

INVITATION TO COMMENT ON EFRAG'S INITIAL ASSESSMENTS ON DISCLOSURE INITIATIVE - AMENDMENTS TO IAS 7

Comments should be submitted by 13 May 2016 by using the 'Express your views' page on EFRAG website or by clicking [here](#)

EFRAG has been asked by the European Commission to provide it with advice and supporting material on *Disclosure Initiative - Amendments to IAS 7* ('the Amendments'). In order to do so, EFRAG has been carrying out an assessment of the Amendments against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing the costs and benefits that would arise from their implementation in the European Union (the EU) and European Economic Area.

A summary of the Amendments is set out in Appendix 1 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Before finalising its assessment, EFRAG would welcome your views on the issues set out below. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interests of transparency, EFRAG will wish to discuss the responses it receives in a public meeting, so it is preferable that all responses can be published.

EFRAG's initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions on Appendix 2 and 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Your details

1 Please provide the following details:

- (a) Your name or, if you are responding on behalf of an organisation or company, its name:

Hannover Rück SE,
Karl-Wiechert-Allee 50, 30625 Hannover

- (b) Are you a:

Preparer User Other (please specify)

- (c) Please provide a short description of your activity:

Hannover Re Group transacts all lines of property & casualty and life & health reinsurance. With gross written premium of approximately EUR 17.1 billion, Hannover Re is the third-largest reinsurance group in the world. The company's network consists of more than 130 subsidiaries, affiliates, branches and representative offices worldwide with a total workforce of roughly 2,500.

- (d) Country where you are located:

Germany

(e) Contact details, including e-mail address:

Hannover Rück SE
Olaf Brock
Managing Director, Finance & Accounting
Karl-Wiechert-Allee 50
30625 Hannover
olaf.brock@hannover-re.com

Hannover Rück SE
Jens Chyba
Head of Competence Center International Accounting
Group Accounting & Consolidation
Karl-Wiechert-Allee 57
30625 Hannover
jens.chyba@hannover-re.com

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of the Amendments is that they meet the technical criteria for endorsement. In other words, the Amendments are not contrary to the principle of true and fair view; meet the criteria of understandability, relevance, reliability and comparability; and do not affect prudence. EFRAG's reasoning is set out in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

(a) Do you agree with this assessment?

Yes No

If you do not agree, please provide your arguments and what you believe the implications of this could be for EFRAG's endorsement advice.

We do not agree with this assessment for the following reasons:

1. Relevance

We believe that the amendments will not provide relevant information because they do not adequately describe what they were supposed to present initially, which was, in our understanding, a net debt disclosure and the corresponding reconciliation of net debt in order to provide information which can be used to better assess liquidity risk management.

In addition, as being a reinsurance group, we think that the consolidated cash flow statements in the format that is currently required are of limited relevance for the users and we do not expect that this can be changed by the amendments. For that reason, we would recommend to reconsider the general purpose and use of cash flow statements for financial institutions such as reinsurers.

2. Understandability

Furthermore, we observed that the amendments lead to overlaps and cross-cutting issues because similar disclosures are required by other standards already. In this regard, we specifically refer (i) to IFRS 12 "Disclosures of Interests in Other Entities" (e.g. with respect to the restrictions in accessing cash or regarding the effects of changes arising from obtaining or losing control of subsidiaries or other businesses) and (ii) to the disclosures on changes in fair values required by IFRS 7 "Financial Instruments – Disclosures" as well as (iii) to the information on capital management required by IAS 1 "Presentations of Financial Statements". In our opinion these overlaps bear the danger to confuse the addressees of our financial statements. For that reason we recommend to streamline disclosure requirements spread across different IFRSs prior to the endorsement.

3. Comparability

The amendments refer to "liabilities arising from financing activities" and specify that those liabilities are liabilities for which cash flows have to be classified in the statement of cash flows as cash flows from financing activities. However, IAS 7 permits classifying some cash flows (such as interest payments) as either operating or financing. Therefore, the understanding of what constitutes changes in liabilities arising from financing activities may vary from company to company. This, in our view, does not contribute to comparability.

Given the fact that an overall concept for the disclosure initiative as a whole is still missing in our view, we think that it is premature to endorse the narrow-focused amendments to IAS 7.

- (b) Are there any issues that are not mentioned in Appendix 2 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments that you believe EFRAG should take into account in its technical evaluation of the Amendments? If there are, what are those issues and why do you believe they are relevant to the evaluation?

The European public good

- 3 In its assessment of the impact of the Amendments on the European public good, EFRAG has considered issues that are addressed in Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments.

Improvement in financial reporting

- 4 EFRAG has identified that in assessing whether the endorsement of the Amendments is conducive to the European public good, it should consider whether the Amendments are an improvement over current requirements across the areas which have been subject to changes (see Appendix 3, paragraphs 3 to 5). To summarise, EFRAG's initial assessment is that the Amendments are likely to improve the quality of financial reporting.

Do you agree with this assessment?

Yes No

If you do not agree, please provide your arguments and indicate how this could affect EFRAG's endorsement advice.

As already laid out in our answer to question 2(a), we think that short-term and

standard-specific disclosure topics should not be addressed and endorsed in advance of an overall concept on principles of disclosures. Our key concern is that piecemeal amendments are made to selected topics in the absence of a general disclosure strategy and that this may lead to conceptual breaks or contradictions when such strategy will be presented later on. We therefore do not agree that the amendments will improve the quality of financial reporting.

In addition, we would like to emphasize again our concern regarding overlapping disclosure requirements and cross-cutting issues. We specifically disagree with providing the additional disclosures about restrictions on cash and cash equivalents, changes in fair values and capital management because we are convinced that other IFRS standards already set out the appropriate and necessary disclosures (see our answer to question 2(a)).

Costs and benefits

- 5 EFRAG is also assessing the costs that are likely to arise for preparers and for users on implementation of the Amendments in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this invitation to comment will be used to complete the assessment.

The results of the initial assessment of costs are set out in paragraphs 7 to 14 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that the Amendments will not result in a significant increase in costs for preparers or users.

Do you agree with this assessment?

Yes No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be?

While from our individual perspective the operational burden that we will have to face in order to track and apply the amendments is limited, we still think that implementing the amendments is too costly: In our view, the changes produce inefficiencies and unnecessary costs because even smaller amendments, like those discussed here, cause implementation efforts with only minimal benefits for our addressees.

- 6 In addition, EFRAG is assessing the benefits that are likely to be derived from the Amendments. The results of the initial assessment of benefits are set out in paragraphs 15 to 20 of Appendix 3 of the accompanying *Draft Letter to the European Commission* regarding endorsement of the Amendments. To summarise, EFRAG's initial assessment is that both users and preparers are likely to benefit from the Amendments, as they will result in the provision of relevant and understandable information.

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice?

Please refer to our comments noted in reply to question 2(a).

- 7 EFRAG's initial assessment is that the benefits to be derived from implementing the Amendments in the EU, as described in paragraph 6 above, are likely to outweigh the costs involved, as described in paragraph 5 above.

*Disclosure Initiative - Amendments to IAS 7
Invitation to Comment on EFRAG's Initial Assessments*

Do you agree with this assessment?

Yes No

If you do not agree with this assessment, please provide your arguments and indicate how this could affect EFRAG's endorsement advice?

We do not agree that the benefits from the amendments will outweigh the costs because implementing the amendments would significantly increase and partly double the disclosure requirements and thus the costs for preparers, without, in our opinion, improving the information provided to users of financial statements in the same degree (please see also our reply to question 5).

Other factors

8 Do you agree that there are no other factors to consider in assessing whether the endorsement of the Amendments is conducive to the European public good?

Yes No

If you do not agree, please identify the factors, provide your views on these factors and indicate how this could affect EFRAG's endorsement advice?

Overall assessment with respect to the European public good

9 EFRAG has initially concluded that endorsement of the Amendments would be conducive to the European public good (see Appendix 3, paragraph 25).

Do you agree with this conclusion?

Yes No

If you do not agree, please explain your reasons.

For the reasons set out above we do not believe that the amendments, in isolation from an overall concept on principles of disclosures, would be conducive to the European public good.