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### Third Agenda Consultation

IASB's Request for Information (March 2021)

Dear Mr Barckow

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to provide our input to the IASB's Third Agenda Consultation based on the Request for Information (RfI) document, released by the IASB in March 2021 for public consultation. As a matter of principle, we are fully supportive of this regularly conducted agenda consultation which allows for a pro-active involvement and a direct impact of interested stakeholders on the IASB's standard setting work and the IASB's strategic direction in this regard. The transparency of the procedures and decision-making processes is an essential attribute of the IASB's due process; it ensures a high level of stakeholders' support and the global acceptance of the IFRS.

Overall, we believe that the **balance of the IASB's main activities**, as described in the RfI document **is appropriate** to achieve the main objective which is to maintain the high-quality of the IFRS. We also generally agree with the IASB's intention **not to discontinue the work on the projects already ongoing**. However, another important aspect is the IASB's commitment to be responsive in a pragmatic and timely manner to urgent issues emerging, for example when new important standards are implemented for the first time or when economic or environmental conditions change in an unexpected and/or rapid way creating great operational challenges for reporting entities. In this regard we would indeed suggest to **holistically reassess the feasibility** and the **realistic chance** to successfully complete all the projects on the current work plan in the foreseeable future.

We fully acknowledge that this Agenda Consultation is focused on the financial reporting in classical terms. Nevertheless, we are concerned that future resources for this purpose might be somehow conditional on the needs of the IFRS Foundation at large for its work on sustainability topics.

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While we fully support the political momentum and the considerable efforts of the organisation to establish the International Sustainability Standards Board (ISSB), any reallocation of resources should **not lead to a reduced quality of the IASB's standard setting activities**. The need for finalisation of ongoing projects, the continuous maintenance efforts, and the ability to react in due course when necessary is of high relevance and makes it essential to ensure that the current level of resources is generally maintained.

The continuous and often rapid changes in the economic environment make it necessary to evaluate on a regular basis whether any new significant gaps in the IFRS literature are emerging or whether the existing standards need further refinements to remove the deficiencies identified for that reason, for example by the IFRS IC. In this regard also a permanent careful **cost-benefit consideration from the perspective of the reporting entities** is essential. While it is important to address any informational gaps and to ensure that information reported to users of financial statements remain useful, it is also key that the **IFRS requirements remain principle-based** and overall cost-effective for preparers. Furthermore, we continue to hold the view that digitalisation efforts and needs in the field of the financial reporting should **not lead to technology driving the content of the standards**.

The German insurers hold the general view that where reasonable and justifiable the status quo could and should be maintained, i.e., **if the standards are generally working as intended**, there is no urgent need for any immediate amendments or any additional detailed rule-based guidance to the existing principle-based accounting requirements in the respective standards. Hence, providing for the **stable platform**, keeping the status quo, and doing nothing is an option we would recommend to the IASB to be thoroughly considered in such cases. It applies especially after the major standard projects got successfully finalised and an established practice for them, also in context of the entity-specific situations, must develop.

Finally, the **PIR on IFRS 17** should be included in the timetable to allow for an alignment with the review at EU level foreseen for 31 December 2027.

Our responses to the specific questions in the Rfl document, including our suggestions which important projects should be approached by the IASB in the coming years are provided in the annex of this letter. If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

## Annex

### **Question 1 – Strategic direction and balance of the Board’s activities**

The Board’s main activities include:

- developing new IFRS Standards and major amendments to IFRS Standards;
- maintaining IFRS Standards and supporting their consistent application;
- developing and maintaining the *IFRS for SMEs* Standard;
- supporting digital financial reporting by developing and maintaining the IFRS Taxonomy;
- improving the understandability and accessibility of the Standards; and
- engaging with stakeholders.

Paragraphs 14 – 18 and Table 1 provide an overview of the Board’s main activities and the current level of focus for each activity. We would like your feedback on the overall balance of our main activities.

- (a) Should the Board increase, leave unchanged or decrease its current level of focus for each main activity? Why or why not? You can also specify the types of work within each main activity that the Board should increase or decrease, including your reasons for such changes.
- (b) Should the Board undertake any other activities within the current scope of its work?

Overall, we believe that the **balance of the IASB’s main activities**, as described in the RfI document is **appropriate** to achieve the main objective which is to maintain the high-quality of the IFRS.

In this regard we also generally agree with the IASB’s intention **not to discontinue the work on the projects already ongoing (Appendix A)** because they had been identified by interested stakeholders as important, for example in the last Agenda Consultation. And it might be discouraging for those stakeholders and inefficient at the same time to stop important projects currently ongoing and for which considerable efforts have been already made on the IASB’s side. **Nevertheless**, we would indeed suggest to holistically **reassess the feasibility** and the realistic chance to successfully complete all the projects on the current work plan (Table 4, Appendix A of the RfI document) in the foreseeable future. We think therefore that the IASB should thoroughly **consider re-prioritising** some of the current projects on the current work plan. As a matter of principle, the similar rationale

and the same recommendation apply to projects in the research pipeline (Table 3, page 21 of the RfI document).

Accordingly, to conduct the **respective Post-Implementation Reviews (PIR)** in a timely manner is an important task in this regard as it allows to collect views from a broad and hence representative range of stakeholders whether the related standards are working as initially intended by the Board and whether they are cost-effective for preparers. It will be from our perspective one of the main activities of the IASB in the upcoming period 2022 – 2026, after the finalisation of the major standard setting projects in the recent past (i.e., IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*, IFRS 17 *Insurance Contracts*), including the follow-up work on IFRS 17 *Insurance Contracts* and the ongoing work on the comparative issue under IFRS 9 when adopting IFRS 17 for the first time. Nevertheless, we would also like to highlight the need to avoid in future an overlength in timing terms of some PIR's follow-up activities like the ones following the PIR on IFRS 3 *Business Combinations*. It would be our suggestion to approach emerging accounting issues more often from a pragmatic perspective in case when conceptual debates do not lead to a clear and globally acceptable outcome.

As a matter of fact, another important aspect is the standing IASB's commitment to **respond in a prompt and pragmatic manner to urgent issues** emerging, for example when new important standards (e.g., IFRS 17 *Insurance Contracts*, IFRS 9 *Financial Instruments*) are implemented for the first time, when economic or environmental conditions change in an unexpected and/or rapid way creating great operational challenges for reporting entities (e.g., IFRS 16 *Leases*, IFRS 9 *Financial Instruments* and issues related to IBOR reform or the covid-19 pandemic) or when important issues are identified by the submitters to the IFRS Interpretations Committee (IFRS IC) and they cannot be solved by the Committee itself because an explicit standard setting activity is required.

Specifically, if specific issues with inconsistent application are identified by enforcers (e.g., European Securities and Markets Authority, ESMA), it is essential that the IASB is approaching such matters in a proper way without any undue delay if the IFRS IC is not able to provide an instructive answer to the related submission. The IASB's responsiveness is the only way to prevent regional enforcers from creating an additional level of implicit IFRS requirements via enforcement decisions.

**Question 2 – Criteria for assessing the priority of financial reporting issues that could be added to the Board’s work plan**

Paragraph 21 discusses the criteria the Board proposes to continue using when assessing the priority of financial reporting issues that could be added to its work plan.

- (a) Do you think the Board has identified the right criteria to use? Why or why not?
- (b) Should the Board consider any other criteria? If so, what additional criteria should be considered and why?

While we generally believe that the Board has identified the **right criteria set** (Table 2, page 19 of the RfI document), we believe that the priority of any project should in first place result out of its **relevance** and **urgency** for the stakeholders impacted, obviously subject to the resources constraints.

In this regard we acknowledge that this Agenda Consolation is focused on the financial reporting in classical terms. Nevertheless, we are concerned that future resources for this purpose might be somehow conditional on the needs of the IFRS Foundation at large for the work on sustainability topics (paragraph 5 of the RfI document). While we fully support the political momentum and the considerable efforts of the organisation to establish the International Sustainability Standards Board (ISSB), any reallocation of the resources should **not lead to a reduced quality of the IASB’s standard setting activities**. Already the need for finalisation of ongoing projects, the continuous maintenance efforts, and the ability to react in due course when necessary is of high relevance and makes it essential to ensure that the current level of resources is generally maintained (paragraph 17 of the RfI document). It is the indispensable basis for keeping the high quality of the IASB’s work in the core field of the financial reporting.

The continuous and often rapid changes in the economic environment make it necessary to evaluate on a regular basis whether any new significant gaps in the IFRS literature are emerging or whether the existing standards need further refinements to remove the deficiencies identified for that reason, for example by the IFRS IC. In this regard also a permanent careful **cost-benefit consideration from the perspective of the reporting entities** is essential. While it is important to address any informational gaps and to ensure that information reported to users of financial statements remain useful, it is also key that the **IFRS requirements remain principle-based** and overall cost-effective for preparers. Furthermore, we continue to hold the firm view that digitalisation efforts and needs in the field of the financial reporting should **not lead to technology driving the content** while being properly considered along the standard setting process.

### Question 3 – Financial reporting issues that could be added to the Board’s work plan

Paragraphs 24 – 28 provide an overview of financial reporting issues that could be added to the Board’s work plan.

- (a) What priority would you give each of the potential projects described in Appendix B – high, medium or low – considering the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27 – 28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.
- (b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board’s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27 – 28). To help the Board analyse the feedback, when possible, please explain:
  - (i) the nature of the issue; and
  - (ii) why you think the issue is important.

Considering the capacity necessary to conduct the Board’s activities described in the paragraph 27 of the Rfl document, and which we generally support, we believe that **the following key three projects**, out of the 22 projects set out in the Table 5 (page 31 of the Rfl document), should be approached by the IASB with the **high priority**, for the respective reasons provided in **Appendix B** of the Rfl document (the preferred project scope):

- No. 2 Climate-related risks (a *large* project, B11 (c) and/or (d))
- No. 4 Cryptocurrencies and related transactions (a *large* project, B15 (d))
- No. 14 Intangible Assets (a *large* project, B52 (c))

We like to note that regarding the topics No. 4 and 14 an intensive work has been already conducted by EFRAG at EU level. We believe that the IASB should utilise the outcome of these valuable proactive research initiatives.

Other projects described in **Appendix B** to the Rfl document could be approach depending on the related relevance for the stakeholders bringing them forward and depending on the progress realistically achievable when working on the other topics. Regarding the complete assignment of the GDV’s priorities to the new projects compiled in the Appendix B see the Table 5 reproduced on the next page:

**Table 5 [modified and amended]: Financial reporting issues that could be addressed in a potential project – GDV priorities**

No.	Potential project title	Priority (H, M, L)	Rationale
1	Borrowing costs	L	
2	<b>Climate-related risks</b>	<b>H</b>	In public and political perception an urgent issue (also for classical financial reporting)
3	Commodity transactions	M	Closing the gap, linkage to the project <b>No. 4</b>
4	<b>Cryptocurrencies and related transactions</b>	<b>H</b>	Emerging issue with an increasing prevalence
5	Discontinued operations and disposal groups	L	Research pipeline project
6	Discount rates	L	
7	Employee benefits	L	
8	Expenses – Inventory and cost of sales	L	
9	Foreign currencies	L	
10	Going concern	M	Core concept of financial accounting
11	Government grants	L	
12	Income taxes	L	
13	Inflation	L	Research pipeline project
14	<b>Intangible assets</b>	<b>H</b>	Core area of financial accounting, especially in the digital economy, and an emerging issue in the context of sustainability discussions
15	Interim financial reporting	L	
16	Negative interest rates	M	Issue of importance in low interest rate environment
17	Operating segments	L	
18	Other comprehensive income	L	<u>Preference</u> : Keeping the status quo in the Conceptual Framework as there is no need to reopen the unsolvable controversy again
19	Pollutant pricing mechanism	M	Closing the gap, research pipeline project, linkage to the project <b>No. 2</b>
20	Separate financial statements	L	
21	Statement of cash flows and related matters	L	<u>Preference</u> : Abolishment for the insurance industry
22	Variable and contingent considerations	M	Research pipeline project

For the sake of completeness, we would like to state that the GDV does not express any views on the issues compiled in **Appendix C – Other financial reporting issues suggested to the Board**.

Irrespective of the comments provided above we believe that any project planning at the IASB level should not reduce the **Board's capacity to react** swiftly to emerging issues when urgently necessary. The readiness and the adaptive **responsiveness** are essential for the global standard setter such as the IASB to maintain the high level of the acceptancy by stakeholders and to ensure the perceived high quality of the IASB's work in the field of the financial reporting.

Finally, the German insurers believe that the IASB should start initial thinking and planning for the **Post-Implementation Review (PIR) of IFRS 17 Insurance Contracts**. It applies especially in the context of the related endorsement process at EU level. Its upcoming finalisation will ensure that the new global standard will go live at EU level in line with its global effective date, i.e., starting at 1 January 2023. As an outcome of the EU endorsement process the European Commission's regulation will contain an **optional carve out solution** regarding the annual cohorts' requirement in IFRS 17 for some contracts with mutualisation features. As a matter of fact, the European Commission's regulation requires however also a review of this optional carve out solution until the 31 December 2027. It would be reasonable for the IASB to aim for an alignment of its timetable for the PIR of IFRS 17 with the carve out review to be conducted by the European Commission at EU level. The joint objective should be to overcome the European carve out solution via a pragmatic global solution at the IASB's level.

#### Question 4 – Other comments

Do you have any other comments on the Board's activities and work plan?  
Appendix A provides a summary of the Board's current work plan.

As mentioned in the cover note above, we believe that the balance of the Board's activities as described in the RfI document is appropriate to achieve the objective of the high-quality of the IFRS. However, while it is important to address any informational gaps or inconsistencies and to ensure that information reported to users of financial statements remain useful and the global standards are consistently applied, it is also key that the **IFRS requirements remain principle-based** and overall **cost-effective for preparers**.

- As a matter of fact, the **principle-based standards** require significant initial efforts of reporting entities to understand and operationalise the related principles/reporting objectives and to adopt the respective principles to entity-specific situations. And these efforts will always remain necessary and might lead to initial nuances in practices between reporting entities before the principles are well-understood in practice. The accounting and auditing practice used to find pragmatic ways of dealing with entity-specific situations in a proper way which provides the proof that not all potential facts and circumstances have to be explicitly defined in the standard being designed to apply globally.
- In this context we are fully aware and very much concerned that users of financial statements might generally request further **disclosures** and/or to significantly increase the granularity of the existing requirements. Consequently, we encourage the IASB to thoroughly evaluate the costs of providing any additional disclosures against their potential benefits before undertaking any actions in this regard in any standard setting project under current or future consideration. We believe that the insight which the IASB will gain in the ongoing consultation on its Exposure Draft "*Disclosure Requirements in IFRS Standards – A Pilot Approach*" will be useful and instructive to make the disclosures in IFRS financial statements more effective, while overall not more burdensome and costly for preparers.
- Furthermore, we continue to hold the view that digitalisation needs in the field of the financial reporting should **not lead to technology driving the content of the standards** while being properly considered along the standard setting process.

Finally, the German insurance industry holds the general view that **where reasonable and justifiable the status quo should be maintained**, i.e., if the standards are generally working as intended, are cost-effective and cover the envisaged information needs properly, there is from our

perspective no urgent need for any immediate amendments or any additional detailed rule-based guidance to the existing principle-based accounting requirements in the respective standards.

Hence, providing for the **stable platform**, keeping the status quo, and doing nothing is an option we would recommend to the IASB for cases for which no urgent action is necessary. It applies especially after the major standard projects got successfully finalised and an established practice for globally applicable standards must develop, also in context of the entity-specific situations, and before the series of the related Post-implementation Processes are going to start.