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IASB's Request for Views: 2015 Agenda Consultation

Dear Mr Hoogervorst

On behalf of the German Insurance Association (GDV) we welcome the opportunity to respond to the Request for Views "2015 Agenda Consultation", as published by the IASB on 11 August 2015 for public consultation. We have the view that the regular agenda consultations are an important element in the essentially important process of public involvement into the IASB's standard setting activities. Therefore, we believe that the established regular public agenda consultations are relevant enough to be continued to be conducted every three years.

In general, we assess that the IASB allocates its resources in a strategically appropriate and a cost-efficient manner. Specifically with regard to the IASB's work plan we like to provide the following recommendations:

- The IASB should give high **priority to successfully completing the Insurance Contracts project** without any further significant delay. We are however fully aware of the necessity to carefully balance the need of a thorough consideration of the different dimensions of complexity of the unique insurance business model against the need to successfully finalise the important project in the near future. Because of the inherent link between insurance contracts liabilities and assets backing them, a reasonable completion of the Insurance Contracts project requires especially a proper recognition of the material and timing interaction between IFRS 9 Financial Instruments and the future Insurance Contracts Standard. We fully appreciate the progress achieved by the Board so far and encourage the IASB to continue their considerable efforts to further approach this challenging project in a close cooperation with the insurance industry.

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- We support the finalisation of the **revision of the Conceptual Framework** in due course of 2016 as scheduled by the IASB.
- After finalisation of major projects (incl. Dynamic Risk Management project) we would subsequently in fact expect an extended period of stability (“period of calm”). However, we agree that it is important to maintain existing IFRSs and ensure that they work properly. Therefore, an appropriately balanced approach is necessary. In particular, it is a valuable effort of the IASB to continue the **work on the Disclosure Initiative** addressing the phenomenon of the ‘disclosure overload’ with the intention to create a better and holistic disclosure framework for IFRSs. Also in current projects ineffective disclosures should be best not introduced at all.
- The IASB is able and therefore should continue to contribute to globally consistent implementation of principle-based IFRS. Hence, we appreciate the established **co-operation of the IASB with securities regulators**. It will help to ensure that the enforceability of IFRSs is considered at appropriate stages of Board deliberations.

Finally, we like to highlight our specific concern regarding the subsequent **treatment of results of Post-implementation Reviews (PiRs)**. While the relevance of timely conducted PiRs cannot be denied, it is also essential that critical issues clearly evidenced by particular PiRs are addressed by the IASB in a timely manner. For example, the impairment only approach for the purchased goodwill has been clearly evidenced by the recent PiR for IFRS 3 Business Combinations as being highly problematic. In our view, a low priority treatment of such well evidenced issues is definitely inappropriate. We advise a more pragmatic approach to standard setting where more robust and workable accounting solutions are available. It would lower the burden on the resources of reporting entities and help to address the significant enforceability issues without unnecessary delay.

For our detailed comments to the questions raised in the IASB’s Request for Views we 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. Axel Wehling
Member of the Executive Board
German Insurance Association



Hans-Juergen Saeglitz
Head of Accounting
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**Annex: The GDV's comments to the IASB's Request for Views
"2015 Agenda Consultation"**

The balance of the IASB's projects

1 The IASB's work plan includes five main areas of technical projects:

- (a) its research programme;**
- (b) its Standards-level programme;**
- (c) the Conceptual Framework;**
- (d) the Disclosure Initiative; and**
- (e) maintenance and implementation projects.**

What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

In general, we assess that the current IASB's allocation of resources to particular projects seems to be appropriately balanced (paragraph 30 and paragraphs 32 and 45). Nevertheless, there is still room for further improvements. We provide our comments and related recommendations in detail below and also refer to this issue when answering the Question 5.

We have the strong view that the main factor to consider when allocating resources (paragraph 55) should be the level of direct relevance of the particular IASB's activities to the IFRS community at large, but in particular to reporting entities as the most directly concerned party. Therefore, not only the importance of the issues for users of financial statements should be considered by the IASB when deciding on projects priorities. We believe that also the importance of the particular projects for preparers should be equivalently considered in the decision making process. Consequently, we recommend the paragraph 55 (a) to be amended as follows:

- "(a) the importance of the matter to those who prepare and/or use financial reports;"

For example, in case of research programme stage there is only a low expectation by preparers and users that the respective projects would require immediate planning and setting up implementation projects in near future. Hence, any retardation or pauses of these projects do not cause significant sunk costs, neither for the preparers nor for the investor/user community. Differently, projects at the standard setting level should be advanced with the least possible delay. The most reporting entities used to actively monitor the relevant standard setting activities of the IASB and

to dynamically assess the potential implications for them and their organisations. To encourage and take advantage of this kind of active involvement over time it is necessary that any significant deferments in the timeline of the projects are avoided to the extent possible. This consideration should drive the IASB's resources allocation.

Regarding the implementation and maintenance projects we believe that IASB would do better to act more swiftly with regard to the subsequent treatment of well evidenced results of Post-Implementation Reviews (PiRs). To provide a suitable example we like to refer to the recent IASB's decisions on the subsequent treatment of results of the PiR of IFRS 3 Business Combinations.

In particular, we have observed that the IFRS accounting approach for the subsequent measurement of goodwill purchased in a business combination (i.e. the impairment only approach) has been clearly evidenced by the recent PiR for IFRS 3 to be highly problematic. (*Regarding the related critical assessment provided by the GDV we kindly refer to our comment letter of 30 May 2014 "IASB's Request for Information, Post-implementation Review: IFRS 3 Business Combinations".*) From our perspective it is then less understandable why any further research activities (and the related involvement of significant resources of IASB Board, IASB staff and constituents) are necessary before standard setting activities can be conducted. In addition, we have noted that the related issue has been categorised into the 'assessment' stage of the research programme. Initially, goodwill accounting has been treated as an issue in the 'development' stage of the research programme. In our view, a low priority treatment of critical and well evidenced issues via PIR is highly problematic. Specifically, we are strongly concerned that issues evidenced via PiR (i.e. in the example the problematic consequences of the impairment only approach and the need for its removal) might be addressed by the IASB neither efficiently nor swiftly enough (paragraphs 34 - 36). Therefore, while the relevance of timely conducted PiRs cannot be denied, it is also essential that critical issues clearly identified and evidenced by particular PiRs are addressed by the IASB in a timely manner, especially when more robust and workable solutions are available (i.e. in the example of goodwill accounting amortisation approach instead of impairment only approach).

Therefore, we fully agree with the direction of the strategy mentioned in the second sentence of the paragraph 16 of the RFV-document.

Consequently, we believe that the IASB should continue to carefully balance the valid needs of investors and other users of financial statements and the cost-benefit-relationship from the preparers' perspective. Nevertheless, a more pragmatic approach to standard setting might be more responsive to the needs of preparers and result in a more robust and

workable accounting solutions which do not overly burden the resources of reporting entities and avoid enforceability problems at the same time.

Therefore, also on this occasion we reinforce our strong recommendation to the IASB that goodwill purchased in a business combination shall be written off within a maximum predefined period of years on a linear basis. This pragmatic change should happen with the least possible delay as it is indispensable to remove the significant tension of enforcers on this issue. In addition, it would discontinue the systematic disadvantages for reporting entities growing organically. Regarding our rationale presented in more detail we respectfully refer to our comment letter of 30 May 2014 "IASB's Request for Information, Post-implementation Review: IFRS 3 Business Combinations".

Research projects

2 The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.

Should the IASB:

(a) add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.

(b) remove from its research programme the projects on foreign currency translation (see paragraphs 39–41) and high inflation (see paragraphs 42–43)? Why or why not?

(c) remove any other projects from its research programme?

3 For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high/medium/low) and urgency (high/medium/low).

Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

Regarding Question (2) we believe that IASB should remove the projects "Goodwill and Impairment" from the research programme and re-allocate it directly to the standard setting activity, i.e. to treat it as an urgent issue as sufficiently evidenced by the recent PiR of IFRS 3. Consequently, as the next step we would rather expect an Exposure Draft than a Discussion Paper. Especially, it seems to be not comprehensible to categorise the project "Dynamic Risk Management" (with unclear direction so far) in the 'development' stage and at the same time to treat projects dealing with clearly evidenced issues like "Goodwill and Impairment" or "Definition of a Business" in the subordinated 'assessment' stage only. We rather see the latter issues *at least* at the same stage as the project on "Equity Method". In addition, we would encourage the IASB to better explain and make more transparent its rationale for the categorisation decisions. We believe that particular PiRs might provide a sufficiently clear rationale, in line with the evidenced-based working approach of the IASB as the result of the previous public Agenda Consultation, to immediately initiate a standard setting activity if identified issues are problematic and should be urgently addressed.

Overall, we tend to believe that further refinement of the proposed subcategories for the research programme might provide better clarity with regard to the corresponding intentions of the IASB, i.e. help to avoid confusion.

Finally, we disagree with the IASB's intention with regard to the suggested treatment of identified but inactive projects (i.e. foreign currency translation, high inflation and extractive activities/intangible assets/research and development). We would prefer not removing the inactive projects from the research agenda / IASB's website. We believe that it is useful element of transparency to document the respective projects being not actively followed by the IASB at this point in time. We would however recommend accompanying the list of inactive projects with a short description of the related rationale why these particular projects have been identified as not being worth to be further explored at this point in time. This service might be easily provided by the IASB on a continuous basis on its website, while it would spare potential search costs for the constituents being not able to follow all IASB's projects during their whole history.

Regarding the Question (3) we do not provide specific comments beyond those included already into our answer to Question (2) above.

As a matter of fact, we like to note however that the importance of the IASB's project "Dynamic Risk Management" from the perspective of the insurance industry is obviously very much depended on the effective final outcome of the Insurance Contracts project (IFRS 4 Phase II) and the consistency of the final material provisions for Insurance Contracts accounting and those of IFRS 9 Financial Instruments. Irrespective of the outcome of the Insurance Contracts project we assess that the Dynamic Risk Management project is of potentially high interest for insurers as well, when considering the insurers' perspective as users of financial statements.

Major projects

4 Do you have any comments on the IASB's current work plan for major projects?

We recommend that in the first place the IASB should reasonably complete the remaining major projects and then assist its globally consistent implementation (e.g. Insurance Contracts project, IFRS 9 Financial Instruments). This definitely requires also a thorough analysis of the material and timing interaction between IFRS 9 and the future Insurance Contracts Standard (IFRS 4 Phase II). The objective should be to enable insurers to provide meaningful financial statements and allow them to avoid unnecessary double efforts. Therefore, also on this occasion we continue to highlight the need of an alignment of the mandatory effective date of IFRS 9 with the one of the future Insurance Contracts standard at the global level.

As highlighted in the cover note we also support the timely finalisation of the revision of the Conceptual Framework in due course of 2016 as scheduled by the IASB. However, we understand and agree with the view that the finalisation and publication of the revised and amended Conceptual Framework should not be followed by subsequent adjustments to particular Standards or Interpretations, simply for the sake of consistency.

Consequently, we would expect subsequently an extended period (i.e. three to five years) of stability ("period of calm"), although we do agree that it is of the same importance to maintain existing IFRSs and ensure that they work properly (see our response to Question (5)). Especially, we view it is a valuable effort of the IASB to further progress the work and related activities regarding the Disclosure Initiative which is addressing the phenomenon of the 'disclosure overload' with the intention to create a better and holistic disclosure framework for IFRSs. We would like however to highlight our concern that the different streams of IASB's work, while all related the Disclosure Initiative, makes it increasingly difficult - even for interested constituents - to follow the IASB's activities and the process. Especially, the outcome of the Disclosure Initiative should not be even more burdensome disclosure requirements for reporting entities. For the unfortunate example we refer to the GDV comment letter of 13 March 2015 "ED/2014/6: Disclosure Initiative, Proposed amendments to IAS 7". Finally, we believe that also in currently ongoing projects ineffective disclosures should be best not introduced at all. A good example here is the adopted proposal to require the confidence level reconciliation with regard to risk adjustment determination in the Insurance Contracts project (IASB, Agenda Paper 2D, October 2015: Presentation and Disclosures for insurance contracts) while the entire insurance and actuarial community at large is concerned with regard to the **uselessness** of this requirement.

Maintenance and implementation projects

5 Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19–23 and 50–53)?

We support the IASB's intention and commitment to engage even more in the related activities in future. The key role of IFRS Interpretations Committee is self-evident and we welcome its more active involvement in the process. Implementation and application of principle-based IFRSs on a globally consistent basis is of critical importance for the IASB and the organisation at large for credibility reasons.

In this respect the IASB's established co-operation with securities regulators like ESMA and IOSCO is relevant. Co-operations allow the 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 and thus preventing potential 'discovery' of related significant enforcement issues afterwards. Therefore, we think that IASB could and should further contribute to the objective of consistent application of IFRSs' accounting principles 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 the IASB will help to clarify in which case it is better for the IASB respective the securities regulators to act to prevent potential burden of double regulation. And 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, we encourage the IASB to continue to engage with 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 future of the problematic impairment-only-approach. We believe that a coordination of common efforts is desirable.

Level of change

6 Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

We do not find the recent change in the template containing the IASB's work plan, as placed and updated on a regular basis after the IASB's monthly meetings on the IASB's website useful. The new categorization approach (e.g. "within 3 months" etc.) is worse and less meaningful than the previous template which provided direct references to the concrete dates (e.g. "Q3 2015" etc.).

Any other comments

7 Do you have any other comments on the IASB's work plan?

We do not have any other specific comments on the IASB's work plan.

Frequency of Agenda Consultations

8 Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?

If not, what interval do you suggest? Why?

We believe that the IASB is dealing with an ambitious and challenging work programme with the significant relevance for the future of the financial reporting. Therefore, we have the strong view that the regular agenda consultations are an essential element in the important process of public involvement into the process of determining of priorities for the IASB's standard setting activities. The regular public reflection regarding the strategic priorities for the challenging IASB work ensures a right determination of the suitable balance between the particular projects in deferent stages of the process. Solely the established regular public consultation safeguards the necessary level of transparency as an element of public accountability of the IASB.

Therefore, we believe that the established regular public agenda consultation should be continued to be conducted every three years. Hence, we disagree with the proposal to extend the interval up to five years term.