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United Kingdom

Dear Wayne,

### **IFRS IC's tentative agenda decision on IAS 2 / IAS 38 in its July 2015 meeting**

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the IFRS IC's tentative agenda decisions regarding *IAS 2 / IAS 38 - Accounting for prepayments in long-term supply contracts*, published in the July 2015 *IFRIC Update*.

We are not convinced that the IFRS IC's tentative agenda decision is providing any clarity to the issue and is, thus, not preventing further diversity in practice. By stating that a financing component shall be accounted for separately, with judgement being required to identify that financing component, the IFRS IC's decision does not add any value to existing IFRSs.

Further, we disagree with the IFRS IC's statement that there is no evidence demonstrating the issue's pervasiveness. We acknowledge that the IFRS IC has undertaken only limited outreach and has received only very limited results. As per Agenda Paper 3, para. 11, for the IFRS IC July 2015 meeting, only "accounting firms and securities regulators" had been contacted. The results might have been different (and more representative), though, had National Standard Setters been included in the outreach. As for Germany, we confirm that there are numerous transactions with different fact patterns that demonstrate the pervasiveness of the issue.

Lastly, and most importantly, the requirement to identify and separately account for a financing component is not consistently being dealt with for all kinds of transactions in IFRSs. Furthermore, advance payments and deferred payments are not consistently being dealt with, as neither IAS 2, IAS 16 nor IAS 38 explicitly require separation of advance payments as financing element (if any), whereas a clear requirement for deferred payments exists. Also, the expected Draft Interpretation on foreign currency transactions and advance considerations is a good example for advance and deferred payments being treated differently depending on the specific circumstances. We suggest that the IASB or the IFRS IC take action, review existing IFRSs and deal with the issue comprehensively and consistently across standards. Thus, we strongly recommend the IFRS IC take this issue on its agenda.

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If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große or me.

Yours sincerely,

*Andreas Barckow*

President