Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

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Berlin, [Date]

43. Sitzung IFRS-FA am 03.11.2015
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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.

At the date of writing, the ASCG has not yet finalised its discussion on the IASB's Agenda Consultation. Therefore, the views presented in this letter are tentative, where indicated, and are limited to the questions raised by EFRAG in its DCL. We will send EFRAG a copy of our comment letter to the IASB once it is sent to the IASB.

Please find our detailed comments on the questions raised in the DCL 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

Appendix – 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 tentatively assigned to the IASB's research projects. 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 provided 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 additional transactions, 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 transactions remains unclear. Examples include the loss of control resulting from dilution or from written call options that are deeply in the money. Further questions other than those dealing with the scope of the standard include how to address eliminations of intra-group transactions between the parent entity and the subsidiary that the parent will cease to control.

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	Medium
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/medium *)
Financial Instruments with Characteristics of Equity (FICE)	High/medium *)
Business Combinations under Common Control	Medium
Equity Method	Low

*) The research projects on DRM and FICE are assessed differently depending on the constituency asked. Most financial institutions, especially banks, see an urgent need for developing an accounting model for macro hedging activities under IFRS, whereas other entities (for example industrial undertakings) might consider the issue to be of lesser importance. The urgency of FICE mainly depends on an entity's involvement in issuing structured capital (especially 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 corporate entities (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 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, despite 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.*