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**Financial Reporting Technical
Committee**

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Berlin, 12 April 2022

Dear Bruce,

IFRS IC's tentative agenda decision in its February 2022 meeting

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on one of the decisions taken by the IFRS Interpretations Committee (IFRS IC) as published in the February 2022 *IFRIC Update*.

We agree with the tentative agenda decision on IAS 37 (*Negative Low Emission Vehicle Credits*) and the respective conclusions, which we deem an appropriate application of the literature. Notwithstanding our agreement, we would like to raise the following comments.

From our point of view, the application of the considerations of the IFRS IC in the individual fact pattern cannot be conclusively understood without a better understanding of the sanction mechanism. This uncertainty does not only affect the fact pattern submitted but could be relevant for other fact patterns by analogy. It should be clarified to which extent the fact pattern described in the request differs from other examples that illustrate or interpret the application of paragraph 19 of IAS 37 and for which the conclusion is that no present obligation exists.

As far as the sanctions only occur if the corresponding activity continues after the reporting date, it may be questionable why an irrevocable obligation should already have arisen through the import or manufacture of vehicles in the reporting period and whether the entity has taken the actions necessary to trigger an obligation under the applicable legislation (i.e. whether the obligation arises from past events and exists independently).

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As regards the potential scenario of the entity accepting sanctions, we think that the wording in the IFRIC Update still leaves room for judgement as to whether, and under which specific circumstances, a constructive obligation would or would not exist and what kind of actions would create valid expectations in other parties that it will eliminate negative credits generated from its past production or import activities.

In addition, we acknowledge that the IFRS IC did not touch on the issue of measuring the obligation. Whilst being aware that this was not part of the request, we would have appreciated if the IFRS IC had included the assessment in its discussion to make it more comprehensive, as the entity's future actions will determine the means by which the entity settles its present obligation.

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,

Sven Morich

Vice President