

## STAFF PAPER

March 2016

## IFRS Interpretations Committee Meeting

Project	IAS 16 <i>Property, Plant &amp; Equipment</i> and IAS 38 <i>Intangible Assets</i>		
Paper topic	Variable payments for asset purchases		
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This paper has been prepared for discussion at a public meeting of the IFRS Interpretations Committee. Comments made in relation to the application of an IFRS Standard do not purport to be acceptable or unacceptable application of that IFRS Standard—only the IFRS Interpretations Committee or the International Accounting Standards Board (the “Board”) can make such a determination. Decisions made by the IFRS Interpretations Committee are reported in IFRIC *Update*. The approval of a final Interpretation by the Board is reported in IASB *Update*.

## Introduction

1. The IFRS Interpretations Committee (‘the Interpretations Committee’) received a request to address the accounting for variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset that is not part of a business combination (‘asset purchases’).
2. The Interpretations Committee discussed this issue at several meetings between 2011 and 2013 and decided to put the project on hold because the accounting for variable payments was being considered by the IASB as part of its projects on leases and a revised *Conceptual Framework*. The Interpretations Committee revisited the issue at its meetings in September and November 2015 subsequent to the completion of the redeliberations in the *Leases Exposure Draft* (published May 2013).
3. The Interpretations Committee tentatively agreed that the purchaser must recognise a financial liability at the date it purchases the asset for variable payments that do not depend on its future activity, and initially measure that liability at fair value in accordance with IFRS 9 *Financial Instruments* (IAS 39 *Financial Instruments: Recognition and Measurement*).
4. The Interpretations Committee was unable to reach a consensus on whether the purchaser must recognise a liability at the date it purchases the asset for variable payments that depend on the purchaser’s future activity or, instead, recognises such a

liability only when the related activity occurs. The Interpretations Committee was also unable to reach a consensus on how the purchaser measures such a liability for variable payments.

5. Some members of the Interpretations Committee were of the view that all variable payments meet the definition of a liability at the date of purchase of the asset. These members thought that the purchaser should recognise a liability for those variable payments and that liability should initially be measured at fair value. Other members did not think that variable payments that depend on the purchaser's future activity meet the definition of a liability for the purchaser until the related activity occurs.
6. The Interpretations Committee considered the proposed definition of a liability in the May 2015 Exposure Draft *The Conceptual Framework for Financial Reporting* as well as the deliberations of the International Accounting Standards Board (the 'Board') on its project on leases. The Interpretations Committee observed that, during the Board's deliberations on its project on leases, the Board did not conclude on whether variable payments linked to future performance or use of the underlying asset in a lease met the definition of a liability at commencement of a lease, or instead, met that definition only at the time that the related performance or use occurs.
7. The Interpretations Committee determined that this issue is too broad for the Interpretations Committee to address within the confines of existing IFRS Standards. Consequently, the Interpretations Committee tentatively decided not to add this issue to its agenda.
8. The purpose of this paper is:
  - (a) to provide the Interpretations Committee with an analysis of the comments received on the tentative agenda decision; and
  - (b) to ask the Interpretations Committee if it agrees with the staff recommendation to finalise the agenda decision.

## Comment letter summary

9. We received six comment letters, which have been included in Appendix B to this agenda paper.<sup>1</sup>
10. Three of the respondents (Accounting Standards Board of Japan, Mazars and Ernst & Young Global Limited) support the Interpretations Committee's decision not to add the issue to its agenda. Another respondent (Deloitte) also thinks that the issue is broad and conceptually challenging.
11. Nonetheless, a majority of the respondents noted that the issue is widespread and has resulted in significant diversity in practice. The respondents think that this diversity will continue to exist after the finalisation of the agenda decision.
12. Accordingly, a number of respondents have recommended that the Interpretations Committee should refer this issue to the Board for consideration. One respondent (Ernst & Young Global) suggested that the Board should address this issue as it finalises the *Conceptual Framework*. Another respondent (Accounting Standards Board of Japan) suggested that the Board should address this issue as a medium- to long-term project building on the outcome of the *Conceptual Framework* project.
13. One respondent (Mazars) acknowledged that the Board may not be able to reach a consensus on the initial accounting for variable payments that depend on the purchaser's future activity, given its recent discussions on the *Leases* project. Nonetheless, the respondent thinks that it is important for the Board to clarify the debit entry when a liability is recognised and to address the subsequent accounting for these variable payments.
14. One respondent (PricewaterhouseCoopers) thinks that it is imperative that the Interpretations Committee and the Board find a way to make progress on this important issue to remove diversity in practice. The respondent also thinks that the analysis should focus on the requirements of the relevant Standards and assess whether any amendments to those Standards are required. The respondent does not think that an analogy to IFRS 3 *Business Combinations* or IFRS 16 *Leases* is useful in

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<sup>1</sup> The comment letter received from Mazars included comments on several tentative agenda decisions published in the [IFRIC Update](#) from November 2015. In Appendix B, we have included only the excerpt from the letter that is relevant to this tentative agenda decision.

this instance. The respondent notes its disappointment that progress has not been made on this issue since it was submitted in 2011.

15. Another respondent (Ernst & Young Global) thinks that the wording of the current tentative agenda decision suggests that the Interpretations Committee had reached a consensus on the initial accounting for variable payments that do not depend on the purchaser's future activity. The respondent thinks that if this is the case, it should be clarified in the tentative agenda decision. It also thinks that it would be beneficial for the Interpretations Committee to include in the agenda decision its tentative decisions on the subsequent accounting for variable payments for asset purchases. The respondent has acknowledged that this may include a need for some narrow-scope amendments to existing IFRS Standards similar to what the Interpretations Committee had previously proposed.
16. One respondent (BDO International) suggested that the Interpretations Committee should revisit its conclusion to remove this topic from its agenda, and instead focus its analysis on whether a particular arrangement gives rise to a financial liability that is within the scope of IFRS 9 (IAS 39), or is within the scope of another Standard. The respondent is of the view that the requirements in those IFRS Standards would allow an entity to determine when the liability for these variable payments should be recognised. The respondent thinks that the Interpretations Committee could then focus on the appropriate accounting treatment for the corresponding debit entry.

## **Staff analysis**

### ***Should the Interpretations Committee finalise the tentative agenda decision?***

17. A large number of respondents agree with the Interpretations Committee's assessment that the accounting for variable payments for asset purchases is too broad to be addressed within the confines of existing IFRS Standards. Consequently, we think that the Interpretations Committee should finalise the agenda decision.
18. We do not agree with one respondent's (BDO International) suggestion that the Interpretations Committee should revisit its conclusion to remove the topic from its agenda, and instead focus its analysis on whether a particular arrangement gives rise

to a financial liability that is within the scope of the relevant standard on financial instruments.

19. As noted in [Agenda Paper 6A](#) (Appendix A) of the Interpretations Committee meeting in September 2015, the central question was whether the purchaser has a present obligation to make the variable payment on the date it purchases the asset and, therefore, whether a financial liability exists *on that date*. The Interpretations Committee had observed that the obligation to make a variable payment arises from a contract and, accordingly, would be in the scope of IFRS 9. In other words, the question was one of timing in terms of when an obligation exists—there was agreement that, once the obligation exists, it is a financial liability.
20. We agree with one respondent (PricewaterhouseCoopers) that any analysis of this issue should focus on the requirements of the relevant IFRS Standards and assess whether any amendments are required.
21. However, through its past analysis, we note that the Interpretations Committee has examined the requirements of the relevant IFRS Standards that have been highlighted by the respondent. The Interpretations Committee observed differing interpretations of the current requirements and, therefore, assessed whether an analogy to IFRS 3 or IFRS 16 could provide an appropriate basis for resolving the differing interpretations.

### ***Amendments to the wording of the agenda decision***

22. We have made some drafting amendments to the wording of the agenda decision to improve the flow and readability of the agenda decision. The drafting amendments are included in Appendix A.
23. One respondent (Ernst & Young Global) thinks that the wording of the current tentative agenda decision suggests that the Interpretations Committee had reached a consensus on the initial accounting for variable payments that do not depend on the purchaser's future activity. The respondent thinks that if this is the case, the Interpretations Committee should clarify this in the agenda decision. The respondent also thinks that it would be beneficial for the Interpretations Committee to include in the agenda decision the tentative decisions reached on the subsequent accounting for variable payments for asset purchases.

24. We do not think that the tentative decisions reached by the Interpretations Committee on the subsequent accounting for variable payments for asset purchases should be included in the agenda decision. This is because the Interpretations Committee had observed that the subsequent accounting for variable payments for asset purchases is not sufficiently clear in the existing IFRS Standards and had previously proposed amendments to IAS 16 *Property, Plant & Equipment*, IAS 38 *Intangible Assets*, and IAS 39 to reflect its tentative decisions. However, the Board had noted that the initial accounting for variable payments affects their subsequent accounting and thought that both issues should be addressed comprehensively.
25. We continue to think that the accounting for variable payments should be addressed comprehensively and do not think that piecemeal amendments to address the subsequent accounting for variable payments will be beneficial. We also do not think it would be useful for the Interpretations Committee to clarify the initial accounting for variable payments that are not dependent on the purchaser's future activity through an agenda decision. This is because doing so would address only one element of the broader issue of variable payments for asset purchases.

### ***Should the Interpretations Committee refer the issue to the Board?***

26. We agree with the respondents' comments that the issue is widespread and differing views will continue to exist in practice. We also understand that some respondents to the *Agenda Consultation* have noted the accounting for variable payments as an area that the Board should address as part of its research agenda.
27. Consequently, we think it would be useful to inform the Board of the discussions of the Interpretations Committee, noting the comments raised by respondents to the publication of this tentative agenda decision.
28. The Board can then use this information, together with other comments made on the accounting for variable payments by respondents to the *Agenda Consultation*, to assess whether it should address this issue, either as part of the *Conceptual Framework* project or as a separate project that can build on the outcome of the *Conceptual Framework* project, and what the appropriate timeline and priority of such a project should be.

**Staff recommendation**

29. We recommend that the Interpretations Committee should finalise the agenda decision as shown in Appendix A. We also think it would be useful to inform the Board of the discussions of the Interpretations Committee, noting the comments raised by respondents to the publication of this tentative agenda decision.

**Question for the Interpretations Committee**

1. Does the Interpretations Committee agree with the staff recommendation to finalise the agenda decision?
2. Does the Interpretations Committee have any comments on the proposed wording of the final agenda decision set out in Appendix A to this paper?
3. Does the Interpretations Committee agree with the staff recommendation to inform the Board of the discussions of the Interpretations Committee noting the comments raised by respondents to the publication of the tentative agenda decision?

## Appendix A—Finalisation of agenda decision

- A1. We proposed the following wording to finalise the agenda decision (new text is underlined and deleted text is struck through)

### **IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*— Variable payments for asset purchases**

The Interpretations Committee received a request to address the accounting for variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset ~~outside that is not part of a business combination. The Interpretations Committee discussed this issue over several meetings between 2011 and 2013. Because the accounting for variable payments was being considered by the IASB as part of its projects on Leases and a revised *Conceptual Framework*, the issue was put on hold pending completion of the redeliberations on the proposals in the Exposure Draft *Leases* (published in May 2013). Subsequently, the Interpretations Committee revisited this issue at its meetings in September and November 2015.~~

The Interpretations Committee ~~could not~~ thought that the issue was too broad for it to address. In particular, it was unable to reach a consensus on whether an entity (the purchaser) recognises a liability for the variable payments that depend on the purchaser's its future activity at the date of purchasing the asset or, instead, recognises such a liability only when the related should be recognised as a liability until that activity occurs. The Interpretations Committee was also unable to reach a consensus on how the purchaser measures a liability for variable payments. is performed and what the initial measurement of this liability should be. Some members of the Interpretations Committee were of the view that all variable payments met the definition of a liability and should be initially recognised and measured at fair value. Other members did not think that variable payments that depend on the purchaser's future activity met the definition of a liability for the purchaser until the activity occurs.

The Interpretations Committee considered the ~~additional concepts~~ proposed for the definition of a liability in the May 2015 Exposure Draft *The Conceptual*



~~Framework for Financial Reporting Exposure Draft (published in May 2015) as well as the deliberations of the International Accounting Standards Board ('the Board') on its project on leases. The Interpretations Committee and also observed that, during the Board's deliberations on its project on leases, the proposals in the Exposure Draft Leases, the Board did not conclude members of the IASB had expressed mixed views on whether variable payments linked to future performance or use of the underlying asset in a lease meet the definition of a liability at commencement of a lease or, instead, meet that definition only at the time that the related performance or use occurs. Some members of the IASB did not think that such payments met the definition of a liability for the lessee until the performance or use occurs while other members were of the view that all variable lease payments met the definition of a liability for the lessee. The Interpretations Committee noted that the IASB did not conclude on whether these variable payments met the definition of a liability.~~

~~The Interpretations Committee observed~~ concluded that this issue is too broad for ~~it the Interpretations Committee~~ to address within the confines of existing IFRSs Standards. ~~and e~~ Consequently, the Interpretations Committee {decided} not to add this issue to its agenda.

## Appendix B—Copies of comment letters

**Accounting Standards Board of Japan (ASBJ)**

Fukoku Seimei Building 20F, 2-2, Uchisaiwaicho 2-chome, Chiyoda-ku, Tokyo 100-0011, Japan  
Phone +81-3-5510-2737 Facsimile +81-3-5510-2717 URL <http://www.asb.or.jp/>



29 January 2016

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

**Re: Comment on the tentative agenda decision on IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Variable payments for asset purchases**

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the IFRS Interpretation Committee’s (the “Committee”) tentative agenda decision on IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* – Variable payments for asset purchases in the IFRIC Update in November 2015.
2. We agree with the Committee’s decision not to add this issue to its agenda because it is too broad for the Committee to address within the confines of existing IFRSs.
3. At the same time however, the deliberation by the Committee thus far has shown that there is a clear lack of guidance in this area. In addition, through the discussion with our constituents, we have been informed that asset purchases with variable payments are at least not uncommon in practice, and also that they are prevalent in some industries (for example, a purchase of intellectual property with milestone payments is relatively common in the pharmaceuticals industry). Some pointed out that the lack of guidance may lead to significant diversity in practice.
4. In addition, as has been pointed out during the Committee’s discussion, accounting requirements for variable payments are inconsistent in Standards of IFRSs (for example, IFRS 3 *Business Combinations*, IFRS 15 *Revenue with Contracts with Customers* and IFRS 16 *Leases*), and it is cited as the evidence that there is a lack of a clear concept in this respect.

5. Having regard to the circumstances, we think that it is at least undesirable if the IASB leaves the lack of clarify and consistency unaddressed.
6. Due to the cross-cutting nature of this issue, we think that aligning accounting requirements for variable payments in an appropriate manner is possible only when the IASB develops a clear definition and robust guidance of a ‘liability’. We note that the IASB’s Exposure Draft ED/2015/3 *Conceptual Framework for Financial Reporting* (the “ED”) proposed the definition and guidance of a liability. Yet, we found that the proposed definition and guidance in the ED were not robust enough to draw a conclusion on when variable payments are considered to meet a definition of a liability. Hence, in our comment letter to the ED, we encouraged the IASB to carry on the work so as to develop more robust and clear concepts with regard to a liability.
7. We expect that the IASB’s ongoing deliberation regarding a review of the *Conceptual Framework* (particularly with regard to the revision of a definition of a liability) will contribute to clarifying the relevant concept and improving the consistency of this issue. Therefore, we believe that the IASB should address this issue as a medium- to long-term project building upon the outcome from the *Conceptual Framework* project, and that the Committee should recommend the IASB to do so.
8. We hope that our comment will be helpful for the Committee’s and the IASB’s consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,



Tomo Sekiguchi

Board Member of the ASBJ

Chairman of the Technical Committee for IFRS Implementation in the ASBJ

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

18 January 2016

Dear Mr Upton

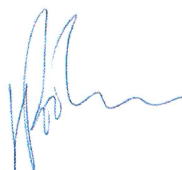
**Tentative agenda decision – IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*:  
Variable payments for asset purchases**

Deloitte Touche Tohmatsu Limited is pleased to respond to the IFRS Interpretations Committee's publication in the November IFRIC Update of the tentative decision not to take onto the Committee's agenda the accounting for variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset outside of a business combination.

Whilst we agree that the issue is broad and conceptually challenging, such transactions are common, particularly in, for example, the extractives and pharmaceutical industries. Given the tentative agenda rejection could be read as expressing two acceptable analyses (that there is, or is not, a liability prior to occurrence of the activity triggering payment), divergent practices exist and will continue. As such, and consistently with our response to the IASB's Request for Views on its 2015 Agenda Consultation which identified issues around variable consideration as a high priority, we believe that this issue should be referred to the IASB for comprehensive consideration.

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

Mr. Wayne Upton

IFRS Interpretation Committee  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Paris, January 29, 2016

**RE: IFRS Interpretations Committee tentative agenda decisions, November 2015**

Dear Wayne,

MAZARS is pleased to comment on the various IFRS Interpretations Committee tentative agenda decisions published in the September IFRIC Update.

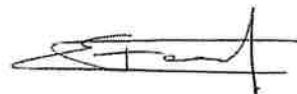
We have gathered all our comments as appendices to this letter. Should you prefer us to prepare separate comment letter for each tentative agenda decision, please let us know.

Should you have any questions regarding our comments, please do not hesitate to contact Michel Barbet-Massin (+33 1 49 97 62 27) or Edouard Fossat (+33 1 49 97 65 92).

Best regards,



Michel Barbet-Massin  
*Head of Financial Reporting  
Technical Support*



Edouard Fossat  
*Deputy Head of Financial Reporting  
Technical Support*

### **Appendix 3**

#### **IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets—Variable payments for asset purchases (Agenda Papers 2–2B)**

We agree with the IFRS Interpretations Committee’s decision not to add this issue onto its agenda.

We agree that the question of whether a liability exists at the date of initial recognition of the purchased asset cannot be addressed within existing IFRSs, considering the mixed views of Board members on variable lease payments in IFRS 16.BC168-169. We believe that whether a liability exists at inception may also depend on specific facts and circumstances (being the customer’s ability to influence variable payments, or customer’s commitment to conduct its business using the purchased asset...) that cannot be addressed through an interpretation process.

Nevertheless, we consider the issue widespread and we think it is needed that the Board adds this issue onto its agenda as an implementation project. If the Board has not reached a consensus on the existence of a liability for variable lease payments when developing IFRS 16, it is probable that it won’t on the issue of variable payments for asset purchases as well. Nevertheless we believe it is important that the Board defines the counterpart of any recognized liability, of any remeasurement of a recognized liability or of any payment made in respect of variable payments for the separate acquisition of PPE or intangible asset.

We strongly believe that according to the cost model of IAS 16 and IAS 38, any such payment or remeasurement shall be accounted for as an increase/decrease of the carrying amount of the asset.

International Financial Reporting Standards Interpretations  
Committee  
30 Cannon Street  
London  
EC4M 6XH

21 January 2016

Dear IFRS Interpretations Committee members,

**Invitation to comment - Tentative Agenda Decision: IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* - Variable payments for asset purchases (IFRIC Update 10 November 2015 - Agenda Paper 02)**

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) discussed by the IFRS Interpretations Committee (the IFRS IC) in November 2015.

Overall, we support the TAD and understand that the IFRS IC could not reach a consensus on initial recognition and measurement of variable payments for asset purchases that depend on the purchaser's future activity. As noted in the TAD, the IASB, in its deliberations on the Leases project, could not conclude on whether variable payments linked to future performance, or use of the underlying asset in a lease, met the definition of a liability. Therefore, we agree that the whole area of variable payments under a contract for asset acquisitions is one that should be addressed first by the Board as it finalises the Conceptual Framework.

However, we believe that the TAD could be improved and expanded further by clarifying and including the aspects on which the IFRS IC has reached consensus.

First, there is an inconsistency between the first paragraph and second paragraph of the TAD with regards to the nature of variable payments for asset purchases. The first paragraph refers to "...variable payments to be made for the purchase of an item of property, plant and equipment or an intangible asset outside of a business combination". The second paragraph states that, "*The Interpretations Committee could not reach a consensus on whether the variable payments that depend on the purchaser's future activity [emphasis added] should be recognised as a liability until that activity is performed and what the initial measurement of this liability should be.*" The difference in scope referred to, combined with the next two sentences about the views of the members of the IFRS IC, can be read as the IFRS IC having reached a consensus on other variable payments (that do not depend on the purchaser's future activity), such as payments dependent on an index or a rate. We believe that, if that is the case, it would be helpful for constituents to make that more explicit in the agenda decision.



Second, with regard to the subsequent accounting for a financial liability to make variable payments, the IFRS IC has previously tentatively decided that (refer IFRS IC November 2015 Agenda Paper 2B, par. 2):

- (a) the remeasurement of the liability, in accordance with paragraph AG7 of IAS 39 *Financial Instruments: Recognition and Measurement*, corresponds entirely to an interest expense (calculated using the revised effective interest rate) that should be recognised in profit or loss.
- (b) for other liabilities (ie those that are not floating rate liabilities):
  - (i) adjustments of the financial liability resulting from the amortisation of the financial liability (using the original effective interest rate) correspond to an interest expense that is recognised in profit or loss;
  - (ii) adjustments of the financial liability that result from the revision of the estimates of payments that were included in the initial measurement of the financial liability should be recognised as an adjustment to the cost of the corresponding asset; and
  - (iii) adjustments of the financial liability that result from the recognition of variable payments that were excluded from the initial measurement of the financial liability should be recognised as corresponding adjustments to the cost of the asset, to the extent that those payments are associated with future economic benefits to be derived from the asset.

We believe that, even if there is currently no consensus on the initial recognition and measurement of variable payments that are dependent on a purchaser's future activity, it would still be beneficial to constituents to include in the agenda decision those elements that the IFRS IC did reach consensus on. This could be achieved by clarifying the subsequent accounting on the basis of the tentative decisions reached by the IFRS IC as reproduced above. We recognise and accept that this may include a need for some narrow-scope amendments to existing standards IAS 16 *Property, Plant & Equipment* and IAS 38 *Intangible Assets*, as acknowledged by the IFRS IC in 2013.

Should you wish to discuss the contents of this letter with us, please contact Leo van der Tas at the above address or on +44 (0)20 7951 3152.

Yours faithfully

*Ernst + Young Global Limited*



Mr Michael Stewart  
Director of Implementation Activities  
International Accounting Standards Board  
30 Cannon Street  
London  
EC4M 6XH

11 January 2016

Dear Mr Stewart,

**Comment to the Interpretation Committee's (IC) tentative agenda decision: IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets – Variable Payments for asset purchases**

We are commenting on the above tentative agenda decision, published in the November 2015 edition of IFRIC Update, on behalf of PricewaterhouseCoopers.

The tentative decision states that the IC observed that the issue was too broad for them to address within the confines of existing IFRSs and consequently [decided] to reject the issue.

This rejection covers two issues:

1. Whether variable payments that depend on a purchaser's future activity should be recognised as a liability when the asset is recognised initially and, if so, how that liability should be measured.
2. Whether subsequent changes in the liability should be recognised in profit or loss or as adjustments to the cost of the asset.

A summary of outreach was included in agenda paper 6A for the September IC meeting. The outreach states that the issue affects several industries, for example pharmaceutical, mining, oil and gas, entertainment, telecommunications and real estate. The outreach also states that there is no predominant approach to accounting for variable payments and that the effect on the income statement and balance sheet can be material. We therefore believe that the IC or the IASB should continue work on these issues to minimise or eliminate the diversity in practice.

We observe that the IC staff analogised to IFRS 16 Leases and IFRS 3 Business Combinations. We do not believe that an 'analogy' is useful in this instance. We suggest that work of the IASB and IC should focus on the requirements of the relevant standards and assess whether amendments to those standards are required. The relevant standards are;

- IAS 16 Property, Plant and equipment – the definition of cost (para 6) and the recognition criteria (para 8.)
- IAS 38 Intangible assets the definition of cost (para 8) and the recognition criteria (para 21.)
- IAS 32 Financial Instruments: Presentation – definitions (para 11) and contingent settlement provisions (para 25.)
- IFRIC 1 Changes in existing decommissioning, restoration and similar liabilities
- IAS 39 Financial instruments - revisions to estimates of payments (para AG8)

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We are disappointed that the IC and the IASB have not made progress on this important issue since it was submitted in 2011. The tentative agenda decision will confirm that the current diversity in practice is acceptable and reduce the comparability of financial statements across entities. There will continue to be widespread diversity in practice in several industries. We believe that it is imperative that the IC and the IASB find a way to make progress on these important issues to reduce diversity in practice.

If you have any questions, please contact Paul Fitzsimon, PwC Global Chief Accountant (+1 416 869 2322) or Mary Dolson (+44 207 804 2930)

Yours sincerely

*Pricewaterhouse Coopers*

PricewaterhouseCoopers

Michael Stewart  
Director of Implementation Activities  
IFRS Interpretations Committee  
30 Cannon Street  
London  
EC4M 6XH

25 January 2016

Dear Michael

**Tentative agenda decision - IAS 16 Property Plant and Equipment and IAS 38 Intangible Assets - Variable payments for asset purchases**

We are pleased to comment on the IFRS Interpretations Committee's publication in the November 2015 IFRIC Update of the tentative agenda decision not to take onto the Committee's agenda the question of how an entity would account for variable payments for asset purchases.

We acknowledge and understand the different views expressed about whether a particular arrangement meets the definition of a liability, as set out in the tentative agenda decision including references to the IASB's proposals in its exposure draft of a revised Conceptual Framework. However, we also note that there is a long standing difference in whether a contractual obligation for an entity to make a variable payment, dependent on its future activities (such as its turnover or profit) is recorded as a liability. If the obligation meets the definition of a financial liability within the scope of IAS 32 *Financial Instruments: Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement*, then a financial liability is recorded for which the accounting takes into account forecasts of (for example) turnover or profit. We note that turnover or profit linked lending arrangements are common in certain industry sectors, such as natural resources. However, the accounting approach for contracts within (for example) the scope of IAS 17 *Leases* which give rise to contingent rentals (such as a turnover linked rental payment for the lease of retail premises) is different, with the rentals being recorded at the point at which the related turnover is generated. We note that this difference will continue when IFRS 9 *Financial Instruments* and IFRS 16 *Leases* become effective.

Consequently, we suggest that the Committee might revisit its conclusion to remove this topic from its agenda, with the initial analysis focussing on whether a particular arrangement gives rise to a financial liability within the scope of the financial instruments standards, or is instead within the scope of another standard. This might then result in liabilities being recognised at different points depending on the applicable guidance (although the scope for this would appear limited as we would expect payment terms typically to arise from

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contractual obligations). However, this would link to the requirements of IFRS which we believe are clear, and the Committee could then focus on what it believes is the appropriate accounting treatment for the corresponding debit entry.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them, please contact me at +44 (0)20 7893 3300 or by email at [abuchanan@bdoifra.com](mailto:abuchanan@bdoifra.com).

Yours sincerely



Andrew Buchanan

*Global Head of IFRS*