Rechnungslegungs Interpretations
Accounting Interpretations Committee

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Mr Robert Garnett
Chair of the
International Financial Reporting Interpretations Committee
30 Cannon Street
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Berlin, August 13, 2008

Dear Bob,

**Tentative agenda decision: IAS 32 *Financial Statements: Presentation* - Transaction costs to be deducted from equity**

On behalf of the Accounting Interpretations Committee of Germany (AIC) I am writing to comment on the IFRIC tentative agenda decision not to take the issue 'transaction costs to be deducted from equity' to the agenda as published in the July 2008 *IFRIC Update*. We appreciate that the IFRIC has discussed the Potential Agenda Item Request (PAIR) at its meeting on 11 July 2008 as well as the opportunity to comment on the IFRIC's above tentative decision.

First of all, we support the decision of the IFRIC to propose to the IASB developing common definitions for both terms ‚directly attributable' and ‚incremental' and to add them to the IASB Glossary of Terms within the annual improvements process as we believe that this would be helpful ensuring both terms are used in similar ways throughout the IFRSs. As outlined below, however, we have strong doubts whether this will truly help to clarify the specific issue of transaction costs to be deducted from equity.

Based on the PAIR filed with the IFRIC made available to the constituents by means of AGENDA PAPER 6C for the IFRIC July meeting, we consider the main issue as raised in this PAIR not being addressed by the tentative agenda decision. Based on various examples the PAIR was asking for more specific guidance "…to operationalise the term 'directly attributable' in connection with the term 'incremental' as used in IAS 32.37 … to properly draw the line between those costs that can be deducted from equity and those costs that have to be recognised as expenses in profit or loss." Although the IFRIC's tentative agenda decision states that costs related to

- "… becoming a public company" or
- "acquiring an exchange listing …"

are not deductible from equity, we still have significant concerns whether this statement sufficiently addresses the issue. For example the wording of the tentative agenda decision does not clarify, whether the examples as mentioned in IAS 32.37 ("…registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.") are incurred

- in issuing or acquiring its own equity instruments <u>or</u>
- by becoming a public company or acquiring an exchange listing.

In other words, there is still no clear guidance whether costs referring to both, issuing / acquiring its own equity instruments or becoming a public company / acquiring an exchange listing are to be split and, if yes, how this is to be done.

Furthermore, we hold the opinion that especially these costs that are solely incurred for the exchange listing of newly issued shares are linked to the issuance of the new shares. Therefore, they cannot be excluded from qualifying for deduction from equity.

With reference to some of the examples as mentioned in the PAIR, adding the terms 'incremental' and 'directly attributable' to the Glossary of Terms will not finally solve the problem; for example to clearly decide whether specific success fees (bonuses) paid to management upon successful completion of the IPO are to be deducted from equity.

Therefore, we ask the IFRIC to reconsider its decision not to take the issue to its agenda. Also, the IFRIC did not address the second issue as raised by the PAIR at all, which deals with the allocation of transaction costs that relate jointly to more than one transaction. This issue should also be dealt with in case the whole issue is taken to the IFRIC's agenda.

However, in case the IFRIC will confirm its current decision, we recommend that the IFRIC should propose to the IASB to add to IAS 32.37 a more specific description of circumstances allowing transaction costs of an equity transaction to be accounted for as a deduction from equity – this could be accomplished via the Annual Improvements Project (AIP).

If you have any questions concerning our comments, please do not hesitate to contact me.

Yours sincerely,

*Prof. Dr. Manfred Bolin*

Chairman of the AIC