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International Accounting Standards Board

This observer note is provided as a convenience to observers at IFRIC meetings, to assist them in following the IFRIC's discussion. Views expressed in this document are identified by the staff as a basis for the discussion at the IFRIC meeting. This document does not represent an official position of the IFRIC. Decisions of the IFRIC are determined only after extensive deliberation and due process. IFRIC positions are set out in Interpretations.

Note: The observer note is based on the staff paper prepared for the IFRIC. Paragraph numbers correspond to paragraph numbers used in the IFRIC paper. However, because the observer note is less detailed, some paragraph numbers are not used.

INFORMATION FOR OBSERVERS

IFRIC meeting:	**January 2007, London**
Project:	**Advertising and promotional expenditure and catalogues (Agenda Paper 10)**

INTRODUCTION

1. At its November meeting, the IFRIC agreed to recommend to the Board that IAS 38 be amended to clarify that advertising and promotional expenditure should be recognised as an expense when the advertising is conducted by the entity, i.e. when it is distributed to customers.

2. At that meeting, the IFRIC asked the staff to prepare a paper setting out the changes which would need to be made to IAS 38 to clarify the treatment of advertising and promotional expenditure along with the implications of making such changes.

3. This paper summarises the different issues which will need to be addressed in order to change IAS 38 in this way. Once the IFRIC has agreed to recommend these changes to the Board, the staff will prepare a paper showing the effects of these changes on marked up versions of the standards.

IMPLICATIONS OF AMENDING IAS 38

4. IAS 38 applies to all intangible assets, not just advertising and promotional spend. If the standard is amended in respect of advertising and promotional spend, then it is likely to have other implications. This section discusses those implications.

5. In considering the implications of amending IAS 38, the staff have paid particular attention to the following:

   - which other types of spend may be affected by the changes (in particular, how will the items listed in IAS38.69 be affected?); and
   - will any inconsistencies be created? For example, how will the accounting for advertising and promotional spend differ from that for brands and mastheads?

Implications for other paragraph 69 items

6. IAS 38.69 applies to expenditure on advertising and promotional activities and also to expenditure on start-up activities, training activities, and relocating or reorganising part or all of an entity.

7. If IAS 38.69 is amended so that advertising and promotional spend is recognised as an expense when the advertising is delivered to customers, then it will also change the accounting for the other items in IAS 38.69.

8. For these items of spend the staff considers that expenditure will be recognised in the profit and loss account at the following points:

   - for start-up activities – when the facility or business commences its activities or when a new operation or new product or process is launched;
   - for training activities – when the training is delivered; and
   - for relocating or reorganising part or all of an entity – when the relocation or reorganisation takes place.

9. The staff notes that, in the case of start-up activities, this treatment will lead to significant day 1 losses when the new activity commences but will reduce pre-operating losses. This may result in some inconsistency between the treatment of research and development activities and start-up costs associated with a new

product. However, this inconsistency will be less than is present in the current version of IAS 38 as the costs will be recognised at the point of start-up rather than during the pre-operating phase.

10. In the case of training activities, the staff considers it likely that there is already diversity in practice and that expenditure is likely to already be recognised at the point at which training is delivered in a number of entities. Amending the standard is therefore likely to reduce divergence in this area.

11. In the case of the costs of relocating or reorganising all or part of an entity, it will be necessary to ensure that the point of recognition is not inconsistent with IAS 37. The staff considers that this is the area of IAS 38.69 where inconsistency is most likely to arise. The staff therefore proposes that, if the IFRIC wishes to pursue its amendments to IAS 38, the staff prepare a paper considering how to avoid inconsistencies between IAS 38 and IAS 37.

Other areas of potential inconsistency

Brands and mastheads

12. IAS 38.63 states "internally generated brands, mastheads, publishing titles, customer lists and items similar in substance shall not be recognised as intangible assets."

13. The staff considered advertising which is undertaken solely to develop a brand. For example, an entity may produce TV advertisements which are not designed to sell any specific product but instead to place the brand. Examples of this type of advertising include adverts promoting Nike's "just do it" slogan, and advertising with key messages such as, "at [entity], we like to do things differently".

14. If the IFRIC's proposed changes are made to IAS 38, then such an advertisement will be allowed to be recognised as an asset until such time as it is aired. Once aired, the advertisement will not be allowed to be recognised as an intangible "brand" asset.

15. Some may view this treatment as being inconsistent since the same item is treated as an asset before being delivered to a customer and as an expense after delivery. However, this is no different than a range of other assets which do not directly generate revenue.

Website costs

16. SIC 32.9 (c) states :

“expenditure incurred in the Content Development stage, to the extent that content is developed to advertise and promote an entity's own products and services (e.g. digital photographs of products), shall be recognised as an expense when incurred in accordance with IAS 38.69(c). For example, when accounting for expenditure on professional services for taking digital photographs of an entity's own products and for enhancing their display, expenditure shall be recognised as an expense as the professional services are received during the process, not when the digital photographs are displayed on the web site.”

17. The staff notes that, at its November meeting, the IFRIC agreed that SIC 32 should be amended to ensure that it is consistent with the revised IAS 38.

AMENDMENTS TO THE STANDARDS

18. In this section, the staff has considered the changes that will need to be made to IAS 38.68-70 and SIC 32 to reflect the IFRIC’s views. At this stage, the staff has not considered other areas of IAS 38 which may require consequential amendments for consistency. For example, IAS 38.29(a) refers to the accounting for advertising and promotional material and will need to be redrafted to be consistent with a revised IAS 38.68-70.

19. If the IFRIC agrees with these changes, the staff will review the standard in its entirety and propose any additional changes that may be required to make the standard consistent throughout.

Changes to IAS 38.68-70

20. IAS 38.68-70 currently reads:

Recognition of an expense

68 Expenditure on an intangible item shall be recognised as an expense when it is incurred unless:

(a) it forms part of the cost of an intangible asset that meets the recognition criteria (see paragraphs 18–67); or

(b) the item is acquired in a business combination and cannot be recognised as an intangible asset. If this is the case, this expenditure (included in the cost of the business combination) shall

form part of the amount attributed to goodwill at the acquisition date (see IFRS 3 *Business Combinations*).

69 In some cases, expenditure is incurred to provide future economic benefits to an entity, but no intangible asset or other asset is acquired or created that can be recognised. In these cases, the expenditure is recognised as an expense when it is incurred. For example, except when it forms part of the cost of a business combination, expenditure on research is recognised as an expense when it is incurred (see paragraph 54). Other examples of expenditure that is recognised as an expense when it is incurred include:

(a) expenditure on start-up activities (i.e. start-up costs), unless this expenditure is included in the cost of an item of property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment*. Start-up costs may consist of establishment costs such as legal and secretarial costs incurred in establishing a legal entity, expenditure to open a new facility or business (i.e. pre-opening costs) or expenditures for starting new operations or launching new products or processes (i.e. pre-operating costs).

(b) expenditure on training activities.

(c) expenditure on advertising and promotional activities.

(d) expenditure on relocating or reorganising part or all of an entity.

70 Paragraph 68 does not preclude recognising a prepayment as an asset when payment for the delivery of goods or services has been made in advance of the delivery of goods or the rendering of services."

21. The staff proposes changing the section heading from "Recognition of an expense" to "Short-lived intangible assets".

22. Paragraph 68 sets out the principle to be applied. The staff does not consider that this needs to be changed as the treatment being proposed by the IFRIC does not conflict with that principle.

23. Paragraph 69 discusses the accounting for specific items including advertising and promotional spend. The staff considers that the IFRIC should recommend amending this paragraph. [Revised text omitted from observer note]

24. As discussed above, if the IFRIC is broadly supportive of these changes, then the staff intends to present a paper to a future IFRIC meeting considering relocation and reorganisation expenditure. This paper will consider whether the proposed changes interfere with the existing requirements of IAS37 which address the somewhat different question of when reorganisation spend not yet incurred should be recognised as an expense. This paper will also consider whether the amended guidance in IAS 38 is sufficiently detailed to ensure that

reorganisation and relocation expenditure cannot be delayed unduly, and whether IAS38.69(d) should be deleted from the revised IAS 38.

Changes to SIC 32

25. SIC 32 discusses the accounting for website costs. It also considers the accounting for expenditure to develop advertising and promotional content for the website.

26. SIC32.8 states:

> "An entity is not able to demonstrate how a web site developed solely or primarily for promoting and advertising its own products and services will generate probable future economic benefits, and consequently all expenditure on developing such a web site shall be recognised as an expense when incurred."

27. The staff considers that this paragraph could be amended in two ways. If the IFRIC consider that the advertising is delivered to the customer at the point at which it is first displayed on the website, then it may amend the paragraph to state that the expenditure "shall be recognised as an expense as soon as it is displayed on the website."

28. Alternatively, if the IFRIC considers that the benefit of the content is received by the entity over the life of the content, then it may amend the paragraph to state that the expenditure "shall be amortised over the expected useful economic life of the content."

29. The staff considers that a similar question arises in the context of a TV advertisement for which significant costs may be incurred upfront for an advertisement which is aired repeatedly over a period of time.

30. This issue is discussed further, in the section below which considers at which point advertising is delivered to a customer.

31. The staff notes that, whatever the IFRIC concludes will need also to be reflected in SIC32.9(b), SIC 32.9 (c), and in the basis for conclusions accompanying SIC32.

OTHER GUIDANCE

32. If IAS38.68 – 70 is amended to allow costs to be carried forward in the balance sheet, then the costs that are capitalised will be accounted for using IAS 38.

The staff therefore considered whether the existing guidance in IAS 38 is sufficient to account for such costs. In particular the staff considered:

- the timing of the capitalisation of costs, i.e. when should an entity start capitalising costs?
- measurement of the asset at recognition;
- measurement of the asset after recognition;
- impairment testing;
- the point at which advertising or promotional material is delivered to a customer; and
- the definition of advertising and promotional expenditure.

Timing of recognition

33. IAS 38.65-67 considers the cost of an internally generated intangible asset. Paragraph 65 states that cost “is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraphs 21, 22 and 57.”

34. IAS 38.21-22 state:

> ***21*** ***An intangible asset shall be recognised if, and only if:***
>
> ***(a)*** ***it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and***
>
> ***(b)*** ***the cost of the asset can be measured reliably.***
>
> ***22*** ***An entity shall assess the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.***

35. IAS 38.57 states:

> ***57*** ***An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, an entity can demonstrate all of the following:***

(a) ***the technical feasibility of completing the intangible asset so that it will be available for use or sale.***

(b) ***its intention to complete the intangible asset and use or sell it.***

(c) ***its ability to use or sell the intangible asset.***

(d) ***how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.***

(e) ***the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.***

(f) ***its ability to measure reliably the expenditure attributable to the intangible asset during its development.***

36. The staff considers that, for an item of advertising and promotional spend, it should be possible to identify when the criteria in paragraph 57 have been met. For example in the concept stage, when an entity is considering what kind of marketing activity it should pursue, it will not be possible to demonstrate how the advertising will generate future benefits or to be certain that any advertising asset will be completed. It would not therefore be appropriate to capitalise costs at that stage.

37. Similarly, the staff considers that the above criteria are sufficient to apply to spend on start-up activities and training activities. In the case of relocation, it is possible to assess the point at which a project becomes feasible, as well as when the entity is committed to it and has the necessary resources. The staff therefore considers that the guidance in IAS 38 is sufficiently clear to deal with when costs should be capitalised in these situations.

38. The staff does not therefore consider that further changes to IAS 38 are required to clarify when the costs of the assets may be capitalised.

Measurement at recognition / cost collection model

39. IAS 38.24 states that an intangible asset shall be measured initially at cost. IAS38.65 – 67 gives guidance on the cost of an internally generated intangible asset.

40. Paragraph 66 requires that costs capitalised must be directly attributable to the asset, and necessary to prepare the asset to be capable of being operated in the manner intended by management. Costs which are directly attributable include costs of materials used or consumed generating the asset, costs of employee benefits arising from the generation of the intangible asset, and amortisation of patents and licences used to generate the asset.

41. The staff considers that this guidance is sufficient to assess which costs may be capitalised in the case of advertising and promotion, training, start-up costs, and relocation or reorganisation.

42. The staff does not therefore consider that changes are required to the IAS 38 cost collection model to deal with the IFRIC's proposed revisions to IAS 38.69.

Measurement after recognition / fair value or cost

43. IAS 38.72 states that "an entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 as its accounting policy."

44. IAS 38.74 discusses the application of the cost model and states "after initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses." IAS 38.97 states that "amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management…The amortisation method used shall reflect the

pattern in which the asset’s future economic benefits are expected to be consumed by the entity.”

45. The staff considers that recognising the cost of an item of advertising or promotional spend in the income statement when the advertising is delivered to the customer matches the expense with the consumption of the asset by the entity. The staff does not believe that it is clear that this approach matches the recognition of the expense with the consumption of the ‘asset’s future economic benefits’.

46. The staff therefore considers that further guidance or clarification should be offered as to how IAS38.97 should be applied to an item of advertising or promotional spend. This issue is discussed fully in the section, “when does delivery to the customer occur”, below

47. Under the revaluation model, an intangible asset should be carried at its fair value at the date of valuation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. Paragraph 75 states that “for the purpose of this standard, fair value shall be measured with reference to an active market.”

48. The staff considers that, for the assets discussed above, it is extremely unlikely that an active market will exist and as such it is unlikely that applying a revaluation model will be appropriate.

Impairment testing

49. If an entity carries an intangible asset on its balance sheet, then that asset should be tested for impairment in accordance with IAS 36. IAS 36 requires that intangible assets are tested for impairment at least annually. The test for

impairment compares the asset's carrying value to its recoverable amount (being the higher of its value in use and its fair value less costs to sell).

50. Applying IAS 36 to some types of advertising and promotional activity may be difficult since the associated cashflows are inherently uncertain. However, the staff does not consider that this is so hard as to be a barrier to applying IAS 36 to such assets.

51. Similarly, there is no reason why it is not possible to test capitalised start-up costs or training costs for impairment using the same standard. A relocation or re-organisation would be expected to reduce costs and result in savings for an entity or to enhance the entity's cash flows and so could also be tested using the cashflow benefit that it is expected to generate.

52. The staff therefore concludes that IAS 36 contains sufficient guidance to account for these types of assets.

When does delivery to the customer occur?

53. In many cases, delivery of an item of advertising to a customer will occur at a discrete point in time and the associated costs can be recognised as an expense at that point.

54. In other cases the date of delivery to the customer or the date of the consumption of the asset is not clear. For example, a company may develop and film a TV advertisement which will be shown repeatedly over a period of time. The advertisement could be shown 3-4 times a day initially, and subsequently be screened as a refresher on an ad-hoc basis.

55. Differing views may exist as to when the cost for this advertisement should be recognised as an expense in the profit and loss account. For example, it could

be viewed that the cost should be recognised as an expense when the advertisement is first aired on the basis that the entity ceases to fully control the asset from that point. Alternatively, it could be viewed that the advertisement should be amortised based on the number of screenings aired. In the example above, this would result in a higher charge at the beginning of the cycle than the end. Otherwise, the asset could be amortised on a straight line basis over the lifecycle of the advertisement. This method may recognise that the benefits from the advertising may accrue evenly over the advertising campaign.

56. The staff considers that, to an extent, the standard should not be overly prescriptive in requiring one method of amortisation. Different methods may more accurately reflect the consumption of the benefits of the asset depending upon the type of advertising and its particular features.

57. On the other hand, the staff considers that a principle should be developed to give guidance as to when the costs should be recognised in the income statement. This principle could be based on:

- when the benefit of the asset is received (for example when increased sales from advertising are received);
- when the asset is used (for example when the advertisement is aired); or
- when the advertisement or promotion is first distributed to the public.

58. IAS 38.97 states “the amortisation method shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the entity.”

59. In the case of advertising or promotion, the entity’s future economic benefits are increased cash flows which will occur over a period after the advertising or

promotion is delivered to customers. It could be argued that the asset should be amortised over the period in which the entity benefits from it.

60. The staff considers that the future economic benefits of advertising and promotion are access to increased future cash flows. The staff considered the case of a TV advertisement and noted that, when the advertisement is aired, it will very likely generate increased sales. However, if the advert is aired repeatedly over an extended period of time, the amount of increased sales generated by each future airing will be reduced. Because the advertisement does not have an unlimited life, the staff considers that the benefits of the advertising are consumed when broadcasts take place.

61. The staff therefore considers that an entity consumes the benefit of advertising and promotional activity when it undertakes that activity. As such, the cost of that activity should be recognised in the profit and loss account when the activity takes place. The staff would therefore expect that the cost of a TV advertisement would be recognised as an expense in the periods in which the advertisements are aired on TV.

62. Similarly, the staff considers that an entity consumes the benefits conferred by training activities when the training takes place.

63. Since a start-up can only occur once, an entity must consume the benefits available to it from activities performed before the start-up when the start-up takes place. Similarly, an entity consumes the benefit of spend on reorganisation when the reorganisation takes place.

64. The staff therefore recommends that the IFRIC propose amending SIC32, and IAS 38.97 to make clear that the benefits of these activities are consumed when

the activities are undertaken or delivered (i.e. when the assets are used) not when the benefits associated with the assets flow to the entity.

Definition of advertising and promotional spend

65. The staff is aware that a number of people do not consider that catalogues are items of advertising or promotional material. Supporters of this view note that catalogues are used in the same way as high-street stores and operate as a distribution channel rather than as an advertising or promotional item.

66. When the project on catalogue costs was first taken onto the IFRIC agenda, the IFRIC agreed that the scope of the project should include all advertising and promotional spend, but that it would not attempt to develop a definition of advertising and promotional expenditure. Instead, the IFRIC agreed, that it would pursue a project with a scope which listed different examples of advertising and promotional spend. An example of such a scope might read "advertising and promotional spend, including (but not limited to) catalogues, TV slots, brochures, billboards, free samples, loss-leaders, email and text message advertisements, trade counters and exhibitions."

67. The staff considers that, if IAS 38 is to be amended, and this amendment is to include catalogue costs within advertising and promotional spend, then it will be necessary for the standard to make clear that catalogues are forms of advertising and promotional spend.

68. The staff proposes that an amendment should include a list of examples of advertising and promotional spend which are included in IAS 38.

POTENTIAL ALTERNATIVE SOLUTION

69. The staff considers that another approach may be available to the IFRIC which avoids the need to consider all of the items discussed in IAS38.69 and restricts the scope of the project to catalogues, which were the principal subject of the initial submission to the IFRIC.

70. Mail order catalogue companies distribute catalogues to customers on their customer list. The customers are specifically identified based upon past buying habits. The intention of the catalogue is to allow customers to use it as a kind of shop in their living room to browse products and select purchases from the

comfort of their own home. Orders placed through catalogues are traced to monitor the effectiveness of the catalogues. Customer habits are monitored and the customer list updated to ensure that a high proportion of people receiving a catalogue continue to place orders. By doing so, mail order companies are able reliably to predict the response to their catalogues and obtain a response rate far higher than advertising and promotional activities.

71. Mail-order catalogues differ from advertising in that customers who have responded to the catalogue are identifiable. It is not generally possible to identify customers who have responded to other forms of advertising separately from ongoing customers. An advertising asset therefore is generally not separately identifiable.

72. Since it is possible to trace the customers who have responded to a catalogue, it is possible to measure the cash flows generated by it. A mail order company which produces catalogues at regular intervals will therefore be able to predict with a reasonable degree of accuracy what cash flows a catalogue will generate based on past results.

73. This contrasts with forms of advertising where a product is advertised which is available through a number of different channels. In these cases, it is often impossible to accurately measure the success or otherwise of the advertising separately from the success of the business as a whole.

74. Furthermore, mail order companies maintain databases of customers which include details of customers which have previously made purchases from the catalogue, and the level of purchases which may be expected. Mail order companies are therefore able to generate a far higher success rate in terms of numbers of customers responding to a catalogue than could be achieved through untargeted advertising.

75. Catalogue companies therefore argue that catalogues meet the requirements for the recognition of an intangible asset as the future benefits of the catalogue are separately identifiable and can be measured reliably based on past results. Advertising and marketing can not meet the requirements for recognition as the cash flows and future benefits associated with the advertising cannot be reliably measured and are not separately identifiable.

76. Furthermore, a catalogue serves a different purpose from advertising. A mail order catalogue may be used in the home and allows users to browse the catalogue and shop from home. In that sense, the catalogue is more akin to a distribution network than a form of advertising. Supporters of this view note that, if catalogues are considered to be forms of advertising, then mail order companies have far higher advertising costs as a percentage of revenue than other retailers. If catalogues are considered as distribution networks then advertising costs as a percentage of sales are in line with other retailers.

77. Since catalogues can be considered as not being advertising and promotional materials and they meet the definition of an intangible asset, it may be argued that they should be recognised as intangible assets and amortised over their useful economic lives.

78. One approach which the IFRIC may consider is to develop an Interpretation considering methods of selling which are targeted towards customers with a proven history of making purchases, the results of which are measurable by tracking customers who respond to that form of selling. Since the results of the selling medium can be traced directly and compared with historic models, it may be possible to capitalise such an asset and amortise it over the expected future periods in which it will generate benefits.

79. This approach may restrict the scope of the IFRIC's work to catalogues, which were the principal subject of the original submission received, and has the additional benefit of being consistent with the treatment of direct-response advertising in US GAAP. US GAAP SOP 93-7 states:

> The costs of advertising should be expensed either as incurred or the first time the advertising takes place (paragraphs 42 to 44 elaborate on component costs of advertising), except for-
>
> > *a.* Direct-response advertising (1) whose primary purpose is to elicit sales to customers who could be shown to have responded specifically to the advertising and (2) that results in probable future economic benefits (future benefits). (Paragraph 37 discusses the conditions that must be met in order to conclude that direct-response advertising results in probable future benefits.) Examples of the first time advertising takes place include the first public showing of a television commercial for its intended purpose and the first appearance of a magazine advertisement for its intended purpose.

b. Expenditures for advertising costs that are made subsequent to recognizing revenues related to those costs, as discussed in paragraph 27.

STAFF RECOMMENDATION AND CONCLUSIONS

80. The changes which the IFRIC tentatively agreed at its last meeting have a number of implications for types of spend other than advertising and promotion. However, the staff does not consider that these implications are sufficient to warrant the IFRIC changing its approach. The staff therefore recommends that the IFRIC continue to pursue a model in which advertising and promotional costs are capitalised and then expensed when the advertising takes place.

81. In order to achieve this, the staff recommends that :

- IAS 38.69-70 is amended as discussed above;
- SIC 32.8 is amended to state that the costs of a website developed solely or primarily for promoting or advertising its own products should be capitalised until such time as the web-site is launched;
- SIC 32.9 is amended to state that costs of developing website content to promote or advertise an entity's own products should be capitalised and expensed at the point at which the content is displayed on the website;
- IAS 38.5 is amended to introduce a description of what types of advertising and promotion are included in IAS 38;
- further guidance is included in IAS 38 to clarify that "the consumption of an asset's future economic benefits" as described in IAS 38.97 occurs, in the case of advertising and promotion, when the advertisement or promotion is delivered to a customer;
- the staff conduct further research to ensure that the revised IAS 38 results in the recognition of expenditure relating to relocating and reorganising all or part of an entity in the profit and loss account at the same time as it would be recognised under IAS 37.70-83; and
- the staff review SIC 32, IAS 38, and IAS 36 to ensure that all paragraphs are consistent with the IFRIC's proposed revisions.

82. In considering the above, the IFRIC should also consider whether it wishes to draw a distinction between separately identifiable assets relating to selling media, the result of which can be reliably measured (for example catalogues) and advertising and promotional spend.

83. If the IFRIC wishes to treat catalogues as an advertising expense, then it will need to make clear in the description of advertising spend that they are an item of advertising. In this case, the cost of the catalogues will be written off at the point at which the catalogues are distributed. If, on the other hand, the IFRIC accept that the catalogues are a distribution route rather than an item of advertising, then the IFRIC may wish to recommend the above amendments to IAS 38 and, at the same time, issue an Interpretation clarifying that catalogues are not items of advertising and promotional spend and that, where the benefits of catalogues are separately identifiable and reliably measurable, they may be capitalised and amortised over the period to which they relate.

84. The latter approach has the advantage of also being compliant with US GAAP.

85. Alternatively, if the IFRIC considers that these changes have unacceptable consequences for the accounting for start-up costs, training or relocation and restructuring, then the staff considers that the IFRIC should not amend IAS 38 but instead should pursue an Interpretation consistent with the alternative view discussed above. This Interpretation would state that catalogues are a distribution network and may be capitalised and amortised provided that the likely future cash flows can be estimated reliably based on past results and it is possible to trace the results of the sales generated by the catalogues in order to monitor progress against those likely future cashflows.

Does the IFRIC agree with the staff's recommendations? Does the IFRIC wish to draw a distinction between the treatment of catalogues and forms of advertising and promotion?