Evaluation of the Application of IFRS in Germany

Summary report on the responses to the ASCG company survey (Phase 2 of the ASCG study)

December 2024

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Executive Summary

This summary report presents early results of the ASCG company survey conducted from March to October 2024 within phase 2 of the ASCG study "Evaluation of the Application of IFRS in Germany". The results are preliminary. A comprehensive report will be published in the first quarter of 2025.

Background and Objective of the Study

The study to evaluate the application of International Financial Reporting Standards (IFRS) in Germany follows a two-phase approach to examine the acceptance and application of IFRS as a standard for financial reporting in Germany. Building upon the nature and extent of the current application of IFRS, the study collects different stakeholder perspectives while acknowledging the conceptual interactions with the manifold purposes of financial reporting in Germany. It covers both the status quo (de lege lata) as well as potential future application scenarios of the IFRS (de lege ferenda). The summary report focuses largely on the question of introducing an unconditional or conditional option (so-called "exempting option") to apply of IFRS in companies' separate financial statements, thereby exempting these companies from the preparation requirements under German Generally Accepted Accounting Principles (German GAAP) according to the German Commercial Code *HGB* (*Handelsgesetzbuch*).

The objective of the study is to collect unbiased stakeholder feedback. It follows a two-phase approach. In the first phase, the ASCG interviewed 61 representatives from 15 different stakeholder groups between March and September 2023. These stakeholder interviews are the starting point for the stakeholder surveys in phase two.

Phase 1 of the Study

The stakeholder interviews in phase one of the study mainly focused on the following topics:

- Cost-benefit analysis of the IFRSs (for consolidated and separate financial statements)
- Conceptual challenges as regards IFRS separate financial statements
- Pro and contra as regards an exempting option to prepare separate financial statements under IFRS

The results from phase 1 implied that most participating companies are content with the current framework of financial reporting in Germany. However, especially for capital market-oriented companies, the current parallel reporting of separate financial statements under German GAAP and consolidated financial statements under IFRS results in higher costs as well as an additional need to explain any differences between the two. It was in this context that stakeholders pointed out a desire for exempting separate financial statements under IFRS.

Those companies that solely prepare financial statements under HGB voiced little interest in an option to use the IFRS in their separate financial statements and their consolidated financial statements. Some feared a “de facto compulsion” to apply the IFRS in case an option for using the IFRS in separate financial statements was introduced and thus rejected that idea. The introduction of a conditional option was discussed as an acceptable middle ground approach – for instance for companies that also prepare consolidated financial statements under IFRS or are part of a group that prepares consolidated financial statements under IFRS.

Phase 2 of the Study

Phase two of the study extended the evaluation by inviting all companies as preparers of financial statements to participate in an online survey. The survey was based on the topics identified in phase one.

The survey was conducted from March to October 2024 to allow all companies sufficient time to participate. It was advertised through different channels (e.g., associations) as well as social media to motivate as many companies as possible to participate. The aim was to collect a set of opinions as large and as representative as possible. In a future step within phase two, other stakeholder opinions (e.g., from users of financial statements) may be collected.

This summary report presents preliminary results from the preparer survey. The responses show, similar to the stakeholder interviews, that mainly companies that have already adopted IFRS for their consolidated group[1] accounts (“IFRS adopters”) [2] as well as many capital market-oriented companies in the sample are open for applying IFRS in their separate financial statements.

The results furthermore show that one reason why companies do not already publish separate financial statements under IFRS is that the IFRS financial statements do not exempt preparers from their duty to prepare statutory financial statements under HGB. Additional reasons include the need to prepare financial statements under HGB for capital maintenance reasons (solvency) as well as for taxation purposes.

HGB preparers as well as non-capital market-oriented companies and single entities largely do not consider applying the IFRS for their separate financial statements. These companies list several reasons against applying the IFRS.

1 This summary report uses the term “group entity” for all companies that are included in consolidated financial statements. This includes subsidiaries. Companies which are not included in consolidated financial statements are called “single entities”.

2 This summary report uses the term “IFRS adopter” for all companies that state to apply the IFRS in their consolidated or separate financial statements. Companies that do not apply IFRS are called “HGB preparers” (i.e., preparers solely following the German Commercial Code, the *Handelsgesetzbuch*).

Nevertheless, companies voice nuanced views on the question of how a potential option to use the IFRS for separate financial statements should be designed. Approximately half of the participating companies that do not consider using the IFRS are not against introducing an option (be it an unconditional option or a conditional option). A separately discussed aspect in this regard is the fear of a “de facto compulsion” to prepare separate financial statements under IFRS under an unconditional option.

The results imply that there is no overall mandate for an unconditional option across all different groups of respondents, but also no overall mandate for keeping the status quo, i.e., the requirement to prepare separate financial statements under HGB. The responses suggest that a conditional option, i.e. an unconditional option for a specified set of companies, may prove an acceptable compromise. This solution would allow a clearly defined set of companies to decide for themselves whether to prepare their separate financial statements under IFRS while other companies would continue to prepare their separate financial statements under HGB, thereby shielding the latter group of companies from any “de facto compulsion” to apply IFRS.

1 Introduction

1 The International Financial Reporting Standards (IFRS) have been mandatory for preparing the consolidated financial statements of capital market-oriented companies in Germany since fiscal years 2005 and 2007, respectively (see Regulation (EC) No. 1606/2002; Section 315e (1) and (2) HGB). All other German parent companies have the exempting option to prepare their consolidated financial statements under IFRS (Section 315e (3) HGB). Furthermore, all limited liability companies have the option to prepare additional separate financial statements in accordance with IFRS for the purpose of filing only (Section 325 (2a) HGB); however, these separate financial statements do not exempt a German entity from its duty of preparing and publishing statutory annual accounts prepared in accordance with HGB.

2 Even though the ASCG technical committees regularly comment on the IASB's standard setting activities and publish interpretations and implementation guidelines with regard to IFRS Standards, so far there is no systematic evaluation of the nature and extent of the (voluntary) application of IFRS in Germany.

3 The recent past showed an increasing number of issues and occasions for which such an evaluation would be very useful. These include, in particular, the development of IFRS 19 *Subsidiaries without Public Accountability: Disclosures*, for which the scope of application and the associated objectives were discussed critically by the ASCG and other stakeholders. In addition, the IASB raised the question in the Accounting Standards Advisory Forum (ASAF) in July 2022, which application cases the (optional) proposed simplifications would have and which aspects would prevent an implementation in the individual jurisdictions. The final IFRS Standard was published in May 2024. Endorsement in the European Union is still pending.

4 Another current point of reference is the OECD's BEPS initiative (Base Erosion and Profit Shifting). Cornerstone of BEPS Pillar 2 is the introduction of a global minimum tax, which had to be implemented by the EU Member States by the end of 2023 on the basis of Directive (EU) 2022/2523 to ensure a global minimum level of taxation for multinational enterprises and large domestic groups in the European Union (OJ L 328/1 of 22 December 2022). Germany implemented the directive through the Minimum Taxation Directive Implementation Act (*Mindestbesteuerungsrichtlinie-Umsetzungsgesetz*, Federal Law Gazette 2023 I No. 397), which entered into force on 27 December 2023 (meeting the deadline). This implies that IFRS-based metrics are also used to determine an adjusted tax base per subsidiary/facility for the minimum tax for IFRS preparers below group level.

5 Finally, the IASB is currently working on the second comprehensive review of the IFRS for Small and Medium-sized Entities ("IFRS for SMEs") and recently carried out a consultation on the

Addendum to the Exposure Draft Third edition of the IFRS for SMEs. Although the IFRS for SMEs is not widely used in Germany and Europe due to the lack of EU endorsement, the revision also addresses the interaction of the scope of application and the content-related link between the IFRS for SMEs and the full IFRS.

6 In spring 2023, the ASCG and representatives of the Federal Ministry of Justice agreed that an evaluation of the application of IFRS in Germany at the present time would be an important and useful contribution.

7 The objective of the study is to objectively analyse the various stakeholder perspectives on the application of IFRS in Germany. In addition to reasons for an application and the associated challenges from a preparer perspective, the user perspective and the conceptual interactions with the various purposes of financial reporting are also considered.

8 In addition to analysing the status quo (de lege lata), a possible optional application of IFRS in separate financial statements (de lege ferenda) will also be discussed. Irrespective of whether and to what extent this results in recommendations for an amendment of the legal requirements in Germany, the findings of the evaluation will also serve to strengthen the German voice in discussions on the scope of application of IFRS in the European and global context.

9 The implementation of the Member State options in the IAS Regulation varies largely between the individual Member States of the European Union. The option of an exempting application in the consolidated financial statements of non-capital market-oriented companies has been implemented in many countries, similar to Germany. National implementation is more heterogeneous when it comes to separate financial statements. Some countries prohibit application, while the majority implemented an option or even a mandatory application, in some cases limited to certain regulated companies.[3]

10 Given increasing regulatory requirements in corporate reporting, various efforts to simplify reporting requirements can be found at the German and European level. The study therefore also intends to help identify areas for action to reduce bureaucracy in financial reporting.

[3] See the detailed overview of the EU (as of 31 December 2023) on the state of IFRS applications in Europe.

2 The Study

2.1 Overall Study Design

11 The study is structured along two phases:

a) **Phase 1** sought participation from all stakeholder groups through semi-structured interviews. The objective was to better understand the initial situation, motivation, and needs of all affected stakeholders to develop a concise set of questions for the ensuing public consultation.

b) **Phase 2** used the findings from phase 1 to conduct a public consultation. In a first step, the ASCG collected views from preparers of financial statements.

12 For more information on the study as well as the results of phase 1 please consult the feedback statement to phase 1 (in German only).

2.2 Design of Phase 2

13 The survey among preparers of financial statements was launched on 22 March 2024 and ended on 31 October 2024. An originally planned earlier closing date was extended due to the large number of responses. Milestones of the survey are depicted in Figure 1.

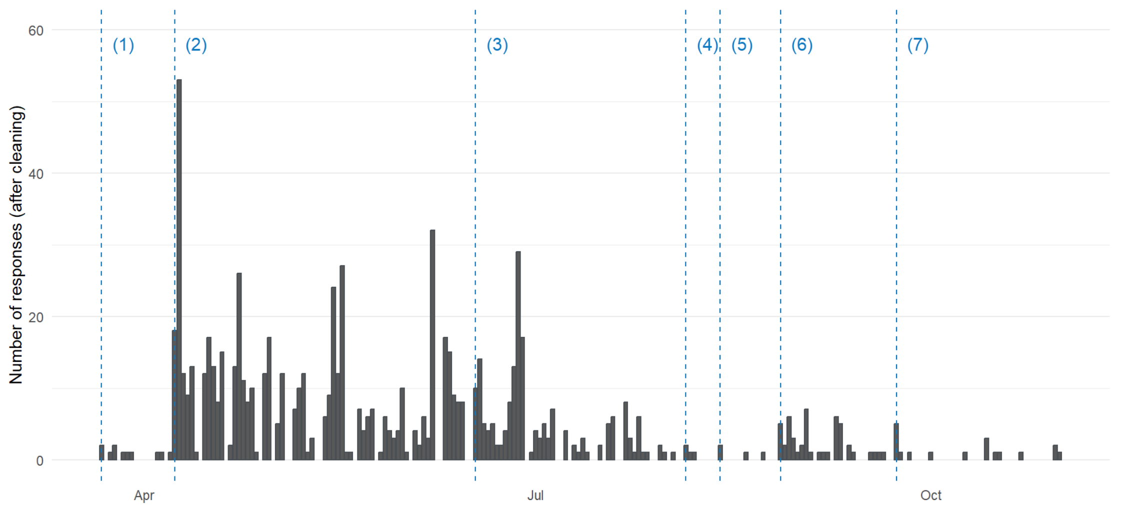

Figure 1 shows the collected responses over time as well as selected milestones of the survey. The figure only shows responses that are included in the final sample (n = 827). The survey was open from March 22, 2024, until October 31, 2024. (1) March 22, 2024: Survey opens, news item published on the ASCG webpage, survey invites sent to all ASCG members, the ASCG Administrative Board, the ASCG Technical Committees, banking associations, and the German Insurance Association. (2) April 8-10, 2024: Invites sent to all respondents of the ASCG Chief Accountant Officer Calls ("CAO Calls") as well as ASCG members (CAO Call mailing list). (3) June 17, 2024: Extension of the deadline, invites sent to a stratified random sample of companies from the database DAFNE, invites sent to the German Insurance Association. (4) August 5, 2024: Generic survey invites sent to all DAX, MDAX and SDAX companies. (5) August 13, 2024: Personal invites sent to all DAX, MDAX, SDAX companies (if contact available). (6) August 27-30, 2024: Reminder to all ASCG members (CAO Call mailing list), as well as DAX, MDAX, SDAX companies. (7): September 23, 2024: Survey remains open, invites sent to German Chamber of Commerce and Industry.

14 The survey was conducted online. It was open to all interested companies. The unit of observation is the reporting entity. For this reason, multiple responses from the same person were allowed as long as they represented different entities. However, multiple responses from one person who did not represent different entities could not be ruled out since respondents had the option to respond anonymously. A universally accessible PDF version (in German) of the survey was published as a read-only document for information purposes.

15 The questionnaire comprised 28 questions. Some questions were only shown to a subset of respondents depending on earlier answers and respondents had the option to skip certain questions. Four questions were only shown to group entities and single entities, respectively (based on the answers to question 1.5). Group entities were asked one additional question if the responding company represented the parent company (based on the answers to question 1.13). Four questions were skipped if the company already prepared separate financial statements under IFRS (based on the answers to question 2.1). Five questions were only shown to those companies who indicated they would (potentially) use an option to prepare separate financial statements under IFRS that would exempt them from their duty to prepare statutory financial statements under HGB (based on the answers to question 3.1).

2.3 Sample

16 Overall, the ASCG received 1,243 responses. However, 407 of those did not agree to the data privacy policy and thus had to be excluded from the final sample. Of the remaining 836 responses, another 9 were excluded because their response time was implausibly short at under three minutes. There were no exact duplicates. Therefore, the final sample consists of 827 responses (see Table 1).

Step	**Removed**	**Observations**
Registered Responses		1,243
Missing Data Privacy Policy	407	836
Response Time < 3 Minutes	9	827
Duplicates	0	827
Final Sample		**827**

Table 1 shows the data cleaning steps and the resulting number of observations in the sample. 530 responses (64%) in the final sample were non-anonymous answers. The results remain qualitatively unchanged when anonymous answers are excluded from the sample.

17 The sample consists of 671 single entities and 156 group entities (see Table 2). The single entities contain companies of all size categories with large companies representing slightly more than half of the sample. Most group entities also fall in the respectively largest category with more than 750m € net turnover, more than 500m € balance sheet total, or more than 10,000 employees.

Panel A: Size Categories as Defined by the HGB					
Single Entities	***N***	***Share***			
Micro Entities	19	2.8 %			
Small Entities	157	23.4 %			
Medium Entities	124	18.5 %			
Large Entities	371	55.3 %			
Total	671				
Panel B: Net turnover					
Single Entities	***N***	***Share***	***Group Entities***	***N***	***Share***
< 0.9m €	20	3.0 %	< 50m €	7	4.5 %
0.9 – 15m €	185	27.6 %	50 – 100m €	15	9.6 %
15 – 50m €	182	27.1 %	100 – 500m €	22	14.1 %
50 – 100m €	135	20.1 %	500 – 750m €	5	3.2 %
> 100m €	149	22.2 %	> 750m €	107	68.6 %
Total	671		Total	156	
Panel C: Balance sheet total					
Single Entities	***N***	***Share***	***Group Entities***	***N***	***Share***
< 450 T€	20	3.0 %	< 25m €	4	2.6 %
0.45 – 7.5m €	53	7.9 %	25 – 50m €	5	3.2 %
7.5 – 25m €	12	1.8 %	50 – 250m €	9	5.8 %
25 – 100m €	21	3.1 %	250 – 500m €	10	6.4 %
> 100m €	565	84.2 %	> 500m €	128	82.1 %
Total	671		Total	156	
Panel D: Number of Employees					
Single Entities	***N***	***Share***	***Group Entities***	***N***	***Share***
< 11	31	4.6 %	< 251	16	10.3 %
11 – 50	127	18.9 %	251 – 1,000	32	20.5 %
51 - 250	256	38.2 %	1,001 – 5,000	26	16.7 %
251 – 1,000	225	33.5 %	5,001 – 10,000	12	7.7 %
> 1,000	32	4.8 %	> 10,001	70	44.9 %
Total	671		Total	156	

Table 2 shows the answers to questions 1.6 through 1.12. Question 1.6 (size categories as defined by the HGB) was only shown to single entities. Questions 1.7 and 1.10 cover net turnover, questions 1.8 and 1.11 balance sheet total, and questions 1.9 and 1.12 the number of employees of single and group entities in the last fiscal year, respectively. The total number of observations is 827, with 671 of those coming from single entities and 156 from group entities.

18 The breakdown of companies by industry (question 1.1) shows that companies from the financial sector are overrepresented at about 80% of all sample companies (see Table 3). Overall, 668 companies state to work in the financial sector, 293 (also) fall into other industries. Note that companies could select multiple industries. Therefore, the sum of all companies in Table 3 is higher (n = 961) than the total number of responses (n = 827). Outside the financial sector, companies in the manufacturing industry, energy supply, and other services are stronger represented than in the German economy. (Slightly) underrepresented are companies in the construction industry, trade (incl. maintenance and repair of motor vehicles), as well as (freelance) professional, scientific, and technical activities.

Industry	Sample N	Sample Share (%)	German Economy N	German Economy Share (%)	German Economy Sample (%)
A. Agriculture, forestry, and fishing	15	1.81			
B. Mining and quarrying	3	0.36	1,945	0.06	1.11
C. Manufacturing	56	6.77	215,480	6.41	20.66
D. Energy, gas steam, and air conditioning supply	19	2.30	73,672	2.19	7.01
E. Water supply; sewerage, waste management	6	0.73	11,374	0.34	2.21
F. Construction	12	1.45	387,853	11.54	4.43
G. Wholesale/retail trade, repair of motor vehicles	29	3.51	568,926	16.93	10.70
H. Transportation and storage	11	1.33	106,508	3.17	4.06
I. Accommodation and food service activities	10	1.21	234,840	6.99	3.69
J. Information and communication	7	0.85	135,601	4.04	2.58
K. Finance and insurance activities	668	80.77			
L. Real estate activities	21	2.54	211,115	6.28	7.75
M. Professional, scientific, and technical activities	28	3.39	509,923	15.18	10.33
N. Administrative and support service activities	26	3.14	231,746	6.90	9.59
O. Public administration, defence, […]	2	0.24			
P. Education	3	0.36	76,539	2.28	1.11
Q. Human health and social work activities	10	1.21	266,842	7.94	3.69
R. Art, entertainment, and recreation	2	0.24	104,266	3.10	0.74
S. Other service activities	28	3.39	223,548	6.65	10.33
T. Private households with house staff […]	5	0.60			

Table 3 shows the sample composition, split by industry (as defined by question 1.1). Column (2) and (3) show the number and share of companies per industry in the sample. Note that companies could sort themselves into multiple industries. Therefore, the total number of observations in this table is higher than the total number of survey responses (n = 827). The share relative to the sample in column (3) was calculated relative to the total number of survey responses. Column (4) shows the total number of companies in the German economy (if available), based on the table "Legal units, employees and turnover 2022", provided by the German Business Register (updated on December 4, 2023). Industry code K (Finance and insurance activities) was not included to facilitate a more meaningful comparison of the other industries. Column (5) shows the share of companies in the German economy for the given industries and column (6) shows the share in the sample (calculated excluding the missing industries).

19 All main analyses in this summary report are split into the following industries to account for the particularities in the sample composition: non-insurance financial institutions ("banks"), insurance companies ("insurers"), and all other manufacturing, trade, and service industries ("corporates").[4]

20 The descriptive statistics furthermore show that the share of IFRS adopters in the sample is at 10% (see Table 4). Approximately 13% of companies state to be capital market-oriented and 19% state to be included in consolidated financial statements (i.e., are classified as group entities). A breakdown of these characteristics by company type (banks, insurers, and corporates) shows that IFRS adopters, capital market-oriented companies, and group entities are relatively underrepresented among banks in the sample (vice versa among corporates). Insurers exhibit a relatively high share of group entities. In order to account for the particularities in these company characteristics, all main

4 The classification into banks, insurers and corporates is based on the answers to question 1.2.

analyses were also broken down by the following three characteristics: IFRS adopters, capital market-oriented companies, group entities.

Company characteristics	**Yes**	**No**	**Total**	**Share (%)**
IFRS adopters	83	744	827	10.0
Group entities	156	671	827	18.9
Capital market-oriented companies	106	721	827	12.8
Banks	652	175	827	78.8
…of those: IFRS adopters	20	632	652	3.1
…of those: Group entities	44	608	652	6.7
…of those: Capital market-oriented companies	48	604	652	7.4
Insurers	28	799	827	3.4
…of those: IFRS adopters	4	24	28	14.3
…of those: Group entities	25	3	28	89.3
…of those: Capital market-oriented companies	5	23	28	17.9
Corporates	156	671	827	18.9
…of those: IFRS adopters	59	97	156	37.8
…of those: Group entities	93	63	156	59.6
…of those: Capital market-oriented companies	53	103	156	34.0

Table 4 shows the number and share of companies in the sample, broken down by company characteristics: IFRS adopters and HGB preparers (answers to question 1.4), group entities and single entities (answers to question 1.5), and capital marked-oriented companies and non-capital market-oriented companies (answers to question 1.2). The sample is furthermore split into the three different company types as defined by question 1.2: banks, insurers, corporates. Note that companies could sort themselves into multiple industries (question 1.2), so the total number of banks, insurers, and corporates in the sample (n = 836) is higher than the total number of responses (n = 827).

3 Summary of Results

21 The following summary of results is a first assessment prepared by the ASCG staff. All results including the statistics are preliminary. A comprehensive report is scheduled for the first quarter 2025.

22 Given the previously discussed particularities in the sample composition, the representativeness of the responses is limited. Readers are advised to note that the statements in this summary report represent the opinions of the survey respondents, which do not necessarily reflect the opinion of the ASCG or German companies in general.

23 Nonetheless, certain tendencies can be derived from the responses. The breakdown of all responses by company type and characteristics is supposed to facilitate an easier interpretation of the results.

3.1 IFRS Adopters and HGB Preparers

24 IFRS adopters represent 10% of the total sample. The share of IFRS adopters among banks in the sample is 3.1%, 14.3% among insurers, and 37.8% among corporates.

25 Respondents were asked whether their company would use an option that would exempt them from their duty to prepare statutory financial statements under HGB (question 3.1). All but 6 respondents answered the question.

26 IFRS adopters view the potential use of an exempting option largely positively (see Figure 2). About 75% of banks and insurers would use such an option, though this statement is based on a small sample size. Ca. 40% of corporates would use the option, while another 40% would maybe use it.

27 HGB preparers in the sample are more skeptical towards the use of such an option. While about 30% of corporates would (maybe) use the option, approximately 90% of insurers and banks would not.

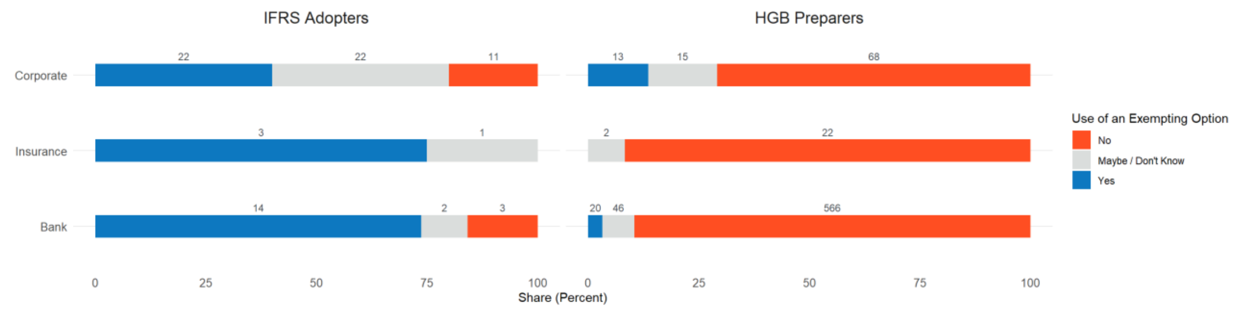

Figure 2 shows the answers to question 3.1: "If an exempting option to apply the IFRS in separate financial statements was implemented in Germany, would you use such an option?" The answers from IFRS adopters (based on answers to question 1.4) are shown on the left-hand side, while answers from HGB preparers are shown on the right-hand side. The horizontal bars show the results split by the three company types (banks, insurers, corporates). The numbers above the bars indicate the absolute number of answers per group. The total number of answers is 830 and thus higher than the number of responding companies (n = 827). This is due to the possibility to state to be active in more than one industry. Six companies did not respond to this question.

28 Respondents were also asked why they are currently not preparing separate financial statements under IFRS (question 2.2). This question collects evidence why companies may or may not opt for using an exempting option.

29 For IFRS adopters, the main reasons are the lack of an exemption from their duty to prepare statutory financial statements under HGB as well as the necessity to prepare HGB financial statements for tax purposes and capital maintenance (see Figure 3). Somewhat less prevalent but nonetheless important is the question whether IFRS financial statements can be used for communication in a regulatory context.

30 HGB preparers on average agree with all proposed reasons, there is no clear differentiation across reasons as there is for IFRS adopters. On average, the views are relatively homogeneous across company types (banks, insurers, corporates).

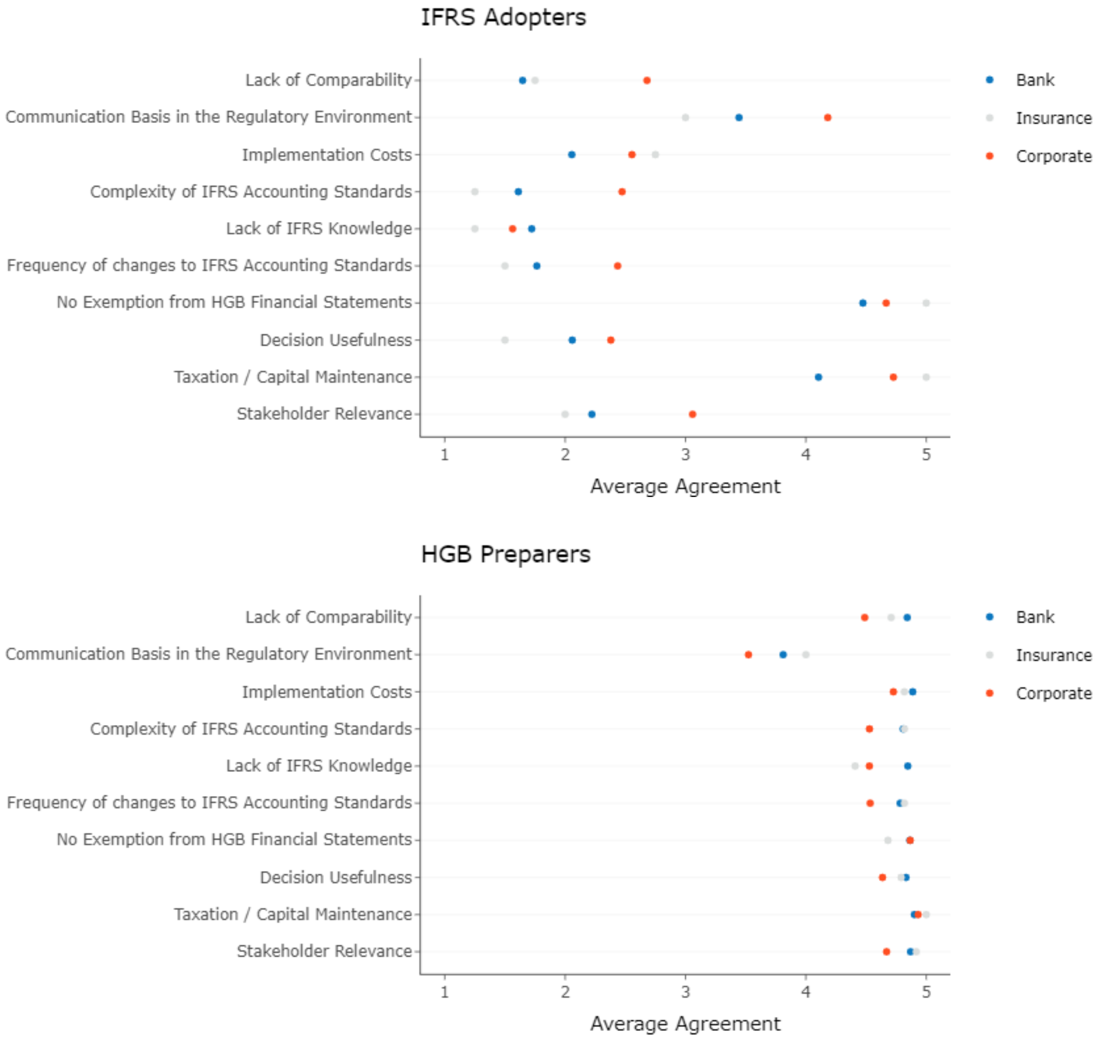

Figure 3 shows the answers to question 2.2: „Given your individual cost-benefit considerations, why does your company currently not prepare separate financial statements under IFRS?" Responses from IFRS adopters are shown at the top (based on answers to question 1.4), responses from HGB preparers are at the bottom. The y axis lists abbreviated reasons companies may have against preparing their separate financial statements under IFRS. The non-abbreviated list of reasons is available in the questionnaire (in German). The response scale ranges from 1 to 5: 1 = Disagree; 2 = Somewhat disagree; 3: Neutral; 4: Somewhat agree; 5: Agree. Respondents had the option to skip the question or select N/A.

31 Companies were also asked how a potential exempting option for separate financial statements under IFRS should be designed (question 2.6). Choices were an unconditional option for all companies, a conditional option for a defined set of companies, no option (i.e. keeping the status quo), or obligatory separate financial statements under IFRS. Companies had to choose one answer option.

32 The IFRS adopters in the sample nearly unequivocally opted for an unconditional or conditional option (see Figure 4). Solely some corporates either supported keeping the status quo or obligatory IFRS statements.

33 About half of the corporates and one third of banks among the HGB preparers supported an unconditional option. About 19% of corporates and 14% of banks chose a conditional option. The group of

banks shows particularly well that supporting an (un)conditional option does not imply that a firm also intends to use the option. While nearly half of the banks among HGB preparers supported either an unconditional or conditional option, only 10% stated they would use the option themselves. All HGB-preparing insurers prefer keeping the status quo which is in strong contrast to IFRS-adopting insurers.

34 A first evaluation of the open text answers shows that the IFRS adopters view it important that any option should include that taxation and capital maintenance functions no longer depend on the HGB financial statements. They furthermore point out that an option should not lead to any leeway in terms of regulatory consequences (e.g. protection of creditors) in comparison to HGB financial statements. Some respondents state that a conditional option may help to avoid a "de facto compulsion" to apply IFRS in separate financial statements.

35 HGB preparers voice a stronger preference for keeping the status quo. They name the lack of simplifications for smaller companies (e.g., the IFRS for SMEs cannot be applied) as well as switching costs as reasons. They also point out that allowing both HGB and IFRS financial statements at the same time is a possible obstacle for comparability of financial information. Those companies that prefer an unconditional option state that it would respect their autonomy and that the option would allow them to use the system most fitting to their needs.

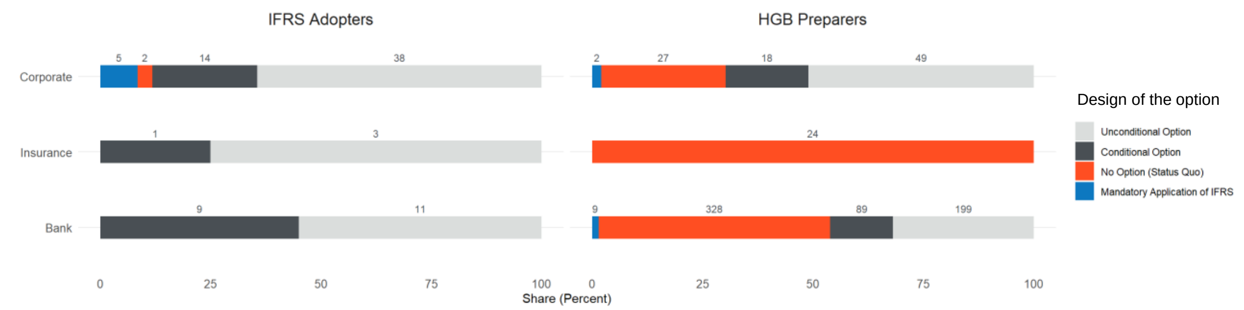

Figure 4 shows the answers to question 2.6: "If an option for the exempting application of IFRS in separate financial statements were to be introduced, how should it be implemented?" The left-hand side shows the answers from IFRS adopters, the right-hand side shows the answers from HGB preparers (based on answers to question 1.4). The bars show the results split by the three company types (banks, insurers, corporates). The figures above the bars represent the absolute number of responses submitted for the respective option. The total number of responses received for this question is 830, which is higher than the total number of participating companies (n = 827). This is due to the possibility to state to be active in more than one industry. Eight companies did not respond to this question.

36 Some interviewees in phase 1 voiced the concern that their companies may face a "de facto compulsion" under an unconditional (or even conditional) option. In order to evaluate how prevalent such concerns are, respondents were asked to assess the likelihood of a "de facto compulsion" (question 2.8)

37 Among the IFRS adopters, banks tend to take a neutral view, i.e., they do not consider a "de facto compulsion" as either "likely" or "unlikely" (see Figure 5). Corporates have a similar view, albeit with

a slight tendency towards “somewhat likely”. The small group of insurers that apply the IFRS on average views the risk as “somewhat less likely”.

38 HGB preparers on average view the risk of a “de facto compulsion” as “somewhat likely”. Insurers assess the risk to be between “somewhat likely” and “likely”. This is a clear difference to the insurers that adopted the IFRS.

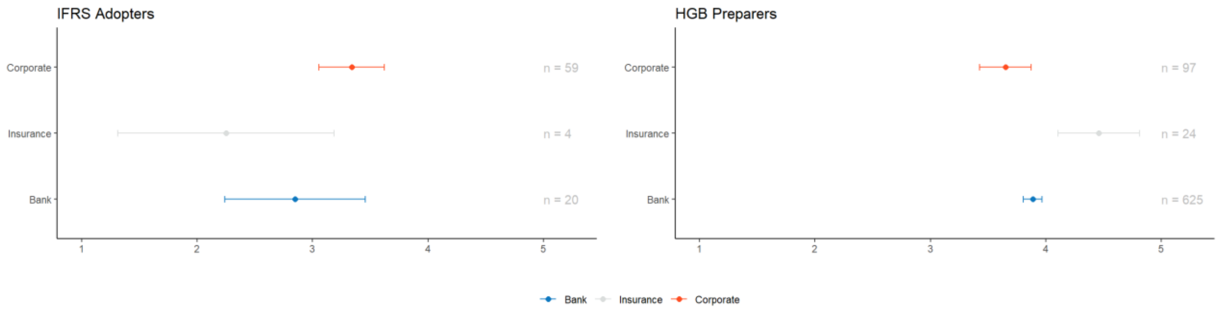

Figure 5 shows the answers to question 2.8: “How likely do you think it is that the introduction of an unconditional option for all companies could lead to companies that do not want to use the option to apply IFRS in their separate financial statements being de facto forced to do so (e.g. at the request of investors)?” The response scale ranges from 1 to 5: 1 = Very unlikely; 2 = Somewhat unlikely; 3: Neutral; 4: Somewhat likely; 5: Very likely. The dots represent the average rating per group, the lines represent the 95% confidence interval. The left-hand side shows the answers from IFRS adopters, the right-hand side shows the answers from HGB preparers (based on answers to question 1.4). The results are split into the three company types (banks, insurers, corporates). The numbers next to the graph show the absolute number of answers for each group. The graph is based on 829 answers, which is higher than the total number of responses in the survey (827). This is due to the possibility to state to be active in more than one industry. Seven companies did not respond to this question.

3.2 Capital Market-Oriented and Non-Capital Market-Oriented Companies

39 Capital market-oriented companies represent 12.8% of the sample. Among banks, the share of capital market-oriented companies is at 7.4%, among insurers at 17.9% and among corporates at 34%.

40 Like IFRS users, capital market-oriented companies are predominantly positive or neutral about the potential use of an exempting option to apply the IFRS in their separate financial statements (see Figure 6). Among corporates and insurers, approximately 75% of companies can (maybe) see themselves using the option. The share among banks is 54%.

41 Far fewer non-capital market-oriented companies in the sample would use an option. Two thirds of corporates and just over 90% of insurers and banks would not consider using an option.

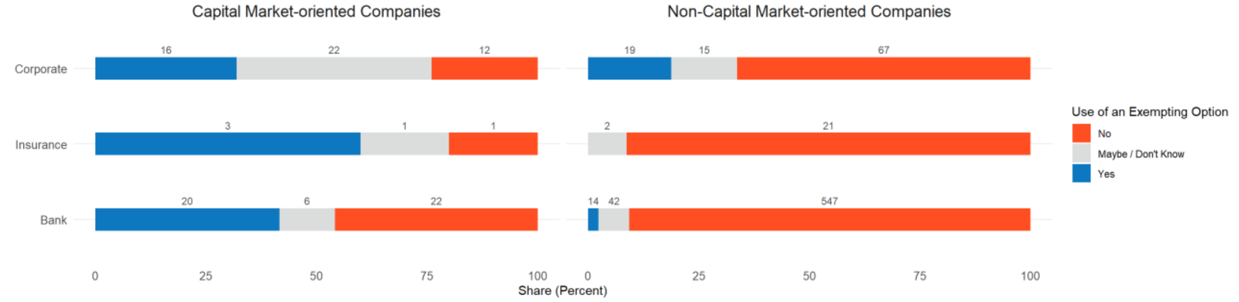

Figure 6 shows the answers to question 3.1: "If an exempting option to apply the IFRS in separate financial statements was implemented in Germany, would you use such an option?" The answers from capital market-oriented companies (based on answers to question 1.2) are shown on the left-hand side, while answers from non-capital market-oriented companies are shown on the right-hand side. The horizontal bars show the results split by the three company types (banks, insurers, corporates). The numbers above the bars indicate the absolute number of answers per group. The total number of answers is 830 and thus higher than the number of responding companies (n = 827). This is due to the possibility to state to be active in more than one industry. Six companies did not respond to this question.

42 When asked about the reasons why companies do currently not prepare any additional IFRS financial statements (question 2.2), the picture for capital market-oriented companies is similar to that for IFRS adopters (see Figure 7). Here too, the lack of an exemption from having to prepare financial statements under HGB and the need for HGB financial statements for taxation and capital maintenance purposes are the main reasons. The group of capital market-oriented banks gives a higher average rating for most reasons compared to insurers and corporates. This is consistent with the slightly higher skepticism towards the potential use of an option by capital market-oriented banks that do not apply IFRS.

43 Non-capital market-oriented companies, like HGB preparers, exhibit a fairly homogeneous rating behavior. On average, they agree with all reasons, with communication in the regulatory environment receiving a slightly lower rating than the other reasons.

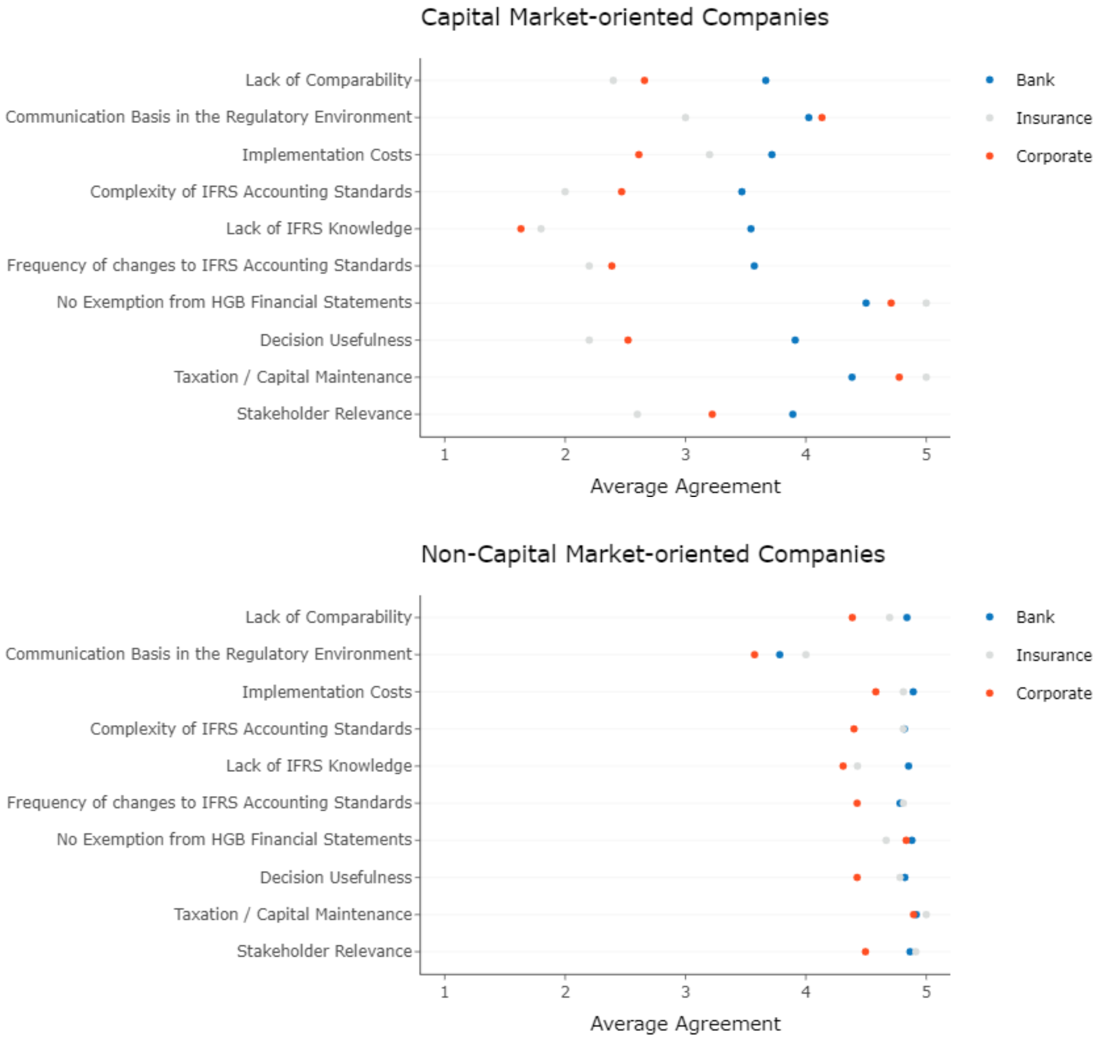

Figure 7 shows the answers to question 2.2: „Given your individual cost-benefit considerations, why does your company currently not prepare separate financial statements under IFRS?" Responses from capital market-oriented companies are shown at the top (based on answers to question 1.2), responses from non-capital market-oriented companies are at the bottom. The y axis lists abbreviated reasons companies may have against preparing their separate financial statements under IFRS. The non-abbreviated list of reasons is available in the questionnaire (in German). The response scale ranges from 1 to 5: 1 = Disagree; 2 = Somewhat disagree; 3: Neutral; 4: Somewhat agree; 5: Agree. Respondents had the option to skip the question or select N/A.

44 On average, more than 80% of capital market-oriented companies are in favor of an unconditional or conditional exempting option for the use of IFRS in the separate financial statements (see Figure 8), with more than half of the companies in favor of an unconditional option.

45 Among non-capital market-oriented companies, slightly more than half of corporates and about 30% of the banks are in favor of an unconditional option. A further 21% of corporates and 14% of banks are in favor of a conditional option. Among non-capital market-oriented insurers, all companies would like to maintain the status quo.

46 A preliminary analysis of the open text answers shows that one of the reasons cited by the capital market-oriented companies in favor of an unconditional option is that it allows them to choose their

preferred financial reporting regime in line with their individual cost-benefit-analysis. Some respondents point out that the comparability of separate financial statements under IFRS and HGB could play a less important role for certain companies, essentially placing less weight on comparability arguments against an option. Respondents also stated that a conditional option could be a compromise that unlocks the advantages of an option for (certain) companies, while other companies with an obligation to prepare their financial statements under HGB do not have to fear any changes.

47 Among non-capital market-oriented companies, some respondents argue that only a few companies would benefit from separate IFRS financial statements that are exempting. Some respondents state that an obligation to prepare financial statements under HGB (i.e., maintaining the status quo) would protect them from possible disadvantages such as higher costs. Other companies conclude that only an unconditional option would allow companies to make such assessments themselves.

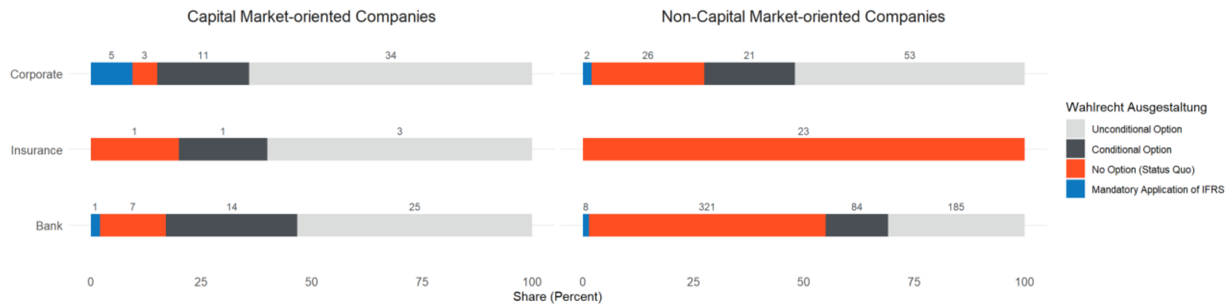

Figure 8 shows the answers to question 2.6: “If an option for the exempting application of IFRS in separate financial statements were to be introduced, how should it be implemented?” The left-hand side shows the answers from capital market-oriented companies, the right-hand side shows the answers from non-capital market-oriented companies (based on answers to question 1.2). The bars show the results split by the three company types (banks, insurers, corporates). The figures above the bars represent the absolute number of responses submitted for the respective option. The total number of responses received for this question is 830, which is higher than the total number of participating companies (n = 827). This is due to the possibility to state to be active in more than one industry. Eight companies did not respond to this question.

48 Regarding a “de facto compulsion”, the answers show a slight shift relative to IFRS adopters (see Figure 9). While the capital market-oriented companies in the sample still tend to see the risk of a “de facto compulsion” as neutral, they somewhat move in the direction of “more likely”.

49 Non-capital market-oriented companies show a similar picture as previously observed for the HGB preparers. On average, banks and corporates rate the risk of a “de facto compulsion” as “rather likely”, while insurers are between "rather likely" and "likely".

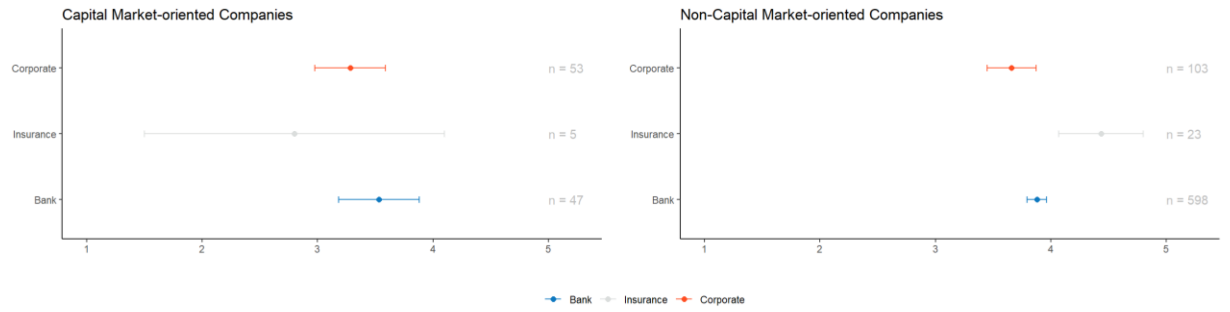

Figure 9 shows the answers to question 2.8: "How likely do you think it is that the introduction of an unconditional option for all companies could lead to companies that do not want to use the option to apply IFRS in their separate financial statements being de facto forced to do so (e.g. at the request of investors)?" The response scale ranges from 1 to 5: 1 = Very unlikely; 2 = Somewhat unlikely; 3: Neutral; 4: Somewhat likely; 5: Very likely. The dots represent the average rating per group, the lines represent the 95% confidence interval. The left-hand side shows the answers from capital market-oriented companies, the right-hand side shows the answers from non-capital market-oriented companies (based on answers to question 1.2). The results are split into the three company types (banks, insurers, corporates). The numbers next to the graph show the absolute number of answers for each group. The graph is based on 829 answers, which is higher than the total number of responses in the survey (827). This is due to the possibility to state to be active in more than one industry. Seven companies did not respond to this question.

3.3 Group Entities and Single Entities

50 Group entities make up 18.9% of the sample. The share among banks is 6.7%, 89.3% among insurers and 59.6% among corporates.

51 Group entities are more skeptical about the use of an exempting option to prepare their separate financial statements under IFRS (see Figure 10). Approximately half the banks and corporates and a quarter of the insurers in the sample can imagine (maybe) using such an option. The benefit of exercising the option thus appears to be higher for IFRS adopters and capital market-oriented companies than for group entities without these characteristics.

52 Single entities largely reject the option. About a third of corporates would (maybe) use it, while over 90% of banks would not use the option. The few insurers would not use the option.

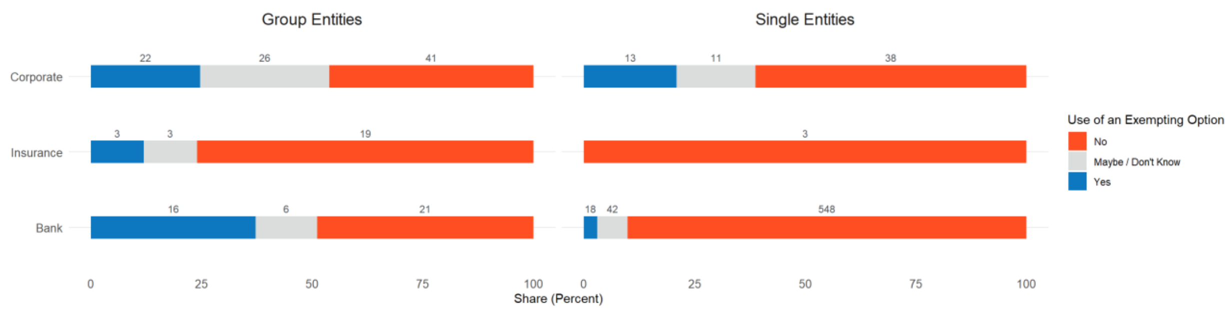

Figure 10 shows the answers to question 3.1: "If an exempting option to apply the IFRS in separate financial statements was implemented in Germany, would you use such an option?" The answers from group entities (based on answers to question 1.5) are shown on the left-hand side, while answers from single entities are shown on the right-hand side. The horizontal bars show the results split by the three company types (banks, insurers, corporates). The numbers above the bars indicate the absolute number of answers per group. The total number of answers is 830 and thus higher than the number of responding companies (n = 827). This is due to the possibility to state to be active in more than one industry. Six companies did not respond to this question.

53 On average, group entities agree more strongly with the given reasons why they do not currently prepare additional separate financial statements under IFRS (question 2.2) than IFRS adopters and capital market-oriented companies (see Figure 11). Insurers in particular are more skeptical than banks and corporates, which is partly due to the fact that those insurers that are group entities but do not apply IFRS or are not capital market-oriented are more likely to agree with the given reasons.

54 Single entities show a response behavior similar to HGB preparers and non-capital market-oriented companies and largely agree with all reasons. Here too, however, communication in the regulatory environment receives somewhat less support than the remaining reasons.

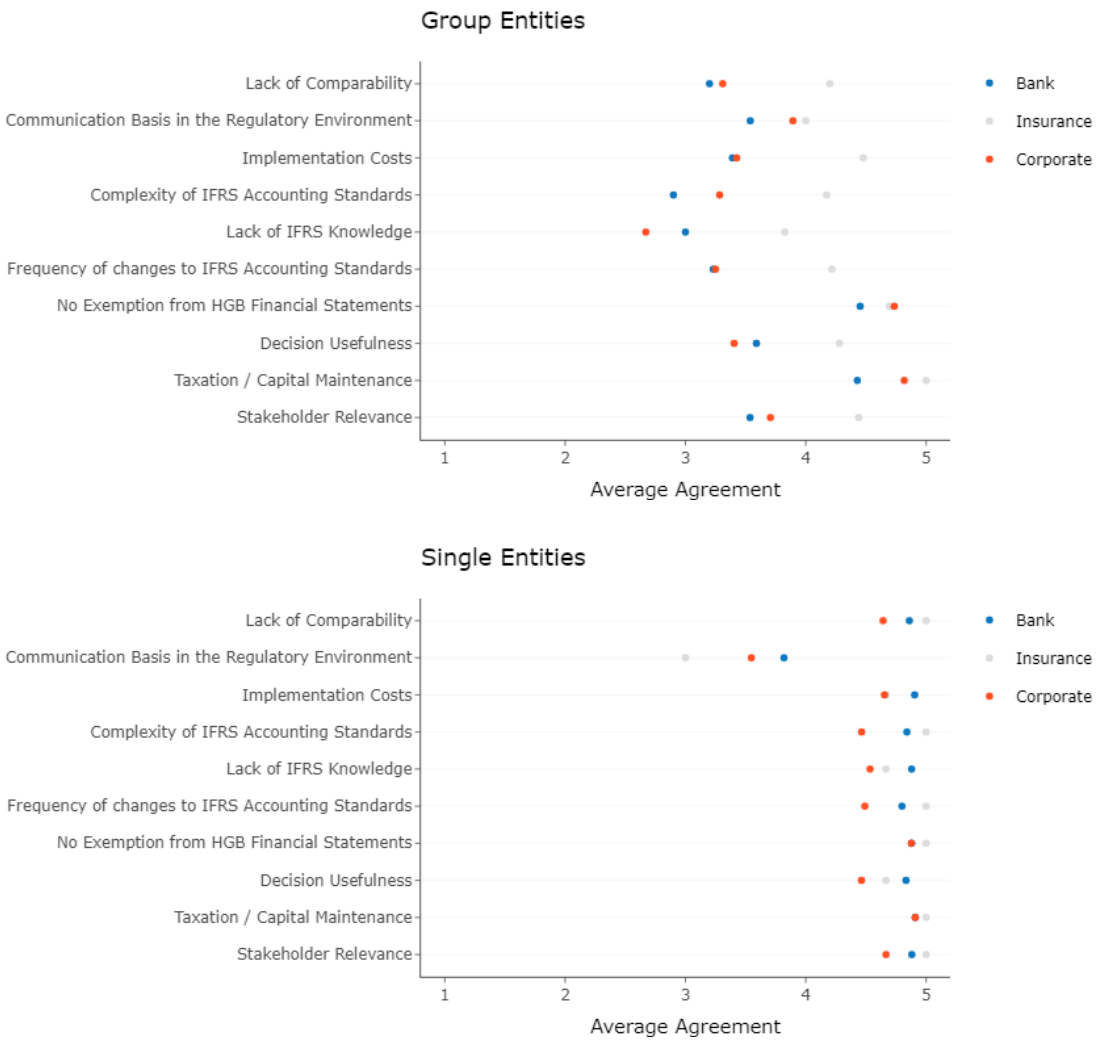

Figure 11 shows the answers to question 2.2: „Given your individual cost-benefit considerations, why does your company currently not prepare separate financial statements under IFRS?" Responses from group entities are shown at the top (based on answers to question 1.5), responses from single entities are at the bottom. The y axis lists abbreviated reasons companies may have against preparing their separate financial statements under IFRS. The non-abbreviated list of reasons is available in questionnaire (in German). The response scale ranges from 1 to 5: 1 = Disagree; 2 = Somewhat disagree; 3: Neutral; 4: Somewhat agree; 5: Agree. Respondents had the option to skip the question or select N/A.

55 Among group entities, about half of the corporates and around 40% of the banks are in favor of an unconditional option (see Figure 12). A further quarter of corporates and 30% of banks would prefer a conditional option. The insurers deviate significantly from this picture, which is mainly driven by the group of insurers that are not IFRS adopters or capital market-oriented. Overall, 84% of group entities among insurers reject an option and are in favor of the status quo.

56 Among single entities, all companies in the (small) group of insurers reject any option. Around half of banks and 27% of corporates are also in favor of retaining the status quo. A small number of banks and corporates are in favor of obligatory IFRS statements. The remaining companies are in favor of an (un)conditional option. Again, the results show that some companies support a conditional or unconditional option even though they would not use it themselves.

57 A preliminary analysis of the open text answers from group entities shows that an exempting option without the need to prepare additional separate financial statements under HGB could imply cost savings for certain companies. Other companies, on the other hand, fear the costs that a switch to IFRS could entail. Once again, respondents point out that any option needs to be fitted with other existing regulations (e.g., taxation and capital maintenance).

58 Among single entities, the complexity and costs of switching to IFRS are cited as reasons in favor of retaining the status quo. Once again, HGB-related concepts are mentioned (including creditor protection) as speaking against the introduction of an option. However, other companies believe that an unconditional option could create a level playing field for all companies and that each company should be able to decide on their own which reporting regime is suitable for them.

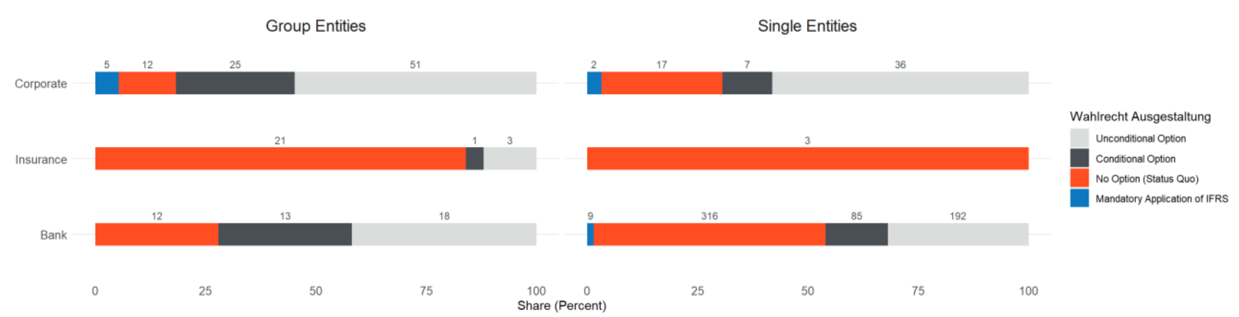

Figure 12 shows the answers to question 2.6: “If an option for the exempting application of IFRS in separate financial statements were to be introduced, how should it be implemented?” The left-hand side shows the answers from group entities, the right-hand side shows the answers from single entities (based on answers to question 1.5). The bars show the results split by the three company types (banks, insurers, corporates). The figures above the bars represent the absolute number of responses submitted for the respective option. The total number of responses received for this question is 830, which is higher than the total number of participating companies (n = 827). This is due to the possibility to state to be active in more than one industry. Eight companies did not respond to this question.

59 Among group entities, there is a visible shift among insurers relative to IFRS preparers and capital market-oriented companies when assessing the risk of a “de facto compulsion” (see Figure 13). On average the insurers among group entities assess the risk of a “de facto compulsion” as “rather

likely” with a tendency towards “likely”. Banks and corporates on the other hand rate the risk lower, although still higher than “neutral”.

60 Single entities paint a relatively homogeneous picture with regard to their assessment. On average, all three company types see the risk as “rather likely”, with all three insurers represented in this subgroup having chosen this option.

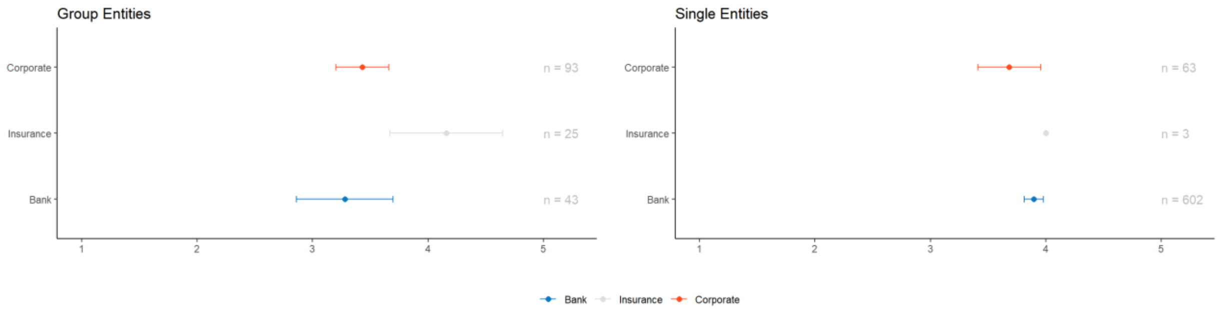

Figure 13 shows the answers to question 2.8: “How likely do you think it is that the introduction of an unconditional option for all companies could lead to companies that do not want to use the option to apply IFRS in their separate financial statements being de facto forced to do so (e.g. at the request of investors)?” The response scale ranges from 1 to 5: 1 = Very unlikely; 2 = Somewhat unlikely; 3: Neutral; 4: Somewhat likely; 5: Very likely. The dots represent the average rating per group, the lines represent the 95% confidence interval. The left-hand side shows the answers from group entities, the right-hand side shows the answers from single entities (based on answers to question 1.5). The results are split into the three company types (banks, insurers, corporates). The numbers next to the graph show the absolute number of answers for each group. The graph is based on 829 answers, which is higher than the total number of responses in the survey (827). This is due to the possibility to state to be active in more than one industry. Seven companies did not respond to this question.

4 Summary and Outlook

61 The preparer survey of phase 2 allows deeper insights into the views of affected companies regarding an (un)conditional exempting option for applying the IFRS in separate financial statements. It offers information about the conditions and prerequisites companies identify for such an option and which follow-up questions would need to be addressed.

62 The survey shows that individual factors in favor of an option for some clusters face reservations in other clusters – the latter in particular regarding a potential “de facto compulsion” to apply the IFRS in separate financial statements. The responses differ substantially by whether the respondents apply the IFRS already on group level and the regulatory context of the respondent.

63 The survey also shows that there is no overall majority in favor of keeping the status quo, but also no overall majority for implementing an unconditional option. Therefore, and under consideration of the respective cost-benefit-analysis as well as the pronounced differentiation of (potential) applier clusters, the further development of German accounting law through a conditional IFRS option appears to be worth pursuing as a next step.

64 The ASCG will analyse the results more in-depth to identify possible areas of action for a conditional option. This will be carried out in two steps:

a) Formulating conditions for the application of an option to apply the IFRS in separate financial statements, i.e., defining a possible target cluster as a working hypothesis; and

b) Developing a case study of the application of a hypothetical option for specific companies to demonstrate and illustrate a possible improvement in the effectiveness and efficiency of financial reporting.

65 The results of this analysis will be published together with a comprehensive report by the end of the first quarter 2025. The comprehensive report will cover a final analysis of the questions presented here as well as an evaluation of all remaining survey topics.

66 Taking into account the findings from stage 1 as well as the preparer survey from phase 2, a survey of other stakeholder groups (including users of financial information and auditors) will also be considered.

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About the ASCG

The Accounting Standards Committee of Germany (ASCG) is the national standard setter in the area of group financial reporting in Germany. The organisation was established on 15 March 1998 as an independent and registered not-for-profit association by German Industry and is domiciled in Berlin. The ASCG had been formally acknowledged by the Ministry of Justice as the private standardization organization pursuant sec. 342q of the German Commercial Code (HGB)

The ASCG's mandate as an independent standard setting body includes the following tasks as per § 342q (1) HGB:

a) Develop recommendations for the application of GAAP in the area of group financial reporting

b) Advise the Government on legislative affairs domestically and at the EU level in the area of financial reporting

c) Represent the Federal Republic of Germany in international fora concerned with financial reporting

d) Develop interpretations on International Financial Reporting Standards pursuant sec 315a (1) of the HGB.

The tasks pursuant to Section 342q HGB are performed by the ASCG for the Ministry of Justice free of charge. When fulfilling the tasks assigned, the public interest, in particular the economic public interest, must be taken into account. When developing accounting recommendations for group accounting (standards), the interests of legislation, public administration and legal transactions must be taken into account. The ASCG's statutes ensure that the recommendations and interpretations are developed and adopted independently and exclusively by accountants in a process that involves the professionally interested public.

Further aims of the ASCG are to raise the quality of financial reporting generally and to promote research and education in the aforementioned fields. The association is not-for-profit. It does not primarily pursue its own economic goals. Its proceeds may only be used for its statutory purposes.

More information on the ASCG can be found at:

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