fei canada
leadership beyond finance

October 16, 2017

Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom
Email: commentletters@ifrs.org

Dear Mr. Hoogervorst,

RE: PROPOSED AMENDMENTS TO IAS 16 – PROCEEDS BEFORE INTENDED USE

The Committee on Corporate Reporting (CCR) of Financial Executives International Canada (FEI) is pleased to respond to the International Accounting Standards Board's (IASB) request for comment on the exposure draft *Property, Plant* and *Equipment - Proceeds before Intended Use (Proposed amendments to IAS 16) ("the exposure draft")*.

FEI Canada is the all-industry professional membership association for senior financial executives. With eleven chapters across Canada and more than 1,500 members, FEI Canada provides professional development, thought leadership and advocacy services to its members. The association membership, which consists of Chief Financial Officers, Audit Committee Directors and senior executives in the Finance, Controller, Treasury and Taxation functions, represents a significant number of Canada's leading and most influential corporations.

CCR is one of seven thought leadership committees of FEI Canada. CCR is devoted to improving effectiveness, the awareness of issues and educating FEI Canada members on the implications of the issues it addresses, and is focused on continually improving the standards and regulations impacting corporate reporting.

CCR does not agree with the proposed amendments to IAS 16 for the reasons expressed in the Appendix to this letter. Issues raised in the Appendix would benefit from reconsideration or further clarification.

Thank you for the opportunity to respond to this important initiative.

Sincerely,

Susan Campbell

Susan Campbell
Chair — Committee on Corporate Reporting

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Appendix

Question for Respondents:

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

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

CCR does not agree with the proposed amendments to IAS 16 and shares many of the concerns expressed in the Alternative View in the exposure draft. We do not believe that the recognition of revenue without depreciation and with an often highly subjective allocation of cost would provide relevant or representationally faithful information for a number of important industries such as energy, mining and petrochemicals, where construction of an asset can be a lengthy and complex process and where a significant amount of testing may be required before an item of property, plant or equipment is ready for its intended use.

The following issues are of main concern:

1. Testing Phase – Not in the ordinary course of business

Revenue is defined by IFRS 15 as "income arising in the course of an entity's ordinary activities". We think that "ordinary activities" are activities in the operating, as opposed to the development phase. The distinction between these two phases is critical as this is when expenditures stop being capitalized as property, plant and equipment and become operating costs recorded through the income statement. We agree that there is diversity in practice over when development ends and operations commence. Addressing this issue would also address the issue in the Exposure Draft.

2. Relevant Information

We do not think that the proposals will result in relevant information. Production during the testing phase is generally unstable, and as such often has a higher cost of production than expected under the ordinary course of business. An entity may perform a few production runs to test facilities and remediate processing issues. Depending on the industry, testing can be a lengthy and complex process. Capitalizing such costs to the minimal inventory produced during this period may be misleading to users of the financial statements as the underlying costs may not be representative of the true cost of production in the long term.

For example, in the energy industry, during the construction of new power generators, proceeds from power generated during commissioning of a new power station can be significant and arise over a lengthy period of time. The same would apply in the mining industry where proceeds from minerals extracted during construction of an underground shaft can be material, or significant proceeds from precious metals produced prior to completion of a processing plant.

3. Faithfull Representation

It may not be easy to differentiate between costs of development or construction from those associated with the production of the saleable item during the testing phase. It will be a challenge to allocate costs between the two, and at best may be done arbitrarily, which will impact the fair presentation of the underlying information. Additionally, the costs of production would not be fully representative of total costs since the assets (PPE) are not being depreciated. Overall, we believe that this could give rise to more diverse practices being applied by preparers of financial statements, resulting in less comparability and more judgement and estimation involved in the preparation of financial statements.

4. Other Impacts

The treatment of proceeds as revenue while bringing the assets to its intended use will also cause secondary issues in the areas of deferred tax calculations

Alternative Solution

Proceeds that are deducted from property, plant and equipment can be disclosed within the property, plant and equipment note to the financial statements, and therefore provide a clear picture of the proceeds, and also the actual costs of brining the asset for its intended use.

We would recommend that a more thorough consideration of the issues is necessary prior to making amendments to IAS 16. A very limited scope amendment such as the one proposed in this exposure draft cannot address many of the issues as discussed above, and carries the risk of unintended negative consequences.