Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

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Dear Bruce,

IFRS IC's tentative agenda decisions in its September 2026 meeting

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the Tentative Agenda Decisions (TAD), taken by the IFRS IC as published in the September 2026 *IFRIC Update*.

As regards the TAD on IAS 16 (Estimating residual value), we appreciate your efforts to clarify the application of IAS 16.6 regarding residual value estimation. While we support the Committee's intent to promote consistency, we respectfully urge you to reconsider your tentative conclusion that no standard-setting project is needed.

The current guidance lacks the operational clarity required to apply IAS 16.6 consistently in modern, high-volume industries—particularly where assets are subject to rapid technological change, short lease terms, and significant supply-side dynamics. A rigid interpretation of "current disposal value" that excludes factors such as product lifecycle stage, technological obsolescence, and known market supply volumes leads to distorted residual values, understated depreciation, and misaligned financial reporting.

We believe the distinction between "current" and "future" effects is not practically enforceable in these contexts, and relying on IAS 36 to correct resulting misallocations is neither appropriate nor sustainable. The economic and technological landscape has evolved significantly since 2003, and the existing standard no longer provides an adequate basis for faithful representation or decision-useful information.

We therefore recommend that the IASB initiate a targeted project to refine the guidance on residual value estimation—clarifying what adjustments are permissible and necessary to reflect the true economic characteristics of the hypothetical asset at end-of-life.

Detailed arguments supporting this position, including practical implications and conceptual analysis, are provided in the attached appendix.

As regards the TAD on IFRS 9 (Sale of equity investments classified at FVOCI), we do not agree with the IFRS IC's finding that the matter has no widespread effect. Instead, the submission is based on discussions which have confirmed that situations as described are "likely widespread" and "meaningful impact" is expected. Further, we regret that the IFRS IC neither discussed nor explicitly clarified whether recognising in OCI the difference at the disposal date, as is current practice, does comply with IFRS 9.

This given, we suggest the IFRS IC add an explicit statement about whether, and why, recognition of such differences in OCI is appropriate.

Overall, we feel this submission and the respective IFRS IC decision underline the ever-recurring (and unsolved) issue of how different principles in IFRS 9 interact with each other – in particular requirements for measurement, including potential impairments, vs derecognition. We hope, and therefore suggest, that this interaction will be one of the issues to be considered throughout the current IASB project (and its forthcoming consultation) on "Amortised Cost Measurement".

As regards the TAD on IFRS 18 (Assets that Generate a Return Individually and Largely Independently of an Entity's Other Resources), we agree with the conclusion reached by the IFRS IC, ie. by applying paragraph B46(a) of IFRS 18, an investment fund holding financial assets, such as debt and equity investments, would typically conclude that those assets generate a return individually and largely independently of the entity's other resources.

However, we note that, in practice, there are many practical application questions regarding the determination of whether, in accordance with paragraph 53(c) of IFRS 18, an asset generates a return individually and largely independently of an entity's other resources. The IFRS IC had the opportunity to provide additional practical guidance through the TAD, eg. by explaining how an entity determines whether an asset generates a return individually and largely independently of the entity's other resources but limited itself in the TAD to analysing two specific paragraphs in the application guidance of IFRS 18. Therefore, we are concerned that the TAD might not be considered as helpful in practice when considering other fact patterns.

More broadly, in the context of the IFRS IC's most recent TADs, we have once again discussed the IASB's general approach to dealing with application issues relating to IFRS 18. In view of the large number of submissions on IFRS 18 received by the IFRS IC, we recommend the IASB review its approach and consider whether some of the application issues addressed in the agenda decisions should be added to its workplan.

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

Yours sincerely,

Sven Morich

Vice President

Appendix on Applying the Requirements in IAS 16.6

We appreciate the opportunity to comment on your TAD regarding the estimation of residual value under IAS 16. We fully acknowledge and support the Committee's intent to clarify the application of IAS 16.6 and to promote consistent, principle-based accounting for property, plant and equipment. We also agree with the Committee's observation that IAS 16.6 requires an entity to estimate the amount it would *currently* obtain from disposal of an asset, assuming it were already at the end of its useful life.

However, after careful consideration of the practical implications and economic realities—particularly in industries such as automotive manufacturing and leasing, where residual value estimation is material to financial reporting—we respectfully conclude that the TAD, as currently framed, lacks sufficient operational clarity and may lead to inconsistent application, misrepresentation of economic reality, and unintended consequences for users of financial statements.

We therefore urge the Committee to reconsider its tentative conclusion that no standard-setting project is needed and instead recommend a targeted IASB project to refine the guidance on residual value estimation under IAS 16.

The current definition of residual value lacks operational clarity for modern asset classes

While the hypothetical construct in IAS 16.6 is conceptually sound, the TAD does not provide clear criteria for determining what adjustments are necessary to derive a meaningful "current" disposal value for assets whose economic value is shaped by factors beyond physical wear and tear.

For manufactured goods with short useful lives—such as vehicles, electronics, or machinery—the value at end-of-life is not determined solely by age and condition. It is significantly influenced by:

- The asset's position in its product lifecycle (e.g., obsolescence due to newer generations);
- Technological advancements that render features or components obsolete;
- Regulatory changes affecting demand or usability;
- The volume of similar assets entering the secondary market simultaneously.

These are not speculative forecasts—they are inherent attributes of the hypothetical asset at its end-of-life condition. To ignore them is to construct a fictional value that bears little resemblance to the economic reality of disposal.

"Current" vs. "Future" distinction is not practically enforceable

The TAD's attempt to distinguish between developments affecting current prices and those affecting only future prices is not operationally viable.

- A technological shift that reduces demand for a specific asset today is not a "future price" effect—it directly diminishes the value of that asset *now*, even if it were hypothetically available for sale.

- A known surge in the number of similar assets expected to enter the market at end-of-life is not a “future” event—it is an existing condition that depresses current market prices for comparable assets.
- Temporary market distortions (e.g., supply chain disruptions) should not be mechanically embedded in residual values, but neither should they be ignored if they reflect a sustained shift in market dynamics.

Without clear guidance on what constitutes an appropriate adjustment to observable data, entities will be forced to rely on inconsistent, subjective interpretations—leading to new diversity in practice and undermining the very goal of standardisation.

The TAD risks misrepresenting economic reality and undermining relevance

Financial reporting under IFRS must faithfully represent the substance of economic phenomena. For entities that lease high-volume, rapidly depreciating assets, residual value is not an incidental estimate—it is central to pricing decisions, risk management, and profitability analysis.

Requiring entities to base residual value solely on current market prices—without adjusting for lifecycle stage, technology trends, or supply volumes—results in:

- Systematic overstatement of residual values during periods of market scarcity or new-model premiums;
- Understated depreciation expenses, distorting profit margins across reporting periods;
- Financial statements that fail to reflect the true consumption of economic benefits.

This directly contradicts the objective of general-purpose financial reporting: to provide information that is relevant and faithfully represents economic reality.

IAS 36 cannot compensate for systemic misallocations under IAS 16

While impairment testing under IAS 36 ensures assets are not carried above recoverable amount, it was never intended to correct systematic misallocations of depreciation.

Relying on IAS 36 to “fix” residual value distortions creates:

- Duplication of effort, as the same underlying factors are assessed under two different frameworks;
- Inconsistent expense recognition—where depreciation is artificially low and impairment becomes a catch-all for poor forecasting;
- A misleading presentation of asset consumption patterns, obscuring the true economic cost of using an asset over time.

The two standards serve complementary but distinct purposes. IAS 16 governs systematic allocation; IAS 36 addresses unexpected impairment. They should not be conflated.

The economic and technological landscape has evolved significantly since the last IAS 16 Amendment

Since IAS 16 was revised in 2003, the landscape has transformed:

- Leasing has become a dominant financing model for many asset classes;
- Large-scale, portfolio-based disposal of similar assets is now common, with material market impacts;
- Advanced data analytics and real-time market intelligence enable far more accurate, forward-looking estimates than were possible two decades ago.

The current guidance was designed for a different era—when residual values were often incidental and data scarce. Today, they are material, complex, and critical to decision-making. The standard must evolve accordingly.

Recommendations and Conclusion

We respectfully recommend that the Committee:

1. Reconsider its conclusion that no standard-setting project is needed — the materiality of residual value estimation in key industries and the lack of operational clarity warrant a targeted IASB project.
2. Clarify that adjustments to observable market data are not only permitted but required when estimating the hypothetical current disposal value, to reflect characteristics inherently tied to the asset's end-of-life condition—such as product lifecycle stage, technological obsolescence, and known supply volumes.
3. Distinguish between adjustments based on existing, identifiable conditions at the reporting date and general future macroeconomic forecasts — the former should be incorporated; the latter (e.g., inflation, broad demand trends) should not.
4. Provide guidance on handling temporary market distortions, clarifying that observable prices affected by short-term disruptions should be adjusted to reflect an orderly, sustainable disposal scenario.
5. Address the interaction between IAS 16 and IAS 36, explicitly stating that impairment testing is not a substitute for accurate residual value estimation under IAS 16.

We fully support the Committee's goal of enhancing consistency and faithful representation in IFRS financial reporting. However, the current TAD risks entrenching a mechanical, outdated interpretation of IAS 16.6 that fails to reflect the economic reality of modern asset management—particularly in high-volume, rapidly evolving industries.

We urge the Committee to take bold action: not to preserve the status quo, but to ensure IAS 16 remains a relevant and principled standard for the future.

Thank you for your consideration of our comments. We remain available to provide further input or participate in any follow-up engagement.