

EFRAG
Mr. Jean-Paul Gauzès
35 Square de Meeûs
1000 Brussels
Belgium

Weinheim, 30/05/18

Dear Mr. Gauzès,

RE: EFRAG´S RESEARCH AGENDA CONSULTATION

We appreciate the opportunity to comment on EFRAG´s Research Agenda Consultation 2018.

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 research agenda, EFRAG has to place special weight on the views of company representatives, 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 radical changes in information technology (e.g. the increased use of cloud services) some topics gain importance at short notice while other projects become less important when time is passing. However, we believe that EFRAG´s research agenda should focus on a small, well-discussed portfolio of projects that address the urgent problems regarding the overall quality of financial reporting for the vast majority of EFRAG´s constituents. A large variety of research projects to

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be undertaken in parallel (besides ad hoc projects, proactive projects and work related to IASB consultations or endorsement activities) might lead to an ongoing time pressure and EFRAG tentatively not being able to accomplish adequate research or outreach activities – 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 requirements. Such highly principles-based reporting requirements 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 EFRAG and most of the constituents are limited, EFRAG should carefully weigh up its research agenda and only put into effect its most urgent projects (e.g. on intangible assets). Especially preparers often face severe problems following-up and commenting the vast number of discussion papers or exposure drafts issued by the IASB, EFRAG, the EU Commission or national standardsetters 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. This is an issue that EFRAG should keep in mind when performing research on whatever topic.

Therefore, EFRAG should henceforth focus on a restricted number of unpostponable core projects to be finalised within the next couple of years. Furthermore, we are convinced that EFRAG should focus its research on serving those preparing or using IFRS financial statements in Europe instead of putting too much effort into proactive research projects with uncertain outcome.

Please refer to the appendix to this letter for our detailed answers to the questions asked in the consultation paper. If you have any further questions, please do not hesitate to contact us.

Kind regards,

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



Andreas Janssen



Santokh Advani



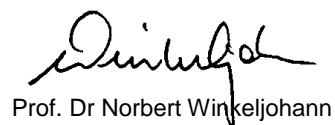
Dr Michael Reuter



Axel Schade



Prof. Dr Dieter Truxius



Prof. Dr Norbert Winkeljohann

Appendix:
VMEBF comments on EFRAG's questions

Question 1 – General questions:

Q1.1: Do you have suggestions on how EFRAG could substantiate the influence of its research activities in general, and individual projects in particular, on the IASB's work?

We believe that EFRAG should try to mobilise more of its constituents to autonomously take an active part in commenting the IASB's work, attending round-tables or giving feedback to the board, the IFRS Foundation trustees or their national standardsetters. As the resources of both EFRAG and most of the constituents are limited, EFRAG should carefully weigh up its research agenda and only put into effect its most urgent projects (e.g. on intangible assets). Especially preparers of financial statements often face severe problems following-up and commenting the vast number of discussion papers or exposure drafts issued by the IASB, EFRAG, the EU Commission or national standardsetters 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.

Q1.2: What is your assessment on the use of evidence by EFRAG in its recent research? Do you have suggestions on how to improve it?

From our point of view, the use of evidence is crucial to the usability of future IFRSs. A comprehensive and accurately elaborated underlying concept is an essential requirement for the development of consistent, principles-based IFRSs. Such highly principles-based standards 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. To support that objective, EFRAG should add more importance to field testing and intensive outreach activities among preparers of IFRS financial statements.

Question 2 – List of potential topics

Q2.1: For each of the projects listed above, you are kindly required to provide your recommendation based on the following criteria:

- a) Is the project topic an important or urgent matter to European constituents?**
- b) Is the project likely to reach a useful conclusion in a reasonable time?**
- c) How would an EFRAG Research project interact with projects from other organisations, including (but not limited to) the IASB?**

We believe that the project related to better information on intangible assets is of significant practical relevance for preparers and users of financial statements and therefore

should be in the focus of EFRAG's research activities. We therefore agree with EFRAG's intention to develop guidance on accounting for internally-generated intangibles. However, due to the radical changes in information technology (e.g. the increased use of cloud services) EFRAG should add the accounting for cloud computing arrangements to its research agenda.

As cryptocurrencies are only relevant to a small group of constituents in certain industries, we believe that EFRAG should not carry forward research on that topic.

With regard to derecognition, we believe that this issue is relevant especially in the context of financial instruments. IFRS 9 contains specific guidance on derecognition criteria. We therefore do not think that EFRAG should add too much effort into that research project.

As acquisition costs are an ever-present issue for most preparers of IFRS financial statements, we believe that transaction-related costs and variable/contingent payments are highly relevant to the majority of EFRAG's constituents, run through a large part of IFRSs and should therefore be pursued.

Q2.2: Are there other topics that you advice EFRAG to add to its Research agenda? If so, please provide a description of the topic and what the objective of an EFRAG Research project should be.

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 IASB's project on financial instruments with characteristics of equity. Distinguishing equity from liabilities is an important practical issue for a large part of EFRAG's constituents, too. From our point of view, EFRAG should (again) add that topic to its research agenda and discuss the implementation of a principles-based definition of equity (EFRAG already developed an interesting approach to distinguish equity from liabilities in the context of the PAAinE-initiative – the loss absorption approach). A consistent definition of equity should focus on the economic substance of equity instruments instead of prioritising the prevention of structuring opportunities and thereby creating a much too narrow approach with a variety of casuistic exceptions from the principles initially adopted.