Contractual Cash Flow Characteristics Assessment

The definition of the cash flow criterion is one of the most prominent aspects of IFRS 9.
We therefore welcome the efforts of the IASB to develop a solution which works in practice and is understandable and sustainable in order to sharpen the definition contained in IFRS 9.
With regard to the proposed benchmark test, which has to be undertaken and technically processed for the relevant transactions on initial recognition, in our opinion a workable solution has however not been found. Especially in cases where a benchmark instrument does not exist and a hypothetical benchmark instrument must be created for that reason preparers do face operational difficulties which are extremely hard to solve.
DZ BANK therefore supports the considerations contained in paragraphs 45-following of EFRAG's draft comment letter.
Even though we principally welcome that financial instruments with a modified economic relationship are not generally excluded from at cost measurement, we would like to emphasize that the cost of the proposed benchmark test will in many cases be disproportionate to the resulting benefits.

Beyond that to our consideration the wording of the ED is not clear enough on whether or not the benchmark test must be made under all circumstances or if an entity may choose not to undertake the test with the consequence that the financial instrument is measured at fair value with fair value changes through profit or loss.
In our opinion such a voluntary treatment should be possible for two reasons: Firstly,
such a treatment would allow conceptually to hold on to the existing principles of IFRS 9 for the contractual cash flow criterion and would therefore be in line with the intention of the IASB to reconfirm the general principles of IFRS 9 (see BC 40). Amortised Cost categorization of financial instruments in case of a modified economic relationship after passing the benchmark test could under this treatment be interpreted as an exception to the general principles of IFRS 9 based on materiality considerations.
Secondly, the complexity of the benchmark test would be an argument for such a solution. Voluntary testing would allow for cost-benefit-considerations in each case and therefore meet the needs of preparers without creating room for abuse. We therefore advocate for substituting "shall" by "can" in B4.1.9B of the ED.

Business Model Assessment

The introduction of a third category FV-OCI constitutes a significant improvement for insurance companies and therefore from the perspective of a provider of universal financial services like the DZ BANK Group as well. We expect a major reduction of the accounting mismatches resulting from the application of the future IFRS 4.

We do, however, have reservations concerning the FV-OCI category as it is proposed in detail.
It is important to note that in order to avoid accounting mismatches resulting from insurance transactions it may be necessary to designate financial instruments as at FV-OCI which are held under

a “hold to collect” business model and therefore would normally have to be categorized as Amortised Cost. We therefore advocate with a view to view 2 as presented in EFRAG’s draft comment letter for FV-OCI designed as an option (as a residual category or “overlay”).

Having in mind the advantages of an optional use of the category FV-OCI for the avoidance of accounting mismatches resulting from the future IFRS 4, another important advantage could result with respect to mandatory adoption of IFRS 9.
If an opportunity is granted to elect the FV-OCI option in case of an accounting mismatch at a point in time in the future, different effective dates of IFRS 9 and IFRS 4 should not be burdensome even for insurance companies, because accounting mismatches resulting from the application of IFRS 4 could be resolved at an appropriate point in time.
In case of a mandatory FV-OCI category aligned effective dates for IFRS 9 and the future IFRS 4 in order to avoid artificial volatilities are essential not only from the perspective of an insurance company, but also from the perspective of a group providing a wide range of financial services like the DZ BANK Group as well. An exception for insurance companies only would, however, not solve the problems of such groups.

Besides that we want to emphasize from the perspective of the commercial bank that liquidity portfolios must remain to be eligible for the Amortised Cost category even after the introduction of a FV-OCI category. In practice, there is a great variety of liquidity portfolios which are integrated differently into internal management procedures. To our consideration it is decisive that these differences may be reflected by the categorization. We therefore are worried about links in the ED to specific prudential regulations. In particular, B4.1.4 example 4 to our consideration is ambiguous and may lead to unjustified results. We therefore advocate for the deletion of this example.

Early Application

DZ BANK supports the considerations of EFRAG’s draft comment letter. We do have no further comments.

Own Credit Provisions

DZ BANK supports the considerations of EFRAG’s draft comment letter. We do have no further comments.

First-Time Adoption

This question is not relevant for DZ BANK. We therefore have no comments.