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**EFRAG's Draft Comment Letter on the IASB's ED/2014/6
"Disclosure Initiative, Proposed amendments to IAS 7"**

Dear Ms Flores

On behalf of the German Insurance Association (GDV) we take the opportunity to comment on the EFRAG's Draft Comment Letter regarding the IASB's Exposure Draft "Disclosure Initiative, Proposed amendments to IAS 7" (ED/2014/6), as issued by EFRAG on 11 February 2015 for public consultation. We understand that EFRAG was not able to reach a consensus on how to tentatively assess the proposals in the IASB's ED/2104/6 and therefore seeks explicit input from constituents. Our response aims to help EFRAG to determine a final position regarding the IASB's proposals.

We acknowledge the IASB's rationale for the suggested amendments to IAS 7 "Statement of Cash Flows" and the intention to include additional disclosure requirements with regard to entity's financial activities and its liquidity position. We understand that the proposed amendments are a further step of the IASB's Disclosure Initiative. Nevertheless, we **disagree with the proposals** as drafted in the IASB's ED.

We kindly ask EFRAG to support our recommendation towards the IASB not to proceed further with the suggested amendments to IAS 7. The long standing IAS 7 should not be swiftly amended on a short-time basis. We suggest at first awaiting the outcome of the important project "Principles of Disclosures" for which the IASB plans to publish a Discussion Paper in 2015 and which aims to replace IAS 1, IAS 7 and IAS 8, and to define objectives and fundamental principles for disclosures in IFRS at large. In addition, we believe that IASB underestimates the operational burden of recommended disclosures on reporting entities. Therefore, we **support the View 2 in EFRAG's Draft Comment Letter**.

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We also fully agree with EFRAG's tentative position in the Draft Comment Letter that IASB's consultation about **IFRS Taxonomy Updates** should be rather carried out **separately** from due process documents about new or amended Standards. It would help to avoid double efforts as changes to IFRS Taxonomy should be only consulted once it is clear what the purpose and specific wording of the finally approved amendments to particular IFRSs would be.

Our comments to the specific questions raised in the IASB's Exposure Draft ED/2014/6 are attached as annex to this letter.

If you like to discuss our response in further detail, please do not hesitate to contact us.

With best regards



Dr. Axel Wehling
Member of the Executive Board
German Insurance Association



Hans-Juergen Saeglitz
Head of Accounting
German Insurance Association

Annex

Question 1 – Disclosure Initiative amendments

This Exposure Draft of proposed amendments to IAS 7 forms part of the Disclosure Initiative. Its objectives are to improve:

- (a) information provided to users of financial statements about an entity's financing activities, excluding equity items; and
- (b) disclosures that help users of financial statements to understand the liquidity of an entity.

Do you agree with the proposed amendments (see paragraphs 44A and 50A)? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

We **disagree** with the proposed amendments in paragraphs 44A and 50A.

We recommend not finalising this step of the Disclosure Initiative as the proposed additional disclosure requirements might contradict the overall efforts of the Disclosure Initiative. We **support the alternative view** expressed by Mr Takatsugu Ochi (AV1) and in general share his rationale as provided in the ED to which we refer here to avoid replication.

Our rationale

We appreciate and support the efforts of the IASB to address the existing phenomenon of disclosure overload in IFRS financial reporting and to significantly increase the effectiveness of information provided to users of financial statements. And we acknowledge the rationale for the suggested amendments to IAS 7 "Statement of Cash Flows" and the intention to include additional disclosure requirements with regard to entity's financial activities and its liquidity position. We understand that the proposed amendments are seen as a further step of the IASB's Disclosure Initiative, i.e. to make the disclosures in the notes to financial statements more effective. Nevertheless, we do not support the proposals as drafted in the ED and explicitly suggest to not proceed further with the suggested amendments, thus to not amend the long standing IAS 7 on short-time basis. We rather **recommend awaiting the outcome of the project "Principles of Disclosures"** for which the IASB plans to publish an important Discussion Paper in the course of 2015 and which aims to replace IAS 1 "Presentation of Financial Statements", IAS 7 "Statement of Cash Flows" and IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" and **at first to define objectives and fundamental principles for disclosures in IFRS at large.**

In addition, we have the impression that the IASB might underestimate the operational burden of recommended disclosures - respectively more generally of changes in disclosure requirements - to reporting entities. We are also concerned that the scope of the suggested amendments as drafted is not providing the necessary level of clarity to be applicable in a consistent way.

More specifically we have the following critical comments regarding the proposed amendments to IAS 7:

- The proposed reconciliation requirement in **paragraph 44A** would be operationally overly burdensome (e.g. it shall be provided for “for each item”, whereupon it remains unclear which level of granularity the term “each item” is intended to imply in the provided context).

In addition, we observed that in the recent January 2015 meeting the Board decided to reconsider, give up and finally remove some disclosure requirements in the Leases project (*IASB Update, January 2015*), especially because of the negative cost-benefits assessment of certain reconciliation provisions under consideration. We also share the view that more tailored disclosure requirements are more suitable to address potential users’ needs. The approach to address them via a generally required additional reconciliation exercise is too unspecific to reach its objective. With other words: reporting entities should not be obliged to provide reconciliations on a mandatory basis when users’ needs are rather referring to more specific information instead.

Our conclusion

The suggested paragraph 44A is unspecific; the specific objective of the users’ needs should be clarified by the IASB in more detail when reconsidering the proposals in the ED.

We suggest not amending the further general reconciliation requirement to IAS 7 at this stage.

- The scope of the suggested disclosure requirements in **paragraph 50A** is unclear and would potentially duplicate already existing requirements (e.g. paragraph 48 of IAS 7, paragraphs 135 and 136 of IAS 1).

In particular, it is fully unclear, how the suggested disclosure should be implemented by multinational entities operating on a global basis, i.e. what does “repatriation of foreign ...” mean. We believe that the ED’s

rationale is too much based on an overly simplified understanding of corporate structures existing nowadays.

Furthermore, determining, recognising, calculating and disclosing future oriented tax liabilities / positions within a past-oriented framework of IFRS financial statements would definitely confuse users, further increase the already existing expectation gap and thus fail to accurately address their potential specific expectations. In particular, the fulfilment of the proposed requirement in paragraph 50A would effectively require setting up and disclosing all possible tax scenarios which are even not required when applying IAS 12 "Income taxes" for determination of deferred tax positions. Therefore, we strongly believe that the suggested paragraph 50A would be operationally too burdensome for reporting entities. The implicit efforts required for fulfilment of the suggested disclosures would not be proportional. Finally, we view that financial statements are not intended to provide detailed disclosures about business plans of reporting entities.

Our conclusion

The suggested paragraph 50A is not proportional and not operational. Hence, the IASB should not introduce this "what if" disclosure requirements. The existing paragraph 48 of IAS 7 fits sufficiently its purpose.

As a matter of fact statement of cash flows is of limited relevance when considering the (consolidated) financial statements of insurers. Therefore, additional disclosures would make them even more burdensome for insurance undertakings while we also have serious doubts with regard to the intended benefits for users.

Question 2 – Transition provisions

Do you agree with the proposed transition provisions for the amendments to IAS 7 as described in this Exposure Draft (see paragraph 59)?

If not, why and what alternative do you propose?

At first we do **not** recommend amending the IAS 7 at this stage for the reasons explained above.

Should the IASB continue the project and aim to finalise the proposed amendments, we agree with the transition approached as proposed in the ED, i.e. the **prospective application** of the amendments.

Question 3 – IFRS Taxonomy

Do the proposed IFRS Taxonomy changes appropriately reflect the disclosures that are set out in the proposed amendments to IAS 7 and the accompanying illustrative example? In particular:

- (a) are the amendments reflected at a sufficient level of detail?
- (b) should any line items or members be added or removed?
- (c) do the proposed labels of elements faithfully represent their meaning?
- (d) do you agree that the proposed list of elements to be added to the IFRS Taxonomy should be limited to information required by the proposed amendments to IAS 7 or presented in the illustrative examples in IAS 7?

We do **not** provide any specific comments to this question as we have the strong view that the IFRS Taxonomy Update should be published for public consultation only after the final conclusions on the amendments proposed in the Exposure Draft are taken.

Question 4 – IFRS Taxonomy due process

As referenced in paragraph BC20, the IASB is holding a trial of a proposal to change the IFRS Taxonomy due process. Although not constituting a formal public consultation of the IFRS Taxonomy due process, views are sought on the following:

- (a) do you agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued?
- (b) do you find the form and content of the proposed IFRS Taxonomy Update useful? If not, why and what alternative or changes do you propose?

We do **not** agree with the publication of the proposed IFRS Taxonomy Update at the same time that an Exposure Draft is issued. The **separate subsequent** consultation would be more appropriate and also more efficient as it would help to avoid double efforts by the constituents. Therefore, the IFRS Taxonomy Update should be only consulted once it is clear what the specific purpose, exact wording and their common interpretation of the finally approved amendments would be. Especially, the consultation on IFRS Taxonomy (Updates) requires a different process of evaluation and different level of involvement of our members.