

Mr
Jean-Paul Gauzès
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Date
04.01.2022

**Disclosure Requirements in IFRS Standards – A Pilot Approach,
Proposed amendments to IFRS 13 and IAS 19**
EFRAG's draft comment letter on the IASB's Exposure Draft
ED/2021/3 (March 2021)

Dear Mr Gauzès

On behalf of the German Insurance Association (GDV) we welcome the opportunity to provide our comments on EFRAG's draft comment letter (the 'DCL') in response to the IASB's public consultation on the Exposure Draft "Disclosure Requirements in IFRS Standards – A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19" (the 'ED'), published by EFRAG on 11 May 2021 for the public consultation.

The German insurers appreciate very much all the considerable efforts undertaken by EFRAG to contribute to this important IASB's consultation on a robust basis (outreach activities with national standard setters, field testing with reporting entities, engagement with other relevant stakeholders, etc.).

Like EFRAG we are supportive of the pilot project undertaken by the IASB. It is indeed essential to **treat disclosure requirements for the notes with the same level of attention and thoughtfulness** as the requirements for recognition, measurement, and presentation in the primary financial statements (paragraphs 8 and 94 of the EFRAG's DCL). Hence, it is reasonable to evaluate on a regular basis and thoroughly test whether the approach proposed by the IASB in the ED for the determination of disclosure requirements might be more suitable and more beneficial for investors and other users of financial statements and whether it is still meeting the cost-benefit criterion from the perspective of European reporting entities likewise.

In this regard we are not fully convinced whether the envisaged approach as outlined in the ED, i.e., the intention to implement in IFRS Standards in future the **purely objective-based disclosure requirements** will be cost-effective for preparers, specifically when considering the need for an even closer engagement with auditors and the dialogue with enforcers.

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The new approach, i.e., the objective-based disclosure requirements will inherently require increased use of an entity-specific judgment with the fall-back position being the list of exemplary disclosure requirements intended to accompany the specific disclosure objectives, though not mandatory in the IASB's intention. In particular, we are concerned that the comparability of financial statements might be impaired while the **ongoing costs of compliance for reporting entities** might increase significantly. In this regard we share the tentative assessment of EFRAG on the increased level of judgment in paragraphs 50 to 57 of the EFRAG's DCL. Specifically, in difference to existing guidance on materiality considerations no visible point of reference is given in the ED how the discretion is to be applied in the context of objective-based disclosure requirements. It is an issue of concern not only but particularly for the less resourced reporting entities.

Like EFRAG, and as a matter of principle, generally we back the IASB's primary objective to ensure that investors and other users of financial statements are provided with the information they really need (paragraph 39 of the EFRAG's DCL). And we continue to support the idea of principle-based standards, also in context of the digital reporting. However, it is also essential that all standard-setting activities that are undertaken by the IASB are continuously evaluated whether any inappropriate operational burden is transferred on reporting entities' shoulders solely (e.g., paragraph 64 or paragraph 86 of the EFRAG's DCL). An appropriate **cost/benefit balance needs to be retained** by the IASB in this regard. Consequently, we share the preliminary view expressed in paragraph 107 of the EFRAG's DCL on the need for an appropriate cost benefit analysis.

Consequently, we also fully share EFRAG's concerns in paragraphs 118 and 142 of the EFRAG's DCL about the IASB's proposal in paragraph 111 of the ED and regarding IFRS 13 to require specific disclosures about **reasonably possible alternative fair values** for each class of assets and liabilities measured at fair value. We disagree with this IASB's proposal as it would be operationally extremely burdensome for reporting entities. Additionally, it might undermine the credibility and legitimacy of the fair value measurement in the financial statements as such. Instead, we would favour to retain the current well-established practice of sensitivity analysis disclosures for the Level 3 fair value measurements only, and subject to materiality considerations.

Similarly, and with respect to IAS 19 we do not support the disclosures proposed in paragraph 147S of the ED and regarding the reasonably possible alternative actuarial assumptions and thus effectively requiring a disclosure of a **range of possible alternative values of defined benefit obligations**. We rather support the current requirements in paragraphs 76 and 81 of IAS 19 that the actuarial assumptions shall reflect the **entity's best estimate** at the end of the reporting period. Hence, the requirement to require a disclosure of a range of such values is rather counterintuitive from the

conceptual and professional perspective. In addition, such a disclosure would trigger not productive but unavoidable discussions with investors and other users of financial statements about the legitimacy and validity of the best estimate determined and applied by the reporting entity. In addition, it is not clear to us what the term “reasonably possible” effectively means in such case of established actuarial practice. Therefore, in this regard we would rather prefer to retain the current requirement in paragraph 145(a) of IAS 19 to disclose an appropriate sensitivity analysis as it has proven to be effective in practice for users, without undermining the best estimate concept as such.

Our comments on the ED are provided in the comment letter we provided to the IASB (attached as appendix to this letter).

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Appendix

The detailed comments and recommendations of the German insurance industry on the IASB's Exposure Draft "Disclosure Requirements in IFRS Standards – A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19", released by the IASB on 25 March 2021 for the public consultation, and the related rationale are provided in the GDV's comment letter submitted to the IASB (attached hereafter).

Mr
Andreas Barckow
Chairman
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Date
04.01.2022

**Disclosure Requirements in IFRS Standards – A Pilot Approach,
Proposed amendments to IFRS 13 and IAS 19**
Exposure Draft ED/2021/3 (March 2021)

Dear Mr Barckow

On behalf of the German Insurance Association (GDV) we welcome the opportunity to contribute to the IASB's public consultation on the Exposure Draft "Disclosure Requirements in IFRS Standards – A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19" (the 'ED'), released by the IASB on 25 March 2021.

We are very supportive of this project undertaken by the IASB. It is indeed essential to **treat disclosure requirements for the notes with the same level of attention and thoughtfulness** as the requirements for recognition, measurement, and presentation in the primary financial statements. Hence, it is reasonable to evaluate on a regular basis and test whether a new approach for the determination of disclosure requirements might be more suitable and more beneficial for investors and other users of financial statements and whether it is still meeting the cost-benefit criterion from the perspective of reporting entities likewise.

In this regard we are not fully convinced whether the envisaged approach as outlined in the ED, i.e., the intention to implement in IFRS Standards in future the **purely objective-based disclosure requirements** will be cost-effective for preparers, specifically when considering the need for an even closer engagement with auditors and the dialogue with enforcers. The new approach will inherently require use of an entity-specific judgment with the fall-back position being the list of exemplary disclosure requirements intended to accompany the specific disclosure objectives, though not mandatory in the IASB's intention. In addition, we are afraid that the comparability of financial statements might be impaired while the **ongoing costs of compliance for reporting entities** might increase significantly.

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Specifically, in difference to existing guidance on materiality considerations, no visible point of reference is given in the ED how the discretion is to be applied in the context of objective-based disclosure requirements. It is an issue of concern not only but particularly for the less resourced reporting entities.

Nevertheless, and as a matter of principle, generally we back the IASB's primary objective to ensure that investors and other users of financial statements are provided with the information they really need. And we continue to support the idea of principle-based standards, also in context of the digital reporting. However, it is also essential that all standard-setting activities that are undertaken by the IASB are continuously evaluated whether any inappropriate operational burden is transferred on reporting entities' shoulders solely. An appropriate **cost/benefit balance needs to be retained** in this regard. It includes the need for an **adequate lead time for transition**, if the IASB decides to proceed with the changes proposed in the ED.

Finally, although we do not provide detailed comments to all the specific questions asked in the ED, we would like to contribute some general comments and constructive suggestions on the way forward with this important initiative in the appendix to this letter. We also provide our assessment on the proposed disclosure of reasonably possible alternative fair values for each class of financial assets and financial liabilities measured at fair value and similarly on the proposal in the ED regarding the range of possible alternative values of defined benefit obligations.

If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Appendix

Comments of the German Insurance Association (GDV) on the IASB's Exposure Draft "Disclosure Requirements in IFRS Standards – A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19", released by the IASB on 25 March 2021 for the public consultation.

We would like to provide the following general comments on the proposed approach in the ED (I.) and constructive suggestions on the way forward with this important initiative (II.). At the end we provide our assessment on some specific proposals in the ED (III.).

I. General comments

We are very supportive of this project undertaken by the IASB. It is indeed essential to **treat disclosure requirements for the notes with the same level of attention and thoughtfulness** as the requirements for recognition, measurement, and presentation in the primary financial statements. Hence, it is reasonable to evaluate on a regular basis and test whether a new approach for the determination of disclosure requirements might be more suitable and more beneficial for investors and other users of financial statements and whether it is still meeting the cost-benefit criterion from the perspective of reporting entities likewise.

In this regard we are not fully convinced whether the envisaged approach as outlined in the ED, i.e., the intention to implement in IFRS Standards in future the **purely objective-based disclosure requirements** will be cost-effective for preparers, auditors, and enforcers. The new approach will inherently require use of entity-specific judgment with the fall-back position being the list of exemplary disclosure requirements intended to accompany the specific disclosure objectives, though not mandatory in the IASB's intention. In addition, we are afraid that the comparability of financial statements might be impaired while the **ongoing costs of compliance for reporting entities** might increase significantly. Specifically, in difference to existing guidance on materiality considerations no visible point of reference is given in the ED how the discretion is to be applied in the context of objective-based disclosure requirements. It is a concern not only for the less resourced reporting entities.

It is the context in which we would like to provide the following **general comments** on the proposed approach in the ED.

- The German insurers have assessed and fully acknowledge the **rationale behind the alternative view** and the specific concerns of the three Board members and related to the set-up of the proposal provided in the ED (paragraphs AV1 to AV14 in the Basis for Conclusions). They

refer to considerable additional **operational challenges** for reporting entities if the information to be disclosed are to be determined, collected, prepared, and audited on an objective-basis only. The concerns refer also to **enforcement challenges** for the competent authorities. Finally, those Board members are concerned about the **comparability** of the information provided to users of financial statements when the approach as set up in the ED would be followed.

- The German insurers tend to **share the concerns raised in the alternative view** and believe that they need a thorough consideration along the process when next phasis of the project are approached by the IASB.
- While the objective-based approach is **theoretically very appealing**, it appears to be too radical from the operational perspective and less practical specifically in the context of tight deadlines for fast closing. And, at latest, for the consolidation purposes in groups operating often on a global basis a kind of internal check list of necessary information to be provided by subsidiaries in their reporting packages to the head-quarter would remain indispensable. Hence, the current practice wouldn't change significantly as the judgment has to be exercised consistently in the group.
- Moreover, it would be **a biased approach** if the whole burden to determine what the appropriate disclosures are, is to be shouldered by preparers only, having to deal with anonymous investors' needs (which needs to be identified and interpreted) and being forced to exercise judgment and at the same time being challenged by auditors or enforcement authorities who might have a significantly different assessment in this regard, which might also change over time or at the occasion of an audit firm rotation.
- Hence, we are afraid that the level of information to be collected and provided by reporting entities wouldn't change a lot, while the burden of documentation for audit purposes of the related processes how and why the discretion has been exercised in a specific way, and in any case where it is required, would increase, thus leading to significant **additional ongoing costs of compliance**.
- As a matter of principle, we believe that it is the **principal task of the standard setter** to provide the necessary disclosure requirements which as a base line should accompany the aggregated information presented in the primary financial statement of companies. And it is the principal task of the standard setter to find a proper **balance** between the reasonable informational needs of investors and other users of financial statements and the equally reasonable interests of preparers.

It obviously includes the proper and thorough consideration whether the purpose for which the information should be provided justifies the operational burden and costs on the preparers' side and associated with their preparation, audit, and disclosure.

II. Recommendation on the way forward

For the reasons explained above (I.) we would like to provide some **constructive suggestions on the way forward** with this important initiative.

- The German insurers fully understand that the outcome of the consultation is a step in an **ongoing iterative process for the Board** how to design disclosure requirements in a most effective way so that they are provided as intended by the IASB. And we greatly appreciate these efforts and thus support the IASB's work on the **guidance for the Board**.
- We have also appreciated the other activities being part of the Disclosure Initiative like the Amendments to IAS 1 *Presentation of Financial Statements* issued in December 2014, the Amendments to IAS 1 and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* issued in October 2018 or the Amendments to IAS 1 and IFRS Practice Statement 2: *Making Materiality Judgements* issued only in February 2021 (the latter neither effective at global level nor endorsed in the EU yet) and **all clarifying the use of the materiality concept** in the financial statements as a whole. It would be appropriate to **allow entities sufficient time to make full advantage of these important elements** of the IASB's efforts before questioning the current reporting practice as still unsatisfactory.
- Nevertheless, indeed, and for the reasons mentioned above, for the further steps of the project we kindly **recommend considering a less radical approach**. It should focus also on verifying whether specific disclosure requirements are dispensable, hence they could be explicitly removed. It is a challenging task for the standard setter considering the limited engagement of users in the standard setting process but an unavoidable one if an effective and real relief for preparers should be provided.
- In the past we also have supported principle-based **disclosure objectives** to be provided. And we continue to believe that they should be provided. However, they should serve as a **useful context to specific disclosure requirements** (being defined explicitly for example as a list of minimum disclosure requirements) in specific standards and subject to entity-specific materiality considerations, as already required by the general clause in paragraph 31 of IAS 1 *Presentation of Financial Statements*, which refers explicitly also to the disclosures in the notes.

- It's how a **cost-effective and comparable reporting practice** might be encourage/supported, creating an added value for investors and other users of financial statements. And the context provided by the IASB for explicitly defined disclosure requirements will allow prepares to better understand and verify why and for which purpose particular information are demanded by investors and other users of financial statements, without creating the potentially very inefficient situation in which every single reporting entity must identify the users' needs on a stand-alone basis. Providing an explicit **explanation** how investors use the information provided to them would also increase the **acceptancy** of the additional workload on the preparers' side.
- Furthermore, we recommend that any new approach for the determination of disclosure requirements for financial reporting should be verified regarding how it might interact with the ongoing progress on the **digital/electronic** side of the financial reporting, and additionally how it addresses the expected future **coexistence of the financial and the sustainability reporting**.
- Finally, if the changes suggested in the ED to IFRS 13 *Fair Value Measurement* and IAS 19 *Employee Benefits*, as an outcome of the IASB's consultation and redeliberations process, were to be reinforced in principle by the Board, an **appropriate lead time for transition** would be necessary, specifically if comparative information should be provided.

Summing up, as a matter of principle, we back the IASB's primary objective to ensure that investors and other users of financial statements are provided with the information they really need. And we continue to support the idea of principle-based standards and in particular principle-based disclosure requirements to the extend reasonable and as recommended above. However, it is also essential that all standard-setting activities that are undertaken are continuously evaluated whether any inappropriate operational burden is transferred on reporting entities' shoulders solely. An appropriate cost/benefit balance needs to be retained. It includes the need for an adequate lead time for transition if the IASB decides to proceed with the changes proposed in the ED.

III. Comments on specific proposals in the ED

We are concerned about the proposal in paragraph 111 of the ED and regarding IFRS 13 *Fair Value Measurement* to require specific disclosures about **reasonably possible alternative fair values** for each class of financial assets and financial liabilities measured at fair value.

- We are not supportive of this IASB's proposal as it might undermine the credibility and legitimacy of the fair value measurement in the financial statements as such.
- Additionally, it would be operationally extremely burdensome for reporting entities.
- Instead, we would favour to retain the current well-established practice of sensitivity analysis disclosures for the Level 3 fair value measurements only (paragraph 93(h) of IFRS 13), and subject to materiality considerations which generally applies to the financial statements, which includes the notes (paragraph 31 of IAS 1 *Presentation of Financial Statements*).

Similarly, with respect to IAS 19 *Employee Benefits*, we do not support the disclosures proposed in paragraph 147S of the ED and regarding the reasonably possible alternative actuarial assumptions and thus effectively requiring a disclosure of a **range of possible alternative values of defined benefit obligations**.

- We continue to support the current requirements in paragraphs 76 and 81 of IAS 19 that the actuarial assumptions shall reflect the **entity's best estimate** at the end of the reporting period.
- The proposed requirement to disclose a range of such possible alternative values of defined benefit obligations is rather **counterintuitive** from the conceptual and professional perspective.
- In addition, such a disclosure might trigger not productive but unavoidable discussions with investors and other users of financial statements about the validity of the best estimate determined and applied by the entity.
- In addition, it is not clear to us what the term "reasonably possible" effectively means in such a case of an established actuarial practice.

Therefore, also in this regard we would rather suggest to consider retaining the current existing requirement in paragraph 145(a) of IAS 19 to disclose an appropriate sensitivity analysis as it has proven to be effective in practice for users, without undermining the best estimate concept as such.

Berlin, 4 January 2022