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Pedro Solbes
Chairman EFRAG Supervisory Board
35 Square Meeûs

Berlin, 30 November 2011

B-1000 Brussels

Dear Mr Solbes,

EFRAG PRC's draft comment letter on the IASB's Request for Views – Agenda Consultation 2011

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the EFRAG PRC's draft comment letter on the IASB's Request for Views – Agenda Consultation 2011. The GASB welcomes the discussion of the overall strategic direction and the balance of the IASB's agenda.

We would like to address specifically the following issues:

- we agree that the agenda-setting process should be enhanced by more thorough research of the need for changes in the financial reporting requirements and possible directions to be taken.
- we agree that convergence should not be the driver of agenda setting, rather improving IFRS financial reporting.
- we agree that developing and finalising the Conceptual Framework should be given highest priority; we note though that in our view the current framework cannot be given the role EFRAG envisages as e.g. there are so many measurement bases that conflicts will rarely arise. Only the new Framework – if appropriately concise – can be used as the basis for future standardsetting.
- we support the IASB finalising the work on: (1) revenue from contracts with customers, (2) leases, (3) insurance contracts, and (4) financial instruments.



For further details, please see our comment letter to the IASB as attached 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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Berlin, 30 November 2011

Dear Hans,

Request for Views – 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. While we agree that both areas are important, we suggest focussing on the maintenance of existing IFRSs, and enhancing the quality and consistency of current IFRSs, e.g. by conducting post-implementation reviews.

As the IASB suggests, the consistency of the IFRSs will greatly benefit from completing the conceptual framework. We therefore urge the IASB to focus on this project with the aim of completion in about three years. While in the longer term the conceptual framework will include a chapter on disclosures, the IASB should attend to a near-term relief from excessive disclosure requirements.

Overall, the IASB should seek a balanced agenda, more carefully considering its own limited resources and the restrictions of its constituents. There should only be a limited number of projects on its agenda, allowing for a timely completion of each project.

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 necessary in the standard-setting process.

Nevertheless, in the light of the IASB's limited resources, we suggest a stronger involvement of other institutions. For example, the IASB does not necessarily need to build up research resources within its organisation, but can also outsource these activities. A large number of academics worldwide have build up the skills, resources and network necessary to undertake the kind of research needed 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 turn 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 intangible assets, national management commentary standards or developing a basis for discussion of the equity-liability-split. However, the IASB needs to ensure that this research is integrated into the IASB's standard-setting process and that the research results are carefully considered and discussed by the IASB.

We welcome the IASB's plans regarding post-implementation reviews (PiRs) in order to obtain a better understanding of operational issues of new IFRSs and major amendments. The IASB plans to conduct PiRs once a new IFRS has been applied approximately for two years. We believe, though, that it will be necessary to decide case by case after how much time a PiR should be conducted. For some standards, more than two years will be necessary to detect operational and wider issues of application in their entirety. Furthermore, PiRs 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. In determining when to conduct PiRs, the IASB could consider the findings of national standard-setters, regulators and/or the IFRS IC about issues of (current) IFRSs. In our view, the IASB needs to allocate significant resources to conducting PiRs, to correspond to their importance within the standard-setting process.

Regarding the balance between the two categories (1) developing financial reporting and (2) maintaining existing IFRSs, we find both equally important within 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 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 several urgent issues to be addressed by the IASB. In addition, the analysis of fundamental issues (e.g. intangible assets, comprehensive income) and the development of proposals respectively will take some time. Overall, while there might be less immediate "IFRS-output" there is no room for a "period of calm" regarding the work 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. More importantly, the completed framework needs to be the mandatory point of reference for future accounting standards. The (finalised) framework should have a prominent role within the set of IFRS requirements and each future IFRS should be in line with the framework or else explain why compliance with the framework was not feasible. The finalisation of the conceptual framework should be the first priority of the IASB; the aim should be completion within about three years. For the time being, the IASB should not defer its other standard-setting activities until finalisation of the conceptual framework. While aligning future



accounting standards 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, with a clear focus on US-GAAP. While we acknowledge that convergence with other accounting principles can be beneficial for certain issues, we are pleased to note that convergence (with a focus on one particular set of accounting requirements) 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 language used in IFRSs. We believe it to be crucial that the IASB uses plain English and carefully defines the accounting principles and requirements. Throughout the world constituents most likely apply a translated version of IFRSs. Lack of clarity often results in reduced understandability of the translated IFRSs and inconsistent application of IFRSs. The IASB, for example, often refers to qualifiers such as "remote", "probable", "more likely than not" or "virtually certain" to describe accounting requirements. To find a translation that fits just the nuance that is intended in the English language is difficult or even impossible. The IASB could consider possible difficulties in translating the IFRSs by (1) clearly defining the accounting concept using plain English and by (2) asking constituents (e.g. in the invitation to comment of draft documents) about such problems.

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?

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 giving 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. 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 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, we support the IASB's efforts to finalise the work on: (1) revenue from contracts with customers, (2) leases, (3) insurance contracts, and (4) financial instruments.



Other than these projects the IASB should, in our view, give the highest priority to the finalisation of the conceptual framework. Within that project, the IASB should develop the concept for disclosures. However, currently more important than a framework on (future) disclosure requirements is the reduction of the burden on constituents due to excessive requirements in the existing IFRSs. To give priority to this project is in line with our general proposal to give (at this point in time) more weight to the maintenance of existing IFRSs than to the development of new IFRSs.

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).

As a principle for future agenda decisions the GASB suggests that the IASB should generally work on only a limited number of larger, fully active projects at the same time. However, the dimension of the project, e.g. "quick fix projects", limited scope projects, 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.

It would also be in the interest of constituents if the IASB consequently discarded projects from the IASB's agenda, which are without prospects to be successfully finalised in time or which address accounting issues that currently cannot be resolved. This would be a clear indication for constituents that there will be no further discussions of that topic and there are no amendments or changes to be expected (unless another project proposal will be put out for discussion).

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



- 1) Conceptual framework; this would include the concept of distinguishing between debt and equity and the concept for disclosures,
- 2) Foreign currency translation (internationally relevant issue),
- 3) Intangible assets (to correspond with the relevance of these assets),
- 4) Post-employment benefits (project with the focus on types of plans which have not been addressed yet or which were excluded from the last amendment of IAS 19), and
- 5) 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.