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Mr Robert Garnett
Chairman
International Financial Reporting Interpretations Committee
30 Cannon Street
London
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Email: ifric@iasb.org

13 April 2009

Dear Mr Garnett,

Tentative agenda decision: IAS 38 *Intangible Assets*—Accounting for sales costs

Deloitte Touche Tohmatsu is pleased to respond to the IFRIC's publication in the March 2009 *IFRIC Update* of the tentative decision not to take onto the IFRIC's agenda a request for an Interpretation of IAS 38 *Intangible Assets* with respect to providing guidance on accounting for sales costs.

We agree with the IFRIC's decision not to take this item onto its agenda. However, we have the following recommendations in relation to the tentative agenda decision.

- We do not believe that the distinction between "costs incurred in **attempting** to obtain customer contracts" (IFRIC rejection) and "costs incurred in **securing** the contract" (IAS 11.21) is clear. In particular, IAS 11.21[1] may be read to mean the opposite of what is written in the agenda decision. Accordingly, while we agree that initial selling and marketing costs incurred during construction should not be capitalised in the case of real estate constructed for sale to third parties (as envisaged by IFRIC 15), we are concerned that this sentence in the rejection will be interpreted to mean that **no** pre-contract costs should be capitalised (even those for contracts negotiated for the construction of a single specific asset, such as a generator). We believe that this would be a contradiction of the requirements of IAS 11.21. As a result, we would prefer that the IFRIC make clear that this is not the intention of the agenda decision.

[1] IAS 11.21 states that "Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. However, costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period."

- The tentative agenda decision states: "However, the IFRIC noted that other standards conclude that some direct and incremental costs recoverable as a result of obtaining a specifically identifiable contract with a customer may be capitalised in *narrow circumstances*" [emphasis added]. It is unclear to us what those narrow circumstances are. We believe that the IFRIC should include cross-references to the relevant standards.

- We do not understand the relevance of the reference to property, plant and equipment in the second paragraph of the agenda decision. The question addressed to the IFRIC relates to real estate constructed for sale to third parties (and not for own use) and hence the asset/s classification as property, plant and equipment under IAS 16 *Property, Plant and Equipment* is not applicable. We recommend that this sentence be removed.

If you have any questions concerning our comments, please contact Ken Wild in London at +44 (0)20 7007 0907.

Yours sincerely,

Ken Wild
Global IFRS Leader