ASCG • Zimmerstr. 30 • 10969 Berlin

Michel Prada
Chairman
IFRS Foundation
30 Cannon Street London
EC4M 6XH
United Kingdom

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

Berlin, 27 November 2015

Dear Mr Chairman, dear Michel,

Re: Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review*

On behalf of the Accounting Standards Committee of Germany (ASCG) we are responding to the Request for Views *Trustees' Review of Structure and Effectiveness: Issues for the Review* (RfV) of July 2015. We appreciate the opportunity to share our suggestions and observations on the structure and effectiveness of the Foundation.

The ASCG's Administrative Board carefully considered the consultation document and agrees with the majority of the tentative positions taken by the Trustees. In particular, we are fully behind the four strategic goals of the IFRS Foundation, which we believe form the cornerstone of the organisation's work.

That being said, we suggest that the third strategic goal – consistency of application and implementation – and the related question 6 of this review be clarified. We are of the view that there are instances in which two entities with the same fact pattern might (and in many cases will) arrive at different accounting outcomes. This is especially true in circumstances in which management is to exercise judgement or in cases where there is a gap in the literature and an appropriate accounting policy must be developed. We strongly feel that these instances should not be regarded as constituting inconsistent application. On the contrary, we believe that these situations are the inevitable cost of there being a principles-based system in the first place, something we value highly and clearly favour over a rules-based system. Hence, we advise the Foundation to not act in these cases unless the IASB came to the conclusion that there was evidence of widespread diversity and certain intolerable outcomes, in which case the IFRS interpretations Committee seems well-placed to address this diversity.

The only other point where we disagree with the Trustees regards the proposal to further reduce the number of Board members to 13, as we fear that a further reduction could lead to unintended consequences as regards the quality of IASB's output. We elaborate on this issue in more detail in our answer on question 11.

Please find our answers on the individual questions in the Appendix to this cover letter.

If you would like to discuss any aspect of our comments further, please do not hesitate to contact us.

Yours sincerely,

Ralf Thomas

(Chairman of the Administrative Board)

Andreas Barckow

(President)

CC: Werner Brandt
Trustee, IFRS Foundation

Appendix – Responses to the questions of the request for views

A. Relevance of IFRS

Question 1 — 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?

We acknowledge the existing lack of and the potential need for international financial reporting standards for private not-for-profit entities. However, we are not convinced that this deficiency is sufficient enough an argument for the IASB to take on this task, at least not at this stage.

Firstly, and in light of existing resource constraints, the ASCG's Administrative Board is of the opinion that the IASB should not extend its remit beyond the for-profit sector at this stage. Although a number of technical issues might be resolved with existing knowledge and staff, certain areas applicable solely to the not-for-profit sector are not currently covered by IFRSs. Hence, the IASB would first need to build a capacity in this field, thereby drawing on resources that we believe are better spent on filling gaps and deficiencies in the literature for the for-profit sector.

Secondly, we note that cross-border activities of private not-for-profit organisations seem to be the exception rather than the rule, thus requiring clarification as to how big the need for international financial reporting standards really is. It is for these reasons that we strongly believe that the IASB should not extend its standard-setting activities beyond the private sector at this stage. That being said: We advise the Trustees to monitor the developments in this area and reconsider should (a) the need for international standards in the private not-for-profit sector rise and (b) the Foundation's resource constraints go away.

Lastly, the ASCG's Administrative Board holds a firm view that the IFRS Foundation's mandate should not be expanded to encompass public not-for-profit bodies, which we believe are well-served by the IPSASB, especially following its recent governance reform.

Question 2 — 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?

Our answer depends on what is meant by "play an active role", as we understand that the Trustees do not foresee a role in the driver's seat – which we do agree with.

As we see it, wider corporate reporting trends have already become more prominent in recent years. For instance, in the European Union legislation has been passed that is aimed at requiring entities to prepare a non-financial report containing key data on how they have appropriately addressed certain corporate social responsibility targets (the CSR Directive). Other initiatives, such as the UN Guidelines on Human Rights or activities by various bodies, both governmental and non-governmental, aimed at more transparency in the areas of sustainability, diversity, tax, etc. demonstrate that the reporting burden for entities is rising. As long as the outcome of such initiatives does not touch on *financial* reporting, the IASB should not venture into such territory but monitor the developments carried out by the organisations mentioned in the Request for Views.

Conversely, a number of the initiatives mentioned above, in fact, *do* touch the boundaries of a financial report, the biggest area of potential overlap being management commentary. Whilst we understand that preparation of management commentary is not mandatory under IFRSs, it is under the EU Accounting Directive. Hence, the overlap is already a matter of fact for many entities in Europe. It is for this reason that we advise the Trustees to not only engage in discussions and co-operation with the organisations dealing with non-financial areas of corporate reporting, but to really take on an active role in defending and developing what we see as the core territory of the IASB in order to ensure that IFRS financial reporting remains meaningful.

We note that the IASB deals with the theme of making financial reports more meaningful and relevant in its Disclosure Initiative. We strongly support the IASB's activities in this area and recommend that the IASB look into non-GAAP information, particularly where non-financial information is concerned (as this represents the overlap area mentioned above).

In summary, the ASCG's Administrative Board advises the Trustees to maintain, defend and develop its leadership role in the area of financial reporting and take on an active role from there, i.e. monitor the work of other neighbouring organisations and co-operate with them with the core aim of keeping IFRS financial reports meaningful and relevant.

Question 3 — Do you agree with the IFRS Foundation's strategy with regard to the IFRS Taxonomy?

We fully agree with the Trustees' strategy to concentrate on the taxonomy rather than the computer language XBRL, as was the case in the past. The proliferation of financial reports through electronic filing is likely to gain more traction in the future. For instance, issuers in the European Union will be required to file their financial information electronically from 2020 onwards. Hence, the Trustees' initiative is timely and well grounded.

The ASCG's Administrative Board strongly believes that the development of the IFRS taxonomy should be kept in-house and should not be subcontracted to third parties. The translation process from the written text into the tags that will be attached to financial information is key to the electronic proliferation of financial information, and only the IFRS Foundation can safeguard that the requirements of IFRS principles and concepts are faithfully digitally represented by the tags.

That being said, we do not believe that the taxonomy should become an integral part of the Board's standard-setting activity. Whilst we acknowledge that standard-setting and taxonomy development can and should inform each other, we are concerned that mandatorily bearing taxonomy constraints and limitations in mind when developing standards bears the risk of the standards themselves becoming more rules- and less principles-based. We certainly agree that the pronouncements must be articulated clearly enough to enable appropriate representation through the taxonomy; however, a taxonomy's requirements should not be the key driver for developing standards and interpretations.

Question 4 — How can the IASB best support regulators in their efforts to improve digital access to general purpose financial reports to investors and other users?

Regulators around the globe are at different stages as regards the requirement of having preparers file financial information electronically, so it is difficult to suggest a uniform route suitable to all. Nonetheless, all regulatory access points rely on the quality of the data being submitted. We therefore believe that a well-developed taxonomy is the foundation for any digital access strategy and would certainly support every regulator's efforts.

Question 5 — 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?

Technology is changing continuously and probably at a pace faster than the IASB's standard-setting process. Hence, it is difficult to foresee what steps might be appropriate over the coming years. As technology is affecting (and maybe even driving) the way financial information is dealt with and proliferated, we advise the Trustees to remain open-minded and watchful and to monitor the developments. In this regard, the Trustees' proposal to form an expert group on this matter seems to be an appropriate move, which we support.

B. Consistent application of IFRS

Question 6 — 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?

The issue of consistent application is multi-faceted and encompasses different dimensions, and addressing them completely and appropriately probably goes beyond what can be achieved in this comment letter. We will therefore try to present our line of thinking as clearly as possible, but would be more than happy to follow-up with you directly to discuss the issue in a more comprehensive fashion. In a nutshell, the ASCG's Administrative Board is of the view that consistent application of IFRSs, as desirable a goal it may be to pursue, will never be achieved completely or only at the cost of having endless rules-making in place to control even the smallest diversion of an ideal outcome – something we clearly disprove of. A certain degree of diversity in practice is thus unavoidable. Hence, our views are mixed.

Generally speaking, we are clearly behind the Trustees' first strategic goal of developing a single set of high quality, globally accepted accounting principles. Considering where we have come from – an accounting Babel of individual jurisdictional accounting requirements that were hardly reconcilable to each other –, striving for a financial reporting language that is understood on a worldwide basis and is perceived as providing decision-useful information did make sense and still does make sense to pursue. The mere act of standardisation leads to eliminating existing diversity and options. Those constituents whose prior treatment is eliminated through standardisation are the most likely to complain, as they (and, potentially, their users) believe that their policy has faithfully portrayed economics and should, hence, be retained. If the IASB were to allow such deviations to occur, a single set of high quality standards could never be achieved, as there would most likely be someone for each and every issue who believes that retaining the prior treatment would be more beneficial than bowing to the majority view. That being said, the Trustees' goal does not only foresee the development of a single set of high quality accounting principles but also encompasses that these principles must be globally accepted. Global acceptance, though, could not be commanded but requires time to evolve. In some cases, the IASB might provide for an amendment to a standard to address the particular issue raising by a constituency. In some other, though far more limited and extreme cases, the IASB might even think about granting a temporary exemption from applying a specific accounting principle to allow entities and users to gradually adjust their behaviour and beliefs if this helps ensuring the higher goal of bringing jurisdictions behind IFRSs. Whatever the strategy, we believe the Trustees should carefully consider and evaluate the situations where there is a strong pushback from certain constituencies for potential resolution.

There are scenarios, though, where we strongly believe that diversity in practice should not be regarded as constituting inconsistent application of a standard. This would certainly be the case in situations where management is required to exercise judgement, e.g. when evaluating whether or not to set up a provision and, if so, for which amount. As we see it, it will more often than not be the case that two entities with comparable or identical fact patterns would arrive at different outcomes by merely exercising judgement, and there is no yardstick against which one could argue that the exercise of judgement of one entity was inferior to the other's (let alone erroneous). We would have significant concerns were the Foundation trying to promote a kind of consistency that would require everyone applying IFRSs to come to exactly the same answer in any given situation, as this would confuse consistency with uniformity. We believe that allowing for judgement is an inevitable cost of having a principles-based system – something we value highly and which we feel very strongly should be preserved. Furthermore, excessive regulation (i.e. rules-based standards) generally leads to preparers adopting creative accounting policies ('grooming transactions'). From our point of view, principle-based standards are preferable, since preparers have more flexibility and are less likely to circumvent general principles instead of detailed rules.

Another area where different accounting outcomes are likely to occur concerns situations in which there is a gap in the current literature. In this instance, entities are required to develop an accounting policy based on the principles contained in other standards or the Conceptual Framework that would lead to a faithful presentation of the economics. Again, two entities with similar or identical fact patterns might rely on different principles and concepts for developing and arriving at an accounting policy, leading to different accounting outcomes, and as in the previous case, one cannot necessarily judge one treatment to be more appropriate than the other. In contrast to the first scenario, though, we see a role for the IFRS Interpretation Committee here: If there is supportable evidence that, due to a lack of guidance, diversity in practice in a certain area exists and is believed to be unwarranted, the Committee could issue an interpretation to eliminate the diversity and to have preparers use the same rationale when developing their accounting policy. That being said, we would foresee the Committee's involvement in cases only where there is diversity leading to significantly different accounting treatments. Diversity as such should not be taken as an excuse to regulate each and every transaction, as this is clearly detrimental to principles-based standard-setting and might ultimately lead to jurisdictions turning away from the idea of global standards.

To make it abundantly clear: The ASCG's Administrative Board is by no means arguing in favour of returning to national GAAP – we strongly believe that the key benefits associated with an international financial reporting language are still valid and that IFRSs are best suited to fill that role. That being said, we are highly concerned by what some in our jurisdiction perceive as a deviation from the original course once agreed with IOSCO, i.e. a truly principles-based course of international standard setting. Recent pronouncements have become overly complex, detailed and rules-based. Whilst we fully appreciate that areas like financial instruments or insurance contracts are complex and difficult to understand by their very nature, we do not believe that the Board has always found the right balance. We urge the Trustees to faithfully analyse and evaluate the standard-setting activities against the original course. We acknowledge that the Trustees state in the RfV that they do not wish to become involved or even intervene with the technical work of the independent Board; however, we firmly believe that the Trustees need to get more involved in the technical output of the IASB in order to protect the product and ultimate goal of the Foundation.

As to the suggested issue of increasing the output of the education initiative, we do not believe that it will lead to the desired effect. In our view, whilst most companies would gladly take and consider any material the IASB might produce, they are not likely to pay for it. In fact, the IASB is already competing with other organisations, learning institutions and the professional networks, all of which provide the same or similar output and often in a more tailored way (e.g., in the language the companies operate in) and often for little or no money. Hence, we fail to see how the IASB could build the capacity necessary to compete with these other players in an efficient way on a global scale and generate net revenues from such activities. We would rather see the role of the education initiative to continue to provide university teachers training the next generation of accountants with the material (to be) developed, especially in jurisdictions and regions that do neither have the capacity nor the financial means to do it themselves.

C. Governance and financing of the IFRS Foundation

Question 7 — Do you have any suggestions as to how the functioning of the three-tier structure of the governance of the Foundation might be improved?

Our answer to this question builds on the answer to the previous question. Taken by itself, the three-tier system has served the Foundation well since the outbreak of the financial crisis when the structure was implemented. Nonetheless, we do not believe the three tiers are as independent of each other as the Trustees seem to convey in the RfV. Even more, we believe that a certain degree of interaction and overlap is necessary in order to achieve the ultimate goal of getting and keeping jurisdictions behind IFRSs.

Whilst the ASCG's Administrative Board is of the opinion that the governance of the Foundation is balanced and generally working well – we note that other standard-setting organisations are looking at the Foundation's governance as a blueprint –, we believe that the Trustees' mission of working in the public interest encompasses at least two quite diverse groups, namely investors and those jurisdictions that make the use of IFRSs compulsory or optional in their region. We are not completely convinced that the IASB is the tier to serve the former and the Monitoring Board the tier to deal with the latter constituency. When jurisdictions are adopting IFRSs for use in their country or region, they are delegating legislative power to the Foundation, at least to a certain degree. We feel that it is understandable that jurisdictions have a keen interest in ensuring that the technical body they have delegated the standard-setting activity addresses the needs they see in their respective constituency, and we fully appreciate that the IASB has a difficult task of serving 140+ different jurisdictions at the same time. However, we believe that it is ultimately the Trustees who need to ensure that the jurisdictions and their needs are duly considered and appropriately dealt with (appropriateness to be judged from the jurisdiction's perspective). Jurisdictions are akin to a specific customer group in a business context: If the customer is not happy with the product sold, s/he might complain and, in the end, turn away from being a loyal customer.

Question 8 — 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 have mixed views as regards the proposed geographical distribution of Trustees. We understand the Trustees' wish to remain open and adaptable to a changing world, and we fully acknowledge that the quotas laid down in the Constitution were fixed almost 20 years ago when the world was different. In that regard, we understand why the Trustees would like to reduce the number of seats allocated to the key regions by one and increase the at-large seats accordingly.

However, and building from our answers to the two preceding questions, we believe that the Trustees are also serving an 'eyes and ears' capacity in that they are the liaising element to the jurisdictions that have adopted IFRSs or are in the process of doing so. Europe is still the largest economic area with the highest number of IFRS reporting entities, and we fear that the Trustees' proposal is sending an unintended and wrong signal towards its biggest customer. From the ASCG's Administrative Board's perspective, this is even more worrisome if one considers that Europe is also the area with the highest financial contribution. We are concerned that the proposal might lead key European players to reconsider their financial commitment going forward, thereby putting even more pressure on the budget the Trustees seek to stabilise and increase.

Question 9 — 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?

The ASCG's Administrative Board agrees with the Trustees' view that no change is necessary as regards the current specification of an appropriate balance of professional backgrounds. The Trustees should continue to strive for a balanced representation of all kinds of professional backgrounds so as to not have one specific background dominate all others.

Question 10 — Do you agree with the proposal to change the focus and frequency of reviews of strategy and effectiveness, as set out above?

The ASCG's Administrative Board agrees with the Trustees' proposal to change the focus and the frequency of strategy and effectiveness reviews as outlined in the Request for Views.

Question 11 — 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 do not agree with the proposal to reduce the size of the IASB from 16 to 13. Firstly, and contrary to the current requirement for 16 Board members laid out in the Constitution, the Trustees have not filled the two positions that have become vacant in mid-2014. Hence, the Board's size has already shrunk to 14, thus taking effectively a seat away from Europe and North America. Secondly, to reduce the IASB's size even further would, in essence, increase the burden for each of the remaining Board members to a degree that we are concerned about the quality of the Board's output. We do acknowledge that the amount of work Board members are charged with depends, at least to a certain degree, on the overall number of projects being taken on, which is a question the IASB is currently seeking feedback on through its Agenda Consultation. Nonetheless, we are not convinced by the arguments listed in the RfV in favour of a further reduction, except perhaps for the budgetary point. Apart from attending Board meetings, Board members are required to participate in small group meetings, be available to the staff, engage in outreach activities, take on speaking commitments at conferences and other events and liaise with key stakeholders across several jurisdictions. Even if the number of projects were to decrease, we do not believe that this would necessarily give Board members any significant headroom in carrying out their work, especially as regards the outreach and liaison activities, both of which we deem to be of high importance for having the IASB recognised as the global standard setter. We therefore fail to see how Board members could carry out their responsibilities in a more effective way should the size of the IASB decrease further.

As regards the geographical distribution, the ASCG's Administrative Board has mixed views. Whilst we agree that technical competence and professional background should be the prime criteria for selecting Board members, we remain sceptical as to the revised geographical distribution. Our main concern relates to the fact that the Trustees seem to decrease the Board representation of members from those jurisdictions actually using and applying IFRSs. We concur with the Trustees that the organisation needs to remain open for other jurisdictions considering (and eventually on-boarding to) IFRSs. Until such a move, though, we believe that greater weight should be given to members from jurisdictions that have already adopted IFRSs – provided the required technical competence and professional background are met.

Question 12 — 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 are concerned about unintended negative side effects a deletion of the reference to 'recent practical experience' might bring about. We believe that the Board's composition as a technical body should be as representative of different professional backgrounds as possible. We fail to see how a Board member could be deemed to represent a particular segment or profession if s/he has no recent practical experience. It is for this reason that we would ask the Trustees to clarify how they would envisage incoming Board members to bring the latest thinking from their previous background to the table.

As regards the inclusion of regulators, the ASCG's Administrative Board has mixed views. Whilst regulators are certainly a part of the wider financial reporting constituency, we are of the opinion that the standard-setting process should not be framed by regulatory viewpoints or concerns. As indicated in our answer to Question 6, we favour a reporting framework that is clearly more principles-based than is the case today. By advocating a set of principles and concepts, a certain degree of inhomogeneous reporting and diversity in practice is unavoidable and should not be taken as an excuse for even more rigorous standard-setting. Surely, regulators can (and should) inform the IASB of any abuse they become aware of. Conversely, we believe that the mere potential for abuse is a bad driver for good standard-setting. If the primary goal were to close any loopholes, the ultimate goal of a global set of standards would clearly be hampered.

Lastly, we note that there are already four IASB members with a regulatory background out of the current number of 14 Board members, and irrespective of the total number the Trustees end up with, we would not advocate increasing their number any further.

Question 13 — 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 agree with the proposal.

Question 14 — 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 understand the challenges the IFRS Foundation is facing as regards its funding model. Generally speaking, we believe that an independent financing is an important ingredient in order to secure the IASB's independence. The ASCG's Administrative Board believes that a funding model that is a based on national financing regimes would be the ideal, i.e. the most sustainable, model granting the IASB a stable funding over time. With regard to what the financing regimes should be based on, we envisage several factors that should be considered: Whilst a country's GDP may be an objective factor, we are not convinced that it is the best indicator of a country's reliance on IFRSs. Other factors, such as the number or the market capitalisation of companies using IFRSs, should be considered as well. It is our belief that, ultimately, the financing should be provided by those that actually use IFRSs as their reporting regime. In that regard, a levy-based system would most likely achieve that free riders do not take advantage at the expense of others.