

Mr. Hans Hoogervorst
International Accounting Standards Board – IASB
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 15/12/15

Dear Mr. Hoogervorst,

RE: IASB AGENDA CONSULTATION 2015

We appreciate the opportunity to comment on the board's Request for Views (RfV) regarding the "Agenda Consultation 2015".

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 huge number of family-owned large and medium-sized entities in Germany, often legally organised in the form of partnerships. The objective 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 GASC and the German Institute of Chartered Auditors (IDW) as well as other political institutions.

When developing its future agenda, the IASB has to place special weight on the views of its constituents worldwide, as the needs of users and preparers of financial statements – even in the same legal environment – tend to vary more and more. We are aware of the fact that due to special circumstances like the low-interest period some projects gained importance at short notice while other projects became less important in recent years. However, we believe that the current work plan of the IASB contains some projects that will not necessarily solve the urgent problems regarding the overall quality of financial reporting (e.g. the project on liabilities). Instead, the variety of projects undertaken in parallel leads to an ongoing time pressure and the board tentatively not being able to accomplish adequate research or outreach activi-

Vereinigung zur Mitwirkung an der Entwicklung des Bilanzrechts für Familiengesellschaften e.V.
VMEBF e.V., c/o Freudenberg & Co. Kommanditgesellschaft, 69465 Weinheim, Germany

Board: Prof. Dr. Dieter Truxius (Chairman) · Tel.: (06183) 8000500 · E-Mail: dieter.truxius@accobis.com
Peter Krieg (Deputy chairman) · Tel.: (06181) 352569 · E-Mail: peter.krieg@heraeus.com
Volker Christ · Tel.: (06201) 80-5817 · E-Mail: volker.christ@freudenberg.de
Prof. Dr. Norbert Winkeljohann · Tel.: (0541) 3304517 · E-Mail: norbert.winkeljohann@de.pwc.com

ties – not to mention field testing. Moreover, a comprehensive and accurately elaborated underlying concept is an essential requirement for the development of consistent, principles-based financial reporting standards. Such highly principles-based standards would enable preparers to deduce consistent and robust accounting principles from lean and concise financial reporting standards without the variety of casuistic exceptions from the principles initially adopted that are effective in current IFRSs.

As the resources of both the IASB and most of the constituents are limited, the IASB should furthermore consider a “period of calm” or a moratorium in standard setting after completing and putting into effect its most urgent projects (e.g. on the conceptual framework or leases). Especially preparers often face severe problems following-up and commenting the vast number of DPs/EDs issued and passing through the excessive consultation processes required, as there is a lot of operational work to be done in parallel preparing financial statements and adapting routines and processes to the ever-present amendments to IFRSs. In that regard, we would like to mention the very extensive disclosures to be prepared each year, a lot of which would be dispensable not only but also from a cost-beneficial point of view.

Therefore, the IASB should henceforth focus on a restricted number of unpostponable core projects to be finalised within the next couple of years (e.g. the conceptual framework project or the disclosure initiative). Furthermore, we are convinced that the IASB should focus on serving those who have adopted or wish to adopt IFRS and hence should rather prioritise maintaining and optimising existing standards than putting too much effort into most different research projects with uncertain outcome.

To sum up, we believe that for the next few years the board should (apart from urgent projects as pointed out above) confine its efforts to the maintenance of existing standards and reduction of notes disclosures.

Please refer to the appendix to this letter for our detailed answers to the questions asked in the consultation paper.

Kind regards,

Association for Participation in the Development of
Accounting Regulations for Family-owned Entities (VMEBF)



Prof. Dr. Dieter Truxius



Peter Krieg



Volker Christ



Prof. Dr. Norbert Winkeljohann

Appendix:
VMEBF comments on the additional questions

Question 1:

The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;***
- (b) its Standards-level programme;***
- (c) the Conceptual Framework;***
- (d) the Disclosure Initiative; and***
- (e) maintenance and implementation projects.***

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

On page 18 of its RfV the IASB introduces a list of factors to be considered in prioritising specific projects on its work plan and allocating resources to them. Although we principally agree with those factors, it is not clear how the IASB applies and weights those factors making decisions on resource allocation. We miss a fundamental explanation of how the factors mentioned are applied in practice.

With regard to the IASB's priorities, we believe that the board should focus on a clearly defined number of unpostponable core projects to be finalised and put into effect within the next few years and consider a "period of calm" or a moratorium in standard setting afterwards (idea of a stable platform of IFRSs). This is due to the necessity to allow preparers of financial statements to implement the new IFRSs without having to follow-up and comment on an unspecified number of new DPs/EDs issued by the board in parallel. Therefore, the IASB should – besides the above-mentioned core projects – prioritise the maintenance of existing standards over the development of new IFRSs.

Notwithstanding our general favour for a "period of calm" or a moratorium in standard setting, we think it is important to have a consistent basis for developing future standards and consider it vital to complete the conceptual framework project and the disclosure initiative as soon as possible.

Question 2:

The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.

Should the IASB:

- (a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.***

- (b) remove from its research programme the projects on foreign currency translation and high inflation? Why or why not?**
- (c) remove any other projects from its research programme?**

(a) Taking a closer look at the IASB's research programme, we do not always understand the specific objective of each project. To make the objectives of each project transparent, the IASB should clearly identify and communicate the underlying problem to be solved by the project. Such problems can be severe changes in the economic environment (e.g. the continuing low-interest period), sustainable diversity in practice, inconsistencies between IFRSs or lack of guidance concerning prominent industry issues.

We would suggest the IASB dedicating the major part of its resources to its standards-level projects and the maintenance and implementation projects until 2018, when most of the recently published or shortly completed IFRSs should be put into effect. Following this, the IASB should restart dealing with the long-term projects in its research programme. This is to ensure that the IASB will progress its current as well as its research projects more quickly.

With regard to a project on IFRS 5, we believe the IASB should consider a broad-scope project to deal with several issues raised.

(b) From our point of view, the IASB should remove all its inactive projects from the research agenda.

(c) Furthermore, we believe that the IASB should remove the project on provisions, contingent liabilities and contingent assets from its research agenda. The project does not address urgent accounting problems and the standard that is currently in effect is widely accepted in practice.

Question 3:

For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low). Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

As already stated in our cover letter, an overriding conceptual framework and a concise disclosure framework are the most pressing financial reporting needs. Moreover, we believe that standards-level projects and maintenance and implementation projects should be prioritised over research projects until most of the recently published or shortly completed standards are put into effect.

When prioritising the research projects in the table below, we also reached out to our member companies. Beyond our members, the VMEBF association represents a huge number of family-owned large and medium-sized entities in Germany, often

legally organised in the form of partnerships. With this in mind, we add significant importance to the project on financial instruments with characteristics of equity.

Project	Priority
Assessment stage	
Definition of a Business	Low
Discount Rates	High
Goodwill and Impairment	High
Income Taxes	Medium
Pollutant Pricing Mechanisms (formerly Emissions Trading Schemes)	Low
Post-employment Benefits (including Pensions)	High
Primary Financial Statements (formerly Performance Reporting)	Low
Provisions, Contingent Liabilities and Contingent Assets	Delete
Share-based Payment	Low
Development stage	
Business Combinations under Common Control	High
Disclosure Initiative – Principles of Disclosure	Very high
Dynamic Risk Management	High
Equity Method	Low
Financial Instruments with Characteristics of Equity	Very high

In the table above we tried to make transparent that preparers of financial statements focus on solving implementation problems. We believe that a robust and overriding conceptual and disclosure framework could solve many implementation problems due to the mere fact that it would allow the deduction of consistent accounting principles and pose a practicable alternative to complex and hardly generalisable casuistic exceptions within a large number of standards.

With regard to especially the projects on financial instruments with characteristics of equity and income taxes we would like to note the following:

- From our point of view, the project on financial instruments with characteristics of equity would have to be integrated into the conceptual framework project by implementing a principles-based definition of equity. Such a definition should focus on the economic substance of equity instruments instead of prioritising the prevention of structuring opportunities and thereby creating a much too narrow classification approach.
- The project on income taxes has to really simplify deferred tax accounting and reduce disclosure requirements. Current accounting regulations are far too complex to be applied consistently and are anything but cost-beneficial.

Question 4:

Do you have any comments on the IASB's current work plan for major projects?

From our point of view, the conceptual framework is one of the most important elements of accounting regulations and an essential basis for high quality principles-based financial reporting and standard-setting. Thus, the IASB should focus on completing the framework project as soon as possible. In this context, we believe that the IASB should reconsider the authoritative status of the framework. A conceptual framework that is not able to override the standards themselves cannot be the basis for a high quality principles-based financial reporting. A framework on a hierarchical level above the standards would additionally enable the standard setter to develop lean and concise standards without the variety of casuistic exceptions from the principles initially adopted that are effective in current IFRSs. Nevertheless, this requires a comprehensive and accurately elaborated underlying concept. This would not only allow standard setters to develop concise and principles-based IFRSs but also enable preparers to deduce consistent and robust accounting principles. Therefore, the IASB should – besides other aspects – reconsider the authoritative status of the framework in a timely manner.

Moreover, we believe that the IASB should intensify its efforts in completing the disclosure initiative. In recent years we observed a permanent increase in notes disclosures as the board added disclosure requirements with every project finalised. For example, we are really concerned about the excessive increase in disclosure requirements related to IFRS 15. We understand the board's objective to provide decision-useful information to the users of financial statements. However, we do not think that expanding disclosure requirements will help fulfilling that objective. Most commonly, disclosure requirements are determined to fix the conceptual shortcomings of the standards and rather lead to an information overload on the user-side than to an increase in decision-usefulness. Finally, the preparation of that kind of information (which is normally not prepared as part of management reporting) incurs excessive cost on the side of the reporting entity.

We are certainly aware of the increasing complexity of business transactions, especially in the financial sectors. However, not all notes disclosures required by the standards provide decision-useful information to a large percentage of users of financial statements. Instead, they provide information to a small group of specialised users. For the rest, too much complex information rather results in irritation and the decision-useful information will get lost. From a cost-benefit or even a relevance point of view this seems rather unrewarding in terms of preparers as well as standard users of financial statements.

Question 5:

Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see par. 19–23 and 50–53)?

We would like to note that especially smaller companies – even if they are listed – often do not have enough resources or know-how in their accounting departments to participate actively in the standard-setting process or follow up all of the small changes and narrow-scope amendments to IFRSs. As a consequence, they often face severe problems commenting the vast number of DPs/EDs issued and passing through the excessive consultation processes required, as there is a lot of operational work to be done in parallel preparing financial statements and adapting routines and processes to the ever-present amendments to IFRSs.

Having said that, we propose the IASB to bundle especially some of its maintenance and implementation projects under the aegis of the Annual Improvements Project. By definition, the annual improvements to IFRSs include narrow-scope amendments or minor changes to IFRSs. A key advantage of integrating a part of its maintenance and implementation efforts into the Annual Improvements Project would be that those amendments are discussed and published in a single omnibus-standard. However, urgent problems still have to be addressed through separate amendments to IFRSs.

Question 6:

Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

As already pointed out in our answer to question 5, some of our member companies have severe problems coping with the pace and the level of detail of standard-setting. In that context, we would like to encourage the IASB to intensify its efforts to develop principles-based financial reporting standards. With this in mind, we would like to point out that the conceptual framework is one of the most important elements of accounting regulations and an essential basis for high quality principles-based financial reporting and standard-setting. We believe that the IASB should reconsider the authoritative status of the framework. A conceptual framework that is not able to override the standards themselves cannot be the basis for a high quality principles-based financial reporting.

Question 7:

Do you have any other comments on the IASB's work plan?

We have no other comments.

Question 8:

Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not? If not, what interval do you suggest? Why?

We agree with the proposal to extend the interval between Agenda Consultations to five years. However, it has to be ensured that the IASB still can address urgent issues within its work plan without the need for extensive public consultation.