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Achieving Consistent Application of IFRS in the EU

Dear Göran,

We appreciate the opportunity to comment on the Discussion Paper “Achieving Consistent Application of IFRS in the EU”.

A. General remarks

The German Accounting Standards Board very strongly supports IFRS remaining objective-oriented standards. Although we are aware of questions having arisen when applying IFRS and specifically when applying newly developed IFRSs, we are still unconvinced that most of these questions merit the process of developing an interpretation and consequently the endorsement process. Furthermore, IFRIC should remain the only source of authoritative interpretations. We see a danger of global requirements being regionalised by local or regional texts being added to the literature to be applied.

GASB monitors IFRIC's activities with some concern:

- Some issues taken up seem to be of only regional interest or diverging practice remains to be seen yet (e.g. interpretations of IFRS 2)
- Some issues seem to merit standard-level projects, not interpretations (e.g. service concessions)
- The resources at the disposal of IFRIC seem to be less than adequate (e.g. D15 where four months have lapsed after the end of the comment period and analysing about 30 comment letters has not started because no staff could be assigned)

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Therefore, GASB concluded that supporting the agenda decisions by producing proposals for issues to be taken up and strengthening IFRIC's resources by seconding staff on a project basis should prove the most effective improvement over the current situation.

B. Answers to the EFRAG's specific questions

(1) As explained in paragraph 2.4, although a number of claims are being made about the position in Europe, we need to understand the nature and number of the implementation issues that are arising in Europe if we are to understand the true position. With that objective in mind, please could you provide details of the real-life IFRS implementation issues that are concerning you.

Comment:

GASB supports the efforts for achieving consistent application by all parties concerned that is preparers, auditors and regulators. However, a clear distinction should be made between mandatory literature that is International Financial Reporting Standards and Interpretations and non mandatory implementation guidance.

It is difficult to assess the need for interpretations. IASB has issued over the last two years:

- Seven new IFRS (IFRS 1 to 7)
- Amendments to seventeen IAS (improvements, financial instruments, IAS 36 and IAS 38)
- Six interpretations

Although Germany has permitted the application of IAS in consolidated financial statements since 1998, there is no established current practice of the new texts or by entities which had to change because of the EU regulation.

As to implementation guidance, the very technical texts as the ones on deferred taxation, employee benefits, impairment of assets, financial instruments, share-based payments, and business combinations seem to generate numerous questions. Some questions seem to be genuinely "how to" questions; some seem to explore the boundaries of what auditors and regulators will see as acceptable.

The following accounting issues remain unresolved:

- emission rights (remaining unresolved given that IFRIC 3 has been withdrawn)
- impairment of financial assets and cash generating units
- intangible assets in business combinations and outside business combinations
- service concessions.

(2) As explained in paragraph 2.5, it has been suggested by some commentators that, in order for Europe to implement IFRS consistently,



there will need to be a considerable increase in the number of IFRIC interpretations issued.

- (a) Do you believe there is a need for a substantial increase in the number of interpretations?**
- (b) If you do, which of the real-life issues identified by you in response to paragraph 4.2 do you believe are significant enough to merit an interpretation?**
- (c) The IFRIC has stated that it is not currently inundated with requests for interpretations and that a capability to issue 12 interpretations a year is currently sufficient to meet demand. Others have asserted that the number of issues meriting an interpretation is much greater than that, which suggests that issues are arising that are not being brought to the IFRIC's attention.**
 - (i) Which of the issues that have been highlighted in response to paragraph (b) have been brought to the IFRIC's attention?**
 - (ii) If some of the issues have not been brought to the IFRIC's attention, why have they not been?**

Comment:

No, GASB does not see the need for a substantial increase in interpretations. Issues meriting attention include those arising from employee benefits (e.g. early retirement arrangements; although national law might be very specific and differ from country to country, most issues would be common globally), financial instruments (this might be the most testing area) and business combinations (practice of applying IFRS 3 is gathered; the question who is the acquirer might be the most frequent).

Practice has yet to be established for the Non-IFRICs. Although numerous questions seem to have come to IFRIC about impairment of financial instruments, IFRIC seems to be rather reluctant to acknowledge diverging practice.

- (3) One much debated issue (see paragraph 2.6) is whether some of the IFRS implementation issues arising in Europe are urgent issues that merit a quick response (in other words, that merit a formal response more quickly than the processes of the IFRIC permit).**
 - (a) If you have provided some real-life implementation issues in response to question 4.3(b) above, could you please state whether you believe any of them are urgent issues that merit a quick response.**
 - (b) Could you also please explain what it is about the issue that leads you to conclude that they are urgent issues that merit a quick response?**



Comment:

IFRIC has clearly stated that no response should be given without due process. GASB supports this requirement. Speeding up IFRIC's deliberations can be achieved by strengthening its resources; that is staff resources. An elaborate mechanism exploring issues and solutions before IFRIC concludes if it takes up the issue or not will only lengthen the process: only texts having undergone the full global due process should be able to become part of the obligatory IFRS literature.

“Competition” for IFRIC arises from regulators providing pre-clearance advice. However, close cooperation between standard-setters and regulators has a long-standing tradition and will be developed further.

- (4) This paper takes the view (in paragraph 3.5) that enforcement/audit and standard-setting should be kept separate and that, as a result, although the audit and enforcement functions play a very important role in ensuring that IFRS are applied consistently, it would not be appropriate for those *functions* to be the main way of addressing potential IFRS implementation issues. Do you agree? If you do not, please could you explain your reasoning.**

Comment:

GASB fully subscribes to keeping standard-setting and enforcement/audit separate. There is common ground in establishing what transactions take place and what current practice develops in financial reporting. However, standard-setters need to conclude if or how to improve the framework of financial reporting; auditors and regulators need to see to the framework being applied.

- (5) This paper suggests (in paragraph 3.8) that Europe should proceed on the basis that the IFRIC will ensure that it is at all times resourced sufficiently to prevent a backlog of European issues meriting an interpretation arising. Do you agree with this suggestion? If you do not, please could you explain your reasoning.**

Comment:

GASB does not see IFRIC as being resourced adequately; however, the conclusion is to strengthen IFRIC rather than setting up an alternative mechanism as such an alternative mechanism could not produce global requirements.

- (6) This paper concludes (in paragraph 3.14) that, if the proposition referred to in paragraph 4.6 is accepted, Europe should not issue interpretative guidance—not even if there is a substantial increase in demand from Europe for interpretations. Do you agree? If you do not, please could you explain your reasoning.**

Comment:

GASB does not support European interpretations. All mandatory texts should be established through IASB's / IFRIC's global due process.



- (7) This paper suggests (in paragraph 3.16) that, if the proposition referred to in paragraph 4.6 is accepted, Europe should not issue implementation guidance. Do you agree? If you do not, please could you explain your reasoning.**

Comment:

For the sake of consistency, no regional guidance (e.g. European) should be issued.

- (8) Paragraphs 3.17-3.20 discuss the possibility of Europe setting up an urgent issues mechanism should the responses to paragraphs 4.2-4.4 show that there are genuinely urgent issues arising in Europe that merit a quick response. The discussion concludes that a European urgent issues mechanism should not be set up even if there are genuinely urgent issues arising in Europe. Do you agree? If you do not, please could you explain your reasoning.**

Comment:

GASB agrees that no mechanism should be set up issuing responses to seemingly urgent questions without an appropriate due process.

- (9) This paper suggests (in paragraphs 3.21-3.29) that Europe should set up an 'IFRIC support mechanism' of the type described in those paragraphs if the responses to paragraphs 4.2-4.4 were to suggest a need for it. Do you agree? If not, please give your reasoning.**

Comment:

GASB sees merit in Europe pooling its experience. However, when setting up a mechanism it should be borne in mind that timely solutions will be sought. Therefore, the mechanism needs to be in a position to act swiftly.

- (10) The appendix to the paper discusses one particular aspect of the IFRIC support mechanism suggestion—whether the mechanism would publish the suggested solutions it would send to the IFRIC. The tentative conclusion of the discussion is that the suggested solutions should not be published. Do you agree? If you do not, please could you explain your reasoning.**

Comment:

Published solutions establish (as intended) points of reference; no points of reference should be published without clearly stating that they have not undergone any due process and represent no more than the opinion of the author(s). There is a very fine dividing line between publishing a draft proposed solution as part of an issue's proposal and publishing guidance; the wording "*suggested*" solutions seems to be rather leading.



Appendix: If Europe sets up an IFRIC support mechanism, should the mechanism publish the suggested solutions it sends to the IFRIC?

A1 As was explained in paragraph 3.27, if Europe were to set up an IFRIC support mechanism, it would be essential that the mechanism operated in a transparent way. That would involve, it is suggested, publishing as much of its work as possible on a publicly-accessible website. In particular:

- (a) the issue papers, including the staff's analysis of the issues, would be published before (or alternatively immediately after) the meeting; and**
- (b) the meeting minutes, recording the committee's categorisation decisions in detail (and making clear which issues have been referred to whom), would be published immediately after the meeting.**

This would help ensure European constituents are aware of the issues being considered.

Comment:

GASB strongly supports transparent processes for all organisations involved in standard-setting. When referring an issue to IFRIC this should be supported by an analysis of the issue to help IFRIC evaluate whether it should take it up or not. It is not clear what "the committee's categorisation decisions" might entail and to what organisations the committee may refer issues other than to IFRIC or local or regional standard-setting organisations.

A2 There has been much discussion as to whether, in addition, the suggested solutions that it is suggested the mechanism (if established) would send to the IFRIC (see paragraph 3.25) should also be published.

A3 Some commentators argue that the suggested solutions should be published because the meetings would (it is proposed) be held in public so the solutions would be known to those present at the discussion; publication would ensure that the suggested solutions are not known just to a 'privileged few'. Others argue that, were the suggested solutions to be published, it is likely that they would become part of European GAAP.

- (a) This paper has already argued that it is in the interests of preparers and users alike that Europe should have as few sources of GAAP as possible.**
- (b) It has also already argued that it is essential that all changes to European GAAP should be subject to a proper due process. Although it might be possible to build a due process into the procedures of a support mechanism, that would delay the**



completion of the mechanism's work and is therefore likely to defeat the objective of setting it up (which is to help the IFRIC to deal with its workload more efficiently).

- (c) **Some commentators argue that, were the suggested solutions to be published without a due process, they might be a means of meeting the demand (if any) for a quick response to urgent issues.**

This paper tends to the view that the benefits of publishing the suggested solutions are outweighed by the disadvantages. For that reason, its tentative view is that that the suggested solutions should not be published. Comments are invited on this issue (see paragraph 4.11).

Comment:

GASB strongly supports all efforts to avoid setting European GAAP and therefore does not support publishing proposed solutions. (see comment to question 10)

Please do not hesitate to contact me for clarifying any aspect of our comments.

Kind regards

Prof. Dr. Klaus Pöhle