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Comment letter on EFRAG Draft Comment Letter on the IASB ED/2021/3 Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19)

Dear Mr Gauzès,

Thank you for the opportunity to comment on the EFRAG draft comment letter. Erste Group welcomes the IASB initiative to improve the disclosures towards more principle-based requirements where entities should derive the actual disclosures by considering the overall and specific disclosure objectives. We support the EFRAG draft comment letter including the concerns raised, mainly that there should be a set of minimum disclosure requirements. Specific answers on the questions to constituents raised by EFRAG can be found below.

We note that we have dealt specifically with the disclosures for fair value measurements, i.e. the proposed amendments to IFRS 13. Erste Group has also provided inputs on this exposure draft through the field-test conducted by the IASB and EFRAG.

Yours sincerely,

Gabriele Tauböck
Head of Group Accounting

Question to constituents

58 Do you agree that the IASB only mandates the overall and specific objectives for each IFRS Standards or do you consider that the IASB should also mandate a list of minimum disclosure requirements necessary to meet the disclosure objectives?

We welcome principle-based disclosure requirements. The overall and specific objectives bring better possibilities for tailoring disclosures which can reflect specific circumstances of preparers' business. This comes at the cost of increased application of materiality judgements which would be justified by improved entity-specific information for users.

On the other hand, we agree with concerns mentioned in the EFRAG draft comment letter regarding lack of comparability, auditability and enforceability resulting from the fact that there are hardly any specific mandatory disclosure requirements for the proposed fair value measurement disclosures. When developing principle-based disclosure requirements the IASB should think of a set of minimum mandatory disclosures ensuring basic comparability among preparers.

In this regard we consider that the proposed mandatory disclosures for IFRS 13 could be enhanced by following requirements:

- a description of the nature, risks of the instruments in each level of the fair value hierarchy;
- description of valuation techniques, inputs and changes; and
- sensitivity analysis of fair value measurements in Level 3 focused on reasonably possible range of unobservable inputs (as discussed below).

We consider that these kinds of disclosures would be relevant for all entities with material fair value measurements in their financial statements.

Questions to constituents

144 Do you agree with the EFRAG position that the proposal on the provision of alternative fair values is too burdensome and raises issues of understandability, or do you consider that the benefit to users would outweigh the costs? Please provide an estimate of the additional costs/time required. This can be done by comparing assets and liabilities currently classified as level 3 to those as level 2 or by comparing the estimated workdays currently required by that required under the proposal.

145 Do you have any alternative proposals to provide information that would allow users to evaluate the possible outcomes of the fair value measurements at the end of the reporting period?

IFRS 13 defines fair value strictly as a market-based measurement. From this perspective, the alternative fair value measurements should not involve any (reasonably possible) changes in observable inputs derived from active markets. Including the observable inputs would question the definition of fair value itself, in our view.

Entities are naturally exposed to market risks in their business. But such risks should be addressed by market risk disclosures covered by IFRS 7 which already requires a sensitivity analysis in this regard.

As a result, we consider that the sensitivity analysis focused on reasonably possible alternative assumptions in respect of unobservable inputs as currently required by paragraph 93(h)(ii) of IFRS 13 is more appropriate. It makes sense to cover Level 3 fair value measurements. By definition, unobservable inputs have insignificant effects for Level 2 measurements. Thus, shifting them within reasonable ranges should, in general, also lead to insignificant effects for Level 2 measurements making such sensitivity analysis disclosures irrelevant.

If the IASB concluded that the sensitivity analysis was relevant for all *unobservable* inputs it should explain and illustrate in what cases also Level 2 measurements could be affected in this kind of disclosures.