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

Outreach Meeting on Conceptual Framework

London, July 8th, 2011

VMEBF
Bilanzierung in Familienunternehmen

Agenda

1. Background information

- VMEBF was founded in 2006
- Today the association consists of more than 70 large and medium-sized entities
- Total revenues of all members: more than 250 billion Euro
- Total employees of all members: more than 1.2 million
- Objective: to represent German family-owned entities as stakeholders in the development of international accounting and act as a constructive partner for standard setters
- Cooperations: German Accounting Standards Committee (DRSC), German Institute of Chartered Auditors (IDW) as well as several political institutions

2. Importance of limited partnerships in Germany

- Economic importance of limited partnerships:[1)] 137,153 limited partnerships with an accumulated revenue of 1.251 billion Euro
- For comparison:[1)] 7,892 public companies with an accumulated revenue of 1.037 billion Euro
- Entities with revenues of more than 10 million Euro per entity:[1)]
  - 15,392 limited partnerships with an accumulated revenue of 1.070 billion Euro
  - 1,814 public companies with an accumulated revenue of 1.028 billion Euro

[1)] VAT Statistics 2008, Federal Statistical Office of Germany

3. Applicability of IFRS for SMEs for family-owned entities

- IFRS for SMEs no option for most VMEBF member companies
- IFRS for SMEs favourable for small entities only
- Requirements of big limited partnerships or other big entities that are not capital market oriented are not met by IFRS for SMEs
- IFRS for SMEs does not implement a principles-based approach to accounting and is therefore subject to casuistic accounting regulations
- Interests in limited partnerships are still defined as a liability as the IFRS for SMEs applies the distinction criteria of the “old” IAS 32 before it was amended for puttable instruments in 2008
- IFRS for SMEs is not applicable in the European Union (yet)

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4. Status of the framework

Existing Standards

- ➔ Current status of the framework: framework does not override specific IFRSs
- ➔ Suitable basis for a high quality principle-based financial reporting is a framework that overrides the standards themselves
- ➔ Framework that overrides the standards enables the standard setter to develop lean and concise standards

Standard Development

- ➔ Framework assists the IASB in the development of high quality future IFRSs
- ➔ Framework has to be followed in the development or revision of IFRSs

5. Peculiarities of limited partnerships in Germany

Financial instruments with characteristics of equity

- VMEBF welcomes the definition of equity in Phase A of the Conceptual Framework Project in a way that holders of partnership interests are – in accordance with the economic substance – regarded as equity holders
- Nevertheless, the definition does not correspond with IAS 32 and preparers often have problems applying the criteria of IAS 32 properly in practice

Possible future approach

- Equity distinction is a good example for the need to redeliberate the authoritative status of the conceptual framework
- A framework that overrides the IFRSs enables the IASB to develop lean and concise standards without a variety of casuistic excemptions such as the criteria distinguishing equity from liabilities according to IAS 32

6. Room for improvements not (yet) taken

- With regard to the qualitative characteristics as defined in Phase A of the framework project VMEBF has some severe concerns
- The reliability notion should not have been replaced by faithful representation as it is much better understood, especially in an international context
- The meaning of faithful representation focuses on the depiction of an economic phenomenon while reliability has a nuance of assessing the phenomenon itself
- The substance over form criterion should have been codified explicitly to emphasize its high importance. This is also true for the prudence criterion
- Prudence is an essential criterion dealing with uncertainties and estimations
- Prudent accounting can prevent the understatement of liabilities or the over-statement of assets and enables users to better assess an entity´s solvency

7. Suggestions for future developments

- Authoritative status of the framework should be redeliberated to strengthen the fundamentals of principles-based accounting
- A premature completion of single chapters could later on most likely lead to a multitude of consequential amendments to chapters already completed earlier
- VMEBF strongly recommends not to finalize parts of the framework without all of the chapters being finalized
- In the Leasing Project the framework has not been followed (asset/liability definition)
- Framework has to be followed by all means in the development of new IFRSs
- As long as the Framework Project is not finalized, no IFRSs should be revised or new standards developed to avoid IFRSs violating the future framework

Thank you for the opportunity to discuss our comments!