AIC • Zimmerstr. 30 • 10969 Berlin

Telefon +49 30 206412-12
Telefax +49 30 206412-15
E-Mail info@drsc.de

Bob Garnett
Chair of the
International Financial Reporting Interpretations Committee
30 Cannon Street

London EC4M 6XH
United Kingdom

Berlin, 18 July 2005

Dear Bob

Comment Letter on IFRIC Interpretation D16 *Scope of IFRS 2*

We appreciate the opportunity to comment on the draft Interpretation IFRIC D16. We fully endorse IFRIC´s aim to support the IASB in establishing and improving International Financial Reporting Standards. In this respect we support IFRIC's objective to clarify the scope of IFRS 2.

The AIC agrees that IFRS 2 also applies to transactions in which an entity cannot specifically identify some or all of the goods or services received. Furthermore, we agree that there is an underlying assumption that in the case of a mismatch between the identifiable consideration and the fair value of the equity instruments granted other (non-identifiable) consideration has been (or will be) received.[1]

However, we doubt that the publication of an Interpretation about this issue is necessary. The AIC is of the opinion that it can be derived from IFRS 2 that this Standard applies in the situation addressed in IFRIC D16.

The AIC agrees with the IFRIC's statement in paragraph BC5 of D16 that "IFRS 2 presumes that the consideration received for equity instruments granted is consistent with the fair value of those equity instruments". However, we cannot find an indication in IFRS 2 that this presumption should be restricted to identifiable goods or services. In our view, the only difference between transactions in which all goods or services received can be specifically identified and transaction in which this is not the case consists in the measurement of the goods and services (direct or indirect measurement according to IFRS 2.10). Clearly, this is not a scope issue. Consequently, the AIC believes that it is clear from IFRS 2 that this Standard applies regardless of the identifiability of the goods or services received and that paragraph 8

[1] Nevertheless, we would recommend that IFRIC gives a more substantial explanation how this assumption that is not explicitly stated in IFRS 2 can be derived from IFRS 2.

of D16 is just a reminder of IFRS 2. Only those transactions are not within the scope of IFRS 2 for which an entity can demonstrate that it received (or will receive) neither identifiable nor non-identifiable goods or services.

This understanding of the scope of IFRS 2 is obscured by the formulations in paragraph 9 of D16. The first sentence is potentially misleading because the formulation "… circumstances may indicate that goods or services have been (or will be) received…" suggests that – in the absence of specifically identifiable goods or services – IFRS 2 has only to be applied if an entity demonstrates that it received (or will receive) goods or services. As stated above, this is not the case.

In addition, the formulations in paragraph 9 of D16 "… consideration received appears to be less than …" and "… typically this circumstance indicates …" should be more precise in order to be of use in practice.

Finally, we have concerns that the Illustrative Example in IFRIC D16 may not be consistent with the current definition of a share-based payment agreement in Appendix A of IFRS 2. The application of IFRS 2 requires that an entity receives goods or services as consideration for the equity instruments granted. The AIC is of the opinion that neither the possible enhancement of the entity's corporate image nor the economic benefits possibly resulting from the image enhancement represent goods or services received (or to be received) by the entity. Apart from this problem another concern is raised if the enhancement of an entity's image as a good citizen is more or less a requirement imposed by the local State. In these cases (e.g. the Black Economic Empowerment schemes that initially led to the development of IFRIC D16) the entity would not receive a benefit from the recipients of the equity instruments but from a third party, the local State. Because such "three party arrangements" seem to be one of the starting points for the development of IFRIC D16 IFRIC should explicitly deal with such agreements and clarify if they fall under the scope of IFRS 2.

If you would like further clarification of the issues set out in this comment letter, please do not hesitate to contact me.

With best regards

Dr. Stefan Schreiber
AIC, Chairman