

AUTORITÉ DES NORMES COMPTABLES
5, PLACE DES VINS DE FRANCE
75573 PARIS CÉDEX 12

Phone (+ 33 1) 53.44.28 53

Internet <http://www.anc.gouv.fr/>

Mel patrick.de-cambourg@anc.gouv.fr

Chairman

PDC N°58

Paris, 25 November 2019

Mrs Sue Lloyd

IFRS Interpretation Committee Chair

7 Westferry Circus, Canary Wharf

London, E14 4HD

United-Kingdom

September 2019 – IFRS-IC Tentative Agenda Decision on IFRS 15, Training Costs to Fulfil a Contract

Dear Mrs Lloyd, *Dear Sue,*

I am writing on behalf of the Autorité des Normes Comptables (ANC) to express our views on the IFRS-IC tentative agenda decision published in the September 2019 Update regarding IFRS 15: training costs incurred to fulfil a contract.

The agenda decision mainly relies on the scope definitions in IFRS 15 and IAS 38 concluding that IAS 38 applies to training costs. We suggest that the Committee also explains why IFRS 15 cannot apply in that case, especially as scope exclusions of both standards might appear circular. More broadly, we would support the Committee contemplating further standard-setting on this topic (by referring to the Board for a narrow-scope amendment) considering the merits of distinguishing general training costs from those that are specific to a contract. This would help clarify the recognition criteria under IFRS 15.95, as we are concerned that the extent to which assets might be recognised under this standard could be shrinking.

Reciprocal scope exclusions in IFRS 15 and IAS 38

IFRS 15.95-96 states that an entity shall appraise whether the costs fall within the scope of another standard, prior to its assessment of the criteria set out by this paragraph. The Committee noted that training costs are explicitly addressed in IAS 38.69. We however also note that IAS 38.3(i) explicitly scopes out “assets arising from contracts with customers that are recognised in accordance with IFRS 15”. In our view, as stated in a previous comment letter¹, this circular reference should not be ignored in the tentative agenda decision even though it has been discussed in the staff agenda paper.

We are of the opinion that IAS 38.69 addresses expenditure on training activities “incurred to provide future economic benefits to an entity, but [for which] *no intangible asset or other asset is acquired or created that can be recognised*”. The committee has not considered a possible distinction between

¹ Comment Letter PDC N°38, ED Proposed amendments to the IFRS Foundation Due Process Handbook, dated 24 July 2019.

“general” training costs addressed by IAS 38.69(b) and “training costs incurred specifically to a contract and that will be recovered”, which would pertain to IFRS 15.95.

Merits of distinguishing specific from general training costs

The fact pattern underlying the tentative agenda decision very clearly underlines that the training costs incurred are specific to the contract and will be recovered. They are specific insofar as they are necessary to satisfy the performance obligation and are not transferrable to another obligation. The contract also explicitly states that these costs are to be charged to the customer for all the employees present at the beginning of the contract (and for employees recruited afterwards, provided that this recruitment occurs in response to an expansion of the operations). From our point of view, it is difficult to consider that these specific costs are similar in essence to the ones incurred as a result of a general training to maintain or develop employees’ overall competences. These specific training costs are rather a component of the direct labour costs relating to a contract, referred to in IFRS 15.97(a), and as such should be included in the costs to fulfil a contract. Indeed, with regard to the three criteria set out in IFRS 15.95, these specific costs fulfil the prerequisites to their recognition as assets, whereas the costs of a generic training would obviously not. The former are indeed simultaneously:

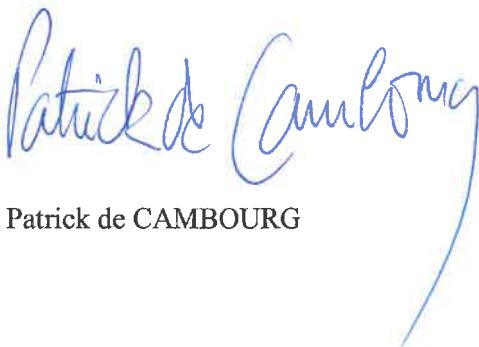
- in direct relation to a contract that can be specifically identified (criteria 1);
- necessary to satisfy performance obligations in the future, as the competences are resources required to fulfil the contract (criteria 2);
- expected to be recovered, as this is specifically stated by the contract (criteria 3).

We are of the opinion that the outcome of this new approach would be more relevant to the users than their immediate recognition as an expense. The performance of the contract would indeed be representative of the management’s analysis, with training costs recognised alongside the revenue stream from the contract instead of being expensed at the beginning. We would like to underline that the issue at hand should not be construed as an attempt not to normalise a profit margin (IFRS 15.BC308) but only as an effort to reflect more properly and in a more relevant manner the performance of a contract, by aligning its accounting performance with the management’s perspective.

Please do not hesitate to contact us should you want to discuss any aspect of our comment letter.

Yours sincerely,

Best regards .



Patrick de CAMBOURG