

Mr. Hans Hoogervorst  
International Accounting Standards Board – IASB  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

Weinheim, 16/08/19

Dear Mr. Hoogervorst,

**RE: EXPOSURE DRAFT ED/2019/2**

We appreciate the opportunity to comment on the IASB's exposure draft ED/2019/2 "Annual Improvements to IFRS Standards 2018-2020". With this letter, we would like to contribute to the Board's due process and take part in the discussion on the proposals in the exposure draft.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international financial reporting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter ASCG (Accounting Standards Committee of Germany) and the German Institute of Chartered Auditors (IDW – Institut der Wirtschaftsprüfer in Deutschland e.V.) as well as other political institutions.

We agree with the IASB's proposals to amend IFRS 1, IFRS 9 and IAS 41. We believe that those proposals are appropriate to address the issues described in the exposure draft.

With regard to the proposed amendments to the Illustrative Examples accompanying IFRS 16, we do not agree with the IASB's proposals. IFRS 16 includes an Illustrative Example (IE) 13. IE 13 was developed to illustrate the requirements in IFRS 16 for initial and subsequent measurement of a right-of-use asset and a lease liability. The example also includes

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payments from the lessor to the lessee that relate to real estate commission as well as leasehold improvements. This was intended to illustrate when such payments meet the definition of a lease incentive and when they do not. However, IE 13 concludes that the lessee “accounts for the reimbursement of leasehold improvements from lessor applying other relevant Standards and not as a lease incentive applying IFRS 16”. The explanation provided by the IASB (“costs incurred on leasehold improvements by lessee are not included within the cost of the right-of-use asset”) is not sufficiently precise and therefore might lead to confusion when interpreting the example.

The IASB explains that the Illustrative Examples do not provide mandatory requirements and therefore the requirements in IFRS 16 would prevail in case of any confusion or conflict. However, the IASB now proposes to amend IE 13 to remove the potential for confusion from this example by simply eliminating the reference to the reimbursement of the lessee’s costs for leasehold improvements. We do not agree with that proposal. We rather believe that the confusion generated by the example indicates that there is severe uncertainty in practice when to include such payments in the measurement of the right-of-use asset and when not. Consequently, the IASB should think about clarifying when such payments by the lessor – in general – constitute a lease incentive under IFRS 16 and when they do not.

Moreover, we would like to note that Illustrative Examples accompanying the Standards are not endorsed in EU. Having that in mind, we would prefer clarification of when payments by the lessor constitute a lease incentive within IFRS 16 itself or the Application Guidance (appendix B) which also is an integral part of the Standard and therefore is subject to endorsement in the EU.

If you have any further questions or like to talk about our suggestions in a personal meeting, please do not hesitate to contact us.

Kind regards,

Association for Participation in the Development of  
Accounting Regulations for Family-owned Entities (VMEBF)

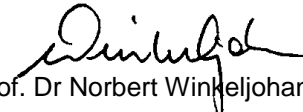
  
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