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Date  
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## **IFRS Foundation Trustees' Review of Structure and Effectiveness: Issues for the Review**

Dear Mr Prada

On behalf of the German Insurance Association (GDV) we welcome the opportunity to respond to the Request for Views "Trustees' Review of Structure and Effectiveness: Issues for the Review", as published by the International Financial Reporting Standards Foundation (IFRS Foundation) on 7 July 2015 for public comment. We have the firm view that the regular reviews of the adequateness of the current structure and direction of the organisation and of its effectiveness are beneficial and should continue to take place at regular intervals. The related efforts of the IFRS Foundation regarding the involvement of the constituents via the public consultation are a valuable exercise as it ensures an appropriate level of transparency which in general demands public accountability.

With our response to the IFRS Foundation Trustees' Request for Views we provide recommendations with regard to the specific aspects of the consultation which we believe are of essential importance from the strategic point of view. In particular, we believe that IASB should continue to be focused on the development of principle-based standards for financial reporting for profit-oriented reporting entities in the private sector (incl. IFRS for SMEs). Nevertheless, the close cooperation with organisations dealing with issues like sustainability reporting or integrated reporting is valuable as well to ensure that any contradicting developments are recognized at an early stage. Therefore, in general, we believe that the current balance of the IASB's activities and monitoring involvement in this regard is generally the right one, especially when considering the existing resources constraints of the organisation.

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Furthermore, we have the view that IASB could and therefore should contribute more to the consistent application of IFRS worldwide (e.g. via close co-operation with securities regulators like ESMA). It is also important to continue to co-operate with the US standard-setter FASB, especially regarding the application of or changes to accounting principles of (nearly) converged standards (a very recent example is the goodwill accounting).

Regarding organisation's funding we believe that establishing stable and suitable sources of finance for IFRS Foundation is continuing to be an urgent and challenging matter which should be addressed in the near future. An explicit commitment to permanent and fair cost participation of all the countries in which IFRS are applied should be considered as a passable and superior alternative. It does not seem to be right to continue to accept the current situation in which the burden of financing of IFRS Foundation is not properly apportioned among those benefiting from IFRS. Also this aspect should be taken explicitly into account when considering the proposal to rebalance the geographical composition of the IASB's membership.

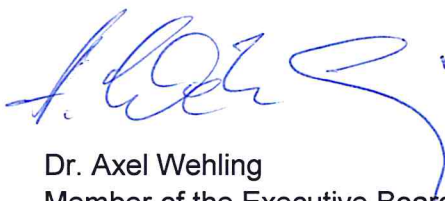
Nevertheless, we continue to strongly believe that an appropriate explicit representation of large European countries at the IASB Board level and its advisory bodies is indispensable. That's why we would not support any recommendations to reduce the relative weight of the European membership at the level of IFRS Foundation or at the IASB itself.

For our detailed comments to the particular questions raised in the IFRS Foundation Trustees' Request for Views we kindly refer to the annex to this letter.

If you like to discuss our response further, please do not hesitate to contact us.

With best regards

  
Dr. Jörg von Fürstenwerth  
Head of the Executive Board

  
Dr. Axel Wehling  
Member of the Executive Board



**Annex: The GDV's response to the IFRS Foundation Trustees' Request for Views**

**Q1 Considering the consequences referred to above, what are your views on whether the IASB should extend its remit beyond the current focus of the organisation to develop Standards; in particular for entities in the private, not-for-profit sector?**

**Q2 Do you agree with the proposal that the IASB should play an active role in developments in wider corporate reporting through the co-operation outlined above?**

We continue to be fully supportive of the four strategic goals for the organisation as identified in paragraph 7 and agree that the primary objective of the Foundation (i.e. the development of a single set of high quality, globally accepted financial reporting standards) does not have to be reconsidered. We also acknowledge the tentative conclusion that no changes are proposed at this stage to the IASB's formal due process (paragraph 11).

Therefore, in general, we recommend keeping the scope of the IASB's work, i.e. neither engaging in development of Standards for entities in the public sector (covered by the International Public Sector Accounting Standards Board, IPSASB) nor for private entities in not-for-profit sector.

We also do not recommend a more active involvement in development of standards for sustainability reporting or for integrated reporting. However, we encourage the IASB to continue the existing cooperation with related organisations (e.g. Global Reporting Initiative, GRI or International Integrated Reporting Council, IIRC). These cooperation agreements help to ensure that any potentially contradicting developments in wider corporate reporting area are recognised in an early stage without losing the IASB's primary focus on issues related to the 'traditional' financial reporting. Hence, we agree with tentative view of Trustees expressed in paragraph 28 and also believe that the current balance of the IASB's activities and monitoring involvement in this regard is generally the right one, especially when considering the existing resources constraints of the organisation.

Overall, we believe that the IASB should continue to mainly focus on financial reporting of private profit-oriented entities as until now. In particular, we agree with the presumption of IFRS Foundation Trustees that "financial statements prepared using IFRS do provide a fair presentation of an entity's financial performance and financial position" (paragraph 25).

Furthermore, we also agree with the conclusion that the material scope issue for the IASB' technical work should be rather considered within the context of the parallel running IASB's 2015 Agenda Consultation.

Finally, we note that also the EU decided recently to not require corporate social responsibility reporting but to base such reporting only on a comply or explain basis which we believe is appropriate to ensure that financial reports are not overloaded with non-financial information.

**Q3 Do you agree with the Foundation's strategy with regard to the IFRS Taxonomy?**

In general, we agree with the IFRS Foundations' recommendation that IASB itself should develop and maintain the IFRS Taxonomy to keep control and thus to enable the consistent usage of IFRS in digital environment (paragraph 31). This helps to ensure that an accurate digital representation of IFRS's provisions is safeguarded (paragraph 30).

However, in our view it is essential that the IFRS Taxonomy Updates are published for public consultation only after the final IASB's conclusions on the content of amendments proposed in the particular Exposure Drafts to IFRS are taken. Therefore, and as expressed already in our comment letter of 13 March 2015 on the IASB's Exposure Draft ED/2014/6 "Disclosure Initiative, Proposed Amendments to IAS 7", we do not agree with the publication of the proposed IFRS Taxonomy Updates at the same time that an Exposure Draft is issued. We believe that a separate subsequent consultation is more appropriate and also more efficient for all involved parties. Otherwise constituents and IASB staff are both challenged with unnecessary double efforts. Therefore, the IFRS Taxonomy Updates should be consulted publicly only once it is clear what the specific purpose, exact wording and their common interpretation of the finally approved amendments would be. Especially, the consultation on IFRS Taxonomy (Updates) requires a different process of evaluation and different level of involvement of our members.

If the IASB however sees significant benefits of continuous involvement of IFRS Taxonomy team during the whole deliberations process, we suggest an appropriate internal arrangement and involvement of related resources if available.



**Q4 How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?**

As rightly noted in paragraph 33, the European Union's legislations (Transparency Directive 2004/109/EC amended by the Directive 2013/50/EU of 22 October 2013) requires electronic filing of financial statements of issuers listed on regulated markets from 2020 onwards. The European Securities and Markets Authority (ESMA) will provide a related technical advice to the European Commission as ESMA is obliged to develop draft regulatory technical standards to specify the electronic reporting format, with due reference to current and future technological options. Before the adoption of the draft regulatory technical standards, ESMA will carry out an adequate assessment of possible electronic reporting formats and conduct appropriate field tests. ESMA shall submit those draft regulatory technical standards to the European Commission at the latest by the 31 December 2016. The final adoption of the regulatory technical standards will be carried out by the European Commission itself.

In our view, IFRS Foundation and IASB should monitor and participate in related ongoing consultations of ESMA and engage with European Commission to help to ensure that no inconsistencies arise regarding the globally consistent digital implementation of IFRS. Finally, we share the view that IFRS Taxonomy's requirements and the related activities should not be the driver for standard setting activities of IASB or interpreting activities of IFRS Interpretations Committee. As a matter of principle, the IFRS Taxonomy must be robust enough to be capable of dealing with principle based IFRS accounts.

**Q5 Do you have any views or comments on whether there are any other steps the IASB should take to ensure that it factors into its thinking changes in technology in ways in which it can maintain the relevance of IFRS?**

We continue to strongly believe that high quality financial reporting standards (like IFRS is expected to be) will maintain their specific relevance to investors and other users irrespective of the potential technological changes in the digital environment. Hence, the primary focus of the IASB should remain on the 'right' and reliable content of the IFRS themselves. Technology will always remain only a way of access and communication of financial information determined by the particular IFRSs.

**Q6 What are your views on what the Foundation is doing to encourage the consistent application of IFRS? Considering resourcing and other limitations, do you think that there is anything more that the Foundation could and should be doing in this area?**

Implementation and application of IFRS on a globally consistent basis is of critical importance for IASB and IFRS Foundation for credibility and reputation reasons. Therefore, we highly appreciate the related considerations of the IFRS Foundation and welcome the IASB's intention and commitment to engage even more in the related activities. The key role of IFRS Interpretations Committee is self-evident and we welcome its more active involvement in the process (paragraph 54). Also the relevance of timely conducted Post-Implementation Reviews (PIRs) cannot be denied. It is essential that critical issues clearly evidenced by particular PIRs are addressed by the IASB in a timely manner. (For example, the IFRS approach for the subsequent goodwill accounting has been evidenced by the PIR for IFRS 3 Business Combinations to be highly problematic. It is less understandable why further research activity and the related involvement of resources are necessary before standard setting activity is conducted.)

From our perspective, especially the co-operations with securities regulators like ESMA and IOSCO (paragraph 52) are of specific importance as they allow IASB collecting further experiences regarding the enforceability of IFRS on a continuous and real-life basis. The same applies to the US Securities and Exchange Commission (SEC) which is overseeing the foreign issuers listed in the US and applying IFRS in their financial statements. The co-operation agreements will help to appropriately incorporate the specific considerations regarding the enforceability of Standards already during the standard setting process. Therefore, we think that IASB could and should further contribute to the objective of consistent application of IFRS globally.

Another example where the co-operation with security regulators is useful is the use of alternative performance measures (APMs) by issuers. The permanent dialogue between securities regulators and IASB will help to clarify in which case it is better for IASB respective the securities regulators to act to prevent potential double regulation. We understand that the IASB is in the process of thoroughly considering whether the use of particular APMs within or outside of financial statements can be potentially seen as an evidence of deficiency of IFRS or not and how more discipline can be put on the use of APMs within financial statements in accordance with IFRS while not fully giving up the flexibility of IAS 1 Presentation of Financial Statements.



Finally, it is also important to continue to co-operate with the US standard-setter Financial Accounting Standards Board (FASB), especially regarding the application of or changes to accounting principles of (nearly) converged standards (a very recent example is the goodwill accounting and the controversy about the impairment-only-approach).

**Q7 Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?**

We have the view that the existing three-tier structure (i.e. Monitoring Board, Trustees of the IFRS Foundation, IASB/IFRS Interpretations Committee, advised by the IFRS Advisory Council and the Accounting Standards Advisory Forum) is appropriate and serves its purpose.

**Q8 What are your views on the overall geographical distribution of Trustees and how it might be determined? Do you agree with the proposal to increase the number of 'at large' Trustee appointments from two to five?**

We would not support any change in the current composition of IFRS Foundation Trustees which would reduce on balance the relative weight of the European representation. We continue to strongly believe that an appropriate explicit representation of large European countries at the IASB Board level and its advisory bodies (e.g. ASAF) is indispensable. In addition, we believe that a permanent commitment to participation in appropriate founding of the organisation should be one of the membership criteria to fulfil, beyond the use of IFRS in the respective jurisdiction.

**Q9 What are your views on the current specification regarding the provision of an appropriate balance of professional backgrounds? Do you believe that any change is necessary and, if so, what would you suggest and why?**

We do not provide any specific comments as there is no evidence that the current composition of Trustees regarding their professional background might be seen as inappropriate. We also agree with the tentative view that none specific quota for female Trustees should be introduced (paragraph 84), though we fully appreciate the related efforts of the IFRS Foundation.

**Q10 Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?**

We disagree with the proposal to reduce the frequency of reviews.

We believe that a regular review of the effectiveness of the organisation is an essential element of the public accountability of the IFRS Foundation. Therefore, we do disagree with the proposal to amend the Section 17 of the Constitution, although we fully acknowledge the rationale for it (paragraph 86: "... a need for the organisation to have some stability and continuity, in particular it terms of its structure.").

In addition, we do understand that the suggested amendment is not intended to preclude the possibility of a more timely review if an urgent need arises (paragraph 86: "... , at the latest, five years after the previous review has been completed"). And we also note that the Trustees are obliged to annually review the strategy of the IFRS Foundation and the IASB and its effectiveness, including consideration, but not determination, of the IASB's agenda (Section 15 (d) of the Constitution).

Nevertheless, on balance we view that the need for an explicit commitment of the IFRS Foundation to the existing regular reviews is necessary to avoid the impression that the organisation is aiming to immunise against critics.

**Q11 Do you agree with the proposals to reduce the size of the IASB as set out in the *Constitution* from 16 members to 13 and the revised geographical distribution?**

We have observed that the recent reduction of the IASB's members increased the effectivity of the Board's decision making process. The permanently reduced size of the IASB would also free some significant financial resources. Therefore, in general, we are supportive of the proposal to reduce the size of the IASB to 13 members and agree with the suggestion with regard to the adjustments to geographical distribution of IASB members (paragraph 92) and the subsequent amendments to IASB's voting requirements (paragraph 93).

Nevertheless, for the IASB as the global standard setting body an appropriate geographical balance is of a critical importance. Therefore, we would not support any change in the current composition of the IASB



Board which would reduce further the relative weight of the European representation.

As expressed above, we also believe that a permanent commitment of particular jurisdictions to participation in appropriate founding of the organisation should be one of the membership criteria to fulfil, beyond the use of IFRS in the respective jurisdiction.

**Q12 Do you agree with the proposal to delete Section 27 and to amend the wording of Section 25 of the *Constitution* on the balance of backgrounds on the IASB?**

We object to the proposed deletion of the Section 27 of the Constitution.

For the successful and high-quality standard setting work of the IASB it is essential that the Board members as a group represent an appropriate mix of users and prepares from different industries (e.g. general industry, banking industry, insurance industry) with “recent practical experience”. Therefore, we do not view that the Section 27 is providing an unduly restrictive limitation (paragraph 94 (a)). It is rather an indispensable precondition to fulfil by the Trustees when appointing new Board members.

**Q13 Do you agree with the proposal to amend Section 31 of the *Constitution* on the terms of reappointment of IASB members as outlined above?**

We support the suggested amendment that the terms of Board members might be renewed once for a further term of up to five years, instead of currently three years as an absolute limit. We agree that the long history of some major projects (e.g. Insurance Contracts project) provides sufficient evidence that there is a need for an appropriate level of continuity at the Board level. The suggested amendment is therefore reasonable.

**Q14 Do you have any comments on the Foundation’s funding model as outlined above? Do you have any suggestions as to how the functioning of the funding model might be strengthened, taking into consideration the limitations on funding?**

We view that establishing stable and suitable sources of finance for the IFRS Foundation is continuing to be an urgent and challenging matter which should be however solved in the near future. Firstly, an explicit

commitment to permanent and fair cost participation of all the countries in which IFRS are applied should be considered as a passable and superior alternative. Secondly, a proper commitment to found the Foundation's operation on a regular and continues basis should be seen also an important element to be taken into account when considering the intention to rebalance the geographical composition of the IASB's membership. Especially, it does not seem to be right to continue to accept the current situation in which the burden of financing of IFRS Foundation's activities is not properly apportioned among those benefiting from IFRS and those with the intention to play the decisive role in developing the future framework of international financial reporting. Consequently, if a particular jurisdiction is not fulfilling its commitments to founding the organisation, the Trustees should have the potential ability to re-design the geographical distribution of the IASB and the IFRS Foundation's Trustees composition to reflect this failure if persistent for significant number of years. We suggest considering whether an amendment the Constitution of the IFRS Foundation in this regard might be reasonable.

**Q15 Should the Trustees consider any other issues as part of this review of the structure and effectiveness of the Foundation? If so, what?**

We like to note that the Constitution of the IFRS Foundation refers explicitly to the role and structure of the IFRS Advisory Council as an advisory body of the IASB. However, the current Constitution does not contain any references to the successfully established Accounting Standards Advisory Forum (ASAF) and its specific and important role for the IASB. We therefore recommend an appropriate supplementation of the Constitution to remove this shortcoming.