

Financial Reporting - German Perspective -

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Accounting Standards Committee of Germany (1)

- ASCG recognised as the official standardisation organisation for Germany by the Federal Ministry of Justice in a Standardisation Agreement 03/09/1998
- ASCG established independent board GASB and AIC
- Statutory duties under section 342 (1) HGB
 - To develop recommendations (standards) for the application of group accounting principles
 - To advise the Federal Ministry of Justice on planned legislation on accounting regulations
 - To represent the Federal Republic of Germany on international standard-setting bodies
 - PROPOSED: to develop interpretations of IFRS in respect of issues of merely local reach

Accounting Standards Committee of Germany (2)

- Association
 - 59 companies, 71 individuals, 11 associated organisations
 - Financed by membership fees and donations
- Governing bodies
 - General Assembly
 - Executive Board: 16 members
 - Executive Committee: 5 members
- Standing Committees
 - German Accounting Standards Board: 7 members
 - Accounting Interpretations Committee: 9 members
- Staff: 16 technical, 2 administrative

Production of ASCG (1)

- GAS 2 Cash Flow Statements issued 2000
- GAS 3 Segment Reporting issued 2000
- GAS 4 Acquisition Accounting in Consolidated Financial Statements issued 2000
- GAS 5 Risk Reporting issued 2001
- GAS 7 Group Equity and Total Recognised Results issued 2001
- GAS 8 Accounting for Investments in Associates in CF/S issued 2001
- GAS 9 Accounting for Investments in Joint Ventures in CF/S issued 2001
- GAS 10 Deferred Taxes in CF/S issued 2002
- GAS 11 Related Party Disclosures issued 2002
- GAS 12 Non-current Intangible Assets issued 2002

Production of ASCG (2)

- GAS 13 Consistency Principle and Correction of Errors issued 2002
- GAS 14 Foreign Currency Translation issued 2004
- GAS 15 Management Reporting issued 2005
- GAS 16 Interim Financial Reporting issued 2008
- GAS 17 Reporting on the Remuneration of Members of Governing Bodies issued 2008
- AIC 1 The Current / Non-current Classification in the Balance Sheet under IAS 1 Presentation of Financial Statements issued 2005
- AIC 2 Obligation to Dispose of Electrical and Electronic Equipment issued 2006
- Draft AIC 4 Interpretation Issues relating to Amendments to IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements Puttable Financial Instruments and Obligations Arising on Liquidation issued 2008

Production of ASCG (3)

- Financial Reporting from the Perspective of Banks as a major User Group of Financial Statements
 - September 2008, ASCG / University of Regensburg
- Survey: The View of European Professional Investors and their Advisors
 - April 2008, Gassen / Schwedler; ASCG / Humboldt University / EFFAS
- Survey: ED IFRS for SMEs
 - December 2007, Eierle / Haller / Beiersdorf; BDI / DIHK / University of Regensburg / ASCG

Another local player

- Institut der Wirtschaftsprüfer
 - Issuing IDW Accounting Principles (IDW AcP), e.g.
 - Einzelfragen zur Anwendung von IAS
 - Einzelfragen zur Bilanzierung von Finanzinstrumenten nach IFRS
 - Draft Einzelfragen zu den Angabepflichten des IFRS 7 zu Finanzinstrumenten
 - Draft Einzelfragen zur Bilanzierung von Verträgen über den Kauf oder Verkauf von nicht finanziellen Posten nach IAS 39
 - PAIR: Fair value Measurement of Financial Instruments in Inactive Markets: Determining the Discount Rate for Present Value Computations

Regulatory environment in Germany

| | Consolidated Financial Statements | Separate Financial Statements |
|------------------------|--|--------------------------------------|
| Listed Entities | EU RL / IAS* | EU RL / IAS <i>and</i> HGB* |
| other | EU RL / IAS <i>or</i> HGB* | EU RL / IAS <i>and</i> HGB* |

**as from 2005 resp. 2007*

Recent changes to the Commercial Code

- Kapitalaufnahmeerleichterungsgesetz 1998
- Gesetz zur Kontrolle und Transparenz im Unternehmensbereich 1998
- Kapitalgesellschaften- und Co-Richtlinie-Gesetz 1999
- Transparenz- und Publizitätsgesetz 2002
- Bilanzkontrollgesetz 2004
- Bilanzrechtsreformgesetz 2004
- Vorstandsvergütungs-Offenlegungsgesetz 2005
- Übernahmerichtlinienumsetzungsgesetz 2005
- Gesetz über elektronische Handelsregister und Genossenschaftsregister sowie das Unternehmensregister 2006
- Transparenzrichtlinienumsetzungsgesetz 2006

Bilanzrechtsmodernisierungsgesetz (1)

- First draft November 2007
- Second draft May 2008
- Objective
 - Maintaining an alternative to IAS that is equivalent, but easier and less costly to apply
 - Maintaining the (somewhat truncated) tax link and dividend basis
 - Exempting micro activities
 - Transforming changes to 4th, 7th and 8th EU Directive
 - Eliminating options
 - Introducing fair value measurement for certain financial instruments
- Finalisation early 2009

Bilanzrechtsmodernisierungsgesetz (2)

- Separate financial statements – main changes
 - Exempting “micro-activities”, i.e. less than 500.000 revenue / 50.000 profit
 - Requiring self generated intangible assets to be recognised
 - Introducing fair value measurement for traded financial instruments
 - Introducing discounting into the measurement of provisions
 - Introducing specific measurement requirements for pension accruals
 - Introducing hedge accounting requirements
 - Introducing requirements for currency translation
 - Increasing size-related exemptions
 - Introducing the concept of temporary differences to deferred taxation
 - Numerous note disclosures
 - Additional disclosures in the management report

Bilanzrechtsmodernisierungsgesetz (3)

- Consolidated financial statements – main changes
 - Duty to prepare no longer dependent on holding equity investments
 - Increasing size-related exemptions
 - Eliminating the option to use carrying amounts / only permitting fair value
 - Eliminating pooling of interests method
 - Eliminating options when to first consolidate / only permitting date of achieving control
 - Eliminating options to treat goodwill other than recognising as an asset (still amortise)
 - Require translating foreign currency items as of the reporting date / no functional currency
 - Eliminating the option to carry an investment in an associate at the proportionate share of the associate's equity

Enforcement in Germany

- Financial Reporting Enforcement Panel
 - Private sector association; members associations of stakeholders
 - Finance via listing fee
 - Mission as in CESR standard, ie mixed model whereby a risk based approach is combined with a rotation and/or sampling approach
 - Annual and interim reporting, no pre-clearance advice
 - Entities have to agree to examination, otherwise handed on to BaFin
 - Findings have to be published by entity
 - FREP attends European Enforcement Coordination Sessions
- Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)
 - Acts if entity does not cooperate / there are severe doubts about the outcome of FREP's examination

Europe (1): EFRAG

European Financial reporting Advisory Group

- ...to promote the knowledge, the adoption and the implementation in Europe of worldwide applicable accounting standards through scientific and pedagogical activities and, in particular:
 - To provide a proactive contribution to the work of the IASB
 - To help developing and coordinating expertise of all stakeholder groups in the area of financial reporting in Europe
 - To contribute to the implementation of IFRS in Europe (EFRAG statutes as per December 2007)

Europe (2): EFRAG

- EFRAG published for public consultation its proposals for an enhanced governance and operational structure with increased resources. More particularly, EFRAG sought input on:
 - Enhancing the EU's pro-active input to the IASB by building on EFRAG's structures and experience
 - Further involvement of National Standard Setters and coordination of European resources and the creation of a Planning and Resources Committee
 - Enhanced governance, transparency of EFRAG and accountability to European organisations and institutions
 - Balanced involvement of European stakeholders in EFRAG
 - A significant increase in EFRAG's human and financial resources
- Standards Advice Review Group (SARG)

Europe (3): EFRAG

- products
 - Draft comment letters: published soon after IASB's / IFRIC's publication of an invitation to comment to solicit Europe's views
 - Comment letters: mainly vis-à-vis IASB / IFRIC
 - Draft endorsement advice: published soon after IASB's / IFRIC's publication of a final IFRS or IFRIC to solicit Europe's views
 - impact assessments introduced after IASB committed to do so for future standards
 - Final endorsement advice:

IAS can only be adopted, if they are not contrary to the principle set out in Art. 2 (3) of the 4th and Art. 16 (3) of the 7th EU Directive and are conducive to the European good and they meet the criteria of understandability, relevance, reliability and comparability required for financial information needed for making economic decisions and assessing the stewardship of management

Europe (4): PAAinE

- Elements of the Framework Debate: The Conceptual Framework - starting from the right place?
 - November 2006, led by CNC
- The Performance Reporting Debate: What (if anything) is wrong with the good old income statement?
 - November 2006, led jointly by ICAC and EFRAG
- Revenue Recognition – a European Contribution
 - July 2007, led by GASB
- The Financial Reporting of Pensions
 - January 2008, led by ASB
- Distinguishing between Liabilities and Equity
 - January 2008, led by GASB

Europe (5): EU Commission

- The European Commission has decided to simplify the regulatory environment for European businesses, in co-operation with the European Parliament and the Member States
- A clear majority of those that reacted to the proposal to repeal certain company law directives did not support it. The main argument put forward was that these directives provide legal certainty and that their repeal would rather cause additional costs than lead to savings for companies.
- Proposal for a Directive of the European Parliament and of the Council amending the 1st and 11th Directive as regards publication and translation obligations of certain types of companies
- Proposal for a Directive of the European Parliament and of the Council amending the 4th and 7th Directive as regards certain disclosure requirements for medium-sized companies and obligation to draw up consolidated accounts

Europe (6): Enforcement

- Committee of European Securities Regulators
 - Recital in the IAS regulation: a proper and rigorous enforcement regime is key to underpinning investors' confidence in financial markets. Member States, by virtue of Article 10 of the Treaty, are required to take appropriate measures to ensure compliance with international accounting standards. The Commission intends to liaise with Member States, notably through the Committee of European Securities Regulators (CESR), to develop a common approach to enforcement.
 - In November 2007 CESR published the review of the implementation and enforcement of IFRS in the EU: 20 out of 27 Member States had introduced an enforcement mechanism by 2006 that met, at least in part, the requirements laid down by CESR standards on enforcement.
 - Cases discussed by the EECS are entered onto a confidential CESR database.

International: Statement of Best Practice

- Working relationships between the IASB and other Accounting Standard-Setters
 - February 2006
 - Communication
 - Project role
 - Comment role on IASB consultative documents
 - Application of standards
 - Interpretation
 - Working with regulators
 - Education

International: IASB / FASB Memorandum of Understanding

- September 2002: Norwalk agreement
 - Undertake short-term project aimed at removing a variety of individual differences between US GAAP and IFRS
 - Remove other differences between IFRSs and US GAAP through coordination of their future work programmes
 - Continue progress on the joint projects that they are currently undertaking
 - Encourage their respective interpretative bodies to coordinate their activities
- February 2006: A road map for Convergence between IFRSs and US GAAP 2006-2008
- September 2008: update on MoU

IASB: Work Plan (1)

- Common control transactions
 - Relevant, too long as TBD
- Consolidation
 - Current rush possibly unhelpful, need for solution linked to Framework
- Derecognition
 - Needed, difficult
- Emissions trading schemes
 - Needed, good example for issues linking several elements
- Fair value measurement guidance
 - Needed, need for solution linked to Framework

IASB: Work Plan (2)

- Financial instruments with characteristics of equity
 - Needed, need for solution linked to Framework
- Financial statement presentation
 - Needed, unhelpful pruning (e.g. “recycling”)
- Government grants
 - Not urgent
- IFRS for private entities
 - Need for further simplification
- Income taxes
 - To close to US GAAP?

IASB: Work Plan (3)

- Insurance contracts
 - Lots of cross cutting issues, test case for liabilities?
- Leases
 - First glimpses at DP look very industry driven, needs to be brought in line with other projects
- Liabilities
 - Lots of cross cutting issues with insurance contracts, leases, pensions, revenue recognition, framework
- Management commentary
 - Needed, more authoritative status preferred
- Post-employment benefits (including pensions)
 - Abandoning corridor: fine; new category unhelpful

IASB: Work Plan (4)

- Revenue recognition
 - Abandoning IAS 11?
- Annual improvements
 - e.g. changes to cash flow statement: what direction?
- Discontinued operations
 - Limited change fine
- Earnings per share
 - Need? Cross cutting issues to equity / liability, parent / entity approach?
- Financial instruments: enhanced disclosure
 - Needed, status of other activities such as EAP?

IASB: Work Plan (5)

- First-time adoption of IFRSs: additional exemptions
 - Necessary?
- Joint ventures
 - Difficult, needs to be brought into line with consolidation, framework
- Related party disclosures
 - Difficult, re-exposure
- Share-based payment: group cash-settled transactions
 - Standard needs constant maintenance, overhaul in due course (e.g. equity / liability)

IASB: Work Plan (6)

- Conceptual Framework
 - Purpose and Status: some would like a more authoritative status, obligation to change if standards are issued that are not in conformity, find it difficult to discuss this in Phase F
 - Process: some would rather keep every chapter in draft status until all is finalised
 - Phase A: Objective and Qualitative Characteristics: some misgivings
 - Phase B: Elements and Recognition: favour a more fundamental debate defining assets, liabilities and/or equity
 - Phase C: Measurement: too little progress
 - Phase D: Reporting Entity: some would want parent- / entity approach to be settled
 - Strong need to have boards and staff look at cross cutting issues

IASCF: Review of the Constitution (1)

- Phase 1
 - Monitoring Group
 - Creation of a monitoring group: inevitable
 - Composition: fine
 - Mission: acknowledging the MG being autonomous, mission needs to be clearly stated and agreed
 - IASB's composition
 - Expanding to 16: doubtful
 - Geographical formulation: technical competency should always prevail
 - Flexibility on the matter of part-time membership: doubtful

IASCF: Review of the Constitution (2)

- Phase 2
 - Standards Advisory Council
 - Odd to change composition before clarifying mission
 - Changing from individuals to representatives doubtful
 - Numerous advising groups in competition to SAC
 - Due process
 - Agenda decisions and feedback could be improved
 - Impact assessments, field tests could be improved
 - Finance
 - Little progress finding a sustainable solution

Global enforcement co-ordination: IOSCO

- Accounting standards for public companies must provide clear, accurate and useful information to investors to allow them to make informed investment decisions. Furtherance of this goal promotes investor confidence in financial statements and capital markets. We strongly support accounting standards that afford investors transparency, maintain market integrity, facilitate capital formation and are consistent with financial stability. The job of developing and maintaining high quality standards that provide transparency to investors relies to a critical extent on independent accounting standards setters. In this connection, we support the International Accounting Standards Board (IASB) and Financial Accounting Standards Board's (FASB) announced joint action to address issues related to the credit crisis pursuant to an accelerated due process.

Conclusion?

„The competitiveness and productivity of Germany (*Europe?*) will depend in the next decades upon the ability to sharpen the awareness for the challenges globalisation poses and to approach essential reforms with the resolution necessary.“ *Clemens Börsig*

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