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IFRS Technical Committee

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Berlin, 22 July 2019

Dear Hans,

IASB ED/2019/2 Annual Improvements to IFRS Standards 2018-2020

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB's ED/2019/2 *Annual Improvements to IFRS Standards 2018-2020* (herein referred to as the 'ED'). We appreciate the opportunity to comment on this ED.

Overall, we support the IASB's aim to clarify application of IFRSs and to develop minor amendments providing clarification of current requirements via the annual improvement process. More specifically, we support the intention to clarify IAS 41, IFRS 1, IFRS 9, and the Illustrative Example accompanying IFRS 16 in respect of the issues included in this ED.

We fully agree with the proposed amendments to IFRS 1 and IAS 41. In respect of the two other proposals, we basically agree while deeming them not sufficiently addressing the respective issues. Consequently, we have additional comments and proposals and would appreciate if the IASB considered them further.

Please find our detailed comments in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

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Appendix – Answers to the question of the ED and related proposals

Questions

Do you agree with the Board's proposal to amend the Standards and accompanying documents in the manner described in the Exposure Draft? If not, why not, and what do you recommend instead?

Proposed amendment to IFRS 1

We agree with the proposed amendment.

Proposed amendment to IFRS 9

We agree with the intention of the proposed amendment.

However, we have concerns with the wording that distinguishes those fees that shall be included in the 10 per cent test (fees "type A") from those fees that shall not (fees "type B"). While fees that are "paid or received between the borrower and the lender" ("type A1") appear to be described precisely, we struggle with the wording of "including fees paid or received by either [party] on the [other party's] behalf" ("type A2"). Since fees "type B" – to be excluded from the test – are fees paid between one contractual party and a third party that is not a party to the contract, it does remain unclear which kind of fee is paid by or received by one contractual party on another's behalf, but is not (at the same time) considered to be paid by or received by a third party. Thus, the wording of the proposed amendment does not clearly distinguish between fees "type A2" and fees "type B".

Based on paras. 28-40 of AP11 of the IFRS IC May 2016 meeting, we understand that ringfencing "type A1" and "type A2" fees relates to the understanding of **fees that are an integral part of the effective interest rate**. In contrast, fees "type B" instead are equal or similar to **transaction cost**. However, even when bearing this in mind it appears unclear which payments effectively are to be included in the test and which are not. We are also aware that the result of the 10 per cent test often depends on which fees are included; hence, the lack of clarity leaves structuring opportunities. For these reasons, we suggest that the wording of the proposed amendment be extended to address this shortcoming.

Further, we are not convinced that there is no need to propose a similar amendment to IAS 39, as explained in BC4 of the ED (relating to the proposed IFRS 9 amendment). Firstly, we think that a "limited number of entities" a "limited period of time", and a small population of entities affected are no reasons for not taking over the proposed amendment to IAS 39.AG62. In addition, the IASB's decision to not similarly amend IAS 39 was taken in April 2017, and its arguments in this respect are based on the expectation that "insurers" would stop applying IAS 39 by 31 December 2020 at the latest (see paras. 20-23 of AP12A of the IASB April 2017 meeting). As things are today, the

IASB has just proposed to extend the effective date of IAS 39 for entities issuing insurance contracts until 1 January 2022. This said, even if the benefits **were** limited, the cost of carrying out additional standard-setting **are** negligible. Secondly, there are other standard-setting activities anyway which lead to amendments of IAS 39. For reasons of consistency we suggest that IFRS 9 and IAS 39 be amended in the same way.

Proposed amendment to IAS 41

We agree with the proposed amendment.

Proposed amendment to Illustrative Examples accompanying IFRS 16

We agree with the intention of the proposed amendment.

However, we think that deleting some of the wording in IE5 is not sufficient for clarifying or eliminating the confusion of when or whether there is a lease incentive – and more specifically, why leasehold improvements are, or are not, a lease incentive. The current wording in IE5 does not **cause** the lack of clarity, but simply **induces** it to become obvious. Instead, the lack of clarity results directly from a lack of guidance that should address the issue. Even after refining the wording in IE5, we still believe that there is potential for confusion that could emerge in other instances.

For this reason, we think that the only way to clarify the issue would be to add or amend requirements in the main body of IFRS 16.