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Dear Wayne,

IFRS IC tentative agenda decisions in its September 2014 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on three IFRS IC tentative agenda decisions, published in the September 2014 *IFRIC Update*. Further, we comment on one issue of IFRS IC's work in progress. Please find our detailed comments in appendices A and B 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 28 – Fund manager's significant influence over a fund

We do not agree with the IFRS IC's abstract view that "IAS 28 does not address the issue of whether the fund manager should include, in the assessment of whether it has significant influence, its participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others". Whereas it is appropriate to state that this issue is not explicitly addressed by IAS 28, we think that the fund manager's participation in policy decisions, combined with its holding, should implicitly be considered when estimating whether the fund manager has significant influence.

This derives from the definition of significant influence in IAS 28.3, which is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Since – as to the submitted issue – the fund manager is participating in the financial and operating policy decisions of the investee, as a first step, an assessment has to be made whether the fund manager has control (IFRS 10.7) or joint control (IFRS 10.9) of the investee. This assessment by the fund manager shall include all facts and circumstances (IFRS 10.8) including whether it is a principal or an agent (IFRS 10.18). An agent is a party primarily engaged to act on behalf and for the benefit of another party or parties (IFRS 10.B58). Therefore, the assessment of control, joint control or, if neither, significant influence by the fund manager shall include the participation in financial and operating policy decisions that it undertakes on behalf of, and for the benefit of, others. As to our knowledge, this understanding is common in practice, with no diversity.

Beyond that, we deem the tentative agenda decision on this issue being detrimental, as it would create room for judgment and, thus, risk that diversity in practice arises.



IFRS 12 – Disclosure for a subsidiary with a material NCI

We appreciate and support the IFRS IC's tentative agenda decision and the clarification it comprises. However, we have concerns about not developing any formal clarification of the standard, but declaring that sufficient guidance would exist and neither a clarification nor an interpretation is needed.

Moreover, the wording of the tentative decision actually represents that clarification which IFRS 12 is lacking, stating that the entity would apply judgement in determining whether:

- (a) the entity presents this information about the subgroup of the subsidiary that has a material non-controlling interest (i.e. present the required information on the basis of the subsidiary together with its investees), or
- (b) it is necessary in achieving the disclosure objective in IFRS 12.10 to disaggregate the information further to present information about individual subsidiaries that have material non-controlling interests within that subgroup.

Thus, we urge the IFRS IC to hold onto its view, but to revise the decision by proposing a narrow scope amendment which would add guidance to IFRS 12, relying on the wording of the current tentative agenda decision.



IFRS 13 – FV hierarchy when third-party consensus prices are used

We appreciate the IFRS IC helping to clarify the issue that has been submitted by our organisation. We understand the rationale that the determination of fair value level shall be based on evaluating the input parameters. We are aware of this principle, and we are also aware that if any of the input parameters would not satisfy level 1, the fair value cannot be a level 1 price.

However, we think that the IFRS IC's tentative decision does not answer our main question submitted, being "*under which circumstances do third party prices ... qualify as level 1 ... of the fair value hierarchy*". Moreover, the IFRS IC's main finding that "*the classification ... within the fair value hierarchy will depend on the evaluation of the inputs ... instead of the pricing methodology used*" raises follow-up questions. Actually, all our constituents supporting View A as well as those supporting View B understand the IFRS IC's tentative decision as supporting their respective views.

The most obvious question that arises and, so far, remains unanswered is the following: If a third-party pricing service used a model to determine the fair value and if all of the input parameters used in that model constitute a level 1 input, would then a fair value based on that model be a level 1 fair value? Or would the mere use of a pricing algorithm, resulting in a composite price, in itself lead to a fair value that cannot be considered "unadjusted", thus, would not be a level 1 fair value?

We further like to note that, to our knowledge, there are indeed circumstances where any of the input parameters for such composite prices are considered level 1 inputs. However, this might be subject to approval by additional outreach. Regardless of this, we would raise the question of whether, and how, the nature of a quote drives the fair value hierarchy level. In other words: can certain input parameters that lack an actual transaction – such as executable prices (binding offer) – be considered "quoted" prices, thus satisfying the level 1 definition? We deem IFRS 13 not being sufficiently clear, since it only states that the nature of a quote drives the weight that shall be placed on them (B46-47), which does not indicate whether and how the nature of a quote drives the level.

We urge the IFRS IC to discuss these two additional questions raised by us before finalising its decision on the issue.



Appendix B – Comments on work in progress

IFRS 5 – Write-down and reversal of impairment losses relating to goodwill

We deem it essential that certain issues on IFRS 5 are further considered and clarified. Thus, we support the IFRS IC's intention to reiterate discussing those issues that have been on hold for some time. This said, we would appreciate if the several issues relating to IFRS 5 were considered further.

We deem the issue of determining the unit of account (non-current assets, or net assets, or total assets) being the central and most important question to be answered. In addition, other issues that are fundamental or even derive from this question are:

- impairment loss for a disposal group;
- reversal of an impairment loss for a disposal group;
- definition of a segment and a major line of business – which has been proposed as an amendment in 2008, but those proposals have never been finalised.

Whilst the IFRS IC tentatively suggested addressing any potential IFRS 5 issue within a broader-scope project, which we fully support, we are not aware of any such project being initiated. Although it might be useful to first discuss those further IFRS 5 issues that have recently been submitted to the IFRS IC until finally deciding upon the way forward, this should not prevent the IFRS IC from asking the IASB as soon as possible for setting up a project to amend IFRS 5.