VMEBF
Bilanzierung in Familienunternehmen

Hans Hoogervorst
Chairman of the
International Accounting Standards Board (IASB)
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 12/03/2014

Dear Mr. Hoogervorst,

ED/2013/11 – ANNUAL IMPROVEMENTS TO IFRSS 2012-2014 CYCLE

We appreciate the opportunity to comment on the exposure draft ED/2013/11 regarding the annual improvements to IFRSs 2012-2014 cycle.

The Association for Participation in the Development of Accounting Regulations for Family-owned Entities (VMEBF) was founded in 2006 and consists of German companies with a strong family shareholder background. Beyond its members, the association represents a large part of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The aim of the VMEBF association is to make the role of German family businesses as stakeholders in the development of international accounting more visible and to act as a constructive partner for the standard setters. We work closely together with the German standard setter ASCG and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

While we agree with most of the proposed amendments, we would like to propose changing the amendments to IAS 19 *Employee Benefits*. We are concerned that the wording as proposed is not clear enough and might therefore once again bring about divergence in accounting practice.

We principally welcome and understand the proposed clarification that the high quality corporate bonds used to estimate the discount rate for post-employment benefit obligations according to IAS 19.83 should be issued in the same currency in which the benefits are to be paid. Consequently, the depth of the market for high quality corporate bonds should be assessed at a currency level. Determining the basket of high quality corporate bonds at a country level (instead of a currency level) would more likely lead to the usage of market yields on government bonds as a fallback solution if there is no deep market in high quality corporate bonds in a country.

The proposed amendment is in principle also in line with the wording of the third sentence of IAS 19.83 "the currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations".

However, we believe that there are some unsolved questions regarding the discount rate issue:

1) The IASB should change the wording regarding the scope of high quality corporate bonds to be included when determining the discount rate at a currency level. We have observed that there are different views of how the amendment is to be understood. Thus, for post-employment benefit obligations denominated in EUR it seems to be unclear whether an entity is required to include bonds denominated in EUR worldwide, i.e. even if the issuer is located outside the country of domicile of the entity. There are different views, according to whom only high quality corporate bonds from entities located in the country of domicile of the reporting entity have to be included when determining the discount rate (assuming there is a deep market for such bonds in that country). The IASB should straighten out the view that has to be followed. We would – for practicability and cost-benefit reasons – even recommend limiting the scope to high quality corporate bonds from issuers inside the respective currency zone (e.g. the Eurozone). The IASB could for example insert a sentence like “When assessing the depth of the market for high quality corporate bonds at a currency level, it is appropriate to limit the basket of high quality corporate bonds to those issued in the entity´s currency zone” in IAS 19.83.

2) The IASB should clarify whether the requirements set out for corporate bonds also apply to government bonds. If there is no deep market for high quality corporate bonds in a currency, the market yields on government bonds denominated in that currency shall be used. It is not clear whether the proposed amendment requires the use of government bonds denominated in the same currency (e.g. EUR) in its own country (e.g. Germany), its currency zone (e.g. the Eurozone) or worldwide. We would – again – recommend limiting the scope to government bonds from issuers inside the respective currency zone. In this context, the IASB should bear in mind that according to IAS 19.84 the discount rate reflects the time value of money but <u>not</u> the actuarial/investment risk, the entity-specific credit risk or the risk that future experience may differ from actuarial assumptions.

3) The IASB is silent on the minimum credit quality for government bonds to be considered. According to the current wording, an entity could use government bonds of whatever rating (as a fallback solution) while corporate bonds have to be of high quality. The IASB should also discuss this issue.

With this in mind, we believe that the IASB should further discuss the discount rate issue in more detail. It would also be an option to discuss the above-mentioned questions in the context of the IASBs research project on discount rates. Therefore, the IASB could consider removing the issue from the annual improvements project and shift it to its research project agenda.

If you have any further questions please do not hesitate to contact us.

Kind regards,

Vereinigung zur Mitwirkung an der Entwicklung des
Bilanzrechts für Familiengesellschaften e.V. (VMEBF)

D. Truxius | Peter Krieg | Winkeljohann

Prof. Dr. Dieter Truxius | Peter Krieg | Prof. Dr. Norbert Winkeljohann