



DRSC e. V. • Zimmerstr. 30 • 10969 Berlin

EFRAG
Roger Marshall
Acting President
35 Square de Meeûs
B-1000 Brussels

IFRS Technical Committee

Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

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Dear Roger,

EFRAG's 2015 proactive agenda consultation

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's 2015 proactive agenda consultation (herein referred to as 'the consultation paper'). We appreciate the opportunity to comment on the consultation paper.

EFRAG has published its Draft letter to the IASB regarding the Consultation Paper *Request for views – Agenda Consultation 2015*, which we provide our comments on in a separate letter.

EFRAG has been working on a lot of proactive projects during the last years, resulting in an increasing number of published discussion papers, short discussion papers, and bulletins. Even though we generally welcome all efforts aiming at improvements to financial reporting, either by pointing out practical issues or by submitting alternative thinking, we think these efforts need to be coordinated and well-defined in order to be effective. We acknowledge the political aspects of EFRAG's work, contributing to making EFRAG the voice of Europe; however, we strongly believe that any decision on issues to be addressed proactively by EFRAG should be taken on the grounds of technical and practical needs. Currently, we lack a clear visibility and understanding of the process EFRAG follows in defining and deciding on its proactive work plan and encourage EFRAG to define and communicate such a (due) process that forms the basis for any decision on entering into proactive activities. We note that EFRAG addresses a comparable issue in its draft letter to the IASB regarding the Consultation Paper *Request for views – Agenda Consultation 2015*.

Contact:
Zimmerstr. 30 · D-10969 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:
Deutsche Bank Berlin
Account. 0 700 781 00, BLZ 100 700 00
IBAN-Nr. DE26 1007 0000 0070 0781 00
BIC (Swift-Code) DEUTDE33XXX

Register of Associations:
District Court Berlin-Charlottenburg, VR 18526 Nz
Executive Committee:
Prof. Dr. Andreas Barckow (President)
Peter Missler (Vice-President)



Furthermore, we note in the appendix of the consultation paper that most of the proactive work EFRAG has been carrying out address issues that are simultaneously dealt with by the IASB in its research programme. Examples include the EFRAG discussion paper *Should Goodwill still not be amortised* in the light of the IASB's Post-implementation-Review of IFRS 3 and the IASB research project on *Goodwill and Impairment*. We note that recent criticism centres on the duplication of work by EFRAG, and EFRAG also addresses duplication of work in its consultation paper, as this should be avoided or minimised wherever possible. We therefore question the necessity of addressing IASB work in parallel.

Please find our detailed comments on the questions raised in the consultation paper in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Thomas Schmotz or me.

Yours sincerely,

Andreas Barckow

President

Appendix – Answers to the questions raised in the consultation paper**Effectiveness of proactive work**

What is your opinion on the effectiveness of the proactive work EFRAG is undertaking?

What type of EFRAG projects and output have been more useful:

- (a) Discussion Papers
- (b) Short Discussion Series Papers
- (c) Bulletins

Do you support the current mix of output? Please mention an EFRAG paper that you consider in particular useful. And also one that you consider was not so useful. Please indicate your reasoning.

How do you make the decision to comment or not to comment on an EFRAG proactive project?

In general, the effectiveness of any activities should be measured on the basis of the effects the activities resulted in. More precisely: As we deem EFRAG's proactive activities to be ultimately targeted at influencing the development of international financial reporting standards, the measurement of its effectiveness needs to take into account primarily whether and how the IASB has been influenced in its work. For the vast majority of EFRAG's proactive activities and related output we do not feel in a position to make such an assessment as the whether-and-how is hardly recognisable to us. For example, we do not see any clear evidence for the bulletins, which EFRAG published to influence the IASB in its Conceptual Framework project, to actually have resulted in a significant influence. In contrast, we consider the EFRAG's Discussion Paper *Accounting for Business Combinations under Common Control* (published in 2011) a useful contribution given that the IASB has initiated a research project on this topic involving issues mentioned in the EFRAG Discussion Paper (for example, push-down accounting).

In our view, the definition of a process, accompanied by a clear communication, for identifying and deciding on proactive activities is of fundamental importance as it is likely to increase the level of consideration of these activities at the IASB. This process should specifically consider the relevance of the issue, which might be supported, for example, by demonstrating existing practical problems. We acknowledge that there might be reasons other than practical problems resulting in issues being relevant, but especially in situations in which a practical problem is not apparent EFRAG needs to outline convincingly why the issue is of relevance and what the proactive activities are aiming at. In this respect we note that EFRAG takes every opportunity to remind the IASB of the need to compose its work plan evidence-based. We are of the opinion that the same should apply to EFRAG's proactive work.

Regarding our decision-making on whether or not to comment on an EFRAG proactive project, we strive for commenting on all papers EFRAG publishes.

Coordination with the IASB

How do you see the possible coordination of proactive work between EFRAG and the IASB? Do you think it is important that EFRAG remains an independent contributor?

The consultation paper discusses two alternatives on how EFRAG may contribute to the development of the international financial reporting standard setting process. One alternative aims at joint coordination of activities with the IASB which may provide the advantage of ensuring higher effectiveness and avoidance of duplication of efforts. The other alternative aims at EFRAG retaining its capacity as an independent contributor. The consultation paper links this with the advantage of EFRAG retaining its ability of exercising influence on the IASB work.

We agree with EFRAG that, despite of the merits arising from a close cooperation with the IASB, a direct participation to IASB research activities bears the risk of restricting EFRAG in its capacity of an independent contributor as well as in its capacity of advising the European Commission. In our view, the advantage of EFRAG retaining its independence outweighs the benefits of joint research activities with the IASB.

On the other hand, we believe that a certain degree of coordination may be agreed between EFRAG and the IASB without EFRAG risking its independence. For example, EFRAG could agree with the IASB upon the issues to engage in proactively for which the IASB does not intend carrying out own activities in parallel.

New EFRAG proactive projects

Do you agree that these projects are relevant for Europe and should be undertaken? How would you see their priority?

In the table in the Appendix to this consultation, the proactive work that EFRAG has carried out or is carrying out at present is listed. There are also topics on which EFRAG has not carried out work. Do you think that EFRAG should undertake work on any of these projects?

Do you see other projects than those listed in the IASB Agenda Consultation or above that EFRAG should undertake?

In the consultation paper EFRAG requests views whether additional proactive projects addressing *transactions with government, impact of remeasurement of liabilities, impairment model for equity investments, and additional work on the Conceptual Framework* are relevant



for Europe and should be undertaken. In line with our answer on the first issue, we fail to see EFRAG having provided evidence that there is an urgent practical need or other convincing reason for taking up these topics and addressing them proactively. Absent such evidence we are rather reluctant to advise EFRAG in taking these up. This is especially true for *impairment model for equity investments* (being an IFRS 9 issue): Shortly after EFRAG having advised the EU Commission to adopt IFRS 9, a proactive project on the issue at this stage may give rise to the question as to how honest EFRAG has been in its endorsement advice. If at all, we think the issue should be dealt with in the context of a Post-implementation Review of IFRS 9, three years after its effective date.