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15 April 2009

Dear IFRIC Members

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

The global organisation of Ernst & Young would like to respond on the above tentative agenda decision as published in the IFRIC Update of March 2009.

The question on which the IFRIC was asked for guidance was on "how a real estate developer should account for initial selling and marketing costs incurred during construction that relate to the specific real estate construction project'.

We agree with IFRIC's tentative decision not to take this item onto its agenda for the reasons noted. In particular, we agree that the specific standards contain guidance such that no reference is required to the Framework. Also, we agree that matching is not a generic overriding principle, but normally the outcome of applying the principles in the Framework. We also agree that sales and marketing expenses are normally expensed as incurred.

However, the IFRIC qualified its decision that selling and marketing costs were not to be capitalised by stating '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 capitalized in narrow circumstances'. It is not to clear to us what constitutes a narrow circumstance that would be permitted to be capitalised under other standards. Consequently, this guidance could result in confusion across the industry. We also note that the Discussion Paper on revenue recognition states that:

6.45 A common example of that potential effect is sales commissions and other marketing expenses associated with obtaining a contract. If those costs are not eligible for capitalisation in accordance with ***other standards***, they would be recognised as expenses as incurred. Because no revenue would be recognised at contract inception (unless a performance obligation is satisfied), that may lead to the recognition of a loss when a contract is obtained.

This seems to give rise to the same confusion.

We kindly ask the IFRIC to clarify the reasons for the exception in the agenda decision. For example, the sales commission paid by a real estate developer/constructor to a broker on the sale of real estate units would normally meet the 'narrow circumstances' condition formulated in the agenda decision as it would constitute "direct and incremental costs recoverable as a result

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of obtaining a specifically identifiable contract with a customer.”. Was it IFRIC’s intention that all sales commissions, refundable or non-refundable, should be capitalised until the sale is consummated and revenue is recognised?

Please contact Leo van der Tas on +31 10 4068114 should you have any questions regarding the above.

Yours faithfully

Ernst & Young