



ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair of the IFRS Interpretations Committee
7 Westferry Circus, Canary Wharf
London E14 4HD

United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 30 October 2018

Dear Sue,

IFRS IC's tentative agenda decisions in its September 2018 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on the tentative agenda decisions taken by the IFRS Interpretations Committee (IFRS IC) and published in the September 2018 IFRIC Update.

We agree with all four final agenda decisions. In respect of the tentative agenda decisions, we do not, or only in part, agree with the reasons behind three of these.

Please find our specific 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
(via Markgrafenstr.19a)
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Prof. Dr. Andreas Barckow
Executive Director:
Prof. Dr. Sven Morich

Appendix – Detailed Comments

Tentative decision on IFRS 9 – Highly probable requirement for hedge accounting

We basically agree with the main conclusions as to when the highly probable requirement applies, that uncertainty comprises timing and magnitude, and – most notably – that it depends on what was precisely designated/documentated as the hedged (part of the) forecast transaction.

However, we do not fully understand the principle of whether (and to what extent) in a partial designation the hedged forecast transaction can be identified when being sold. More precisely, we are not fully clear about the IFRS IC's view on which designations would lead to the hedged forecast transaction being identified and which would not. From the wording in the *IFRIC Update* (incl. the reference to IAS 39.IG F.3.10 et seq.) we infer that:

- designating the first 15,000 sales units of the forecast transaction (i.e. “a bottom layer”) would be admissible (see IG F.3.10);
- designating the last 15,000 sales units of the forecast transaction (i.e. “a top layer”) would be **detrimental** (see IG F.3.10);
- designating a percentage of the forecast transaction would be **detrimental** (see IG F.3.10 and IFRIC Update wording).

Provided our reading is correct, we wonder whether designating a percentage of 100% of the forecast transaction – which is the case in a load-following swap – would not meet the requirement. This would look odd to us, as, economically speaking, the hedge would be perfect but fail for accounting purposes.

If one agrees that designating 100% of a forecast transaction should and would qualify as a hedged item, the question arises whether a hedge of designating any unspecified percentage below 100% (say 95% in order to avoid entering into materiality discussions) would then not meet the criterion. Whilst we do understand the conceptual argument of the hedged item not being entirely specified, again, from an economic perspective, it looks odd that something that is generally perceived as being close to perfect will be deemed a miss.

Tentative decision on IFRS 15 – Assessment of promised goods or services

We agree with the IFRS IC's finding (by reference to BC87) that before identifying performance obligations, and assessing whether they are distinct, identifying all promised goods or service under the contract is required.

However, we are not convinced by the IFRS IC's analysis how IFRS 15.25 is applied to the fact pattern in the submission. We acknowledge the IFRS IC's observations that (a) the services on initial listing and on all subsequent days are the same and (b) the activities near contract inception are necessary for transferring the service of being listed on the exchange. Though, we do not agree with the IFRS IC's conclusion that, given (a) and (b), the service of being listed is the only service provided under the contract.

Instead, we deem the long list of activities at or near contract inception indicating that the service of *initial* listing ("enabling admission to the exchange") is separate from the service of *ongoing* listing; our view is supported by the fact of an upfront fee being payable explicitly for the initial service. Further, we think that, although not mentioned in the fact pattern, the *initial* listing service can usually be provided without providing the *ongoing* listing service; this would also support our view.

Apart from this, we are not clear about the appropriate revenue recognition pattern for the upfront fee in case (i) there was only one promised service and (ii) there were two services. Specifically, we would not know how one would assess the period over which revenue from the initial listing would have to be recognized.

Tentative decision on IAS 37 – Deposits relating to taxes other than income taxes

We do not fully agree with the IFRS IC's decision. We refer to our earlier comments (our letter dated 26 June 2018), when we mainly stated that we

- a) are not convinced that the tax payment creates a resource that is controlled by the entity and results in potential future economic benefits; and
- b) are not convinced that the conclusion would be the same regardless of whether the payment is voluntary or required; further
- c) feel that this discussion is part of a broader question, which is how to account for any kind of payments before they become due or payments that are "voluntary" in character (eg. prepayments, overpayments, deposits, etc.).

While we understand why the IFRS IC rejected our argument under b), we think that our argument under a) still holds. Firstly, we are not convinced that, in the fact pattern, the entity "controls" (i.e. "directs the use" of) the economic resource; hence, F4.20 would not be fulfilled. Secondly, we are still not convinced that F4.14 should be read as the "potential to produce economic benefits" meaning that the existing right need not produce economic benefits in *any* circumstance, but in "*at least*" (i.e. "*only*") one circumstance. Instead, we think that the right should produce potential economic benefits in *any* circumstance – which are either a refund ("the favourable outcome") or the settlement of the liability ("the unfavourable outcome"). As we deem settling a *potential* future liability not to constitute an example under F4.16, we would still argue that the IFRS IC's conclusion that there is "no contingency" is at least debatable, if not inappropriate.

In addition to that, we think the IFRS IC's decision should include an answer on how the (deemed) asset in this fact pattern should be measured. The mere reference to measurement requirements in other IFRSs that deal with monetary assets appears somehow vague (notwithstanding that the term "monetary asset" is used only in IAS 38, "monetary item" is used in IASs 21 and 29; did the Committee mean *financial* asset?).

Following up on our earlier argument c) above, we are particularly concerned about the potential messaging with this agenda decision. The rationale could be read such that any prepayments made for some uncertain future event constitutes an asset, which would certainly be at odds with a number of transactions that are being accounted differently in our jurisdiction.

Lastly, we feel that the terminology in the agenda decision should be reviewed. We have been made aware of companies reading different things into the terms "dispute" and "deposit". For instance, some hold the view that any prepayment is, in fact, a "deposit" made, which makes us believe that the scope of the agenda decision can be taken far wider than anticipated by the Committee.