Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
DRSC

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43. Sitzung IFRS-FA am 02.11.2015
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Dear Hans,

IASB Exposure Draft ED/2015/4 *Updating References to the Conceptual Framework*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the IASB Exposure Draft ED/2015/4 (herein referred to as 'ED'). We appreciate the opportunity to comment on the ED.

Generally, we support the IASB's intention of updating existing references in current IFRSs to the Conceptual Framework in light of proposed changes to the Conceptual Framework. However, in our view, the amendments to the Conceptual Framework should not override existing accounting guidance in current Standards. We consider that some of the proposed amendments, especially updating the references to the new definition of assets and liabilities, could have immediate effects for the preparation of financial statements beyond those effects as described in the introduction of the ED.

In addition, we think the ED does not clearly enough describe the potential effects of the proposed amendments for the application and selection of accounting policies in accordance with current IFRSs. For an evaluation whether 18 months would be an appropriate transition period, we think more explanation is necessary how the proposed changes to the Conceptual Framework effect the selection and application of accounting policies in practice. Within this context, we question the conclusion in the introduction of the ED that the proposed amendments are most likely to have an effect, when entities use the Conceptual Framework to select or change an accounting policy, when a Standard permits a choice of accounting policies. It is not clear to us how explicit alternatives of accounting policies would be constraint with the revision of the Conceptual Framework. Therefore, we recommend that the IASB provides more information describing those scenarios of transactions or events where the revision of the Conceptual Framework would affect a choice of accounting policies.

For more details on our analysis of the proposals we refer to our response to the questions of the ED in the Appendix of this letter. If you would like to discuss our comments further, please do not hesitate to contact Holger Obst or me.

Yours sincerely,

Andreas Barckow
President

Appendix – Answers to the questions of the exposure draft

Question 1 — Replacing references to the Conceptual Framework
The IASB proposes to amend IFRS 2, IFRS 3, IFRS 4, IFRS 6, IAS 1, IAS 8, IAS 34, SIC-27 and SIC-32 so that they will refer to the revised Conceptual Framework once it becomes effective. Do you agree with the proposed amendments? Why or why not?

We do not agree with the proposed amendments, mainly because the implications of those amendments regarding the application and selection of accounting policies are not clear. Particularly, the proposed amendments to IFRS 2, IFRS 3, IAS 1, and IAS 8 seem to go beyond editorial corrections and the effect on the application of accounting policies is not clearly explained in the ED.

It is not clear to us whether and to what extent the changes imply immediate amendments to the application and selection of accounting policies in accordance with current IFRSs. On one side the IASB makes clear that any changes from the revised Conceptual Framework would require the IASB to go through its normal due process for adding a project to its agenda and developing an Exposure Draft for revising accounting guidance in particular Standards. Therefore, it may be considered that the proposed changes could only have editorial character. In this case we doubt that transition guidance for preparers of financial statements would be necessary, except for developed accounting policies by preparers in absence of guidance in IFRS in accordance with IAS 8.

On the other side, some of the proposals would change the reference to new or revised guidance. Thus, the revision of the Conceptual Framework would not only, as expressed by the IASB in the introduction of the ED, impact the developed accounting policies by preparers in absence of guidance in IFRS in accordance with IAS 8 or the selection and change of accounting policies; it would also impact current application of accounting policies in accordance with current Standards. For example instead of referring to the definitions and description of elements and recognition guidance of the current Conceptual Framework, the proposed amendments would imply for some Standards the mandatory application of the revised guidance regarding the definition of elements immediately.

For example the identification of acquired recognisable assets and liabilities in accordance with IFRS 3 would require the application of the new definition of an asset and a liability, which are considered to be broader than the existing definitions in the current Framework. In other words, it is our understanding that an acquirer of a business must recognise all identifiable assets and liabilities that meet the new definitions in the revised Conceptual Framework, and classify or designate those assets and liabilities in order to apply other IFRSs subsequently. In consequence, the proposed amendments would result in immediate changes to the identification process of recognisable assets and liabilities within the context of business combinations, also impacting the initial measurement of goodwill. Because of our concerns and clarifications request regarding the proposed asset and liability definition[1], it is difficult to foresee the effects and this could lead to unintended consequences.

In addition, we question the IASB's conclusion in the introduction of the ED that the proposed amendments in the ED also are most likely "... to have an effect when entities use the Conceptual Framework to select or change an accounting policy when a Standard permits a choice of accounting policies." This explanation in the introduction of the ED appears to be different from the statement in the Exposure Draft ED/2015/3 *Conceptual Framework* that the revision will not have an immediate effect on IFRSs, except when no Standard specifically applies to a transaction. In our view, the IASB should provide more explanation why the entity should consider to change an accounting policy that is explicitly permitted by a specific Standard. If the IASB concludes that an accounting alternative permitted as option no longer aligns with the fair presentation, the IASB should consider processing the necessary steps for revising that accounting option.

In conclusion, we recommend that the IASB provides an analysis and explanation of the proposed changes that go beyond editorial amendments and how it would change and effect the application of accounting policies in comparison to current practice. Particularly, the effects of the proposed amendments of IFRS 2, IFRS 3, IAS 1, and IAS 8 should be explored in more detail.

Question 2 — Effective date and transition

The IASB proposes that:

(a) a transition period of approximately 18 months should be set for the proposed amendments. Early application should be permitted.

(b) the amendments should be applied retrospectively in accordance with IAS 8, except for the amendments to IFRS 3. Entities should apply the amendments to IFRS 3 prospectively, thereby avoiding the need to restate previous business combinations.

Do you agree with the proposed transition provisions and effective date? Why or why not?

Generally, we agree with the proposals that any amendments should be applied in accordance with general guidance of IAS 8 retrospectively. Nonetheless, because of the difficulties to foresee

[1] See our comment letter on IASB ED/2015/3 *Conceptual Framework*.

the potential effects of the proposed amendments, we are unsure whether 18 months provide sufficient transition period for constituents. Equally, it is difficult to respond to question 2 (b) whether the exception from retrospective application for IFRS 3 is appropriate. As recommended above, the IASB should provide more information, ideally with underlying examples, for what type of transactions or events the publication of a revised Conceptual Framework would have immediate effects on the preparation of financial statements.

Question 3 — Other comments

Do you have any other comments on the proposals?

The IASB proposes to replace in IAS 34 the term 'income statement' with the term 'statement(s) of financial performance' that is also used as a new term in the Conceptual Framework. However, the term 'statement(s) of financial performance' is not used in other IFRSs, especially not in *IAS 1 Presentation of Financial Statements*. We think the IASB should consistently change that term for all IFRS or align IAS 34 terminology with the terminology currently used in IAS 1. Otherwise, we think IFRS standards become confusing based on different terminology, as it is difficult to understand and difficult to work with that guidance.

Current IFRSs would use at least three different terms to describe the same thing: 'statement of financial performance', 'statement of comprehensive income', and 'statement of profit or loss and other comprehensive income'. Different terminology should only be used if it also implies differences in its meaning. Within this context, we notice that the IASB has changed the label of those statement(s) depicting income and expenses of the period several times. In our view, the IASB should carefully consider the impact of changing terminology too frequently regarding the understandability of IFRSs.