



DRSC / ASCG • Zimmerstr. 30 • 10969 Berlin

Sue Lloyd
Chair 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 Sue,

IFRS IC's tentative agenda decisions in its March 2020 conference call

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 2020 *IFRIC Update*.

We agree with the **tentative agenda decision on IAS 12**.

In respect of the **tentative agenda decision on IFRS 16**, we support the IFRS IC's findings that help answering the main questions of (i) how to measure the right-of-use (ROU) asset and (ii) to what extent gains/losses be recognised at the transaction date, while recommending the IASB specify how to (subsequently) measure the lease liability.

We agree with the IFRS IC's observation that IFRS 16.100(a) is the relevant requirement. We appreciate the agenda decision containing an illustrative example that underlines the IFRS IC's conclusions. However, we are not entirely convinced by the conclusions drawn from applying para. 100(a) to the transaction described.

Our main concern is that the way how the retained proportion of PPE (25 %) is determined implicitly determines the (initial) measurement of the lease liability, which appears doubtful to us. We acknowledge that the retained proportion of PPE is derived from the present value of expected lease payments (which equal 25 % of the fair value of the entire PPE). Determining the present value of expected lease payments with the aim of measuring the ROU asset (which equals 25 % of the previous carrying amount of the PPE sold) would, to our understanding, suggest that this present value virtually represents the measurement of the lease liability.

If so, applying para. 100(a) to this specific transaction would lead to (initially) measuring a lease liability (comprising variable payments only that do not depend on an index or rate) different from nil. This seems contradictory to the general principle for measuring a lease liability (paras. 26, and 27, in particular), which would foresee measuring such a lease liability (i.e. with variable payments only that do not depend on an index or rate) at nil.

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



This said, we suggest the IFRS Interpretations Committee not only reconsider the subsequent measurement of a lease liability arising in a sale and leaseback transaction, but also the initial measurement in the same breath. In particular, we suggest examining whether para. 100(a) would lead to a measurement of the lease liability that conflicts with the general principle in para. 27.

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