

Mr. Hans Hoogervorst
International Accounting Standards Board – IASB
30 Cannon Street

London EC4M 6XH
United Kingdom

Weinheim, 29/11/11

Dear Mr. Hoogervorst,

RE: IASB AGENDA CONSULTATION 2011

We appreciate the opportunity to comment on the board's request for views regarding the "Agenda Consultation 2011".

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.

As the needs of users and preparers of financial statements – even in the same legal environment – tend to vary more and more, it is essential to take into account the views of constituents worldwide when developing the IASB's future agenda. We are aware of the fact that due to special circumstances like the financial crisis some projects had to be proceeded at short notice 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 projects on liabilities and taxes). 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, a comprehensive and

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accurately elaborated underlying concept, is an essential requirement for the development of consistent, principles-based financial reporting standards. Such highly principles-based standards would 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 the IASB and most of the constituents are limited, the IASB should furthermore consider a “period of calm” after completing the most urgent projects (e.g. financial instruments). Especially preparers often face severe problems following-up and commenting the vast number of DPs/EDs 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 finalized within the next couple of years (e.g. the unfinished chapters of the conceptual framework project). In that context, we believe that convergence with US-GAAP should no longer be pursued as a primary objective. We totally agree with the IFRS Advisory Council that the board should focus on serving those who have adopted or wish to adopt IFRSs and convergence should no longer be a prime consideration. Hence, the IASB should rather concentrate on maintaining and optimizing existing standards.

To sum up, we believe that for the next couple of 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 the consultation paper.

Kind regards,

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

Frank Reuther

Prof. Dr. Dieter Truxius

Peter Notz

Prof. Dr. Norbert Winkeljohann

Question 1:

What do you think should be the IASB’s strategic priorities, and how should it balance them over the next three years?

Assuming that the IASB will finalize its projects on financial instruments, leases, revenue recognition and insurance contracts in 2012, a “period of calm” or a moratorium in standard setting should be considered afterwards (idea of a stable platform of IFRS). This is due to the necessity to allow users to implement the new IFRSs without having to follow-up and comment on an unspecified number of new DPs/EDs issued by the board in parallel. Therefore, the IASB should prioritize the maintenance of existing standards over the development of new IFRSs.

However, from our point of view even the projects on leases and revenue recognition would be dispensable as they will neither lead to economically meaningful information nor support the convergence of management reporting and financial reporting (please refer to our comment letters on ED/2010/6 “revenue from contracts with customers” and on ED/2010/9 “leases”).

Notwithstanding our general favour for a “period of calm”, we think it is important to have a consistent basis for developing future standards and consider it vital to complete the conceptual framework project as soon as possible.

Question 1(a):

Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda, and why?

We generally agree with the two categories (developing new standards and maintaining existing standards) and the five strategic areas as outlined in the consultation paper.

Question 1(b):

How would you balance the two categories and five strategic areas? If you have identified other areas for the IASB’s agenda, please include these in your answer.

To be able to make a general statement for our different members, we conducted a survey among those companies to prioritize the strategic tasks of the IASB by determining their average weighting. In the course of that survey we asked our members to allocate a certain percentage of resources of the IASB to be spent on a specific task. Our members voted as follows:

Strategic tasks	Percentage of resources to be allocated (average)
Conceptual framework	31 %
Disclosure framework	26 %
Maintaining existing standards	17 %
Post-implementation reviews	16 %
Developing new standards	10 %

This shows very plainly that preparers of financial statements focus on solving implementation problems. As we will point out under question 2(a), we believe that a robust and overriding conceptual and disclosure framework could solve many implementation problems due to the mere fact that it would allow the deduction of consistent accounting principles and pose a practicable alternative to complex and hardly generalizable casuistic exceptions within a large number of standards.

Question 2:

What do you see as the most pressing financial reporting needs for standard-setting action from the IASB?

As already stated in our cover letter, an overriding conceptual framework and a concise disclosure framework are the most pressing financial reporting needs. Moreover, we believe that maintaining existing standards should be prioritized over the development of new standards.

Question 2(a):

Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

From our point of view, the **conceptual framework** is one of the most important elements of accounting regulations and an essential basis for high quality principles-based financial reporting and standard-setting. Thus, the IASB should focus on completing the framework project in the near future. In this context, we believe that the authoritative status of the framework should be adjusted. A conceptual framework that is not able to override the standards themselves cannot be the basis for a high quality principles-based financial reporting. A framework on a hierarchical level above the standards would additionally enable the standard setter to develop lean and concise standards without the variety of casuistic exceptions from the principles initially adopted that are effective in current IFRSs. Nevertheless, this requires a comprehensive and accurately elaborated underlying concept. This would not only allow standard setters to develop concise and principles-based IFRSs but also enable preparers to deduce consistent and robust accounting principles. Therefore, the IASB should – besides other aspects – address the authoritative status of the framework in a timely manner and reactivate its activities as they were deferred in 2010 due to other projects.

Moreover, we believe that the IASB should think about a project addressing the **reduction of disclosure requirements**. In recent years we observed a permanent increase in notes disclosures as the board added disclosure requirements with every project finalized. We are aware of the increasing complexity of business transactions, especially in the financial sectors. However, not all notes disclosures required by the standards provide decision-useful information to a large percentage of users of financial statements. Instead, they provide information to a small group of specialized users. For the rest, too much complex information could rather result in irritation and the decision-useful information will get lost. From a cost-benefit or even a relevance point of view this seems rather unrewarding in terms of prepar-

ers as well as standard users of financial statements. With this in mind, the IASB should initiate a comprehensive project to develop a feasible and economically meaningful disclosure framework and a single disclosure standard instead of disclosure requirements in all other standards.

Question 2(b):

Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resources available. Which of the projects previously added to the IASB's agenda but deferred (see table page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your answer to question 2(a).

From our point of view, besides the conceptual framework project and a project addressing a disclosure framework, only a few projects should be **reactivated** after a certain "period of calm". Those projects should be:

- business combinations between entities under common control, since there is no specific guidance and as a consequence no consistent way such transactions are accounted for in practice;
- intangible assets, as the continuous increase in importance of intangible assets in almost every industry sector cannot be depicted by accounting regulations as set out in IAS 38. However, the attempt at a solution as of the AASB was not the right way to approach the problem (please refer to our comment letter on the AASB's DP on "initial accounting for internally generated intangible assets").

Moreover, our members are in favour of reactivating the projects on "financial instruments with characteristics of equity", "financial statement presentation" and "income taxes". However, we strongly believe that with regard to those projects the IASB has to completely change its approaches, e.g. as follows:

- The project on financial instruments with characteristics of equity has to be integrated into the conceptual framework project by implementing a principles-based definition of equity. Such a definition should focus on the economic substance of equity instruments instead of prioritizing the prevention of structuring opportunities and thereby creating a much too narrow classification approach. Hence, the project has to be reactivated together with the conceptual framework project.
- The financial statement presentation project could be reactivated to clarify and tighten current structures in financial statements. However, we strongly disagree with the approach recently suggested by the IASB (please refer to our comment letter on the DP "preliminary views on financial statement presentation").
- The project on income taxes could be reactivated in order to really simplify deferred tax accounting and reduce disclosure requirements. The approach discussed some months

ago was far too complex to be applied consistently and was anything but cost-beneficial (please refer to our comment letter on ED/2009/2 “income tax”).

Some projects should be **removed** from the IASB’s agenda instead as they would only benefit a small group of constituents and lead to the deferral of urgent cross-industry projects. Some of those projects would be:

- agriculture;
- earnings per share;
- government grants and
- islamic transactions and instruments.