IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf

London E14 4HD
United Kingdom

Weinheim, 9/24/21

Dear Sir or Madam,

Re: Request for Information "Third Agenda Consultation"

We appreciate the opportunity to comment on the IASB´s Request for Information regarding the "Third Agenda Consultation". With this letter, we would like to contribute to the Board´s due process and take part in the discussion on the questions stated in the Request for Information.

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 (financial) reporting more visible and to act as a constructive partner for the standard-setters.

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

Board: Andreas Janssen (Chairman) · Tel.: (+49 6196) 204 750 · E-Mail: andreas.janssen@blauband.com
Dr Michael Reuter (Deputy Chairman) · Tel.: (+49 211) 3679 0646 · E-Mail: mail@michaelreuter.com
Santokh Advani · Tel.: (+49 40) 37004 7241 · E-Mail: santokh.advani@marquard-bahls.com
Axel Schade · Tel.: (+49 6181) 35 5113 · E-Mail: axel.schade@heraeus.com
Prof. Dr Dieter Truxius · Tel.: (+49 6182) 898 2809 · E-Mail: dieter.truxius@accobis.com
Dr Thomas Ull · Tel.: (0421) 8980 4282 · E-Mail: thomas.ull@de.pwc.com

Bank account: Deutsche Bank AG, Mannheim · BIC: DEUTDESMXXX · IBAN: DE74 6707 0010 0040 1588 00

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 COVID 19-pandemic or 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 research project on the equity method or the standard setting project on primary financial statements). 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 activities – not to mention field testing. Moreover, applying a comprehensive and accurately elaborated underlying concept is an essential requirement for the preparation of meaningful and decision-useful financial statements. Therefore, the Board should pay increasing attention to enabling 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 (e.g. regarding capital distinction in IAS 32).

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. Especially preparers of financial statements often face severe problems following-up and commenting the vast number of discussion papers/exposure drafts 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 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 Request for Information. 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	Dr Thomas Ull

Appendix:
VMEBF comments on the additional questions

<u>Question 1 – Strategic direction and balance of the Board's activities</u>

The Board's main activities include:

- ***developing new IFRS Standards and major amendments to IFRS Standards;***
- ***maintaining IFRS Standards and supporting their consistent application;***
- ***developing and maintaining the IFRS for SMEs Standard;***
- ***supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;***
- ***improving the understandability and accessibility of the Standards; and***
- ***engaging with stakeholders.***

Paragraphs 14 – 18 and Table 1 provide an overview of the Board's main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.

b) Should the Board undertake any other activities within the current scope of its work?

We believe that the current level of focus with regard to developing new IFRS Standards and major amendments to IFRS Standards (40 %-45 %) should be reduced. This is due to the fact that the current work plan of the IASB contains some projects that will not necessarily solve the most urgent problems regarding the overall quality of financial reporting (e.g. the research project on the equity method or the standard setting project on primary financial statements, see also our answer to question 4). 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 activities – not to mention field testing. Moreover, applying a comprehensive and accurately elaborated underlying concept is an essential requirement for the preparation of meaningful and decision-useful financial statements. Therefore, the Board should pay increasing attention to enabling 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 (e.g. regarding capital distinction in IAS 32).

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. the Disclosure Initiative or the project on financial instruments with characteristics of equity). Especially preparers of financial statements often face severe problems following-up and commenting the vast number of discussion papers/exposure drafts 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, 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. As a consequence, we believe the IASB should increase the current level of focus with regard to maintenance and consistent application of IFRS Standards (15 %-20 %) as well as the improvement of understandability and accessibility of the standards (5 %).

As to developing and maintaining the IFRS for SMEs, we do not think that the IASB should spend a significant part of its resources developing and maintaining this standard (current level of focus: 5 %). This is due to the fact, that especially in the European Union the IFRS for SMEs has no noteworthy impact. However, we acknowledge that other jurisdictions (especially Africa and Asia) might require or permit the application of the IFRS for SMEs, so a complete cessation of the activities regarding the IFRS for SMEs would not be an option.

With regard to supporting digital financial reporting by developing and maintaining the IFRS Taxonomy, we support the current level of focus (5 %). This topic especially grows in importance in the context of the current discussion in the European Union on the obligatory preparation of financial statements and management reports in a single electronic reporting format. We also appreciate the IASB considering digitalisation issues in the light of future standard setting activities.

Finally, the current level of focus in stakeholder engagement (20 %-25 %) also seems to be appropriate. In this context, we would like to point to the fact that with the anticipated implementation of an International Sustainability Standards Board (ISSB) developing sustainability reporting standards, the IASB will require considerable resources coordinating its activities with those of the ISSB, e.g. related to topics like climate-related disclosures or intangible assets.

<u>Question 2 – Criteria for assessing the priority of financial reporting issues that could be added to the Board´s work plan</u>

Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

a) Do you think the Board has identified the right criteria to use? Why or why not?

b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

We agree with the criteria proposed by the Board when assessing the priority of financial reporting issues that could be added to its work plan. However, especially throughout the months of early 2021 we noted a rather high frequency of consultations performed by the IASB and the IFRS Foundation. Said that, we would like to encourage the Board to place special emphasis to the seventh criterion "the capacity of the Board and its stakeholders to make timely progress on the potential project". As the resources of 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 (see also our answer to questions 1 and 4). Especially preparers of financial statements often face severe problems following-up and commenting the vast number of discussion papers/exposure drafts 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 the context of question 2, we would also like to suggest the Board to implement a process requiring the IASB to explain how the above-mentioned criteria are being applied (and met) when deciding on the workplan. For example, the IASB should explain how it has assessed whether there are deficiencies in the way companies report on a transaction in their financial reports or what type of companies the matter is likely to affect. On that basis, constituents would be able to assess the prospects of success as well as the complexity of the project (and consequently draw conclusions on the resource requirements associated with the respective project). Implementing such a process might further improve transparency with regard to the Boards considerations and strengthen the support of the constituents for a project.

<u>Question 3 – Financial reporting issues that could be added to the Board´s work plan</u>

Paragraphs 24–28 provide an overview of financial reporting issues that could be added to the Board's work plan.

a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.

b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board's capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27–28). To help the Board analyse the feedback, when possible, please explain:

(i) the nature of the issue; and

(ii) why you think the issue is important.

Before referring to the potential projects described in Appendix B, we would first like to point to the research, standard setting and maintenance projects already in progress. We believe, that in the light of the restricted resources of the IASB as well as especially the constituents, even the *current* projects have to be prioritised and – where appropriate – be placed inactive or abandoned (as to our priorities regarding the research, standard setting and maintenance projects see our answer to question 4).

Consequently, we took into account that even the current projects of the Board require a considerable amount of resources both on part of the standard setter and the constituents (especially preparers, users, auditors of financial statements) when prioritising the *potential* projects of the Board. Thus, we prioritised the projects on rather rigorous basis ranking only the most important issues with high priority. From our point of view, those projects would be suitable for substituting some of the current projects we ranked with low or medium priority (see our answer to question 4).

Moreover, we believe that there are other potential projects on sustainability topics than only climate-related risks or pollutant pricing mechanisms that might affect financial reporting and that the Board should consider when developing its agenda for 2022 to 2026.

Potential project	Priority
Borrowing costs (IAS 23)	Low
Climate-related risks (IAS 1, IAS 36)	High
Commodity transactions	Low
Cryptocurrencies and related transactions	Medium
Discontinued operations and disposal groups (IFRS 5)	Low
Discount rates	Medium
Employee benefits (IAS 19)	Medium
Expenses – Inventory and cost of sales	Low
Foreign currencies (IAS 21)	Low
Going concern	Low
Government grants (IAS 20)	Low
Income taxes (IAS 12)	Low
Inflation (IAS 29)	Low
Intangible assets (IAS 38)	High
Interim financial reporting (IAS 34)	Low
Negative interest rates	Medium
Operating segments (IFRS 8)	Low
Other comprehensive income	Low
Pollutant pricing mechanisms	Medium
Separate financial statements (IAS 27)	Low
Statement of cash flows and related matters (IAS 7)	Low
Variable and contingent consideration	Medium

Question 4 – Other comments

Do you have any other comments on the Board's activities and work plan? Appendix A provides a summary of the Board's current work plan.

In general, we believe that standard setting projects and maintenance projects should be prioritised over research projects until most of the recently published or shortly completed standards are put into effect. However, in the current research agenda there are some crucial projects we consider to be highly relevant for the improvement of financial reporting (e.g. goodwill and impairment). Thus, those projects should be finalised despite of our general assessment.

Current project	Priority
Research projects	
Business Combinations under Common Control	Medium
Dynamic Risk Management	High
Equity Method	Low
Extractive Activities	Low
Goodwill and Impairment	Very High
Pension Benefits that Depend on Asset Returns	Medium
Post-implementation Review of IFRS 10, 11 and 12	Low
Post-implementation Review of IFRS 9	Low
Second Comprehensive Review of the IFRS for SMEs Standard	Low
Standard setting projects	
Disclosure Initiative – Subsidiaries that are SMEs	High
Disclosure Initiative – Targeted Standards-level Review of Disclosures	High
Financial Instruments with Characteristics of Equity	Very high
Management Commentary	Medium
Primary Financial Statements	Low
Rate-regulated Activities	Low
Maintenance projects	
Availability of a Refund	Low
Deferred Tax related to Assets and Liabilities arising from a Single Transaction	Medium
Lack of Exchangeability	Low
Lease Liability in a Sale and Leaseback	High
Provisions – Targeted Improvements	Medium

In the table above, we tried to make transparent that preparers of financial statements focus on solving implementation problems. As a consequence, we took into account the situation of our member companies when prioritising the *current* projects in the table above. 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 projects on financial instruments with characteristics of equity, but also on goodwill and impairment.

Regarding the project on financial instruments with characteristics of equity, we would have preferred the project to be integrated into the conceptual framework project finalised in 2018. Implementing a principles-based definition of equity focussing on the economic substance of equity instruments instead of prioritising the prevention of structuring opportunities and thereby creating a much too narrow classification approach would have been helpful for users as well as preparers of financial statements.

In respect of the projects on business combinations under common control, goodwill and impairment and primary financial statements we would also like to refer to the comment letters we submitted at the appointed time.

With regard to the management commentary project, we believe that this topic should be under the aegis of the International Sustainability Standards Board as soon as it is set up and starts working.

Finally, in view of the post-implementation reviews of IFRS 9, IFRS 15 and IFRS 16 we believe that although we understand the importance of post-implementation reviews being conducted, the IASB should consider performing post-implementation reviews only if it finds that there is an urgent need to undertake the reviews and not only because the respective standards have been effective for a certain period of time.