



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

EFRAG
Roger Marshall
Acting President
35 Square de Meeûs
B-1000 Brussels

IFRS Technical Committee

Telefon: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, 10 November 2015

Dear Roger,

EFRAG Draft Letter to the IASB regarding the *Request for views 2015 Agenda Consultation*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's Draft Letter to the IASB regarding the *Request for views 2015 Agenda Consultation* (herein referred to as 'DCL'). We appreciate the opportunity to comment on the DCL.

We comment on EFRAG's 2015 proactive agenda consultation in a separate letter.

Please find our detailed comments on the questions raised in the DCL in the appendix I to this letter. Appendix II includes our comment letter we will be sending to the IASB regarding the Request for views 2015 Agenda Consultation. If you would like to discuss our comments further, please do not hesitate to contact Thomas Schmotz or me.

Yours sincerely,

Andreas Barckow
President

Contact:

Zimmerstr. 30 · D-10969 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
Account. 0 700 781 00, BLZ 100 700 00
IBAN-Nr. DE26 1007 0000 0070 0781 00
BIC (Swift-Code) DEUTDE33XXX

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
Executive Committee:
Prof. Dr. Andreas Barckow (President)
Peter Missler (Vice-President)

Appendix I – Answers to the questions raised in the DCL**EFRAG's questions**

Which projects in the IASB research programme are particularly relevant for Europe?

In Appendix A EFRAG has classified and prioritised the research projects. In a number of cases different views were held on the level of priority. We are seeking in particular your views on the prioritisation of these projects in addition to your prioritisation of the projects where they differ from the EFRAG prioritisation.

The tables below show the prioritisation the ASCG has assigned to the IASB's research projects, based on outreach we have performed to seek views as to the priorities tentatively assigned to the projects by the ASCG's IFRS Technical Committee. In addition, we support taking a project on *Non-current Assets Held for Sale and Discontinued Operations* onto the IASB's research agenda or to initiate a PiR.

Originally, the standard foresaw the 'for sale' criterion as the relevant trigger for transactions to be in the scope of IFRS 5. By incorporating the 'for distribution' notion in 2009, the IASB broadened the scope of the standard to include further circumstances, for example spin-off transactions. This amendment, amongst others, may indicate that the standard shall be applied to all circumstances which result in a loss of control by the parent entity, irrespective of a 'for sale' or 'for distribution' trigger. As the current wording of IFRS 5 does not explicitly underpin such a principle, the accounting for several other transactions remains unclear. Examples include the loss of control resulting from a dilution or from written call options that are deeply in the money. Apart from scope questions, there are other issues that we believe warrant an in-depth reconsideration, e.g. the recent tentative agenda decision of the Interpretations Committee on eliminating intra-group balances between the continuing and the discontinuing business parts of a group.

As we deem IFRS 5 to be a standard that is highly relevant to many transactions, we think the IASB should dedicate a significant portion of its resources to a comprehensive review of the standard. In turn, and for the IASB to make good progress on an IFRS 5 research project, we suggest the IASB give lower priority to a number of other research projects.

Research Projects: Assessment Stage	Prioritisation
Non-current Assets Held for Sale and Discontinued Operations	High
Post-employment Benefits	High
Goodwill and Impairment	High
Discount Rates	High
Share-based payments	Medium
Definition of a Business	Low
Income Taxes	Low
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	Low
Primary Financial Statements (formerly Performance Reporting)	Low
Provisions, Contingent Liabilities and Contingent Assets	Low

Research Projects: Development Stage	Prioritisation
Disclosure Initiative – Principles of Disclosure	High
Dynamic Risk Management (DRM)	High
Financial Instruments with Characteristics of Equity (FICE)	High/medium ^{*)}
Business Combinations under Common Control	Medium
Equity Method	Low

^{*)} The FICE project has received different assignments of priority depending on the constituency that responded. The urgency of the issue mainly depends on an entity's involvement in issuing structured capital (such as contingently convertible instruments) as well as on the legal form of an entity. From a partnerships' and co-operatives' point of view, the classification and presentation requirements of IAS 32 seldom allow presenting owners' capital as equity in their financial statements, which in most cases results in what is commonly referred to as a counterintuitive accounting outcome. Therefore, entities operating in the legal form of a partnership or co-operative give this project a high priority. Although this issue does not exist for corporations (or only in a group context where the non-controlling interest is puttable), these entities might still face problems with put options over non-controlling interests, contingently convertible bonds, or share-settled obligations. We therefore deem a medium priority to be appropriate for this group of constituents.

EFRAG's questions

EFRAG published in 2014 a Discussion Paper on Separate Financial Statements jointly with DASB, OIC and ICAC. In your view, what priority should the IASB give to this topic in its research programme?

Based on the legal environment in our jurisdiction, we would give the topic of Separate Financial Statements a low probability should the IASB consider adding it to its research agenda.

EFRAG's questions

Do you agree that PiR are a useful Research tool, and not a mere due process obligation? If so, what standards, either old or recently published, do you believe should be subject to a PiR and why?

We agree with EFRAG that Post-implementation-Reviews (PiRs) should be considered to be a useful research tool. However, we do not agree with EFRAG suggesting in its DCL that the findings of PiRs should provide direct input in the standard-setting agenda in each and every case. Furthermore, EFRAG questions in its DCL why some of the issues identified still need to always go through a research phase and why the PiR process could never be considered to provide evidence sufficiently conclusive to move directly to standard-setting activity.

In our view, whether or not findings of a PiR should provide direct input in the standard-setting agenda should depend on the quality of the findings. The quality of PiR findings may range from clearly indicating the necessity for one or more certain amendment(s) to just indicating an existing problem, such as a lack of guidance.

The latter case does not – in our view – allow for the issue to be directly taken onto the standard setting agenda; in contrast, we believe it is appropriate to clarify a number of follow-up questions beforehand, such as how prevalent the problem is, how it can be solved, which cross-cutting issues to other IFRSs exist, etc. These questions should be addressed in the development phase of the research programme.

As discussed in our response to question 1 we believe that IFRS 5 should be subject to a PiR in case the IASB decides not to address the issue in its research programme. Furthermore, we would recommend a PiR of IFRS 2 *Share-based Payment* as a starting point for a general revision of the standard for the following reasons:

Firstly, although IFRS 2 is based on a general, high-level principle for the accounting of share-based payments, we wonder whether this principle appropriately depicts the transactions. Our concerns are substantiated by the significant number of issues raised by constituents for consideration by the IFRS IC since the standard was issued in 2004. Secondly, de-



spite being based on a high-level principle, IFRS 2 contains a lot of guidance seeking to clarify individual cases rather than the general principle. This has the effect of making the standard very complex and having it appear rules-based. We think this complexity increases further by the amendments proposed by the IASB in its Exposure Draft ED/2014/5 *Classification and Measurement of Share-based Payment Transactions – Proposed amendments to IFRS 2*.



Appendix II – Comment letter to the IASB



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

Mr Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

IFRS Technical Committee

Phone: +49 (0)30 206412-12

E-Mail: info@drsc.de

Berlin, [Date]

Dear Hans,

IASB Request for Views – 2015 Agenda Consultation

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB *Request for Views – 2015 Agenda Consultation* (herein referred to as 'RfV'). We appreciate the opportunity to comment on RfV.

Despite the major part of the RfV being devoted to the research programme, it is of great importance to us to point out that the continuation and the completion of the major projects, in particular the projects dealing with *Insurance contracts*, the *Conceptual Framework* and the *Disclosure Initiative*, should retain their highest priority in the IASB work plan.

As to the IASB's research projects, we have applied a prioritisation based on the criteria of urgency and prevalence of the issues, as we see them from our jurisdiction's perspective. Given this angle, we think the IASB should give a high priority to (a new project on) *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations* as well as to the existing research projects on *Post-employment Benefits* and *Goodwill and Impairment*. We further note that the latter two projects are currently allocated to the assessment stage. Taking into consideration that the projects on *Goodwill and Impairment* and *Definition of a Business* were initiated in response to the Post-implementation-Review (PiR) of IFRS 3 *Business Combinations*, we are of the opinion that it would be more appropriate to allocate them straight to the development stage (or to the active agenda if the issue to be fixed is pervasive – as has been done with the project on *Definition of a Business*). We believe that the IASB was already provided with sufficient feedback to address the issues resulting from the PiR, hence, we do not see the need to allocate them to the assessment stage.

Contact:

Zimmerstr. 30 · D-10969 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:

Deutsche Bank Berlin
Account. 0 700 781 00, BLZ 100 700 00
IBAN-Nr. DE26 1007 0000 0070 7811 00
BIC (Swift-Code) DEUTDE33HAN

Register of Associations:

District Court Berlin-Charlottenburg, VR 18526 Nz
Executive Committee:
Prof. Dr. Andreas Barckow (President)
Peter Missler (Vice-President)



Lastly, an involvement of other organisations, particularly national standard setters, may help the IASB in proceeding quicker with its research programme. As mentioned on several occasions, we would be happy to assist the IASB and are standing ready to becoming involved and contributing to the IASB's research agenda.

Please find our detailed comments on the questions raised in the RfV in the appendix to this letter.

If you would like to discuss our comments further, please do not hesitate to contact Thomas Schmotz or me.

Yours sincerely,

Andreas Barckow

President

DRAFT

Appendix – Answers to the questions of the Request for Views

Question 1: The balance of the IASB's projects

The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;
- (b) its Standards-level programme;
- (c) the Conceptual Framework;
- (d) the Disclosure Initiative; and
- (e) maintenance and implementation projects.

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

The Request for Views (pg. 18) lists various factors the IASB considers in prioritising individual projects on its work plan and in allocating resources to them. In general, we agree with the factors mentioned in this list; that being said, we encourage IASB to clearly communicate how these factors have been weighted to arrive at the final composition. This seems particularly relevant if projects meet several but different criteria.

Question 2: Research projects

The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33. Should the IASB:

- (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.
- (b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?
- (c) remove any other projects from its research programme?

2a)

The IASB observed that a broad-scope project on IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* could be needed to deal with several of the issues raised at the IFRS IC. We strongly agree with that observation and encourage the IASB to add such a project to the research programme or to initiate a PiR on IFRS 5.

Originally, the standard foresaw the 'for sale' criterion as the relevant trigger for transactions to be in the scope of IFRS 5. By incorporating the 'for distribution' notion in 2009, the IASB broadened the scope of the standard to include further circumstances, for example spin-off



transactions. This amendment, amongst others, may indicate that the standard shall be applied to all circumstances which result in a loss of control by the parent entity, irrespective of a 'for sale' or 'for distribution' trigger. As the current wording of IFRS 5 does not explicitly underpin such a principle, the accounting for several other transactions remains unclear. Examples include the loss of control resulting from a dilution or from written call options that are deeply in the money. Apart from scope questions, there are other issues that we believe warrant an in-depth reconsideration, e.g. the recent tentative agenda decision of the Interpretations Committee on eliminating intra-group balances between the continuing and the discontinuing business parts of a group.

As we deem IFRS 5 to be a standard that is highly relevant to many transactions, we think the IASB should dedicate a significant portion of its resources to a comprehensive review of the standard. In turn, and for the IASB to make good progress on an IFRS 5 research project, we suggest the IASB give lower priority to a number of other research projects. Please refer to our answer on question 3 in this regard.

2b & c)

In our opinion, the IASB should remove the inactive projects on *High Inflation* and *Extractive Activities / Intangible Assets / R&D* from its research agenda. Furthermore, we agree with the IASB in removing the issue on *Foreign Currency Translation* proposed by the Korea Accounting Standards Board (KASB). However, we note that the IFRS Interpretations Committee has been deliberating FX issues in general from time to time, so the subject as such may warrant deeper consideration.

Question 3: Research Projects

For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low).

Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low?

The table below presents the prioritisation of those research projects we deem appropriate. Our reasoning is based primarily on how prevalent an issue is for current accounting practice, with importance and urgency generally going hand in hand. We note that we have reached out to our constituency to seek views as to the priorities tentatively assigned to the projects by the ASCG's IFRS Technical Committee. Our outreach involved mainly preparers and stakeholder interest groups.



Research Projects: Assessment Stage	Prioritisation
Non-current Assets Held for Sale and Discontinued Operations	High
Post-employment Benefits	High
Goodwill and Impairment	High
Discount Rates	High
Share-based payments	Medium
Definition of a Business	Low
Income Taxes	Low
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	Low
Primary Financial Statements (formerly Performance Reporting)	Low
Provisions, Contingent Liabilities and Contingent Assets	Low

Research Projects: Development Stage	Prioritisation
Disclosure Initiative – Principles of Disclosure	High
Dynamic Risk Management (DRM)	High
Financial Instruments with Characteristics of Equity (FICE)	High/medium ^{*)}
Business Combinations under Common Control	Medium
Equity Method	Low

*) The FICE project has received different assignments of priority depending on the constituency that responded. The urgency of the issue mainly depends on an entity's involvement in issuing structured capital (such as contingently convertible instruments) as well as on the legal form of an entity. From a partnerships' and co-operatives' point of view, the classification and presentation requirements of IAS 32 seldom allow presenting owners' capital as equity in their financial statements, which in most cases results in what is commonly referred to as a counterintuitive accounting outcome. Therefore, entities operating in the legal form of a partnership or co-operative give this project a high priority. Although this issue does not exist for corporations (or only in a group context where the non-controlling interest is puttable), these entities might still face problems with put options over non-controlling interests, contingently convertible bonds, or share-settled obligations. We therefore deem a medium priority to be appropriate for this group of constituents.

Question 4: Major projects

Do you have any comments on the IASB's current work plan for major projects?

As already mentioned above, the continuation and the completion of the major projects currently pursued, in particular those on *Insurance Contracts*, the *Conceptual Framework* and the *Disclosure Initiative*, should retain their highest priority in the IASB work plan:

- A comprehensive solution to accounting for Insurance Contracts is long overdue and urgently needed to make today's challenges insurers are facing transparent in the financial statements.
- Completing the Conceptual Framework project is a necessary ingredient to deal with recurring and cross-cutting accounting issues for which there is no conceptual basis today.
- Lastly, the Disclosure Initiative responds to repeated calls from both preparers and users to reconsider the disclosures required today and to increase the usefulness of the financial statements including the notes.

In contrast, and based on the feedback from our constituency, we do not deem *Rate-regulated Activities* (RRA) to be of the same high importance. Especially if the scope were to be retained as had been proposed in the Discussion Paper DP/2014/2 *Reporting the Financial Effects of Rate Regulation*, we are not aware of widespread practical accounting problems in our jurisdiction. Under such scope accruals from RRA are very limited in that they only apply to a narrow type of transaction and are only applicable to a handful of entities, most of which are vertically integrated into groups that do not have RRA otherwise. Given the low prevalence in our jurisdiction, we advise the IASB to reconsider the project's importance.

Question 5: Maintenance and implementation projects

Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

Generally speaking, we are pleased with the responsiveness that both the IASB and the IFRS Interpretations Committee are providing to support stakeholders' concerns. Especially, we are pleased to see that the division of work between the two bodies appears to have come to a state where repetitive transfers of issues between the two have almost come to an end. That being said, we would like to bring two issues to the IASB's attention that seem to be of growing concern in our constituency.

The first issue concerns the pace and level of change. Notwithstanding the fact that the IASB is explicitly investigating this point in the next question of this RfV, we believe it to be linked



to this question, too. We note growing concerns that are raised primarily by entities below the top end as regards the number of piecemeal changes to IFRSs. These preparers and their users often do not have sufficient capacity to follow the standard-setting process as closely as blue chip companies with a well-developed accounting policies group do. These companies do not have the resources to make themselves heard in the due process. Moreover, they are often taken by surprise by what seems to them as a continuous stream of exposure and final documents. For these entities, it would be easier to follow if all narrow-scope amendments were bundled together. This brings us to our second point.

The projects falling into ‘maintenance and implementation’ include (a) interpretations, narrow-scope amendments and annual improvements as well as (b) the post-implementation reviews. Our comment is directed towards the first group where the number of narrow-scope projects separate from the annual improvement process seems to increase year after year. Given that annual improvements are defined in the Due Process Handbook as “*narrow-scope or minor amendments to Standards or Interpretations that are packaged together and exposed in one document even though the amendments are unrelated*” (emphasis added), it is not obvious to us what triggers the separation of narrow-scope projects out of the AIP.

We encourage the IASB to reconsider the practical need and urgency of the projects currently listed under ‘maintenance and implementation’ to better differentiate between emerging issues, for which a quick solution is needed, and all other issues. In our opinion, emerging issues should continue to be addressed through separate amendments of single standards, whereas all other issues should be addressed in the same manner as AIPs today, i.e. by combining several issues into a single omnibus-amendment. From our perspective, suitable candidates for the latter camp would be the proposed amendments to IAS 12, IAS 19/IFRIC 4, IAS 40 as well as the project on fair value measurement. Another group of amendments that we believe should not have been separated from the main project concerns the limited amendments to IAS 1 and IAS 7. As already said in our comment letters on either proposal, we would have preferred the IASB not to strip out these bits from the comprehensive project (especially as it appears doubtful to us that the separation will yield any significant tangible results), but to address the issues holistically in the major project on the Disclosure Initiative.

Question 6: Level of change

Does the IASB’s work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?



We observe that many small and medium-sized entities in our jurisdiction find it hard to cope with the pace and the level of detail of standard-setting. Please refer to our response on question 5.

Furthermore, we strongly support the IASB's aim to develop principles-based financial reporting standards. Opponents of this view may argue that principles-based requirements cannot ensure that similar transactions are accounted for identically both, over time and across jurisdictions, whereas rules-based requirements would be more suitable to meeting that goal. In our view, rules-based requirements would likely result in an increasing number of new rules at an ever-increasing pace, as such requirements regularly prompt structuring activities that might again result in different accounting practices. We acknowledge that, conversely, principles-based requirements may result in similar transactions not being accounted for identically, but we believe this to be the unavoidable cost of retaining a principles-based system. In this regard, we cross-refer to our comment letter on the Trustees' Structure and Effectiveness Review (cf. Our answer on question 6 on consistent application in particular).

However, we observe a number of standard-setting activities at the IASB that do not seem to be fully aligned with the overall strategy of developing a single set of principles-based accounting standards, as recent pronouncements have become overly complex and detailed. Whilst we acknowledge that areas like financial instruments are complex and difficult to understand by their very nature, we are not convinced – for example – that an accounting model for *Revenues from Contracts with Customers* really need extensive guidance as is contained in IFRS 15 and, particularly, in the *Clarifications to IFRS 15*.

Further examples are IFRS 2 *Share-based Payments*, a standard that has been narrow-scope amended several times, incorporating a significant number of individual issues, or IAS 12 *Income Taxes*, which contains a lot of rules-based requirements. As said above, we encourage the IASB to remain focused on the goal of developing principles-based requirements.

Question 7: Any other comments

Do you have any other comments on the IASB's work plan?

We do not have any other comments.



Question 8: Frequency of Agenda Consultations

Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

We support the IASB's proposal to expand the interval for Agenda Consultations to five years, provided the Board retains sufficient room for manoeuvre to take emerging issues onto the work plan at the expense of other activities without the need for any prior public consultation. Our reasoning is based on the fact that important and time-consuming projects often need a period of time exceeding three years. Consulting on the long-term agenda while many major projects are still ongoing does not appear meaningful to us.