30 Cannon Street, London EC4M 6XH, United Kingdom
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: iasb@iasb.org Website: www.iasb.org

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: **March 2007, London**

Project: **Advertising and promotion (Agenda Paper 6)**

INTRODUCTION

1. At its January 2007 meeting, the IFRIC tentatively agreed to amend the wording of IAS38.70 to state that advertising and promotional costs should be recognised as an expense at the point at which an advertisement is first distributed to customers. At that meeting, the IFRIC agreed that:

   i. it did not wish to amend the treatment of all of the items in IAS38.69 but instead wished to limit the scope of its work to advertising and promotion;

   ii. it did not wish to amend or interpret the phrase 'as incurred' in IAS 38.68; and

   iii. for goods or services acquired for the purposes of advertising and promotion, an expense should be recognised in the profit and loss account at the point at which the advertising is first distributed to customers.

2. This paper further considers the wording discussed by the IFRIC at its January meeting and proposes a revised draft wording for IAS 38.70. The paper also

includes draft consequential amendments to SIC 32 to reflect the proposed changes to IAS 38.

3. If the IFRIC agrees with these revised wordings, the staff proposes that these amendments be presented to the Board as part of its annual improvements project.

Amendments to IAS 38

4. Appendix 1 to this document sets out the amendments to IAS 38.70 which the IFRIC discussed at its January 2007 meeting. The staff had a number of concerns that this wording may not fully meet the IFRIC's goals. In particular:

   - The proposed wording would be likely to change the treatment of all of the items in paragraph 69. For example, a service which is to be used in a start-up activity will be consumed in an activity which does not give rise to an intangible that can be recognised. The proposed wording may allow such a cost to be deferred and recognised as an expense when the start-up occurs.

   - Paragraph 68 states that expenditure on an intangible shall be recognised as an expense when it is incurred. Amending paragraph 70 to state that such items could be held in the balance sheet until consumed may be taken to imply that 'as incurred' means the same as 'as consumed' or 'as delivered'. Alternatively, it could be seen as contradicting paragraph 68.

5. The staff considers that any amendments to paragraph 70 are likely to impact all of the items in paragraph 69 unless they are made specific to the items which they are intended to address. Any amendment to paragraph 70 should therefore be made specific to advertising and promotion.

6. In the light of the above, the staff has proposed a revised wording for IAS 38.70 in Appendix 1a to this document. In preparing that wording, the staff has attempted to:

   - retain and clarify the existing definition of a prepayment for situations in which an entity has paid for goods or services but has not yet received those goods or services; and

- make clear that advertising and promotional spend may be recognised as an asset between the date that spend occurs and the date on which the related activities occur.

7. The staff has included training activities within the scope of the amendments on the basis that, at the January IFRIC meeting, whilst the IFRIC did not wish to extend the scope of its work beyond advertising and promotion, IFRIC members commented that they could see little justification for proposing different treatments for training and advertising and promotional type activities.

8. The proposed change does not include clarification that a mail-order catalogue is a form of advertising. The staff is aware that some catalogue companies are justifying their existing accounting for catalogues on the basis that catalogues are not advertising. Whilst the IFRIC has stated in previous meetings that mail-order catalogues are forms of advertising and promotion, the staff considered that developing a definition of advertising and promotional activities was beyond the scope of the current project.

Amendments to SIC 32

9. SIC 32 states that "to the extent that content is developed to advertise and promote an entity's own products and services (eg digital photographs of products), [expenditure] shall be recognised as an expense when incurred in accordance with IAS 38.69(c)." If the amendments to IAS 38.70 discussed above are made, SIC 32 will need to be amended to state that content developed to advertise and promote an entity's products and services is recognised as an expense when it is first displayed on the website.

10. In appendix 2 to this paper, the staff has set out its proposed amendments to SIC 32 to reflect the changes to IAS 38 discussed above. (Note: since SIC 32 already includes underlined and struck through sections, the staff has highlighted the proposed changes as well as including underlining and strike-throughs).

APPENDICES 1, 1a, and 2 are omitted from the observer note