



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

Telefon +49 (0)30 206412-12

Telefax +49 (0)30 206412-15

E-Mail info@drsc.de

Hans Hoogervorst  
Chairman of the IASB  
30 Cannon Street  
London EC4M 6XH  
United Kingdom

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160. DSR-Sitzung am 27.10.2011

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Dear Mr Hoogervorst,

### Request for Views **Ä** Agenda Consultation 2011

On behalf of the German Accounting Standards Board (GASB) I am writing to respond to the IASB's Agenda Consultation 2011. The GASB welcomes the discussion of the overall strategic direction and the balance of the IASB's agenda.

The GASB generally supports the IASB's view on the strategic areas driving the work of the IASB and the suggested categorisation of these areas into (1) development of financial reporting and (2) the maintenance of existing IFRSs. We particularly agree with the IASB's view on the need to focus on the consistency of IFRSs by . amongst other . completing the conceptual framework. However, while in principle we agree that it is reasonable to broad the scope of the work of the IASB (e.g. in depth research, post-implementation reviews, improving the quality of the application of IFRSs) we suspect significant drawbacks from extending the work of the IASB to activities prior and following core standard-setting responsibilities. We suggest a careful evaluation of the scope of work. Much of the areas identified by the IASB could be (better) addressed by other institutions (such as academics, national standard-setters or national enforcement boards). In our opinion the IASB should seek a stronger involvement of these institutions, which will allow the IASB to independently evaluate their results and at the same time focus on the core standard-setting activities.



Please, find our detailed reasoning and comments on the questions raised by the IASB in the appendix to this letter. If you would like to discuss any aspect of our comments further, please do not hesitate to contact me.

Yours sincerely,

*Liesel Knorr*

President

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## Appendix

### Strategic priorities and balance of the IASB's agenda

#### Question 1

What do you think should be the IASB's strategic priorities, and how should it balance them over the next three years?

#### Question 1(a)

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

#### Question 1(b)

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB's agenda, please include these in your answer.

In its request for views the IASB sets out five strategic areas driving the work of the IASB. We support the IASB's categorisation of these areas into developing financial reporting and maintaining existing IFRSs. We also believe each of the five strategic areas to be important and justified in the broader context of setting international accounting standards. However, in its proposals the IASB lays out a wide range of possible working areas. This includes work on the fundamentals of financial reporting (such as research about possible future accounting issues) but also those activities following the standard-setting (such as post-implementation reviews and improving the consistency and quality of the application of IFRSs). Broadening the range of the IASB-activities does not only potentially improve the IFRSs but also bears some risks, such as allocating insufficient resources to the standard-setting itself or inefficiently building up resources which are already available in other institutions. In our opinion a clear focus on the core standard-setting activities is preferable in order to most effectively use the limited resources of the IASB and to achieve the aspired high quality accounting standards.

Nevertheless, in line with the IASB's suggestions we see the need for the IASB to carefully consider areas of work prior and following the standard-setting process itself. These additional areas of work, however, should be clearly defined so as to limit



the scope of the work and e.g. avoid interference with the competencies of other institutions (such as national enforcement boards).

While we do not intend to dismiss the other areas of work, we suggest a stronger involvement of other institutions in order to address e.g. research or IFRS-implementation questions. The IASB does not necessarily need to build up resources within the IASB organisation, but can also choose funding existing institutions. For example, there is a large number of academics worldwide who have specialized in analysing aspects potentially relevant to standard-setting. Such research questions include the business environment of companies, analysing the needs of capital market participants and other stakeholder, as well as analysing the strengths and weaknesses of current financial information. Many academics have build up the skills, resources and network necessary to undertake the kind of research needed to identify upcoming accounting issues and to envision future financial reporting. They could also address any additional issue that the IASB might like to get more detailed research on. The IASB in return will have the advantage to evaluate the different research results independently; an IASB-internal research process on the other hand might prevent the IASB from seeing the full picture as the research process itself might pre-determine the research outcome. We would like to emphasise that in the past (teams of) national standard-setters have provided promising results e.g. regarding research about national management commentary standards or developing a basis for discussion of the equity-liability-split. Such results should be more carefully considered and discussed by the IASB.

Another example of significantly broadening the scope of the work of the IASB are post-implementation reviews (PiRs), which the IASB plans to conduct in order to obtain a better understanding of operational issues of new IFRSs and major amendments. First of all, if the IASB were to agree on PiRs these should not be limited to new IFRSs and major amendments. Instead it is generally equally important to obtain an understanding of the implications of older IFRSs. Furthermore, it is just as important to gain an understanding of the issues that are not yet addressed in existing IFRSs. That being said, again, other institutions have already built these exact capacities: constituents regularly inform national standard-setters, regulators and/or the



IFRS IC about operational issues of IFRSs. Moreover, implementations issues and existing difficulties for a consistent and high quality application of IFRSs are analysed and detected through audits or the work of national enforcement boards. So again, there are various resources to draw from in order to obtain a better understanding of the operational issues of IFRSs. Therefore, while we acknowledge the importance of post-implementation-reviews and the value of improving the consistency and quality of the application of IFRSs, we urge the IASB to carefully define the scope and intention of these reviews beforehand. As a result inefficient use of the IASB's resources and the resources of its constituents would be avoided. It will also be crucial to pay careful attention to maintain the separation between setting IFRSs on the one side and on the other side enforcing the proper application of IFRSs.

Regarding the balance between the two categories (1) developing financial reporting and (2) maintaining existing IFRSs we find both equally important to address the responsibilities of an international standard-setter. We acknowledge that some constituents suggest a so called 'period of calm' after a period of tackling complex accounting issues and the publication of several new or amended IFRSs. We agree that it will take considerable time for the constituents to analyse and implement the new requirements. However, we also believe there are still many more issues to be currently addressed by the IASB. The analysis of some of those issues (e.g. intangible assets, comprehensive income) and the development of proposals respectively will take up a rather long time. And while at the moment there is little need for further standard-setting from a European point of view, there are several urgent issues that the IASB needs to address in order to respond to the various needs of their constituents worldwide. Overall, while there might be less immediate 'IFRS-output' there is no room for a 'period of calm' regarding the work load of the IASB.

With regard to the IASB's particular proposals on the five strategic areas we would like to express our strong support for the IASB focusing on the finalisation of the conceptual framework, including a presentation and disclosure framework. We agree with the IASB that the conceptual framework is essential for principle-based and internally consistent standards. Furthermore, the conceptual framework provides guidance to preparers, auditors, regulators and others. The finalisation of the conceptual



framework should be the first priority of the IASB. Despite those efforts this project will most likely be finalised only in a couple of years. Therefore, the IASB should not defer its other standard-setting activities until finalisation of the conceptual framework. While aligning future accounting standard with the conceptual framework, deferring the projects would . unnecessarily . put on hold any other needed standard-setting decisions. Any existing (tentative) views on the conceptual framework should nevertheless be considered for other accounting standards decisions.

For the IFRSs to be high quality accounting standards they need to be internally consistent. We are pleased to note that the IASB gives a high priority to the development of internally consistent IFRSs. In the past, decisions have often been convergence-driven. While we acknowledge that convergence with other accounting principles can be beneficial for certain issues, we are pleased to read that convergence will not (any longer) be the main driver of agenda decisions and standard-setting.

The GASB also agrees that the IASB needs to consider other aspects that touch on standard-setting and that possibly influence the consistency of IFRSs and the consistent application of IFRSs. We share the IASB's view on the importance of XBRL and believe that XBRL will be an integral part of standard-setting in the near future. However, XBRL-needs could significantly deviate from the principles on which accounting standards are based. As suggested by the IASB XBRL should therefore be considered in the standard-setting process, however, it should not dictate the accounting requirements.

One additional important aspect that is not addressed in the IASB's request for views is the translations of IFRSs. Throughout the world the constituents most likely apply a translated version of IFRSs. The IFRS Foundation closely monitors the translations and approves the translated version before publication. The IFRS Foundation promotes rigorous translations of the IFRSs. However, this often results in reduced understandability and inconsistent application of IFRSs throughout the world, as certain . rigorously translated . concepts of the English language do not exist in other languages. For example, in the German language there is no direct translation for the term "fair value". As far as possible, the IASB should also acknowledge this aspect of



standard-setting and pay attention to possible differences and difficulties in translating the IFRSs.

## Achieving balance – future IASB agenda

### Question 2

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

### Question 2(a)

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

### Question 2(b)

Adding new projects to that IASB's agenda will require the balancing of agenda priorities with the resources available.

Which of the projects previously added to the IASB's agenda but deferred would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

The agenda setting process is an essential part of the due process of the IASB as it pre-determines the scope of the IASB's work and the use of the IASB's resources . often for years in advance. We are pleased to note that the IASB is given careful consideration to its current agenda setting process which . in the past . has not been as transparent and comprehensible to the constituents as it should be.

Apart from a more straightforward communication of the agenda setting process and the agenda decisions the GASB suggests a more thorough upfront evaluation of agenda proposals in order to avoid inefficient use of the resources of the IASB. An efficient use of resources is not only desirable for the IASB itself, but also for the many constituents of the IASB. A prolonged discussion of one project (which might in the end be withdrawn from the agenda altogether) does also tie up substantial resources in the organisations of all the constituents worldwide who follow the Board's



discussion, analyse proposals and possible implications for their organisation, or develop and coordinate comment letters.

Therefore, a more thorough analysis of the agenda proposal and the demonstrated accounting issue respectively is crucial. More time and resources should be dedicated to analyse the issue at hand and to discuss and to develop the agenda proposals. During the development of agenda proposals and in discussing the agenda proposals the IASB should also . as far as possible . consider possible consequences of the specific project. For example, some proposals can be evaluated regarding the costs and benefits of a new or amended IFRS before further developing the accounting requirement.

Regarding the projects on the current agenda of the IASB we support the IASB's proposal to continue to give the highest priority to progressing the work on: (1) revenue from contracts with customers, (2) leases, (3) insurance contracts, and (4) financial instruments. As a principle for future agenda decisions the GASB suggests that the IASB should generally not work on more than three projects at the same time. However, the dimension of the project, e.g. "quick fix projects", limited scope project, or projects on conceptual issues, needs to be considered. Furthermore, in the future the IASB should generally give priority to those projects that are internationally relevant rather than those that are relevant for only a specific region. Another aspect of the IASB's agenda decisions should be the changes in the environment of the reporting entities. For example, intangible assets are increasingly driving the value of an entity; however, their importance is not yet reflected in the IFRSs.

Based on these suggestions the GASB argues for adding the following projects on the agenda of the IASB:

- 1) Foreign currency translation (internationally relevant issue),
- 2) Intangible assets (to correspond with the relevance of these assets), and
- 3) Post-employment benefits (project restricted to new plans which have not been addressed yet)





- 4) Other comprehensive income (better be addressed within the conceptual framework project, however, we suggest to address the topic separately due to the urgency of the matter).

On the other hand, the GASB suggests discarding the following projects from the agenda of the IASB:

- 1) Country-by-country reporting,
- 2) Earnings per share, and
- 3) Financial statement presentation / presentation and disclosure standard (these should be dealt with within the conceptual framework project).

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