



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Wayne Upton
Chairman of the
IFRS Interpretations Committee
30 Cannon Street
London EC4M 6XH

United Kingdom

Telefon +49 (0)30 206412-12

Telefax +49 (0)30 206412-15

E-Mail info@drsc.de

Berlin, 27 May 2014

Dear Wayne,

IAS 39 – Classification of a hybrid financial instrument by the holder (IFRS IC's tentative agenda decision in its March 2014 meeting)

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IFRS IC's tentative agenda decision regarding IAS 39 *Financial Instruments: Recognition and Measurement* – Classification of a hybrid financial instrument by the holder, as was published in the March 2014 *IFRIC Update*.

We do not agree with the decision not to take the issue onto the IFRS IC's agenda and, in particular, with the rationale that the issue is not widespread and too specific to warrant further discussion.

Although we acknowledge (as communicated vis-à-vis the IASB's staff) during the outreach that this particular type of instrument is not typical in our environment, there are many similar instruments for which the same questions arise. It is in the nature of financial engineering that hybrid instruments with brand new, sometimes unique, structuring elements emerge. Therefore, the difficulty of how to classify any such instrument (as equity or liability) emerges every day and in an increasing manner. We note that the IFRS IC seemed to have received similar submissions over recent months, and we would not be surprised if this trend continued. However, even though any assessment requires consideration of the specific facts and circumstances and is, hence, dependent on individual features, we believe that it would be beneficial for all stakeholders if the IFRS IC developed and published its view. That being



said, we prefer this being dealt with in as much a holistic manner as possible and less on a submission-by-submission basis.

We take the view that the most crucial question to be addressed is the sequence of applying IAS 39 (regarding the separation of embedded derivatives) and IAS 32 (as regards classification of the instrument). Neither standard provides an ultimate answer on this. We believe that the outcome might alter depending on the sequence that the two standards are applied.

Another fundamental question is whether classification of an instrument by the holder depends on the issuer's classification of the same instrument. Again, we think that neither standard is abundantly clear on this, resulting in that the issuer's and the holder's classification not necessarily being symmetrical.

Further, we do not agree with the argument that IFRS 9 partially resolves the classification issue. Even if IFRS 9 no longer required, or permitted, bifurcation of financial assets, this question would still be valid. The reason is that both IAS 39 and IFRS 9 refer back to IAS 32. Hence, the question whether classification by the holder follows classification by the issuer still arises. Since the bifurcation requirements continue to apply to non-financial assets as well as to financial liabilities under IFRS 9, a hybrid instrument's classification still depends on the question of whether classification or bifurcation is the first step among these two.

Therefore, to meet the confines of the IFRS IC, we propose that the IFRS IC deals with the two questions mentioned – the sequence of applying IAS 39/IFRS 9 and IAS 32, and under which circumstances or conditions the holder's and the issuer's classification can or shall be symmetrical.

In addition, to achieve a comprehensive solution, we urge the IASB to retain, or accelerate, its efforts to revise the equity/liability through pursuing the research project, subsequently revising IAS 32, and to a certain extent possibly the Conceptual Framework.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President