

Wayne Upton  
Chairman  
IFRS Interpretations Committee  
30 Cannon Street  
London  
United Kingdom  
EC4M 6XH

25 September 2015

Dear Mr Upton

**Tentative agenda decision – IAS 2 *Inventories* and IAS 38 *Intangible Assets*: Should interest be accreted on prepayments on long-term supply contracts?**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the July IFRIC Update of the tentative decision not to take onto the Committee's agenda a request for guidance on whether a purchaser of raw materials should accrete interest on prepayments made under a long-term supply contract.

We agree with the IFRS Interpretations Committee's decision not to add this item onto its agenda for the reasons set out in the tentative agenda decision.

If you have any questions concerning our comments, please contact Veronica Poole in London at +44 (0) 20 7007 0884.

Yours sincerely



Veronica Poole  
Global IFRS Leader



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**IFRS Technical Committee**

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Berlin, 16 September 2015

United Kingdom

Dear Wayne,

### **IFRS IC's tentative agenda decision on IAS 2 / IAS 38 in its July 2015 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IFRS IC's tentative agenda decisions regarding *IAS 2 / IAS 38 - Accounting for prepayments in long-term supply contracts*, published in the July 2015 *IFRIC Update*.

We are not convinced that the IFRS IC's tentative agenda decision is providing any clarity to the issue and is, thus, not preventing further diversity in practice. By stating that a financing component shall be accounted for separately, with judgement being required to identify that financing component, the IFRS IC's decision does not add any value to existing IFRSs.

Further, we disagree with the IFRS IC's statement that there is no evidence demonstrating the issue's pervasiveness. We acknowledge that the IFRS IC has undertaken only limited outreach and has received only very limited results. As per Agenda Paper 3, para. 11, for the IFRS IC July 2015 meeting, only "accounting firms and securities regulators" had been contacted. The results might have been different (and more representative), though, had National Standard Setters been included in the outreach. As for Germany, we confirm that there are numerous transactions with different fact patterns that demonstrate the pervasiveness of the issue.

Lastly, and most importantly, the requirement to identify and separately account for a financing component is not consistently being dealt with for all kinds of transactions in IFRSs. Furthermore, advance payments and deferred payments are not consistently being dealt with, as neither IAS 2, IAS 16 nor IAS 38 explicitly require separation of advance payments as financing element (if any), whereas a clear requirement for deferred payments exists. Also, the expected Draft Interpretation on foreign currency transactions and advance considerations is a good example for advance and deferred payments being treated differently depending on the specific circumstances. We suggest that the IASB or the IFRS IC take action, review existing IFRSs and deal with the issue comprehensively and consistently across standards. Thus, we strongly recommend the IFRS IC take this issue on its agenda.

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Prof. Dr. Andreas Barckow (President)  
Peter Missler (Vice-President)



If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große or me.

Yours sincerely,

*Andreas Barckow*

President

International Financial Reporting Standards Interpretations  
Committee  
30 Cannon Street  
London  
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28 September 2015

Dear IFRS Interpretations Committee members,

**Invitation to comment - *Tentative agenda decisions - IAS 2 Inventories and IAS 38 Intangible Assets - Should interest be accreted on prepayments in long-term supply contracts?* (Agenda Paper 3)**

Ernst & Young Global Limited, the central coordinating entity of the global EY organisation, welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) of the IFRS Interpretations Committee (the Committee) published in the July 2015 IFRIC Update.

The Committee received a request “seeking clarification on the accounting for long-term supply contracts of raw materials when the purchaser of the raw materials agrees to make significant prepayments to the supplier”.

We do not agree with the conclusion reached in the TAD that there is sufficient guidance existing in current IFRS on accounting for prepayments in long-term supply contracts. The conclusion is based on: 1) making analogy with the requirements of IAS 2 *Inventories*, IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* for accounting for purchases made on deferred settlement terms; and 2) the assumption of symmetrical accounting between the buyer and the seller. However, some believe that a prepayment by a purchaser in a supply contract is a different type of transaction than a purchase on deferred settlement terms, as the right to receive the goods from the supplier is a non-monetary item, and this might support a different accounting treatment from the transactions referred to in 1). Similarly, on 2) there are different views on whether symmetrical accounting between the buyer and the seller is required under IFRS.

Furthermore, the TAD indicates that the Committee “conducted outreach on this issue, but the outreach returned very limited results. In the absence of evidence about this issue, and of a broader range of information about the facts and circumstances relating to these transactions, the Interpretations Committee thought it would be difficult for it to address this topic efficiently and effectively”. The extent of the outreach conducted by the Committee seems limited. We are aware of many instances of prepayments in long-term supply contracts in emerging economies and certain industries, such as the commodities sector. We are also aware of significant diversity in practice when accounting for such transactions.

The TAD states:

“The Interpretations Committee observed, however, that when a financing component is identified in a long-term supply contract of raw materials, that financing component should be accounted for separately. The Interpretations Committee acknowledged that judgement is required to identify when individual arrangements contain a financing component.”

We are concerned that neither current IFRS, nor the TAD, provides sufficient guidance on assessing whether an arrangement contains a financing component. Furthermore, some believe that, when an arrangement contains a prepayment or a deferral of payment beyond normal credit terms, there is a time value of money element that should be accounted for.

In addition, the use of the term ‘financing component’ in the extract above, as opposed to ‘significant financing component’, and a reference to IFRS 15 *Revenue from Contracts with Customers* earlier in the TAD, is confusing as to whether the Committee is implying that, in identifying any financing component, the guidance in IFRS 15 should be used, or whether it is implying that such guidance is inappropriate. Therefore, it is unclear whether an entity would be required or permitted to apply the guidance in paragraphs 60 - 65 of IFRS 15 in assessing whether an arrangement contains a significant financing component. Moreover, within the requirements for significant financing component, paragraph 63 of IFRS 15 provides a practical expedient for entities not to adjust the promised amount of consideration for the effects of a significant financing component, if the period between payment for a promised good or service and the transfer of that good or service will be one year or less. While this may not be relevant for long-term prepayments, it raises the question whether such practical expedients would be applicable when requirements are referred to by analogy in an agenda decision. We believe that, without further guidance, the determination of whether a long-term prepayment arrangement contains a financing component would be highly subjective and judgemental, and continued diversity will occur.

Overall, we are concerned that the clarification provided in the TAD will not be sufficient to address the issue and recommend the Committee take this item onto its agenda, with the possibility that it be escalated to the International Accounting Standards Board with a recommendation to consider including relevant guidance on accounting for prepayments in long-term supply contracts in IAS 2, IAS 16 and IAS 38.

If the Committee decides to proceed with finalising the TAD, it is unclear why a reference to IAS 38 was included in the title, but not IAS 16.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas on +31 88 407 5035.

Yours faithfully

*Ernst + Young Global Limited*