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Dear Sue,

**IFRS IC's tentative agenda decision in its December 2020 video conference**

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) as published in the December 2020 *IFRIC Update*.

We agree with all tentative agenda decisions and deem an appropriate application of the literature. Notwithstanding our agreement, we provide additional comments on two of these.

We consider the tentative agenda decision on IAS 1 (Classification of liabilities with covenants as current or non-current) constituting an appropriate description of how to apply the requirements of IAS 1 that had been amended recently. In this context, we deliberated again the underlying principles. Our finding is that under certain facts and circumstances – e.g. Case 3 that the IFRS IC had discussed – the resulting classification of liabilities may appear counter-intuitive. According to paragraph 72A of IAS 1, an entity must comply with the conditions at the end of the reporting date even if the lender does not test compliance until a later date. Given that contractually agreed covenant hurdles may vary depending on the (interim) reporting period they relate to (e.g. reflecting the seasonality of an entity's business), paragraph 72A of IAS 1 may lead to a breach of a condition at the reporting date, although, from an economic perspective, the entity does not need to comply with that condition until a later testing date. As classification depends on the (non-)compliance with the condition at the reporting date, management's expectations (regarding future compliance with covenants) would not be reflected. However, we believe that, in practice, entities will likely adapt their contractual agreements in a way that ensures a classification that appropriately reflects the economic substance of their lending agreement (e.g. obtain a waiver for at least 12 months after the reporting date).

As regards the tentative agenda decision on IAS 38 (Accounting for configuration or customizing costs with SaaS arrangements), the IFRS Technical Committee considers that the reference to IFRS 15 – to be applied by analogy – may imply that the timing of cost to be recognised by the entity would have to mirror the revenue recognition pattern of the arrange-

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ment's counterparty. We wonder whether this conclusion would be appropriate for all fact patterns or would only apply in certain circumstances. In case of the latter, we suggest clarifying and amending the agenda decision. Further, it appears unclear whether and how the findings by the IFRS IC would apply were the customizing service performed by a third party. Again, we suggest a clarification in this regard.

If you would like to discuss our views further, please do not hesitate to contact Jan-Velten Große ([grosse@drsc.de](mailto:grosse@drsc.de)) or me.

Yours sincerely,

*Sven Morich*

Executive Director