



ASCG • Zimmerstr. 30 • 10969 Berlin

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

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

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Dear Wayne,

IFRS IC's (tentative) agenda decisions in its May 2016 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions and on one (final) agenda decision, taken by the IFRS Interpretations Committee (IFRS IC) and as published in the May 2016 *IFRIC Update*. Please find our detailed comments in the appendix to this letter.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

Contact:

Zimmerstr. 30 D-10969 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
Account. 0 700 781 00, BLZ 100 700 00
IBAN-Nr. DE26 1007 0000 0070 0781 00
BIC (Swift-Code) DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz

Executive Committee:

Prof. Dr. Andreas Barckow (President)
Peter Missler (Vice-President)

Appendix A – Comments on tentative agenda decisions

IFRIC 12 – Combined service concession & lease arrangements

The IFRS IC received our request to clarify how an operator accounts for a service concession arrangement for which the infrastructure is leased. We asked the IFRS IC to clarify whether the arrangement is within the scope of IFRIC 12 (scope issue). With respect to this issue, we welcome the IFRS IC's observation that the operator is not required to provide construction or upgrade services with respect to the infrastructure for the arrangement to be within the scope of IFRIC 12 and, in this case, the lease of the infrastructure is not within the scope of IFRS 16 Leases (IAS 17 Leases) for the operator.

Consequently, this led to our subsequent question as to how the operator should account for any assets and liabilities arising from the arrangement with the lessor (recognition and presentation issues). With respect to this issue, we share the IFRS IC's view that it is the grantor, and not the operator, who controls the right to use the infrastructure. Accordingly, the operator assesses whether it is obliged to make payments to the lessor for the lease or whether the grantor has this obligation.

Finally, the IFRS IC noted that the issues and assessments require consideration of all facts and circumstances and, in the end, concluded that the requirements in IFRS Standards provide an adequate basis to enable an entity to determine how to account for the arrangement. Whilst following the IFRS IC's line of thinking and technical arguments in the light of the existing requirements in IFRS Standards, we would have preferred had the IFRS IC provided a clarification to IFRIC 12 that would have enhanced the practical application of the assessment on the recognition and presentation issue.

IFRS 9 / IAS 39 – Fees/cost included in 10 per cent test for derecognition

We do not agree with the tentative decision, and our concern is more one of process than of substance. The IFRS IC's conclusion effectively leads to an interpretation of how IAS 39.AG62 and IFRS 9.B3.3.6 should (have) be(en) read and applied – without issuing an interpretation though. Given diversity in practice that led to the submission to the IFRS IC in the first place, IAS 39 has obviously been interpreted and applied in different ways.

We disagree with the IFRS IC's conclusion that the standard is (and has always been) sufficiently clear and that there is only one way of reading IAS 39. (If this were the case, a different reading of the standard that has so far been deemed appropriate, but that is now deemed erroneous, would lead to potential restatements of prior periods).

We believe that setting GAAP by means of an agenda decision is inappropriate in this regard and urge the IFRS IC to reconsider its process as follows: If the IFRS IC wanted to reduce diversity in practice and enhance consistent application, it should do so by issuing an interpretation or by amending the standard(s). Whilst this would also lead to a change in accounting policies, it would not deem prior practice erroneous per IAS 8, which could lead to unintended consequences for the preparer and its auditor – something we feel is neither warranted nor appropriate.

IAS 32 – Written puts over NCI

We do not agree with the tentative decision in substance. Whilst we acknowledge that

- the IFRS IC would be unable to resolve the issue without expanding the scope and considering a broader range of arrangements, and
 - the IASB is currently considering the respective requirements within its FICE project,
- we disagree with leaving the issue hanging and everyone in the dark for a considerable period of time. Given the amounts involved when dealing with written puts over NCI, the decision to do nothing creates (or extends, respectively) uncertainty over the ‘correct’ accounting treatment – uncertainty that only the IASB or the IFRS IC can take away.

Taking into account that the issue has been lodged with the IFRS IC repeatedly over the last ten years (the first rejection was issued in November 2006, the last in September 2010) and has been bounced back and forth between the IFRS IC and the IASB, we believe that *still* pointing at the ongoing IASB’s research project on FICE (which has already been the explanation for not taking the issue onto the agenda in 2010!) is neither responsive nor appropriate, as the earliest answer one could reasonably expect to come out of that project is at best several years away. Whilst we acknowledge that no easy answer pleasing everyone exists, we note that over the years, a number of different scenarios and possible solutions have been considered by the IFRS IC and/or the IASB.

Hence, we fail to see what would hinder the IFRS IC to ‘expand the scope and broaden the range of arrangements’, as this would not mean starting from scratch but building on a huge amount of research that has already been carried out over the years. We believe that an interim solution should exist that does provide clarity to preparers, auditors and enforcers and does contribute to reducing diversity and fostering consistent application.

We therefore urge the IFRS IC to reconsider its tentative decision not to take up the issue, but engage in a dialogue with the IASB as to how an interim solution could best be implemented and by whom. In our view, a resolution through issuance of an interpretation would probably be best, as it would reduce uncertainty until a longer-term solution has been developed in the FICE project, whilst at the same time would not bind the IASB in developing this long-term solution, as the interpretation could be withdrawn upon issuance of a successor standard to IAS 32.

Appendix B – Comments on (final) agenda decisions

IFRS 9 / IAS 39 – Derecognition of modified financial assets

We continue to disagree, and flag our disappointment, with the decision not to take the issue onto the agenda, as the issue is seen frequently and is of high importance to practice (esp. in times where several economies around the globe are experiencing levels of increased significant difficulty, resulting in modifications becoming more frequent). Whilst we take note of the limited mandate of the IFRS IC leading to this decision, we believe that a decision to acknowledge the significance of the issue yet doing nothing is, again, neither appropriate nor responsive to concerns of the organisation's stakeholders.

As we see it, the issue should be taken up by the IFRS IC, with a robust mandate by the IASB, and should lead to an interpretation to the standard(s). This would effectively contribute to fostering consistent application of the standard(s), especially for IFRS 9, which entities are in the process of implementing now (so they could get it right in the first place rather than having to change afterwards).