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Wayne Upton
Chairman
IFRS Interpretations Committee
30 Cannon Street
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22 September 2014

Dear Mr Upton

Tentative agenda decision - IAS 16 *Property, Plant and Equipment*: Accounting for proceeds and costs of testing on property, plant and equipment

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for clarification on the accounting for the net proceeds from selling any items produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda, but not with the reasons set out in the tentative agenda decision. We do not believe that paragraph 17 of IAS 16 is sufficient to reach the conclusion that net proceeds in excess of testing costs must be recognised in profit or loss. In addition, application of the treatment required by the tentative agenda decision is not practicable for complex construction projects where the costs of 'testing' may be indistinguishable from costs to complete construction of the asset and/or sales proceeds are incidental to the construction efforts.

The treatment of sales proceeds during a testing phase is a significant issue in the energy and extractives sectors, where construction of an asset can be a lengthy and complex process with many costs (including those of testing) attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management. In many cases, the same costs (for example, of labour) are necessary for both the current production of saleable output and the completion of the asset. Within those industries, we believe that the predominant practice is for sales proceeds in excess of directly identified incremental testing costs to be deducted from the cost of the asset. For example, the proceeds from power generated during the commissioning of a new power station or precious metals produced prior to completion of a processing plant are generally viewed as having been generated in the process of testing whether the asset is functioning properly (and, as such, are viewed as directly attributable costs) and appropriately deducted from the cost of the asset, even if the income received is higher than the direct cost of testing. In these complex situations, judgement is required to identify direct and indirect testing costs and the asset to which they relate (the unit of account).

We are concerned that the treatment required by the tentative agenda decision would result in the recognition of income and a profit margin prior to the commencement of operations. In these circumstances, the activities resulting in saleable output that are also necessary for the completion of the asset (and, hence, are capitalised) could result in the recognition of revenue with no depreciation and little or no other associated cost; we do not believe that this would be an appropriate outcome.

The full facts and circumstances will always need to be considered and, as such, we do not believe that the generalised statement in the second paragraph of the tentative agenda decision is appropriate. In our view, it would be more appropriate to state that fact patterns giving rise to revenue prior to an asset being available for its intended use can vary significantly and that judgement needs to be applied in the complex scenarios arising in the industries for which the issue is significant. To fully analyse every variant would be a significant undertaking which we do not believe is merited.

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

Yours sincerely

Veronica Poole
Global IFRS Leader