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Comment letter on EFRAG's discussion paper "Equity Instruments – Impairment and Recycling"

Dear Madam or Sir,

Siemens Aktiengesellschaft ('Siemens') welcomes the opportunity to comment and discuss the EFRAG discussion paper on "Equity Instruments – Impairment and Recycling".

Siemens is a German based multinational technology company with core activities in the fields of electrification, automation and digitalization, showing total assets of EUR 133,804 Mio. as of September 30th, 2017. Siemens accounts its equity investments which are neither fully consolidated nor accounted for using the equity method as available-for-sale financial assets. Those equity investments, which are typically not held for trading purposes, comprised a carrying amount of EUR 3,253 Mio. as of September 30th, 2017, i.e. 2.4% of total assets.

The annual reporting period of Siemens is beginning on October 1st. Therefore, Siemens has not yet adopted the new financial instruments accounting standard IFRS 9. Siemens will presumably decide for each equity instrument on an individual basis whether or not to account for it either at Fair Value through Profit or Loss or at Fair Value through OCI.

Although Siemens welcomes the opportunity to discuss the accounting of equity instruments under IFRS 9, Siemens shares the view of the DRSC e.V. (Deutsches Rechnungslegungs Standardisierungs Committee) not to modify the IFRS standards with the endorsement into EU requirements and thus, creating a difference between IFRS as published by the IASB and as applicable in the EU. Consequently, Siemens encourages the EFRAG to discuss the results of this discussion paper with the IASB before modifying IFRS 9 into EU requirements.

Should you have any questions or wish to discuss any of the issues in more detail, please do not hesitate to contact Mr. Helmut Maerkl (helmut.maerkl@siemens.com, phone +49 (89) 636 31626).

Sincerely yours,

Dr. Jürgen Wagner
Corporate Vice President and Controller

Dr. Marco Ebel
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Appendix - Answers to the questions of the discussion paper

Q1.1 What are your views on the arguments presented in paragraphs 2.3 – 2.10? Do you consider that the reintroduction of recycling would improve the depiction of the financial performance of long-term investors? Alternatively, do you consider that the existing requirements of IFRS 9 provide an adequate depiction? Please explain.

Siemens would appreciate the possibility to recycle gains or losses at the date of derecognition from OCI to profit or loss. From our perspective, recycling improves the depiction of the financial performance as some of our key performance indicators mainly focus on net income rather than OCI. For purposes of managing and controlling our capital efficiency, we use return on capital employed, or ROCE, as our primary measure. ROCE is based on net income and on the average capital employed.

Assuming that Siemens invests in a minority stake of a company and elects the option to present fair value changes in OCI without the possibility of recycling at a later point in time, some adjustments on ROCE would be needed to reflect the performance of equity investments in ROCE. As on the date of disposal the cumulative fair value changes will not be recycled through net income, the performance of the equity investment is not included in ROCE. Moreover, the capital invested burdens ROCE during the investing period. In total, without appropriate adjustments to ROCE, this could lead to misinterpretations of the capital efficiency in both cases, if the investment had a positive or negative impact over the total investing period.

Nonetheless, recognizing fair value changes in net income during the investing period mainly does not reflect the business intention for equity investments with the purpose of a strategic alliance. For those cases, volatility in net income appears as if the equity investment is monitored on fair value basis, which is not the case.

Q4.2 Which, if either, of the two models do you prefer? Please explain.

Siemens prefers an impairment model similar to that of available-for-sale financial assets according to IAS 39. I.e., we prefer a model so that:

- fair value changes are recognized in OCI during the investing period
- those cumulative fair value changes are recycled from OCI to net income at the date of derecognition
- dividend income is recognized in net income, and
- impairments are considered.

From our perspective, this model appropriately reflects the business intention of a long-term investor for minority stakes in equity investments.

We do not believe that the revaluation model proposed in the discussion paper increases the presentation of relevant data for investors, in particular if each decline in fair value below the acquisition costs is recognized in net income irrespective if the decline in fair value is assumed to be likely short or long term. Siemens believes that a decline in fair value should be recognized in net income if the decline is based on an adverse change in the environment of the equity investment. Usually, the investing entity

is best-known for assessing whether or not a decline in fair value is sustainable and consequently shall be recognized in net income instead of OCI.

Q8.1 Are there other aspects of IFRS 9's requirements on accounting for holdings of equity instruments, in addition to those considered in the DP, which in your view are relevant to the depiction of the financial performance of long-term investors? Please explain.

The discussion paper excludes the discussion for the use of fair value as the measurement basis for all equity instruments in the statement of financial position. The new standard requires a fair value measurement for all equity instruments irrespective if a fair value is reliably measurable. Only in limited cases cost may be an appropriate estimate of fair value.

Siemens believes that this brings more operational complexity in determining a fair value. Mostly, Siemens has only a minority stake in those investments and does not have any regular access to forward looking financial data such as business plans to determine a fair value. Based on cost-benefit reasons determining a fair value may not induce more reliable information especially in cases when there is no trigger that the fair value is volatile and is significantly different to the acquisition costs.