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Mrs Sue Lloyd

IFRS Interpretations Committee

Columbus Building,
7 Westferry Circus, Canary Wharf

London E14 4HD
United Kingdom

Paris, 12 February 2020

Tentative Agenda Decisions – IFRIC Update November 2019

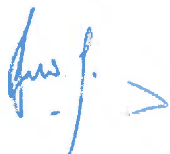
Dear Sue,

MAZARS is pleased to comment on the various IFRS Interpretations Committee Tentative Agenda Decisions published in the November 2019 IFRIC Update.

We have gathered all our comments as appendices to this letter, which can be read separately and are meant to be self-explanatory.

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

Yours faithfully



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Appendix 1

Player Transfer Payments (IAS 38)

https://www.ifrs.org/projects/work-plan/player-transfer-payments/comment-letters-projects/tad-presentation-of-player-transfer-payments/

We agree with the first part of the tentative agenda decision which presents the Committee's answer in relation with the fact pattern described in the request submitted to the Committee. Indeed, if an entity recognises costs incurred to obtain a 'registration right' as an intangible asset applying IAS 38 (which we understand is the most common presentation in the statement of financial position, if not the only one), that entity shall recognise the net gain or loss arising from the derecognition of such intangible asset in profit or loss applying IAS 38 (within a line comprising disposals of intangible assets). Paragraph 113 of IAS 38 clearly states that such amount cannot be presented as revenue. It could also be added that the intangible asset represented by the registration right may meet the criteria to be classified as held for sale in accordance with IFRS 5. In such case, the presentation and measurement principles of that standard shall apply to the registration right.

In addition, we note that IAS 16 includes specific provisions in §68A to transfer to inventories items of PP&E that are initially held for rental and then sold in the ordinary course of business. In that situation, the sale proceeds are recognised as revenue according to IFRS 15.

We agree with the Committee not to make any analogy with IAS 16.68A: IAS 16 does not apply to registration rights, IAS 38 does. Besides the business model to which IAS 16.68A applies is sufficiently narrowly described to prevent any extension of its scope by analogy.

Having said that, we are concerned with the second part of the tentative agenda decision which considers situations where the registration right would be presented as inventories in accordance with IAS 2.

Even if there might exist situations where the registration rights meet the definition of inventories, we fail to identify precisely the facts and circumstances that would trigger such a classification, and we fear that opening that door as the tentative agenda decision does could lead to abuses, or at least diversity.

In addition, we are convinced that the classification of registration rights as inventories raises other accounting issues that need to be considered further before the Interpretations Committee explicitly opens this classification alternative:

- How to account for the salary paid to the player during the 'development' period: 'developing' a player requires that the player actually plays in the team and receives compensation. Should the payments made to the player be capitalized as costs of developing the inventory?
- How to reconcile the classification as inventory and the fact that it generally won't be in the club's control whether to sell a registration right? The player has defined term employment or service contract with the club and is usually able to prevent the sale of his own registration right. This means the club cannot sell the player's registration right until the player agrees to be sold, which seems to be inconsistent with the definition of inventory.

Besides, we question the relevance of the financial information resulting from the classification of the registration rights relating to some players as inventories. Obviously not all the players are bought with the objective of development and sale with a profit. If an entity were to classify some registration rights as intangible assets and others as inventories, depending on its intentions or on its story with a given player, we believe it would obscure the financial statements of the entity making them less relevant to users by presenting identical transactions in different line items both in the statement of profit or loss and the statement of cash-flows.

We strongly believe that recognising all registration rights as intangible assets leads to the most useful financial information, at it leads to:

- presenting a net gain or loss in profit or loss which is a useful information in order to understand whether a football club earns or loses money on player transfers;
- presenting cash receipts from transfer payments as part of investing activities in the statement of cash flows which enables users to understand whether the entity buys more players than it actually sells (in value).

That presentation in the statement of profit or loss and in the statement of cash flows should also apply to the sale of registration rights that a club did not pay for (players who have signed their first professional contract with the club or who joined the club at the expiry of their previous contractual commitment).

We therefore recommend the Committee to simply answer the question raised in the submission, which is how to present in the statement of profit or loss the transfer payments received by the entity when the registration rights are classified as intangible assets. The additional developments in the tentative agenda decision regarding a classification alternative should be abandoned.

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Appendix 2

Multiple Tax Consequences of Recovering an Asset (IAS 12)

https://www.ifrs.org/projects/work-plan/multiple-tax-consequences-of-recovering-an-asset/comment-letters-projects/tad-multiple-tax-consequences-of-recovering-an-asset/

We agree with the Committee's conclusion that under the fact pattern in the submission, the reading of IAS 12 leads to identifying a taxable temporary difference under the "income tax regime" and a deductible temporary difference under the "capital gains tax regime".

We nevertheless believe that the rationale for that conclusion should be better developed. Indeed, the Committee only refers to paragraph 10 of IAS 12 and the "fundamental principle in IAS 12". We believe there are other rationale and other paragraphs in IAS 12 that would better support the demonstration:

1. One key element of the analysis, that is not sufficiently emphasized in the Tentative agenda decision, is that the applicable tax law described in the submission prohibits using deductions from one tax regime to offset taxable profits under another tax regime. This is essential, in our opinion, to conclude that the tax consequences from these two tax regimes should be reflected separately under IAS 12;

2. We do not believe that the difficulty lies so much in identifying the tax bases, as one could understand from the quote of IAS 12.10: the entity is not entitled to any deduction under one tax regime and to a full deduction of the licence's initial carrying amount under the other tax regime.
   After considering according to paragraph 1 above that the two tax regimes should be considered separately, the entity should apply the definition of a tax base in IAS 12.7 (and we recommend the Committee to quote paragraph 7 in the final Agenda decision) in order to measure the tax base in each of the tax regimes. Applying IAS 12.7, the tax base is obviously CU 0 under the "income tax regime" and CU 100 under the "capital gains tax regime";

3. The main difficulty relies in allocating the proper portion of the carrying amount of the license to each tax regime. That allocation should be made consistently with IAS 12.51-51A, i.e. based on the expected manner of recovery. Reference to those paragraphs could valuably be made in the Agenda decision.

4. Having dealt in point 2 above with the tax base in each tax regime and in point 3 with the book value in each tax regime, the entity is able to identify the taxable and

deductible temporary differences that exist respectively in the tax regimes and that are clearly described as the relevant outcome in the Tentative agenda decision.

We also would like to point out that, while the accounting outcome of the Committee's conclusion appears perfectly satisfactory in the case of a business combination, it raises question in the case of a separate acquisition of the licence: as the temporary differences identified under both tax regimes would fall in the scope of the initial recognition exemption (IAS 12.15 and 24), no differed tax would be recognised initially or subsequently; thus, the entity would only recognise a current tax expense under the "income tax regime" throughout the period of use of the licence and a current income tax deduction under the "capital gains tax regime" on expiry of the licence (provided there is sufficient taxable profits under this tax regime to offset this deduction).

We identify two possible ways to mitigate this outcome, should the Committee decide to address this issue:

- either to include the transaction within the scope of the forthcoming amendments to IAS 12 relating to deferred taxes on leases, considering that the transaction generates on initial recognition of the licence a deductible and a taxable temporary differences of the same amount);
- or to consider that only the "capital gains tax regime" applies to the licence and therefore conclude that there is no temporary difference on initial recognition (with a carrying amount of CU 100, and a tax base of the same amount to which the "capital gains tax regime" applies. Thus, a temporary difference would only arise – and a differed tax asset would be recognised if recoverable – as the asset is amortised. That approach would lead to recognizing each year a tax expense (profit) for the difference between the current tax expense linked to the non-deductibility of the amortization expense under the "income tax regime", and the deferred tax asset relating to the newly generated deductible temporary difference under the "capital gains tax regime". That expense (profit) would only represent the effects of the difference of tax rates between the two tax regimes.