Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Berlin, 15 May 2019

Dear Sue,

RE: The IFRS IC's tentative agenda decisions in its March 2019 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 March 2019 IFRIC Update.

Generally speaking, we do not have significant reservations regarding the tentative agenda decisions, absent overarching concerns – in particular as regards the applicability of an agenda decision to slightly different fact patterns, the possible need to change one's accounting policy, and the potentially limited understandability of an agenda decision and its reasoning without concurrently taking note of the more substantial analysis in the background agenda papers.

Notwithstanding our general content with the decisions taken, we would like to share additional thoughts on the tentative agenda decisions on IAS 19 as well as on cryptocurrencies.

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

Appendix – Detailed Comments

IAS 19 – Effect of a potential discount on plan classification

Whilst we agree with the IFRS IC's general finding that a plan with an obligation to pay fixed annual contributions along with only an "upside potential" (i.e. plan assets exceed contributions or the ratio between the two exceed a set level) would not prevent the plan from being classified as a DC plan, we feel that the agenda decision provided seems to focus on one element only, being the possible maximum payment of the employer (as per the details provided).

In our view, an assessment of a plan's substance should be based on the entire facts and circumstances pertaining to a plan, particularly on the connection between the benefit scheme and the contribution scheme (i.e. the benefit formula). We believe that if a discount was an inherent feature of the plan and if, in addition, an entity had an initial expectation of achieving a discount – such plans would be more akin to a DB plan. In contrast, if the discount was rather incidental and unexpected, such plans could qualify cet. par. as DC plans. In particular, if the discount was granted only in case a plan terminates with any surplus being passed on to the employer, such plans would even be more likely to qualify as DC plans.

Considering the very complex plans that exist, we fear that constituents may be misled by the simplicity of the wording used in the agenda decision when describing the judgment involved. We therefore suggest that the wording of the conclusion be looked at again. Specifically, we suggest adding a statement at the beginning saying that any decision on a pension plan's classification as DB or DC requires an assessment of the entire facts and circumstances and should not be based on solely one feature. Provided that there were no other facts and circumstances that would require classification as DB and DC, an assessment of the effect of a potential discount on a plan's classification would then be as follows…

Holdings of cryptocurrencies

Whilst we can understand where the IFRS IC landed and why and how it landed there, we feel uncomfortable with the robustness and the relevance of that agenda decision.

Firstly, we note that there is not simply one type of cryptocurrency – even though many might think all cryptos are the same and are, in fact, like Bitcoin. Some cryptos may be liquid and accepted as a means of payment – which seems to hint at these being more like cash or currencies, others have a restricted use targeted at only some very specific service that can be rendered (e.g. a token), and again others may not come with any currency acknowledgement at all. This seems to suggest that the nature of the crypto needs to be considered more deeply than just walking down the classic literature line of IAS 2/16 → IAS 32/IFRS 9 → IAS 38, as the outcome of that assessment might not be appropriate under all facts and circumstances, nor might it make particular sense. Further, the liquidity aspect is directly linked to potential measurement attributes to be used, which, again, may make more sense in some scenarios than in others. E.g., a general fair value requirement might not be the most appropriate answer given many level 3 uncertainties coming to the fore, but an opposite requirement of a cost notion might be equally irrelevant if cost is, or starts out at, close to zero.

Secondly, we are aware that talks have started amongst central banks and fiscal authorities as to what these cryptos are from a fiscal or monetary point of view (a currency, a [quasi] financial instrument, etc.). It would be unfortunate if those discussions led to a completely different result than what is being reasoned by accountants under the IFRS literature. We completely understand the limited mandate of the IFRS IC in this regard, but we believe that starting and ending a debate on something that is just evolving in different shape and form does unduly narrow the discussion. This all seems to suggest that the subject is sitting better with the Board who can apply a fresh look into this.