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Accounting Standards Committee of Germany
®
IFRS-Fachausschuss

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

United Kingdom

Dear Wayne,

IFRS IC tentative agenda decisions in its July 2014 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on two IFRS IC tentative agenda decisions, published in the July 2014 *IFRIC Update*. Please find our detailed comments in appendix A to this letter.

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

Yours sincerely,

Liesel Knorr

President

Appendix A – Comments on recent tentative agenda decisions

IAS 19 – Remeasurement at a plan amendment or curtailment

The IFRS IC agreed in its discussion that an entity should use the updated actuarial assumption to remeasure the net DBL and to calculate the current service cost and the net interest for the post-event period. First of all, we agree with IFRS IC's assessment, that the proposed change to IAS 19 is an amendment and not a clarification.

We disagree with the IFRS IC's opinion that this amendment would enhance comparability and understandability. Entities with a plan event report their net DBL, the current service cost, and the net interest based on assumptions valid at the date of the event while other entities still use assumptions valid at the beginning of the reporting period. There is no longer comparability between these entities. Therefore, we would encourage the IFRS IC to reconsider this issue in its further discussion.

In our opinion, the current service cost and net interest for the post-event period should only reflect the results of the plan amendment or curtailment (e.g. reduction in current service cost after a decrease of plan participants) and should not include updated assumptions valid at the event date. The plan amendment or curtailment is based on a decision of the entity and, therefore, the changes in current service cost and net interest are based on an entity's decisions. The new (post-event) current service cost and net interest reflect the result of the entity's action. In contrast, the changes in current service cost and net interest from updated assumptions are based on circumstances outside of the entity (mortality, business environment, etc.). This would result in including information, which is relevant for all entities, only in the current service cost and net interest of entities with a plan event while all other entities use other information. Thus, there is no longer comparability.

IAS 21 / IAS 29 – Foreign exchange restrictions and hyperinflation

We do not agree with the tentative decision not to add the issues to the IFRS IC's agenda. In our view, this tentative decision does not provide any solution for the issues raised. Moreover, we would appreciate a robust answer at least to the first issue.

The essence of the first issue, the translation issue, is that (in respect of a certain item) one official exchange rate is permitted, whereas another exchange rate that would more appropriately reflect current economics, i.e. inflation, is not "available", i.e. is not permitted. Although IAS 21.26 contains a principle in case that several exchange rates are ***available***, this is not the case in the circumstances submitted. Therefore, applying IAS 21.26 "by extension" would, in our view, not be possible; no other suitable guidance addresses this issue. Furthermore, as the official exchange rate does not reflect the current inflation level, and as no other (more appropriate) exchange rate is available (permitted), this contradicts the (intention of) application of IAS 29. The solution should rather be an amendment or clarification of IAS 21 than of IAS 29.

In addition, we note that disclosures do not provide an exhaustive answer on this issue. Also, the IFRS IC should not disregard the fact that IAS 21 does not provide guidance for mandatorily applying different exchange rates for different items. Even if the issue does currently not appear to be widespread, the IFRS IC should not disregard that IAS 21 lacks guidance for solving the issue of potentially translating different items in the financial statements at different exchange rates due to regulatory requirements.

Further, we point to the fact that the different exchange rates seen in Venezuela appear to be applied to specific products and industries. One potential solution could be derived from the following interpretation: For some products and industries an official exchange rate applies that is "more advantageous" than the rate that applies to others – it is essentially a selective import preference. Assuming that an economically appropriate exchange rate can be determined at any point in time, the difference between this rate and the respective officially prescribed rate could be seen as some kind of Government Grant. In particular, the (comparative) advantage of a specific (official) exchange rate for certain products or services could be seen as a separate (Government Grant) asset.

Finally, if the IFRS IC still considers the issue not being within its competences it should hand the issue over to the IASB.