

6 February 2019

IFRS Interpretations Committee
IFRS Foundation
Columbus Building
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Canary Wharf
London
E14 4HD
United Kingdom

The Global Financial Reporting Collective is pleased to offer its comments on the Tentative Agenda Decision—Over time transfer of constructed good.

This is a follow-up note to our letter of 6 February 2018.

One of our members read the comment letters that are on your website in relation to this issue. Several of them disagree with the tentative Agenda Decision discussion about a Contract Asset not being able to be a qualifying asset.

One letter included a reference to IAS 11. One of our members went then found a paragraph in IAS 23 that was deleted recently. IAS 23 BC27 states:

Consequential amendments to IAS 11 Construction Contracts

BC27 IAS 11 paragraph 18 states that ‘costs that may be attributable to contract activity in general and can be allocated to specific contracts also include borrowing costs when the contractor adopts the allowed alternative treatment in IAS 23 *Borrowing Costs*.’ The Board decided to delete the reference to IAS 23 in this paragraph because it is unnecessary. Attributing borrowing costs to contracts is not a matter of capitalisation. Rather, it is a matter of identifying the contract costs. The inclusion of borrowing costs in contract costs affects the presentation of borrowing costs in profit or loss. It does not affect the recognition of borrowing costs as specified in IAS 23.

This paragraph was deleted as a consequential amendment included in IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 does not explain why this paragraph was deleted, but the most likely explanation is that IAS 11 was withdrawn so the reference to an amendment to IAS 11 is redundant.

However, what the paragraph makes clear is that the IASB thinks that borrowing costs related to a contract is not a matter for IAS 23. It was a matter for IAS 11 and now it is presumably a matter for IFRS 15. There is nothing in IFRS 15 that says the paragraph was deleted because the thinking of the IASB has changed.

Our point is that the tentative Agenda Decision has caused respondents to focus on whether a contract asset can be a qualifying asset. We think the explanation in the, deleted, IAS 23 BC27 provides the correct focus. IFRS 15 did not amend IAS 23 itself or include anything that we can see that changed that focus. Hence, the Agenda Decision should state that “attributing borrowing costs to contracts is not a matter of capitalisation. Rather, it is a matter of identifying the contract costs.” If you disagree with our analysis, we think you should explain why you think IFRS 15 changed the focus back to considering whether a construction asset is a qualifying asset.

We could also find nothing in the Basis for Conclusions to IFRS 15 that says that borrowing costs cannot be a contract cost. If IFRS 15 did prohibit borrowing costs from being a contract cost this would have been a change from IAS 11 that we would have expected to have been identified and explained in the Basis for Conclusions and the Project Summary and Feedback Statement. However, whether you answer that particular question is another matter. No matter how you approach this Agenda Decision, we ask that you also make sure the Agenda Decision is clear that the asset an entity recognises that records contract costs is not the same as the contract asset. The former might be transferred into the latter.

We are sorry this note is a little late, but given the comments others have made we thought it was important. It pays to pick up older versions of the Standards sometimes.

Thank you.



Global Financial Reporting Collective

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