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Corporate Financial Reporting
– Local Statutory Reporting
Dr. Christopher Sessar,
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Comments on the Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures*

Dear Board Members and Staff,

On behalf of the SAP Group, we are writing to comment on your Exposure Draft ED/2021/7 *Subsidiaries without Public Accountability: Disclosures.*

SAP is the market leader in enterprise application software. SAP SE is listed on the Frankfurt and New York Stock Exchanges and is the parent company of the SAP Group, which comprises of around 300 subsidiaries that operate in more than 140 countries. SAP SE's consolidated financial statements comply with both the IFRS standards, as issued by the International Accounting Standards Board (IASB), and the IFRS standards, as endorsed by the EU.

SAP has a dedicated team responsible for the preparation of the statutory financial statements of over 150 subsidiaries which has allowed us to standardize the preparation process and to gain insight on different reporting standards.

We welcome this Exposure Draft and agree with your findings that a simplified set of disclosures for subsidiaries without public accountability, whose parent prepares public consolidated financial statements that comply with IFRS, would reduce the costs of preparation of subsidiaries' financial statements. However, we believe that further disclosure exemptions should be granted, especially when such disclosures are burdensome and there is no identifiable user, or the user would benefit more from assessing the group's performance based on its consolidated financial statements than the subsidiaries' financial statements.

Given the continued development and complexity of the IFRS standards, and consequently the increasing gap with tax legislations, commercial laws, and local GAAPs in some jurisdictions, we would encourage the IASB to also proactively ask the opinion of the bodies who are responsible for endorsing IFRS in the different jurisdictions, as usefulness of this standard will largely depend on these bodies' needs.

Please refer to the Appendix to this letter for our detailed comments on Question 8 (b) raised in this Exposure Draft where we address why we consider that further exemptions for the disclosure requirements would reduce complexity and costs without jeopardizing the quality of the information.

If you would like to further discuss our comments, please contact Agata Pohl at agata.pohl@sap.com.

Yours sincerely,

Dr. Christopher Sessar
Chief Accounting Officer

Agata Pohl
Head of Local Statutory Reporting

Appendix

SAP's response to Question 8 (b) raised in the Exposure Draft

Question - Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?

SAP accounting and reporting environment

SAP's accounting and reporting environment is designed in such way that all subsidiaries keep their main records under IFRS, to ensure uniform accounting, consistency, and a timely and cost-efficient preparation of the subsidiaries and the group's consolidated financial statements.

IFRS or equivalent are allowed in most of the jurisdictions in which our subsidiaries operate. Where that is not the case, adjusting entries are required to prepare separate financial statements. Those entries are recorded in a different set of accounts so that they can be excluded from the group consolidation.

From an auditor point of view, this set-up has allowed the agreement of centrally performed audit procedures which exempts local audit teams from reviewing topics which are common to all subsidiaries but more efficient to be reviewed in a consolidated manner.

In large entities like SAP, where some critical areas are performed centrally and there is no or very limited intervention from the subsidiary's management, we perceive that for some disclosures the costs of preparation at subsidiary level exceed their usefulness i.e., we do not find these disclosures relevant for any of the subsidiary's stakeholders. If required, that information can be provided on demand, outside the scope of the financial statements.

SAP recommendation on the [draft] Standard

We would like to recommend further disclosure exemptions, based on the criteria that such disclosures:

1 – are **costly** to prepare, because they are complex and time consuming, given the number of subsidiaries. We believe that a disclosure for which the company needs to perform extensive analysis at the subsidiary level of information extracted from the accounting records is considered as costly.

2 – are, in our view, **not of great relevance** to the users of financial statements of subsidiaries without public accountability, or we believe that either **other disclosures or the group's consolidated financial statements** are sufficient to meet users' needs.

In the past years IASB implemented new standards and disclosure requirements (i.e., relating to revenue, financial instruments, and leasing), in favour of a broader scope of users and more accurate accounting, increasing the gap with tax legislations, commercial laws and local GAAPs. This was mainly a result of the interest from the users of companies with public accountability, rather than users of subsidiaries' financial statements, i.e., local tax authorities, government agencies, workers council and unions, financial institutions, suppliers.

We believe it is worth noting that even though one of the purposes of the [draft] Standard is to "*(ii) maintain the usefulness of financial statements for users of those subsidiaries' financial statements"* there is no reference on who such users might be. Given the number of jurisdictions in which IFRS and equivalent are allowed, we acknowledge the challenge around identifying the users of the subsidiaries' financial statements, nevertheless, we strongly believe it to be critical, as the information to be disclosed is directly driven by what they deem useful.

3 – are **exempted in some countries with similar or equivalent accounting standards for reduced disclosures** such as AASB 1060[1] and the FRS 101[2].

Thus, we invite the IASB to compare the proposal with AASB 1060 and FRS 101 where a significant number of exceptions are granted.

See below the Illustration 1: Disclosure requirement decision tree.

[1] Australian AASB 1060 standard 'General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities'

[2] UK FRS 101 standard 'Reduced Disclosure Framework – Disclosure exemptions from adopted IFRS for qualifying entities'

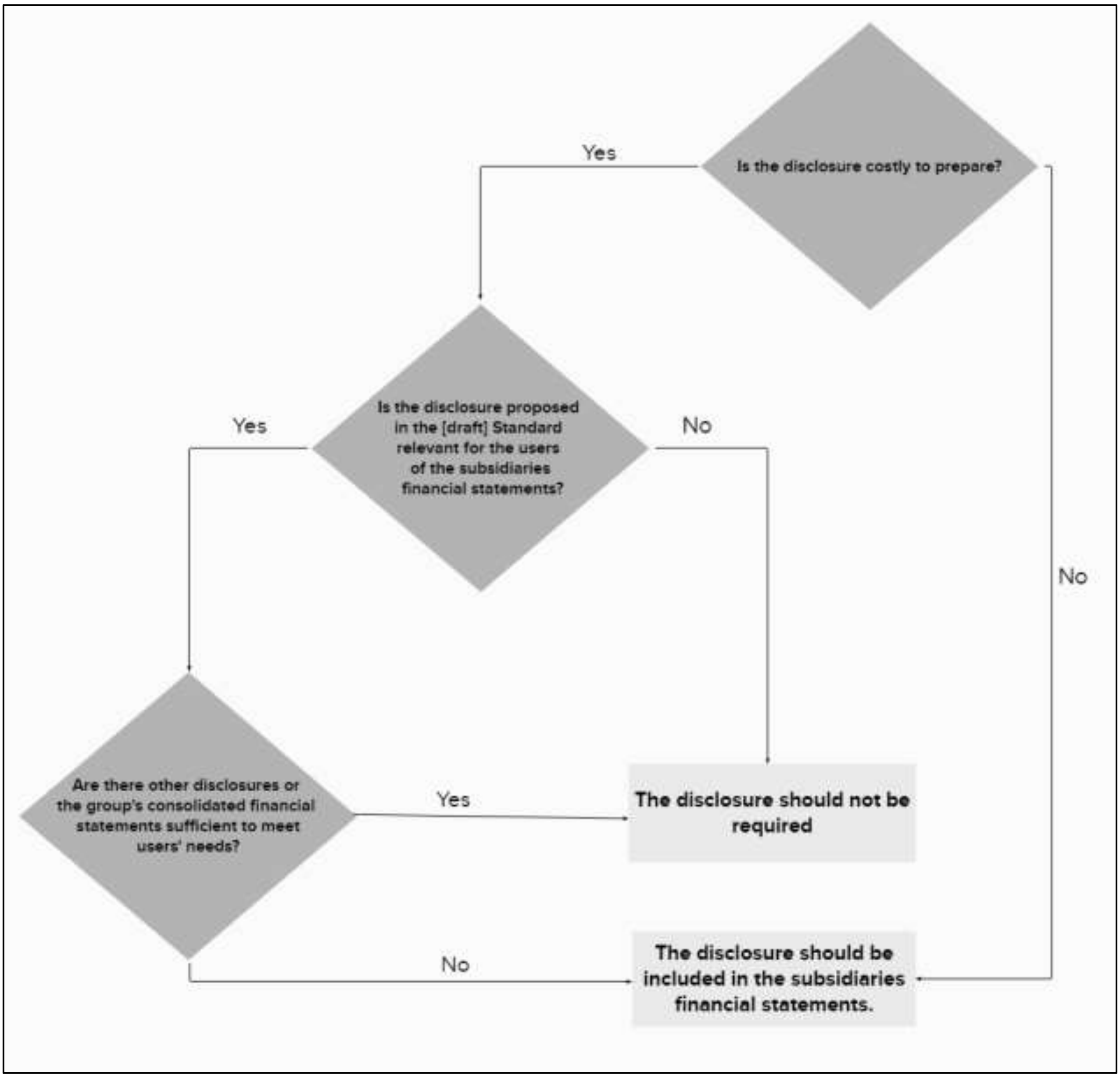

Illustration 1: Disclosure requirement decision tree

In Table 1: Reduced disclosures – SAP comments we present the list of paragraphs that we suggest removing from the [draft] Standard.

Table 1
Reduced disclosures – SAP comments

IFRS Standard	Paragraphs to be removed from the [draft] Standard		AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
	Number	Paragraph summary				
IFRS 2 Share-based Payment	31(b)	Number and weighted average exercise price of share options outstanding at the beginning of the period; granted, forfeited, exercised, and expired during the period and outstanding/ exercisable at the end of the period.	Required	Not required if the entity is a subsidiary for which the share-based payment arrangement concerns equity instruments of another group entity.	No- The disclosures required under paragraph 31 (a) i.e., the description of the arrangements, and 35 (a) and (b) i.e., the share-based payments related disclosures included in the financial statements notes such as expenses and liabilities would be sufficient for subsidiaries' financial statements users.	N/A
	32 & 33	For equity-settled transactions, an entity shall disclose information about how it measured the fair value of goods or services received or the fair value of the equity instruments granted. If the entity used a valuation method, the entity shall disclose the method and the reason for choosing it. For cash-settled transactions, an entity shall disclose information about how it measured the liability.	Required			
	34	Explanation of the modifications to share-based payment arrangements during the period.	Required			
IFRS 7 Financial Instruments: Disclosures (continued)	50	If an entity has issued an instrument that contains both an equity component and a liability and the instrument has multiple embedded derivatives whose values are interdependent, the entity shall disclose the existence of those features.	Not required	Not required	Yes	Yes- Users of specific information about financial instruments convertible to equity would benefit more from the consolidated financial statements of the group rather than the subsidiaries' financial statements.
	45 & 46	If an entity has a financial liability at fair value through profit or loss and is required to present the effects of changes in that liability's credit risk in other comprehensive income, it shall disclose the amount of change, cumulatively, in the fair value of the financial liability that is attributable to changes in the credit risk and the difference between the financial liability's carrying amount and the amount the entity would be contractually required to pay at maturity to the holder of the obligation.	Not required	Not required	No- Paragraph 43 requires the company to disclose the carrying amount of the financial assets and liabilities at the reporting date, by category. It is our opinion that further details regarding the movement in financial instruments during the period will not be relevant for the users of the subsidiaries' financial statements.	N/A

IFRS Standard	Paragraphs to be removed from the [draft] Standard		AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
	Number	Paragraph summary				
IFRS 7 Financial Instruments: Disclosures	47 & 48	An entity shall disclose if it has reclassified any financial assets: (a) the date of reclassification, (b) a detailed explanation of the change in business model and a qualitative description of its effect on the entity's financial statements; and (c) the amount reclassified into and out of each category. For each reporting period following reclassification until derecognition, an entity shall disclose for assets reclassified out of the 'fair value through profit or loss' category: (a) the effective interest rate determined on the date of reclassification; and (b) the interest revenue recognised.	Not required	Not required	No- Paragraph 43 requires the company to disclose the carrying amount of the financial assets and liabilities at the reporting date, by category. It is our opinion that further details regarding the movement in financial instruments during the period will not be relevant for the users of the subsidiaries' financial statements.	N/A
	55	An entity shall explain its risk management strategy for each risk category of risk exposures that it decides to hedge and for which hedge accounting is applied.	Not required	Not required	No - Paragraphs 56 and 57 require subsidiaries to disclose the nature of the hedging instruments and their carrying amount. These disclosures will be sufficient for the users to determine the subsidiaries' financial health.	N/A
	62 to 67	Credit risk management practices disclosures	Not required	Not required	Yes	Yes - Credit risk policies are defined and governed by the group. Any user interested in this information would benefit more from extracting it from the group financial statements.
IFRS 13 Fair Value Measure-ment (continued)	79 (b)	The entity shall reveal the level of the fair value hierarchy within which the fair value measurements are categorized (level 1, 2 or 3).	Not required	Not required	No- Paragraph 79 (a) requires companies to disclose, for each class of assets and liabilities measured at fair value, the carrying amount at the end of the reporting period. We could not identify any user that would require additional disclosures	N/A
	79 (c)	The entity shall disclose a description of the valuation techniques it used for recurring and non-recurring fair value measurements categorized within level 2 and level 3 of the fair value hierarchy.	Required	Not required		

IFRS Standard	Paragraphs to be removed from the [draft] Standard		AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
	Number	Paragraph summary				
IFRS 13 Fair Value Measure-ment	80	For recurring fair value measurements categorised within Level 3 of the fair value hierarchy, an entity shall disclose: (a) total gains or losses for the period recognised in profit or loss, and the line items in profit or loss in which those gains or losses are recognised; and (b) total gains or losses for the period recognised in other comprehensive income, and the line items in other comprehensive income in which those gains or losses are recognised.	Not required	Not required	No- Paragraph 79 (a) requires companies to disclose, for each class of assets and liabilities measured at fair value, the carrying amount at the end of the reporting period. We could not identify any user that would require additional disclosures	N/A
IFRS 15 Revenue from Contracts with Customers	92 (b)(c) & 93	An entity shall disclose: (b) revenue recognised in the reporting period that was included in the contract liability balance at the beginning of the period; and (c) revenue recognised in the reporting period from performance obligations satisfied or partially satisfied in previous periods. An entity shall explain the significant changes in the contract asset and the contract liability balances during the reporting period.	Not required	Partially required	No- The disclosure requirements detailed in paragraph 89 i.e., revenue from contracts with customers disaggregated into categories based on how revenue and cash flows are affected by economic factors, provide all the relevant information for the relevant users.	N/A
	96	An entity shall provide a quantitative or qualitative explanation of the significance of unsatisfied performance obligations and when they are expected to be satisfied.	Not required	Not required		
	97	Methods, inputs, and assumptions used for assessing whether an estimate of variable consideration is constrained.	Not required	Not required		
	94 (a)	Significant payment terms of the performance obligations in contracts with customers.	Required	Not required		
	95	For the performance obligations that an entity satisfies over time, an entity shall disclose the methods it used to recognize revenue.	Required	Not required		

IFRS Standard	Paragraphs to be removed from the [draft] Standard		AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
	Number	Paragraph summary				
IFRS 16 Leases	100 (d) & (e), 106 (a) and 107 (a) & (c)	Both lessees and lessors have to present a maturity analysis for future lease payments/ receivables and a general description of significant leasing arrangements including information about variable lease payments, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements.	Required	Partially required	No- It is our opinion that for subsidiaries whose business model does not consist mainly of leasing and subleasing activities these disclosures will not be relevant for their financial statement users.	N/A
IAS 1 Presentation of Financial Statements	114 & 115	When an entity is required to present an additional statement of financial position it must disclose the information required by paragraphs 115–116 and 134–140 of this [draft] Standard. However, it need not present the related notes to the opening statement of financial position as at the beginning of the preceding period. If an entity changes the presentation or classification of items in its financial statements, it shall reclassify comparative amounts unless reclassification is impracticable. When an entity reclassifies comparative amounts, it shall disclose (including as at the beginning of the preceding period): (a) the nature of the reclassification, (b) the amount of each item or class of items that is reclassified; and (c) the reason for the reclassification.	Not required	Not required	No- It is our opinion that the users of the subsidiaries' financial statements are interested in the current and future financial information, rather than the impact on previous balances or the effect such changes may have for presentation purposes.	N/A
IAS 7 Statement of Cash Flows	130	Reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.	Not required	Not required	No- The relevant information required by this disclosure can be obtained from the cash flow.	N/A
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	136 & 137	When an entity has not applied a new IFRS standard that has been issued but is not yet effective, the entity shall disclose this fact and known or reasonably estimable information relevant to assessing the possible impact that applying the new IFRS standard will have on the entity's financial statements in the period of initial application.	Not required	Not required	Yes	Yes- The adoption of a new IFRS is analysed implemented at group level and subject to significant review by IASB. It is our opinion that such a disclosure at subsidiary level would not offer additional relevant information.

IFRS Standard	Paragraphs to be removed from the [draft] Standard		AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
	Number	Paragraph summary				
IAS 12 Income Taxes	147 (e)	An entity shall disclose separately for each type of temporary difference and for each type of unused tax losses and unused tax credits: (i) the amount of deferred tax liabilities and deferred tax assets at the end of the reporting period and (ii) an analysis of the changes in deferred tax assets and liabilities during the reporting period.	Required	Required	No - Deferred taxes concept does not exist in most tax legislations, or it is defined based on local tax authority requirements which may differ from IAS 12 definition of deferred tax. Consequently, and considering that the [draft] Standard has several disclosure requirements related to income tax (including the impact in tax expense or income due to changes in deferred taxes in paragraph 146 (c)), showing the amount of deferred tax at the end of the reporting period by category does not seem relevant for the users of the subsidiaries' financial statements.	N/A
IAS 19 Employee Benefits (continued)	152 (b), (c), (d), (e)	An entity shall disclose for defined benefit plans: (b) a reconciliation of opening and closing balances of the present value of the defined benefit obligation (c) a reconciliation of the opening and closing balances of the plan assets and of any reimbursement right recognised as an asset (d) for each major class of plan assets, the percentage or amount that each major class of plan assets constitutes of the fair value of the total plan assets at the reporting date (e) the amounts included in the fair value of plan assets for each class of the entity´s own financial instruments and any property occupied by, or other assets used by the entity.	Required	Required	No- We consider that the disclosures required under paragraphs 152 (a) i.e., a general description of the type of plan and (f) i.e., the principal actuarial assumptions used, provide information which reasonably allows interested users to make their decisions.	N/A

IFRS Standard	Paragraphs to be removed from the [draft] Standard Number	 Paragraph summary	AASB1060 (AU)	FRS 101 (UK)	Relevant user or other disclosures	Group FS disclosures
IAS 19 Employee Benefits	155	If an entity participates in a defined benefit plan that shares risks between entities under common control it shall disclose: (a) the contractual agreement or stated policy for charging the net defined benefit cost or the fact that there is no such policy (b) the policy for determining the contribution to be paid by the entity (c) if the entity accounts for an allocation of the net defined benefit cost, the information about the plan as a whole required by paragraph 152 (d) if the entity accounts for the contribution plan payable, the information about the plan as a whole required by paragraph 152(a), (d), (e) and (f).	Not required	Required	No- We consider that the disclosures required under paragraphs 152 (a) i.e., a general description of the type of plan and (f) i.e., the principal actuarial assumptions used, provide information which reasonably allows interested users to make their decisions.	N/A
	158	For each category of other long-term employee benefits that an entity provides to its employees, the entity shall disclose the nature of the benefit, the amount of its obligation and the extent of funding at the reporting date.	Not required	Required		
IAS 21 The Effects of Changes in Foreign Exchange Rates	161(b)	An entity shall disclose the reconciliation of the amount of net exchange differences recognised in other comprehensive income and accumulated in a separate component of equity at the beginning and end of the period.	Not required	Required	No- We believe that the information of foreign exchange translation reserve presented in the statement of profit or loss as other comprehensive income and in the statement of changes in equity is sufficient for our users.	N/A