

**Wayne Upton
Chair
IFRS Interpretations Committee
30 Cannon Street
London, EC4M 6XH
United Kingdom**

Re: The IFRS Interpretations Committee's tentative agenda decision on IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment* – 'Core Inventories'

Dear Mr Upton,

The European Securities and Markets Authority (ESMA) thanks you for the opportunity to respond to the IFRS Interpretations Committee's (IFRS IC) publication in the July IFRIC Update of the tentative decision related to the application of IAS 2 *Inventories* and IAS 16 *Property, Plant and Equipment*. We are pleased to provide you with the following comments with the aim of improving the consistent application and enforceability of IFRSs.

ESMA has considered the IFRS IC's tentative decision not to continue with the development of an interpretation and to remove from its agenda the request for clarification¹ on accounting for 'core inventories'.

ESMA disagrees with the IFRS IC's tentative decision not to develop an interpretation or provide guidance that would clarify whether core inventories should be accounted for under IAS 2 or IAS 16. ESMA is concerned that despite the fact that the issue is applicable to a range of industries and that diversity in practice has been identified between industries, the IFRS IC decided not to address the issue. We are particularly surprised that the IFRS IC justifies its decision with the argument that only limited diversity in practice has been identified within the industries for which the issue is significant. ESMA strongly believes that the IASB should not develop industry specific standards but ensure that they are applicable to all transactions with similar economic characteristics in order to promote comparability. Indeed, to our knowledge, this is the first time that the IFRS IC uses the argument of limited diversity within industries to justify its decision not to add an issue to its agenda.

¹ Letter: Agenda item request: Core Inventories, ESMA/2013/1774, 2 December 2013



Even though we acknowledge that fact patterns in different industries can vary, ESMA believes that it is important to identify criteria clarifying which principles are to be applied (IAS 2 or IAS 16) in order to ensure that transactions with similar economic characteristics are accounted for in a similar manner. As an example we believe that, in the absence of a principle clarifying when IAS 2 or IAS 16 is to be applied, the examples described in Agenda paper 4B of the July 2014 IFRS IC meeting can be used to justify any of the alternative accounting treatments (i.e. an issuer can argue that its fact pattern differs from the one applied in a different industry). ESMA believes that allowing such diversity across industries could have a negative impact on the consistent application of IFRSs and on the comparability of financial statements among issuers. Furthermore, as neither IAS 2 nor IAS 16 is expected to be revised in the foreseeable future ESMA is concerned that the diversity in practice will persist for a long time.

Finally, ESMA believes that the issue of core inventories is sufficiently narrow and that the diversity is sufficiently widespread for the affected entities that it should be addressed by the IFRS IC within its mandate. In this context, ESMA believes that the agenda item request fulfils the criteria in paragraph 5.16² of the IASB and IFRS IC Due Process Handbook, for the IFRS IC to address the issue.

ESMA believes that addressing the issue of core inventories is critical for the consistent application and enforceability of IAS 2 and IAS 16 requirements.

We would be happy to discuss these issues further with you.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'S/M', written over a light blue horizontal line.

Steven Maijor
Chair
European Securities and Markets Authority

Cc: Hans Hoogervorst, Chair, International Accounting Standards Board

² widespread effect and material effect on those affected; improvement of financial reporting through the elimination, or reduction, of diverse reporting methods; and possibility to resolve the issue efficiently within existing IFRSs and the Conceptual Framework