRS 15, the criteria for capitalisation will be met in some types of contracts if the training is specifically necessary or useful for the contract and the staff members who are trained are dedicated to that contract, and the training increases efficiency so that the costs are expected to be recovered via the contract price (the contract's margin is sufficient to cover these training costs). This would also be the case when these costs are explicitly chargeable to the customer. In other words, the entity would not have been able to perform under the contract, had the staff not been trained in preparation. In some contracts, these costs are incurred only because the entity has entered into the contract and are as necessary to its performance as the other costs listed in paragraph 97. We believe that an entity can demonstrate that the three criteria in paragraph 95 are met and therefore should not be prevented systematically from recognising training costs as an asset in this instance.

Furthermore, even if the Committee were to conclude that its preliminary technical analysis is the only one possible in the context of current standards, we would request it to question the relevance of the outcome obtained. In fact, to recognise training costs immediately as an expense, when the corresponding consideration charged to the customer (which is directly related to these costs) will be recognised as revenue in a later period, will distort the accounting depiction of the performance of the contract, and will not reflect the way the management analyses it.

In conclusion, we believe that the Committee should:

- either reconsider its preliminary conclusion in the agenda decision and instead conclude that training costs should not systematically be recognised as an expense within current IFRS 15;
- or conclude that the current standard does not always lead to the most relevant outcome and should therefore be amended.

If you require any clarification or information, please do not hesitate to contact us.

Yours sincerely,

ACTEO

Patrice MARTEAU  
Chairman





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Berlin, 11 November 2019

Dear Sue,

## IFRS IC's tentative agenda decisions in its September 2019 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 September 2019 *IFRIC Update*.

We fully agree with all **tentative agenda decisions**. However, we suggest that one detail in the reasoning for the tentative agenda decision on IFRS 16 be made more prominent: As the main conclusion (see fourth paragraph) appears to be that the “customer’s right of use” (i.e. the right to direct how and for what purposes an asset is used) mainly depends on whether or not “the customer has the right to make all *relevant* decisions” – which the customer seems to have in this fact pattern –, it should be underlined in this context that “*relevant*” connotes to “*affect[ing] the economic benefits to be derived from the use*”.

In respect of the **final agenda decision on IFRS 15**, we reiterate our concern that we had already addressed upon the respective tentative decision, i.e. not addressing the follow-up question of how to account for compensations that exceed the transaction price. We take the view that this question deserves being addressed by the IFRS IC or the IASB, as, in many cases, the answer on this question could affect the answer on the main question.

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

Yours sincerely,

*Andreas Barckow*

President

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12 November 2019

Dear IFRS Interpretations Committee members,

**Tentative agenda decision - *Training Costs to Fulfil a Contract (IFRS 15 Revenue from Contracts with Customers)* - Agenda Paper 2 (IFRIC Update, September 2019)**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above tentative agenda decision of the IFRS Interpretations Committee ('Committee') published in the September 2019 *IFRIC Update*.

The Committee received a request about "training costs incurred to fulfil a contract with a customer. The request asked whether the entity recognises the training costs as an asset or an expense when incurred." In its tentative agenda decision, the Committee concluded that based on the fact pattern described in the request, "the entity recognises as an expense when incurred the training costs to fulfil the contract with the customer". In addition, it concluded that "the principles and requirements in IFRS 15 and IAS 38 *Intangible Assets* provide an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer".

We agree with the Committee's analysis and conclusion in its tentative agenda decision. However, we believe that it would help constituents if further analysis is added in the agenda decision. We suggest that the Committee considers including the following:

- ▶ An entity's ability to recharge the customer for any costs incurred to train the entity's own employees is not relevant in assessing whether it can capitalise or expense such costs.
- ▶ Since IAS 38 applies to training costs and requires such costs to be expensed, paragraph 97(d) of IFRS 15 is not relevant.
- ▶ As discussed in the Committee's Agenda Paper 2, *Training Costs to Fulfil a Contract (IFRS 15)*, paragraphs 32-36, September 2019, even if an entity were to apply IFRS 15 to training costs described in the submission, the entity would still not be able to recognise an asset. This is because "an entity generally does not control its employees and, therefore, they are not (**emphasis added**) 'resources of the entity that **will be used** in satisfying (or in continuing to satisfy) performance obligations in the future' as contemplated in paragraph 95(b) of IFRS 15."

In addition, we are concerned that the link between costs incurred and measures of progress based on costs incurred may be a factor that is leading entities to consider whether costs, such as those for training, can be capitalised. We believe it would be helpful to remind constituents that, regardless of whether costs are capitalised or expensed, they may drive the measure of progress if it is based on costs incurred for a performance obligation satisfied over time. Entities need to carefully consider which costs contribute to the entity's performance in transferring control of the good or service in accordance with paragraphs 42, B18 and B19 of IFRS 15.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*



IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
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E14 4HD

20 November 2019

Dear Sir/Madam

**Tentative agenda decision — IFRS 15 *Revenue from Contracts with Customers: Training Costs to Fulfil a Contract***

We are commenting on the above tentative agenda decision, published in the September 2019 edition of IFRIC Update on behalf of PricewaterhouseCoopers. Following consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on the agenda decision. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We note the Committee’s reference to paragraph 95 of IFRS 15 and to paragraph 5 of IAS 38 *Intangible Assets*, and its tentative conclusion that the guidance in IAS 38 applies to training costs. We do not believe that the references to IFRS standards and the explanation in the tentative agenda decision support the Committee’s conclusion.

We note that paragraph 3(i) of IAS 38 states that the standard does not apply to assets arising from contracts with customers that are recognised in accordance with IFRS 15. The agenda decision does not explain why paragraph 5 of IAS 38 applies to costs that might give rise to assets recognised as fulfilment costs in accordance with IFRS 15, rather than paragraph 3(i).

We are therefore concerned that the tentative agenda decision does not consider all of the relevant requirements and might lead to further diversity in practice, particularly in connection with the accounting for other costs that could potentially be classified as fulfilment costs in the scope of IFRS 15.

We suggest that the Committee revisits the agenda decision and its conclusion. The Committee should consider in particular how paragraph 3(i) of IAS 38 applies in the context of the other guidance referred to in the tentative agenda decision and in particular why paragraph 5 of IAS 38 applies and paragraph 3(i) does not. We also suggest that the Committee consider whether an amendment to the standards is required to determine which standard is applied to this situation. Addressing the issue in this way would also help entities determine the accounting for other costs that might potentially be in the scope of paragraph 95 of IFRS 15, for example start-up costs.

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If you have any questions in relation to this letter please do not hesitate to contact Henry Daubeney, PwC Global Chief Accountant and Head of Reporting (+ 44 7841 569635) or Tony de Bell (+44 771 554 6441).

Yours sincerely

*PricewaterhouseCoopers*

PricewaterhouseCoopers

November 20, 2019

IFRS Foundation  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

## Dear Colleagues,

The Saudi Organization for Certified Public Accountants (SOCPA) appreciates the efforts of the IFRS Interpretations Committee (Committee) and welcomes the opportunity to comment on the *Tentative Agenda Decision—Training Costs to Fulfil a Contract (IFRS 15)*.

We agree with the Committee conclusion that the principles and requirements in IFRS 15 and IAS 38 provide a basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer. However, the basis in IAS 38 contradicts with the concepts of the “Costs to fulfil a contract” in IFRS 15, paragraph 95 and with the treatment of many other expenses which are capitalised in accordance with paragraph 95 of IFRS 15. We believe that the requirements of Paragraph 69(b) of IAS 38 was written in the context of general training and did not, at that time, envisage the issue raised in this enquiry. We also believe this paragraph should have been amended with the issuance of IFRS 15 without *the risk of overlooking the requirements of other standards*, a concern expressed in paragraph BC 308 of IFRS 15. This enquiry uncovers an area of an important and urgent improvement to IAS 38.

Therefore, we suggest that the Committee raise the issue to the Board to make a limited improvement to amend paragraph 69(b) of IAS 38 to be read as follows (new text is underlined):

69...

(b) expenditure on training activities unless it is incurred in fulfilling a contract with a customer in accordance with the criteria set out in paragraph 95 of IFRS 15.

## Reasons for our suggestions:

1. The suggested amendment will align requirements of IAS 38 with other IFRS requirements such as IAS 16 and IAS 38 (the depreciation charge for each period shall be recognised in profit or loss unless it is included in the carrying amount of another asset) and IAS 19 (the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service as an expense, unless another IFRS requires or permits the inclusion of the benefits in the cost of an asset).
2. The suggested amendment will enhance the faithful representation of the contract cost by applying the same criteria set out in paragraph 95 of IFRS 15 to all similar costs. In specific circumstances, training costs can reliably:
  - a. relate directly to a contract or to an anticipated contract that the entity can specifically identify;
  - b. generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and
  - c. be expected to be recovered.
3. The suggested amendment is in line with the Board objective of capitalizing some cost of fulfilling a contract with a customer, as stated in paragraph BC 308 of IFRS 15.

التوقيع

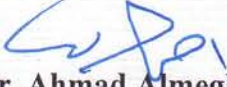


In our opinion, such a limited amendment to IAS 38 will result in a considerable improvement in financial reporting without entailing the need for reconsidering all cost requirements comprehensively in all other standards.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

لاشكر

Sincerely,



**Dr. Ahmad Almeghames**  
Secretary General



24 November 2019

Ms Sue Lloyd  
Chair, IFRS Interpretation Committee  
7 Westferry Circus  
London E14 4 HD  
United Kingdom

### **Tentative agenda decision – Training Costs to Fulfil a Contract (IFRS 15)**

Dear Ms Lloyd,

I am commenting on the above tentative agenda decision, published in the September 2019 edition of IFRIC Update. The comments below represent my personal views as an auditor.

I do not agree that the tentative agenda decision appropriately explains the principles and requirements in IFRS Standards and thus is useful in avoiding diversity in their application, due to the following reasons:

- There appears to be a conflict between the requirement in paragraphs 95 and 96 of IFRS 15 to account for costs to fulfil a contract that are within IAS 38 in accordance with the requirements of that Standard and the scope exemption of paragraph 3 (i) of IAS 38 for “assets arising from contracts with customers that are recognized in accordance with IFRS 15”.
- The requirement in paragraphs 95 and 96 of IFRS 15 to account for costs that are within another Standard in accordance with those other Standard is ambivalent, since most of the other Standards do not comprise costs in their scope, but assets: IAS 2 deals about inventories, IAS 16 regulates the accounting of property, plant and equipment and IAS 41 determines the accounting treatment of biological assets and agricultural produce<sup>1</sup>. Furthermore, the nature of costs does not determine their accounting treatment.
- The objective of capitalizing costs to fulfil a contract in accordance with IFRS 15 and the objective of IAS 38 are different and, for this reason, the restrictions of paragraph 5 of IAS 38 are not relevant for the recognition of costs to fulfil a contract.

Bearing in mind the significance of the service economy, entities that render services should not be required to apply a “Frankenstein” standard for the capitalization of costs to fulfil a contract. They deserve a proper principle-based Standard.

Considering that IAS 2 regulates the accounting for costs to fulfil a contract as far as they relate to goods that will be transferred to a customer<sup>2</sup>, an idea could be to expand the scope of IAS 2 to cover also costs to fulfil a service contract.

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<sup>1</sup> As far as I could identify, the only relevant Standard that comprise costs in its scope is exactly IAS 38.

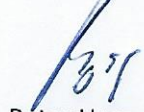
<sup>2</sup> IAS 2 applies also to goods acquired or manufactured that are unrelated to a contract with a customer.

I consider that IAS 2 is working well and that the expansion of its scope to costs of services could be developed and implemented within a relatively short period of time and with relatively modest efforts.

This would improve significantly the understandability and consistency and, consequently, the quality of the requirements for the capitalization of costs incurred in connection with contracts with customers.

If you have any question in relation to this letter, please do not hesitate to contact me.

Yours sincerely,



Peter Herzog

Rio de Janeiro / Brazil

E-mail: [peteraherzog@yahoo.com.br](mailto:peteraherzog@yahoo.com.br)

Phone: +55 21 99884-6646

25 November 2019

Ms. Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Ms. Lloyd

### **IFRS Interpretations Committee Tentative Agenda Decisions**

The Malaysian Accounting Standards Board (MASB) welcomes the opportunity to provide comments on the following Tentative Agenda Decisions published in IFRIC Update September 2019.

(1) Training Costs to Fulfil a Contract (IFRS 15 *Revenue from Contracts with Customers*)

There might be circumstances in which training costs are very material to the entity and are directly related to producing a good (e.g. manufacturing customised goods) or providing a particular service (e.g. training centre providing training and certification services).

In addition, due to the substantial training costs incurred, an entity might consider retaining the staff through a special employment bond (e.g. either the employee pays monetary penalty for leaving the job before the stipulated period of time or the employee is levied certain restrictions to not join a particular company after leaving the job).

Hence, in these cases, we believe clarity is required as to whether these training costs could be capitalised instead of expensed as it could be argued that the entity has control over expected future economic benefits.

(2) Definition of a Lease: Shipping Contract (IFRS 16 *Leases*)

We agree with the conclusion that the fact pattern relates to one ship and the contract denotes that this one ship is used.

Nevertheless, the conclusion may be different if the contract were to be a fleet of ships whereby the supplier could decide on which ship to provide to the customer. This might not meet the definition of an identified asset and also, the customer might not have the right to obtain substantially all the economic benefits from use of the ships throughout the period of use.

We would also like to take this opportunity to share with the IFRIC factors that might be helpful in determining "how and for what purpose the asset is used", as detailed in the Appendix.

If you need further clarification, please contact the undersigned by email at [beeleng@masb.org.my](mailto:beeleng@masb.org.my) or at +603 2273 3100.

Thank you.

Yours sincerely,



**TAN BEE LENG**  
Executive Director

**Factors that the shipping industry considers in identifying a lease**

In applying paragraphs B24 to B31, the industry considers that “relevant decision-making rights” relates to the rights to decide on the subsequent commercial use of the ships, where a customer decides on the following (but not limited to):

- i) Utilisation rate / operating days [according to paragraph B26(b)]
  - Customer decides whether the ship is at any point of time serving a contract or not (i.e. idle or on subsequent charter). It is possible that customer may choose to put the ship on idle for commercial/practical reasons such as ship positioning, acquiring the right rate from client, demand availability, etc.
- ii) Clients - Customer decides the client(s) the ship may subsequently serve.
- iii) Contracting strategy with client: Type/Tenure (i.e. term charter, voyage charter, Contract of Affreightment (COA) or any other form of shipping arrangement).
- iv) Type/mix and volume of cargo [as per paragraph B26 (a)].
- v) Pricing / charter rate with client. The ship owner (supplier) does not control the price/rate of the service provided by the customer to its client.
- vi) Areas of operations (ports, etc.). This includes whether the ship is stationary as storage or on voyage from a location to another. [as per paragraph B26(c)]

The above decisions directly affect the economic benefits from the use of the assets. For a shipping contract, it is common practice that the above rights are maintained throughout the contract tenure.

In applying paragraphs B30 to B31, restrictions or protective rights (other than those already specified) relating to industry requirements or that is generally accepted industry practice (with reasonable commercial feasibility) that may be put forth by ship owners such as follows are not considered as dilution to the rights of use of the asset:

- i) Restrictions on carrying cargo not compatible to the design of the ship.
- ii) Restrictions on serving sanctioned entity(s).
- iii) Restriction from transporting contrabands.
- iv) Restrictions from involving in / be part of / abetting to illegal activities.

The operating and maintaining activities as listed below do not constitute control over the use of in-chartered ships on the basis that the activities are incidental and are not the relevant decisions that directly affect the economic benefit derived from the assets as explained above.:

- i) Manning/crewing (in the case of time charter) and operations of the ships including navigating, pilotage, etc.
- ii) Repair and dry-dockings (this is despite that during dry-dockings, ship owners may determine the yard (i.e. destination) and the duration of the dry-dockings may be beyond the customer’s control as there is no dilution of rights of use of the asset from the overall contract arrangement from these activities).

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Chairman

PDC N°58

Paris, 25 November 2019

Mrs Sue Lloyd

IFRS Interpretation Committee Chair

7 Westferry Circus, Canary Wharf

London, E14 4HD

United-Kingdom

### September 2019 – IFRS-IC Tentative Agenda Decision on IFRS 15, Training Costs to Fulfil a Contract

Dear Mrs Lloyd, *Dear Sue,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative agenda decision published in the September 2019 Update regarding IFRS 15: training costs incurred to fulfil a contract.

The agenda decision mainly relies on the scope definitions in IFRS 15 and IAS 38 concluding that IAS 38 applies to training costs. We suggest that the Committee also explains why IFRS 15 cannot apply in that case, especially as scope exclusions of both standards might appear circular. More broadly, we would support the Committee contemplating further standard-setting on this topic (by referring to the Board for a narrow-scope amendment) considering the merits of distinguishing general training costs from those that are specific to a contract. This would help clarify the recognition criteria under IFRS 15.95, as we are concerned that the extent to which assets might be recognised under this standard could be shrinking.

#### Reciprocal scope exclusions in IFRS 15 and IAS 38

IFRS 15.95-96 states that an entity shall appraise whether the costs fall within the scope of another standard, prior to its assessment of the criteria set out by this paragraph. The Committee noted that training costs are explicitly addressed in IAS 38.69. We however also note that IAS 38.3(i) explicitly scopes out “assets arising from contracts with customers that are recognised in accordance with IFRS 15”. In our view, as stated in a previous comment letter<sup>1</sup>, this circular reference should not be ignored in the tentative agenda decision even though it has been discussed in the staff agenda paper.

We are of the opinion that IAS 38.69 addresses expenditure on training activities “incurred to provide future economic benefits to an entity, but [for which] *no intangible asset or other asset is acquired or created that can be recognised*”. The committee has not considered a possible distinction between

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<sup>1</sup> Comment Letter PDC N°38, ED Proposed amendments to the IFRS Foundation Due Process Handbook, dated 24 July 2019.

“general” training costs addressed by IAS 38.69(b) and “training costs incurred specifically to a contract and that will be recovered”, which would pertain to IFRS 15.95.

### **Merits of distinguishing specific from general training costs**

The fact pattern underlying the tentative agenda decision very clearly underlines that the training costs incurred are specific to the contract and will be recovered. They are specific insofar as they are necessary to satisfy the performance obligation and are not transferrable to another obligation. The contract also explicitly states that these costs are to be charged to the customer for all the employees present at the beginning of the contract (and for employees recruited afterwards, provided that this recruitment occurs in response to an expansion of the operations). From our point of view, it is difficult to consider that these specific costs are similar in essence to the ones incurred as a result of a general training to maintain or develop employees’ overall competences. These specific training costs are rather a component of the direct labour costs relating to a contract, referred to in IFRS 15.97(a), and as such should be included in the costs to fulfil a contract. Indeed, with regard to the three criteria set out in IFRS 15.95, these specific costs fulfil the prerequisites to their recognition as assets, whereas the costs of a generic training would obviously not. The former are indeed simultaneously:

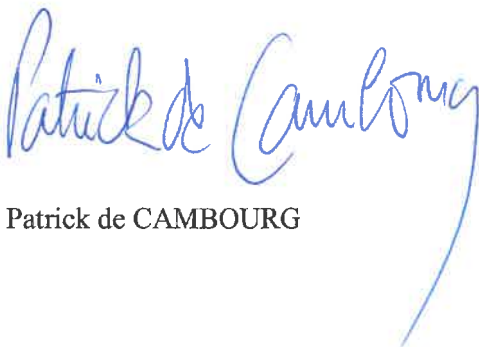
- in direct relation to a contract that can be specifically identified (criteria 1);
- necessary to satisfy performance obligations in the future, as the competences are resources required to fulfil the contract (criteria 2);
- expected to be recovered, as this is specifically stated by the contract (criteria 3).

We are of the opinion that the outcome of this new approach would be more relevant to the users than their immediate recognition as an expense. The performance of the contract would indeed be representative of the management’s analysis, with training costs recognised alongside the revenue stream from the contract instead of being expensed at the beginning. We would like to underline that the issue at hand should not be construed as an attempt not to normalise a profit margin (IFRS 15.BC308) but only as an effort to reflect more properly and in a more relevant manner the performance of a contract, by aligning its accounting performance with the management’s perspective.

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

Yours sincerely,

*Best regards .*



Patrick de CAMBOURG



Mrs Sue Lloyd

**IFRS Interpretations Committee**

Columbus Building,  
7 Westferry Circus, Canary Wharf  
London E14 4HD  
United Kingdom

Paris, 25 November 2019

**Tentative Agenda Decisions – IFRIC Update September 2019**

Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the September 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

We would like to draw your attention to the issue of training costs to fulfil a contract. While we agree that IAS 38, because its scope explicitly includes training costs, leads to expense those costs when incurred, we question the relevance of this outcome when the training costs are specific to a contract with a customer (they are not general training and cannot be useful to contracts with other customers), are essential for the entity to provide the promised goods or services, and are explicitly chargeable to the customer.

In that situation we believe that the 3 criteria for capitalization of costs in IFRS 15.95 are met, and we do not find it relevant to expense them on the basis of an old standard that probably needs to be revisited.

We therefore believe that the Committee should refer this issue to the Board for further analysis.

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Praxity  
MEMBER  
GLOBAL ALLIANCE OF  
INDEPENDENT FIRMS



Should you have any questions regarding our comments on the various tentative agenda decisions, 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 Advisory*



**Edouard Fossat**

## Appendix 2

### ***Training Costs to Fulfil a Contract (IFRS 15)***

<https://www.ifrs.org/projects/work-plan/training-costs-to-fulfil-a-contract/comment-letters-projects/tad-training-costs-to-fulfil-a-contract/>

Considering how the standards are currently written, we agree with the Committee's answer that training costs that relate directly to a contract with a customer shall be recognized as an expense. Training costs, irrespective of whether they are incremental to a contract with customers, are explicitly within the scope of IAS 38, and IAS 38 requires that such expenditure be recognized immediately in profit or loss. Therefore, the criteria under paragraph 95 must be ignored, and no asset can be recognized according to IFRS 15 relating to those training costs).

Though we agree with the general reasoning explained above (i.e. consider first the scope of other Standards and, secondly, where applicable, do not bypass the requirements in such other Standards while applying IFRS 15), we question the relevance of the accounting outcome to the fact pattern described in the submission and the *Tentative agenda decision*.

Indeed, in the situation described in the fact pattern submitted to the Committee:

- The training costs are necessary in order to fulfil the contract with the customer and are specific to that contract / customer, i.e. the supplier needs to train its staff to be able to fulfil its obligations (the training consists of specific learning about the customer's systems and processes; it therefore cannot have an alternative use other than performing the obligations in the contract);
- The customer has agreed to consider that these training costs are necessary and has accepted to pay a variable amount to the supplier so that they are fully compensated.

Thus, we consider that in the fact pattern all the criteria listed in IFRS 15 paragraph 95 are met to capitalize those training costs:

- they relate directly to the contract with the customer,
- they enhance resources (human resources) that the entity will use in satisfying performance obligations in the future, and
- they are expected to be recovered since the customer has agreed to fully compensate them.

In our opinion, the only thing that makes capitalisation impossible is that those costs are explicitly within the scope of IAS 38.

We all know that IAS 38 is a very old standard that would probably need a comprehensive review. We believe that it should have been amended when IFRS 15 was issued in order to exclude from its scope training costs that are incurred specifically to fulfil a contract with a customer, in order to let IFRS 15.95 deal with such costs.

If IFRS 15.95 does not apply to training costs that are specific to a contract, we question the nature of the costs that could be effectively covered by IFRS 15.95 (and thus, where relevant, capitalized), i.e. that do not fall within the scope of another standard.

Therefore, we believe that the Committee should refer to the Board to ask it:

- to confirm what was its intention regarding significant initial training costs specific to a contract when it developed IFRS 15,
- to consider possible amendments to IAS 38 and IFRS 15 to permit capitalisation of training costs in specific circumstances, and
- to provide examples in order to illustrate further how paragraph 95 of IFRS 15 applies in practice.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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Ms Sue Lloyd,  
Chair, IFRS Interpretations Committee,  
International Accounting Standards Board  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Date: November 25, 2019  
New Delhi, India

Dear Ms Sue,

**Subject: Comments of the Institute of Chartered Accountants of India (the ICAI) on Tentative Agenda Decisions (TADs) issued by IFRS Interpretations Committee**

The Accounting Standards Board (ASB) of the Institute of Chartered Accountants of India (the ICAI) welcomes the opportunity to comment on tentative agenda decisions of IFRS Interpretations Committee with last date of November 25, 2019.

Our comments on the following tentative agenda decisions are given in **Annexure A**:

- (1) TAD on Definition of a Lease: Shipping Contract (IFRS 16)
- (2) TAD on Training Costs to Fulfil a Contract (IFRS 15)

With kind regards,

CA. M.P Vijay Kumar  
Chairman  
Accounting Standards Board  
Institute of Chartered Accountants of India



## Annexure A

### **The ICAI Comments on Tentative Agenda Decisions (TADs) issued by IFRS Interpretations Committee**

#### **1. TAD on Training Costs to Fulfil a Contract (IFRS 15)**

We agree with the conclusions in tentative agenda decision, however, our views are as below:

Paragraph 95 of IFRS 15 states that if the costs incurred in fulfilling a contract with a customer are not within the scope of another Standard, an entity shall recognise an asset from the costs incurred to fulfil a contract subject to the conditions stated in paragraph 95. Further BC307 explains in this regard that if the other Standards preclude the recognition of any asset arising from a particular cost, an asset cannot then be recognised under IFRS 15 (for example, in IFRS, initial operating losses, such as those incurred while demand for an item builds, will continue to be accounted for in accordance with paragraph 20(b) of IAS 16). We agree with the conclusions given in TAD that training costs to fulfil a contract is covered under IAS 38, *Intangible Assets*, therefore, paragraph 95 of IFRS 15 is not applicable.

The paragraphs 31-36 of the staff paper on the subject explains how training cost will be recognised if the entity were to apply the criteria in paragraph 95 of IFRS 15. In view of the conclusion in the TAD that instant case is covered by another IFRS Standards and paragraph 95 of IFRS 15 is not applicable, we are unable to understand as to why commentary around application of paragraph 95 of IFRS 15 is needed here. Therefore, commentary in paragraphs 31-36 is not necessary otherwise it may create unintended confusion/issues.

PO Box 1411  
Beenleigh QLD 4207  
25 November 2019

Ms Sue Lloyd  
Chair IFRS Interpretations Committee  
International Accounting Standards Board  
Columbus Building, 7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Online submission: <https://www.ifrs.org/projects/work-plan/training-costs-to-fulfil-a-contract/>

Dear Sue

### **Tentative agenda decision - Training Costs to Fulfil a Contract**

I am pleased to make this submission on the above Tentative Agenda Decisions (TADs) relating to Training Costs to Fulfil a Contract.

I have extensive experience in accounting advice on International Financial Reporting Standards across a wide range of clients, industries and issues in the for-profit, not-for-profit, private and public sectors.

My clients have included listed companies, unlisted and private companies, charitable and not-for-profit organisations, federal, state and local government departments and agencies in the public sector, and government owned corporations (government business enterprises). I also have some commercial, standard setting and academic experience.

### **Overall**

I believe the TAD needs to include further clarifications to avoid unnecessary costs and unintended consequences. I consider that there are numerous examples of training costs being “included” in the IFRS 15 contract asset, yet being compliant with IFRS 15.

If the TAD is issued as is, then preparers, auditors etc. may incorrectly interpret that the TAD requires such training costs to be identified and excluded from the contract asset. Such an interpretation would cause unnecessary costs, and not be compliant with IFRS 15.

Subject to the TAD being updated for the issues I raise, I support the issue of an updated TAD.

### **General approach**

I agree that IFRS 15 paragraph 95 needs to be considered first when considering the capitalisation of costs. For example, the purchase of a tunnel-boring machine, expected to be

used over more than 12 months, should be capitalised and depreciated over its useful life, and not expensed upfront because it has been used to partially satisfy the obligation to dig a tunnel.

I also agree that the costs of training staff (whether determined as staff time and / or costs of purchased courses) meets the definition of intangible asset, and needs to be expensed under IAS 38. A sort of “too bad, so sad” situation.

### **Capitalisation of costs**

Many service agreements will involve administrative activities, including training. For example, for auditing firms these may be client pre-planning meetings where staff are brought up-to-date on client and / or industry issues. Staff time might also be spent on learning client software. In addition, many auditing engagements involve on-the-job training of staff.

For these types of agreements, the staff time will be included in the engagement budget. Based on using an input method for measuring performance (such as labour hours), then the IFRS 15 contract asset / work-in-progress (WIP) will be recognised for this time. In addition, based on the Committee’s previous decision on Costs to Fulfil a Contract, such staff salary costs would be expensed.

Therefore, while staff training time has generated part of WIP / contract asset, and might be interpreted as being part of that contract asset, IFRS 15 has been complied with. The TAD should clarify that in these situations, the training costs are not really part of the contract asset, and therefore there would be no need to identify and exclude training “costs” from the WIP / contract asset.

Yours sincerely,

David Hardidge

<https://www.linkedin.com/in/davidhardidge/>

25 November 2019

Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom  
E14 4HD

Dear Ms Lloyd

## **Tentative agenda decision – Training Costs to Fulfil a Contract (*IFRS 15 Revenue from Contracts with Customers*)**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the September 2019 IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on whether an entity recognises training costs incurred to fulfil a contract with a customer as an asset or an expense when incurred.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision. Whilst we agree that the accounting for the training costs described in the tentative agenda decision is addressed by the requirements of IAS 38 *Intangible Assets* paragraph 69(b), that requires that they be recognised as an expense, we are concerned that the request received by the Committee indicates a potential ambiguity on the IFRS Standard (IAS 38 vs IFRS 15) that applies to certain costs and that, without further clarity, inappropriate analogies may be drawn to the tentative agenda decision.

To address this potential ambiguity, it may be helpful if the Committee clarified the interaction between IAS 38 paragraph 3(i), which indicates that IAS 38 does not apply to assets arising from contracts with customers that are recognised in accordance with IFRS 15, and IFRS 15 paragraph 95 that addresses costs to fulfil a contract that are not within the scope of another Standard (including IAS 38). We further suggest that the Committee provides better clarification on the scope of costs subject to the requirements of IAS 38 and those subject to IFRS 15. This may be achieved, for example, by distinguishing costs to train the entity's own employees to enable them to provide services to a customer vs training costs that form part of the entity's performance obligation to the customer.

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



Yours sincerely

A handwritten signature in grey ink, appearing to read 'V. Poole', with a stylized flourish at the end.

**Veronica Poole**  
Global IFRS Leader



**THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA**  
(Established by Act of Parliament No. 15 of 1965)

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**Registrar/Chief Executive**

JOHN I. EVBODAGHE, MBA, FCA

**November 23, 2019**

ICAN/SP/R&T/NOV/2019

IFRS Foundation  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London E14 4HD  
United Kingdom

Dear Sir,

**RE: TRAINING COSTS TO FULFIL A CONTRACT (IFRS 15) | INITIAL CONSIDERATION (AGENDA REF 2)**

The Institute of Chartered Accountants of Nigeria (ICAN) has considered the above Staff Paper and is pleased to submit its comments as follows:

**Question1:**

**Does the Committee agree with our analysis of the application of the requirements in IFRS Standards to the fact pattern described in the submission summarised in paragraph 37 of this paper?**

We agree with the Committee's tentative agenda decision as supported by the staff analysis of requirements in IFRS Standards that an entity accounts for training costs incurred to fulfill the contract in line with the scope of IAS 38.

**Question 2:**

**Does the Committee agree with our recommendation not to add this matter to its standard-setting agenda?**

We are in agreement with the Committee's recommendation not to add the matter to its standard-setting agenda.

**Question 3:**

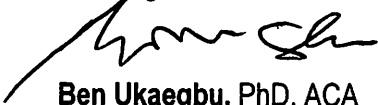
**Does the Committee have any comments on the proposed wording of the tentative agenda decision set out in Appendix A to this paper?**

We have no comments on the proposed wording of the tentative agenda decision as set out in Appendix A of the paper.

We thank you for giving our Institute the opportunity to contribute to the work of IFRS Foundation

Yours faithfully,

For: Registrar/Chief Executive



**Ben Ukaegbu, PhD, ACA**  
Deputy Registrar, Technical Services



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Sue Lloyd  
Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
E14 4HD

25 November 2019

Dear Ms Lloyd

**Tentative agenda decision - IFRS 15 - Training costs to fulfil a contract**

We are pleased to comment on the above tentative agenda decision.

We agree with the IFRS Interpretation Committee's decision not to add this issue to its agenda, and with the reasons set out in the tentative agenda decision.

The tentative agenda decision deals with the accounting for certain costs that fall within the scope of IAS 38, and not IFRS 15. However, the submission notes that some may believe that, if the applicable accounting requirements are those set out in IFRS 15.95-97, the language used in IFRS 15.95 means that the entity does not need to control the resource arising from costs incurred to fulfil a contract.

This point was addressed in the agenda paper that was considered at the IFRS Interpretations Committee's September meeting, which linked the requirements in IFRS 15.95(b) that in order for an asset to be recognised costs must 'generate or enhance resources of the entity that will be used in satisfying (or continuing to satisfy) performance obligations in the future' with the explanation in IFRS 15.BC308 that '...only costs that meet the definition of an asset are recognised as such...'. We believe, given that the point was raised in the submission, it would be appropriate for the final agenda decision to clarify that in order for any resources arising from costs incurred in fulfilling a contract, that fall within the scope of IFRS 15.95-97, to be eligible to be recognised as an asset the entity must control the resources that arise from those costs.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours faithfully

A handwritten signature in black ink that reads "Andrew Buchanan". The signature is written in a cursive style with a large initial 'A'.

Andrew Buchanan

*Global Head of IFRS*

(NBAA)



**THE NATIONAL BOARD OF ACCOUNTANTS AND AUDITORS  
TANZANIA**

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Our Ref: CCD.562/573/01

21<sup>st</sup> November, 2019

Chief Executive Officer,  
IFRS Foundation  
Columbus Building  
7 West ferry Circus  
Canary Wharf  
London E14 4HD

Dear Sir/Madam

**RE: TRAINING COSTS TO FULFILL A CONTRACT**

Refer to the heading above.

NBAA support the conclusion reached by the IFRS Interpretation Committee on the request which asked whether the entity recognizes the training costs incurred to fulfil a contract with a customer as either an asset or an expense when incurred.

Principles and requirements in paragraph 95 of IFRS 16, paragraph 5, 69(b) and 15 of IAS 38 provides an adequate basis for an entity to determine its accounting for training costs incurred to fulfil a contract with a customer.

If you require any clarification on our comments, please contact the undersigned.

Thank you in advance for your cooperation.

Yours sincerely,

CPA Angyelile V. Tende  
**For: EXECUTIVE DIRECTOR**



Member of International Federation of Accountants (IFAC) & Pan African Federation of Accountants (PAFA)



*All communication to be addressed to the Executive Director NBAA*

NBAA Dar es Salaam Branch: Mhasibu House, Bibi Titi Mohamed Street,  
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IFRS Interpretations Committee  
Sue Lloyd, Chair  
IFRS Interpretations Committee  
Columbus Building  
7 Westferry Circus  
Canary Wharf  
London  
United Kingdom  
E14 4HD

Brussels, November 25, 2019

*Tentative agenda IFRS 15 Revenue from Contracts with Customers — Training Costs to Fulfil a Contract*

Dear Ms Lloyd,

We are pleased to write this letter concerning the IFRS Interpretations Committee's publication in the September IFRIC Update of the tentative decision not to take onto the Committee's agenda the request for clarification on the accounting treatment of training costs incurred to fulfil a contract with a customer.

We often see training costs incurred in facility management transactions (= services contracts). A facilities management contract usually has a minimum term of 3 years with contract terms of 30 years being common in the respect of facilities management for PPP (Public Private Partnership) in hospitals or schools.

**How do these contracts work in practice ?**

Prior to the commencement of service delivery (and therefore before the satisfaction of performance obligations as defined under IFRS 15 *Revenue from Contracts with Customers*), the entity will typically incur significant mobilisation costs. Those costs include notably detailed due diligence, recruitment costs, design and documentation of workflows, transfer of staff and associated data, purchase of equipment required to deliver the contract, creation of operating manuals, training costs...

The activities described above can be delivered from internal resources or via specialist sub-contractors. In either case, were these activities not required, the costs would not be incurred.

For new services, development of a successful delivery model is fundamental to fulfilling contractual obligations. For established services, transforming the way in which the service is provided is usually critical to fulfilling contractual obligations and ensuring the overall profitability of the contract.



The pricing mechanism for these contracts will take into account the total cost of service delivery over the contract term including the cost of mobilisation. A proportion of the fixed service fee is intended to reimburse the entity for the mobilisation costs. Sometimes this will be explicitly identified in the pricing schedule.

Furthermore, contract early termination provisions will typically include a mechanism which permits the entity to recover mobilisation costs which have not yet been reimbursed by the customer through the fixed service fee.

### **Why the training costs should be viewed in connection with IFRS 15**

Most of the mobilisation costs are accounted for as costs to fulfil a contract and we believe that no conceptual ground would justify a different treatment for training costs.

We believe that IAS 38 did not specifically deal with training costs related to sale contracts but provided only general rules that avoid having an asset unduly recognized in a situation where the entity does not obviously control the underlying expected benefits arising from a team of skilled staff.

The criteria could be met in some types of contracts if the training is specifically needed or useful for the contract and the staff members who are trained are dedicated to the contract, and the training increases efficiency so that the costs are expected to be recovered via the contract price (the contract margin is sufficient to cover these training costs ; this would also be the case when these costs are explicitly chargeable to the customer). In other words, the entity would not have been able to perform under the contract, would the people not have been trained before. In most of these contracts, these costs are incurred only as a consequence of the entity entering into the contract and they are critical to fulfil the performance obligation.

If the Committee would confirm its preliminary position, we would question the relevance of the outcome obtained. Recognising the training costs immediately as an expense while the consideration charged to the customer would be recognised later would not provide a faithful representation of the performance of the contract.

We therefore believe that the Committee should reconsider its preliminary conclusion and conclude that not **all** training costs should **systematically** be recognised as an expense when such costs relate to a contract in the scope of IFRS 15.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Wathélet Lepour".

Wathélet Lepour

Senior Vice President Accounting Standards Department

Tel: +32 2 501 25 94

Email: [wathelet.lepour@engie.com](mailto:wathelet.lepour@engie.com)





**IKATAN AKUNTAN INDONESIA**  
**(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

Jakarta, 22<sup>nd</sup> November 2019

Ref.: 1780/DSAK/IAI/XI/2019

**Ms. Sue Lloyd, Chair,**  
IFRS Interpretations Committee,  
IFRS Foundation,  
London, UK

DSAK IAI Comments on the Tentative Agenda Decision – Training Cost to Fulfil a Contract (IFRS 15)

Dear Ms. Sue Lloyd,

The Indonesian Financial Accounting Standards Board (DSAK IAI), as part of the Institute of Indonesia Chartered Accountants, is the national accounting standard-setter in Indonesia.

On behalf of DSAK IAI, I am writing to comment on the tentative agenda decision – training cost to fulfil a contract (IFRS 15).

Our responses to the tentative agenda decision are attached in the Appendix to this letter below.

We hope that our comments could contribute to the IFRS Interpretations Committee's future deliberations. Should you have further concerns regarding our comments, please do not hesitate to contact us at [dsak@iaiglobal.or.id](mailto:dsak@iaiglobal.or.id).

Thank you.

Best Regards,

**Djohan Pinnarwan**

Chairman

The Indonesian Financial Accounting Standards Board  
Institute of Indonesia Chartered Accountants



**IKATAN AKUNTAN INDONESIA  
(INSTITUTE OF INDONESIA CHARTERED ACCOUNTANTS)**

***DSAK IAI RESPONSE***

DSAK IAI agree with the Committee's analysis and conclusion in the Tentative Agenda Decision – Training Cost to Fulfil a Contract (IFRS 15). Before the entity assesses the criteria for costs to fulfill a contract with customer as set out in IFRS 15 paragraph 95, entity should considers the requirements in other Standards. Therefore, based on the fact pattern described, entity applies IAS 38 in accounting for training costs incurred to fulfil a contract with the customer. We also support committee's analysis, when the entity does not have sufficient control over the expected future economic benefits arising from trained employees, entity recognizes the training cost incurred to fulfil a contract as an expenses.