POSITION PAPER

ESBG response to the EFRAG's DCL on the ED/2021/3 Disclosure Requirements in IFRS standards – A Pilot Approach.

ESBG (European Savings and Retail Banking Group)

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ESBG

WSBI-ESBG welcomes the opportunity to comment on the Disclosure Requirements in IFRS Standards—A Pilot Approach (Proposed amendments to IFRS 13 and IAS 19) issued by the IASB on 25 March 2021 (the 'ED'). Below you will find our answers as well as comments to Question to Constituents raised in the EFRAG DCL and the questions raised in the IASB's ED:

Question to Constituents (EFRAG DCL)

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?

The proposed approach requires entities to assess what information is relevant to users and how it should be incorporated into the financial statements to meet the general and specific objectives as set in the ED. ESBG welcomes this change of mindset proposed by the IASB. The obligation to perform this exercise limits the breakdown of irrelevant or boilerplate information by means of a checklist, as it is mostly done at present, and adequately applied this approach would result in the provision of more useful information in the financial statements.

Although we agree with the approach proposed, we consider that it could be complemented with the incorporation of a list of minimum information requirements. The approach proposed might compromise comparability. Stakeholders' expectations reflect that the same facts and circumstances affecting two different entities should result in the disclosure of the same information by both entities. However, the high reliance on professional judgement arising from the new approach might result in different disclosures for the same facts and circumstances. Comparability is the most critical feature of financial information for some users. In this context, certain stakeholders such as analysts, auditors, supervisors and regulators, among others, put pressure on preparers to achieve such comparability.

This minimum disclosure requirements could make it easier for preparers to comply with general and specific objectives, improve comparability of information between different peers as well as assist auditors and supervisors in their reviews. Principle-based objectives offer an opportunity to improve disclosures. Without a list of minimum requirements comparability might not be achieved.

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.

We note that users may find information about alternative fair value measurements useful, but that this proposal would significantly increase the burden on preparers by increasing the population for which similar information is currently provided.

For financial institutions specifically, the balance sheet items typically comprise a high number of items and the calculation of a range of alternative values would be difficult in practice and would raise issues of understandability. In this regard, level 2 line items constitute the largest group in the fair value hierarchy, which together with level 3 items will increase the burden on preparers.

Once the key management in a company has decided on a specific measurement methodology over other available, we consider that sensitivity disclosures regarding the specific measurement methodology chosen is more relevant than alternative fair values which may have been disregarded and we suggest that such sensitivity disclosures should continue to be required.

Moreover, we consider that the sensitivity analysis as currently required by IFRS 13.93(h)(ii) (with focus on unobservable inputs for Level 3 measurements) is conceptually superior to the alternative fair value disclosures (proposed by the ED.) IFRS 13 defines fair value as a market-based measurement. From this perspective, the alternative fair value measurements should not involve any (reason-ably possible) changes in observable inputs derived from active markets. Including them would question the definition of fair value itself. The exposures to market risks should be addressed by IFRS 7 disclosures (which already requires a sensitivity analysis in this regard)

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?

In line with the previous answer, we consider that the incorporation of quantitative information about unobservable inputs used, the assumptions used to determine the fair value and the sensitivity exercises made are sufficient to allow users to evaluate the possible outcomes of the fair value measurements at the end of the reporting period.

198 - The IASB decided that the benefits provided by sensitivity analysis would not outweigh the cost to entities of providing that information. Consequently, the IASB decided not to develop a specific disclosure objective about sensitivity of an entity's defined benefit obligation to different assumptions. They consider that the specific disclosure objective in paragraph 147Q of the proposed amendments, will give users a reasonable idea of the range of possible values for the defined benefit obligation. They also consider it would enable users to compare the level of measurement uncertainty in defined benefit obligations between entities.

ESBG's view on this aspect is that the new specific disclosure objective will provide users with a reasonable idea of the range of possible values for the defined benefit obligation. However, we would like to note that currently reported information about sensitivity of the entity's defined benefit obligation is often provided by the external actuary that estimates the value of the obligation and entities do not incur in a significant economical cost to have such information as is a very straightforward estimate made by the actuary.

199 - Do you agree with the IASB's proposal that benefits provided by the current sensitivity analysis would not outweigh the cost to entities of providing that information and, therefore, should not be required? Why or why not?

We consider that the current sensitivity analysis provides meaningful information to users of how the defined benefit obligation would behave in case plausible movements of the main actuarial assumptions take place. This analysis is currently included in most of the actuarial reports, does not require burdensome calculations according to actuaries and are used by them to double-check their obligations' estimates.

ED questions

Question 1 - Using overall disclosure objectives

Paragraphs DG5–DG7 of this Exposure Draft explain how the Board proposes to use overall disclosure objectives in future.

(a) Do you agree that the Board should use overall disclosure objectives within IFRS Standards in future? Why or why not?

As described in the ED, the overall disclosure objectives in IFRS will describe the general information needs of users, providing entities with a useful overall context for disclosing the information that users require. Establishing these objectives will allow entities to focus their efforts on identifying truly relevant information that meets the information needs of users.
We consider this new approach will focus to a greater extent on the disclosure of relevant information for users of financial statements, and will encourage entities to assess, under their professional judgement, whether the information to be disclosed is really useful and, therefore, meets the general information needs, while avoiding that non-relevant information obscures relevant information.
In addition, the overall disclosure objectives may lead an entity to provide additional entity-specific relevant information that is not directly addressed by a specific disclosure objective. However, this approach must be gradually phased in within a reasonable timeframe to avoid a significant burden for preparers. If the proposals in the ED were confirmed, each new issued standard should consider the new approach and the IASB should commit to a transitional plan for all the current disclosures in other standards which may need to be amended.

While we support the creation of guidance for developing and drafting disclosure requirements, it is not clear from the ED where the place of such guidance would be within the standardisation framework of the IASB, would this be linked to the Due process handbook or the Conceptual Framework or would it be a guidance on its own. We believe that the guidance containing principles and methodologies applicable by the Board should be made public to inform entities as complementary framework when they determine which adequate items of information would comply with the general and specific disclosure objectives.

We believe that, to address the disclosure problem, there is a need, as a first step, to carry out a reflection on the role and the objectives of the notes in relation to the primary financial statements and in the context of the previous consultations on the Conceptual Framework and the Better Communication project. Accordingly, we would have expected that the Board addresses what information the notes should provide to the readers of the financial statements and their relevance in relation to the financial statements and how to articulate the overall and specific objectives proposed in the ED with the role and the objectives of the notes.

ED §DG6 indicates that, to comply with the general objectives, an entity should consider whether an additional information should be provided that would not be disclosed in the specific information. IAS 1.31. already requires an entity to consider whether additional information should be disclosed to enable users to understand the impact of particular transactions on the entity's financial statements. The overall objective set out by the ED appears to be a reminder of the requirements of IAS 1 at the level of individual standards. Therefore, the Board should better explain the interaction between the requirements in IAS 1 and the ED proposals, notably regarding the use of the entity's judgement.

(b) Do you agree that overall disclosure objectives would help entities, auditors and regulators determine whether information provided in the notes meets overall user information needs? Why or why not?

We consider the incorporation of global disclosure objectives in IFRS, which is intended to reduce the current "checklist" approach, will encourage entities to constantly assess and on-going reviewing, under their professional judgement, whether the disclosures in the financial statements are sufficient and appropriate to meet overall reporting needs.
However, this change of mindset must be consistently applied by all stakeholders: regulators, supervisors, auditors and investors, among others.
We are concerned about the fact that we could end up in a situation in which sector-specific information will be kept in the financial statements in addition to the information added to meet the general objectives contained in the ED, having the "worst of the two worlds":

- Regulators. National Competent Authorities in the financial sector are prescriptive on information that must be included in the institutions' financial statements. These requirements collide with the IASB approach.
- Supervisors. Financial institutions prepare a wide range of templates for supervision purposes. For certain items, these templates are commonly included by banks in their financial statements and allows comparability between entities.
- Investors. To achieve comparability, we face resistance from investors to remove information that is no longer useful or material but our competitors disclose it.

The categorization of "while not mandatory" items of information would be challenging for preparers creating tension with auditors and market regulators. Indeed, to avoid any difficult discussion resulting from the application of the disclosure requirements, preparers may be tempted to use as a checklist either the application of professional auditors' standards or the application of the list of "non-mandatory" items. This would reduce the relevance of the objectives of the ED and would lead to the same situation of preparation of disclosures as today.

One last consideration is that we are of the view that a voluntary review of the current notes is an exercise that any entity could carry out without the need of having a new IASB approach on disclosures. It can be a matter of time and resources, and the constraints that entities may face in the context of other priorities. We believe that current IFRS standards allow to improve current disclosures in a very close way to the objective of the new IASB proposals. We believe that certain workshops organised by the IASB and EFRAG have been very useful; in particular the explanations and clarifications made by the IASB staff and Board members attending them. If such personal views were confirmed by the IASB as a joint view of the Board, we wonder whether some type of less disruptive approach could be explored: for example, developing educational material like practical guidelines or webinars which could resonate to supervisors, auditors and entities and lead to a better understanding on how currently similar objectives as the ones foreseen in the ED can be achieved under the current IFRS framework.

Further explanation on what information is wanted by primary users of financial statements and how information is used would also be helpful to allow preparers to apply a materiality filter and to assess whether the information is relevant to be disclosed. Lack of sufficient explanation about what to disclose and how to apply materiality would lead to unnecessary tensions between preparers and auditors.

As some initial explanations have been provided in the draft Basis for Conclusions of the ED, we recommend that the Board includes these explanations in the forthcoming draft standards in the chapters on disclosures. This would help preparers to assess materiality and whether additional information would be needed.

<u>Question 2—Using specific disclosure objectives and the disclosure problem</u>

Paragraphs DG8–DG10 of this Exposure Draft explain how the Board proposes to use specific disclosure objectives in future.

(a) <u>Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would help entities apply judgements effectively when preparing their financial statements to:</u>
<u>(i) provide relevant information;</u>
<u>(ii) eliminate irrelevant information; and</u>
<u>(iii) communicate information more effectively?</u>
<u>Why or why not? If not, what alternative approach would you suggest and why?</u>

In our understanding, the approach set out for the specific objectives encourages (in the same way as for the overall objectives) entities to apply their professional judgement in assessing whether the disclosures are sufficiently relevant and communicate effectively information their performance and financial situation. On the other hand, we consider that the inclusion of additional paragraphs that contextualize, expand and specify on the explanations of how the information to be provided will help entities better understand the specific disclosure objectives, and thereby facilitate meeting the disclosure objectives.
However, as reflected in paragraph DG10 and in the previous response, one of the important issues is to strike a balance between entity-specific disclosures and disclosures that enable comparability between entities in the same sector. If entities disclose their relevant information on a certain specific objective, from a theoretical point of view this would lead to comparable information between entities at least after applying this new approach for a certain time. However, in practice, the application of different criteria between entities could result in the comparability of information between entities being affected in the short term.
To mitigate the comparability issue, we consider that objectives could be complemented with the incorporation of a list of minimum information requirements.
This list of minimum information requirements could not only make easier to preparers to comply with general and specific objectives, but also improve comparability of information between different peers as well as assist auditors and supervisors in their reviews. Principle-based objectives offer an opportunity to improve disclosures. Without a list of minimum requirements comparability might not be achieved.

(b) <u>Do you agree that specific disclosure objectives, and the explanation of what the information is intended to help users do, would provide a sufficient basis for auditors and regulators to determine whether an entity has applied judgements effectively when preparing their financial statements? Why or why not?</u>

As mentioned in the previous response, if the paragraphs describing the specific disclosure objectives are clear, specific and also enriched with additional contextualizing paragraphs, it would make easier to entities better understand the specific disclosure objectives. However, lack of consistency on its application of all involved stakeholders might lead to an undesirable effect in particular by regulators and supervisors.

<u>Question 3—Increased application of judgement</u>

Paragraphs DG2–DG3 and DG8–DG13 of this Exposure Draft explain why, in future, the Board proposes to:

(a) use prescriptive language to require an entity to comply with the disclosure objectives.
(b) typically use less prescriptive language when referring to items of information to meet specific disclosure objectives. An entity, therefore, would need to apply judgement to determine the information to disclose in its circumstances.

This approach is intended to shift the focus from applying disclosure requirements like a checklist to determining whether disclosure objectives have been satisfied in the entity's own circumstances. Paragraphs BC188–BC191 of the Basis for Conclusions describe the likely effects of this approach on the behaviour of entities, auditors and regulators towards disclosures in financial statements. Paragraphs BC192–BC212 of the Basis for Conclusions describe the likely effects of this approach on the quality of financial reporting, including the cost consequences of the approach.

(a) <u>Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?</u>

As we have already commented in the previous response, the new approach modifies the current approach of disclosing information (through a regulatory checklist) and transfers to entities the need to assess whether the information to be disclosed complies with both the general information objectives and the specific objectives, an aspect that will also oblige stakeholders to make their respective assessments, avoiding that their reviews are also carried out through compliance checklists.

In our understanding, the global objectives of information to be disclosed will describe the general information needs for users, and therefore, we consider that the use of a prescriptive language will make entities understand and focus their efforts to comply with such needs

We would like to note however that entities may encounter difficulties in deciding which information would be useful for users but it is too 'sensitive' or may feel uncomfortable disclosing certain information in terms of risk exposure, that may not be explicitly required by the standard but offers an overall assessment of the entity in certain areas; they may prefer offering some pieces of information so that users can draw conclusions on their own.

Regarding the specific disclosure objectives, we consider reasonable that the language used should be less prescriptive since entities should, through the application of their professional judgement, determine whether the specific information to be disclosed is relevant and useful for both the overall and specific objectives to be met. In such a case, the use of more prescriptive language for specific information could result in irrelevant information being disclosed that could overshadow relevant and useful information for users.

(b) <u>Do you agree that this approach would be effective in discouraging the use of disclosure requirements in IFRS Standards like a checklist? Why or why not?</u>

The proposed approach requires that entities asses what information is relevant to users and how it should be incorporated in the financial statements. The obligation to carry out this exercise limits the breakdown of information to be made by means of a checklist, as it is mostly done at present.
However, the new approach could be complemented by the incorporation of a list of minimum information requirements that could make it easier for preparers to meet the general and specific objectives. In addition, this could facilitate the comparability of information between different peers and help auditors and supervisors in their reviews.

(c) <u>Do you agree that this approach would be effective in helping to address the disclosure problem? For example, would the approach help entities provide decision-useful information in financial statements? Why or why not?</u>

The approach proposed focuses on entities disclosing relevant and useful information that allows them to comply with the general and specific objectives established, helping to eliminate all irrelevant information disclosed in the financial statements. In addition, it should be noted that the inclusion of additional and specific paragraphs that contextualize the information needs of users will help entities to determine the best way to meet the objectives.
Principle-based objectives offer an opportunity to improve disclosures. Without a list of minimum requirements comparability might not be achieved.

(d) <u>Do you agree that this approach would be operational and enforceable in practice? Why or why not?</u>

From a general point of view, the change of approach will make it necessary to adapt the recurring internal procedures to determine and assess whether the information to be disclosed complies with the global and specific objectives, being theoretically feasible from an operational point of view. We cannot comment on the enforceability required by regulators and supervisors.
However, to date it is difficult to measure the operational impact that could exist on the entity's information systems in a future application of this approach to all IFRS standards. Changes in how the information is currently exploited will be needed for sure.
This approach must be gradually phased in within a reasonable timeframe to avoid a significant burden for preparers. If the proposals in the ED were confirmed, each new issued standard should consider the new approach and the IASB should commit to a transitional plan for all the current disclosures in other standards which may need to be amended.

(e) Do you have any comments on the cost of this approach, both in the first year of application and in subsequent years? Please explain the nature of any expected incremental costs, for example, changes to the systems that entities use to produce disclosures in financial statements, additional resources needed to support the increased application of judgement, additional audit costs, costs for users in analysing information, or changes for electronic reporting.

The application of this new approach will entail an increase in costs for the entity, which we expect to have a greater impact during the first year of application, although we consider that there will be certain recurring costs in subsequent years. We consider that the main incremental costs would be the following:

- Greater involvement of the personnel who plan and coordinate the process of preparing the financial statements, as well as the entity's expert personnel in each of the matters to determine and evaluate whether the information to be disclosed complies with the global and specific objectives, as well as the preparation of such information. We expect a significant amount of time dedicated to internally document the assessment made by the entity in deciding which information is relevant and to explain either internally (other Departments, Key Personnel Management,…) and externally (auditors, supervisors….).
- Greater involvement of the personnel performing quality control functions in the process of preparing the financial statements.
- Greater involvement of the control areas (2LoD) to ensure that the processes for determining and evaluating the information to be disclosed work.
- Greater involvement of internal audit (3LoD) to review and supervise the processes for determining and evaluating the information to be disclosed.
- Higher economic costs in the economic proposal established by the external auditor for its review to be carried out, as well as the greater involvement of key personnel.

To date, it Is difficult to measure the impact of adapting certain information systems both for the preparation of the information and for its subsequent electronic reporting to regulators, and even more so if the approach established in the ED could be extrapolated to the rest of the IFRS standards. In any case, we consider that there could be a relevant impact on costs. It is important to note that any final approach should be compatible with the evolution of the electronic reporting.

<u>Question 4—Describing items of information to promote the use of judgement</u>

The Board proposes to use the following less prescriptive language when identifying items of information: 'While not mandatory, the following information may enable an entity to meet the disclosure objective'. Paragraph BC19–BC26 of the Basis for Conclusions describe the Board's reasons for this language and alternative options that
the Board considered.

<u>Do you agree that the proposed language is worded in a way that makes it clear that entities need to apply judgement to determine how to meet the specific disclosure objective? If not, what alternative language would you suggest and why?</u>

We consider that the sections incorporating the sentence "'While not mandatory, the following information may enable an entity to meet the disclosure objective" facilitate the understanding of the specific objectives detailed in each of ED sections, since it incorporates elements of information to be taken into account in order to meet the specific objectives. In this sense, it is evident that these elements of information may allow the entities to meet the specific objectives defined, and therefore, it is left to the entities to make their own judgements as to whether such information will facilitate compliance with the objectives.
On the other hand, as described in the rationale for the conclusions, more prescriptive wording would not help entities to avoid disclosures being prepared in the form of a compliance checklist. However, it is interesting to note that entities may apply different criteria to determine whether disclosing non-required information allows them to meet the information objectives. This could be detrimental to the comparability analysis carried out by users of information between different peers in the same sector (or across different sectors).

<u>Question 5—Other comments on the proposed Guidance</u>

Paragraphs BC27–BC56 of the Basis for Conclusions describe other aspects of how the Board proposes to develop disclosure requirements in IFRS Standards in future applying the proposed Guidance. Paragraphs BC188–BC212 of the Basis for Conclusions explain the expected effects of any disclosure requirements developed using the proposed
Guidance.

<u>Do you have any other comments on these aspects? Please indicate the specific paragraphs or group of paragraphs to which your comments relate (if applicable).</u>

No additional comments worth highlighting.

Questions about IFRS 13

Assets and liabilities measured at fair value in the statement of financial position after initial recognition

Question 6—Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC62–BC73 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?

The introduction of the "Overall disclosure objective" as proposed in the ED will allow entities to incorporate sufficient, adequate and accurate information as an overall objective to facilitate understanding about the composition of assets and liabilities measured at fair value of the entity, the processes followed to determine their measurements and how possible changes in the measurements may affect the performance and finance position of the entity.
The new approach proposed in the ED compared to the current disclosures in IFRS 13 will not be very disruptive, although it will require entities to constantly reassess the information provided in the financial statements to meet the information needs of users (e.g. change in composition, new transactions,…)
By performing the aforementioned evaluations, it will be possible to review the current information to i) reduce information that does not provide value to users, and additionally, ii) incorporate information that, due to its significance, whether required or not by the standard, helps to meet the information objectives.
Due to the scale of changes proposed by the ED to the current disclosures of IFRS 13, we believe there would be some merit that the ED proposals would have been subject to an appropriate consultation of stakeholders.

Question 7—Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss approaches that the Board considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?

The specific information objectives form the basis for compliance with the overall objective of the information to be disclosed. In our view, the 4 blocks of specific information incorporated in the ED detailed below:

- Assets and liabilities within each level of FV hierarchy.
- Measurement uncertainties associated with FV measurements.
- Reasonably possible alternative FV measurements
- Reasons for changes in FV measurements

are appropriately aligned with the overall disclosure objective, which will enable users to obtain an adequate understanding of an entity's exposure to uncertainties associated with fair value measurements.

However, we disagree with the proposal to require specific disclosures about reasonably possible alternative fair values for each class of financial assets and financial liabilities measured at fair value. We have concern over the removal of sensitivity disclosure requirement (see (c)). We note the proposal will apply in all cases, including for Level 1 financial instruments.
The definition of reasonably possible alternative fair value is unclear. Several questions may arise: does the new concept refer to different fair value methods or different possible assumptions made for all inputs at the reporting date or to changes in some inputs or to other values that could have resulted from the use of reasonably possible inputs at the reporting date ?

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?

The ED requires disclosure of material information to meet specific disclosure objectives. It emphasizes the fact that entities must determine what information is material, and therefore, rule out the incorporation of non-material information. The inclusion of this concept will facilitate compliance with the disclosure objectives, incorporating information that is relevant to the users of the information.
In addition, it should be noted that the ED specifically mentions that non-material or immaterial information will not help entities to comply with the specific disclosure objectives since it will not satisfy the information needs of the users of the information.

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

In general terms, we consider that the inclusion of the information required in the specific objectives may be more costly to preparers than the benefits that they provide to the users of the information.
We note that users may find information about alternative fair value measurements useful, but that this proposal would greatly expand the population for which similar information is currently provided given that, in the case of financial institutions, level 2 items are the vast majority group in the fair value hierarchy. Therefore, requiring such disclosures for this population would significantly increase the burden on preparers. In this case, we consider sensitivity disclosures to be more relevant than alternative fair values and suggest that such disclosures should continue to be required.

Moreover, we consider that the sensitivity analysis as currently required by IFRS 13.93(h)(ii) (with focus on unobservable inputs for Level 3 measurements) is conceptually superior to the alternative fair value disclosures (proposed by the ED.) IFRS 13 defines fair value as a market-based measure-ment. From this perspective, the alternative fair value measurements should not involve any (reason-ably possible) changes in observable inputs derived from active markets. Including them would ques-tion the definition of fair value itself. The exposures to market risks should be addressed by IFRS 7 disclosures (which already requires a sensitivity analysis in this regard)

(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

No additional comments worth highlighting.

<u>Question 8—Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition</u>

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the Board considered but decided not to include.

(a) <u>Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?</u>

<u>Regarding paragraph 105:</u>
We consider that the incorporation of a summary table detailing the amount, nature and level of classification will enable users to obtain an understanding of the entity's position with respect to financial assets and financial liabilities and their level of fair value hierarchy with the underlying risks to which the entity is exposed to.
<u>Regarding paragraph 109:</u>
We consider that, as described in paragraph 107 of the ED, the inclusion of descriptions of the valuation techniques and significant inputs used in deriving the fair value of financial assets and financial liabilities will facilitate users' understanding of how fair value is derived and the degree of uncertainty that may exist. We emphasize the importance of incorporating only relevant information, thus avoiding the incorporation of information that is not useful to users.
<u>Regarding paragraph 116:</u>
We consider that the incorporation of a summary table detailing the movement of financial assets and liabilities classified in level 3 will allow users to obtain an understanding of the significant changes and/or movements that may occur on financial instruments categorized in this level.

(b) <u>Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?</u>

We consider that the approach adopted with the phrase "'While not mandatory, the following information may enable an entity to meet the disclosure objective" allows entities to consider whether such additional information facilitates and helps users of the information to obtain a better understanding of the composition of the assets and liabilities measured at fair value of the entity, the processes followed to determine their measurements and how possible changes in the measurements may affect the financial statements. This approach allows to adapt over time in each reporting period the information to be disclosed according to its significance and relevance, always considering the particularities and risk exposure of the entity.

Assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Question 9—Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Paragraphs BC98–BC99 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

(a) Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest?

As detailed in the Basis for Conclusions, the information needs of users of financial statements are focused on information that allows them to understand the nature and characteristics of the items not measured at fair value but whose fair value is disclosed, which in the case of our entity is mainly focused on the portfolio of assets and liabilities at amortized cost. Financial statements of financial institutions already disclose enough information on the nature, characteristics, as well as the criteria used for the accounting recording of the assets and liabilities. Nevertheless, and in relation to the requirements of paragraph 120 of the ED, we consider it appropriate to disclose the fair value hierarchy of the assets and liabilities together with their amounts and the main valuation methods used.

Generally, the information currently incorporated in the financial statements of financial institutions allows users of information to obtain knowledge of the balance sheet composition and to have sufficient information to obtain an understanding of the nature and characteristics of assets and liabilities not measured at fair value (amortized cost), so it would not be efficient to incorporate more information.

We consider it relevant to note that most of assets and liabilities measured at amortized cost are those which the financial institutions maintains under a business model with the objective of receiving cash flows (mainly loans and receivables), and in this context, the fair value determined may not represent their realizable value in a sale or liquidation scenario, since their fair value has not been determined for that purpose.

(b) Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not?

In accordance with the previous answer, we consider that the information already disclosed in the financial statements of financial institutions provides useful information for users to understand the nature and characteristics of the items not measured at fair value but whose fair value is disclosed, in compliance with the specific objective established in paragraph 118 of the ED.

(c) Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs?

Based on previous responses, we consider that the proposed approach fulfills the specific objectives related the ED.

(d) Do you have any other comments about the proposed specific disclosure objective?

No additional comments worth highlighting.

Question 10— Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Paragraph BC100 of the Basis for Conclusions describes the Board's reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

In accordance with the comments incorporated in the answer to question 9a), we consider appropriate to report the hierarchy and the amount of the fair value of assets and liabilities not measured at fair value but whose fair value is disclosed. However, it should be mentioned that in general all information on the nature, characteristics and criteria used for the accounting recording of the aforementioned assets and liabilities is disclosed in other notes to the financial statements of financial institutions, and therefore, as described in paragraph 121, this information can be directly referenced to those notes to the financial statements in which the information is already included.

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

We consider incorporating the non-mandatory information described in paragraph 121, which in general is information already included in other notes to the financial statements of financial institutions, thus providing the information by cross-reference to the places where such information is disclosed in the financial statements.

Other

Question 11—Other comments on the proposed amendments to IFRS 13

Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

As a general comment, we consider that the proposed amendments to IFRS 13 may improve the quality and relevance of the information disclosed in relation to the measurement of the fair value of assets and liabilities, thus meeting the needs raised by users.
However, as we have previously commented, if entities disclose their relevant information, from a theoretical point of view this would result in comparable information between entities, although in practice there may be a certain risk that the comparability of information between entities in the same sector may be affected as a result of the application of different criteria by the entities.
Accordingly, if the Board decides to proceed with the ED proposals, we believe that further consideration should be provided to the transition requirements for the proposed amendments to IFRS 13. Notably an adequate medium-term implementation timeframe should be defined.

Questions about IAS 19

Defined benefit plans

Question 12—Overall disclosure objective for defined benefit plans

Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined benefit plans.

Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?

We generally agree that adequately applied, this would result in the provision of useful information about defined benefit plans.

The ED does not seem to introduce any significant changes to the disclosures currently required by IAS 19 with two exceptions related to future payments to members of defined benefit plans that are closed to new members and to the effects of deferred tax asset or liability. The main contributions of the ED results in more reliance on judgement and materiality and a need for preparers to have a more robust methodology and additional governance to justify the entity's approach to selecting or not selecting the information to disclose, without necessarily, at the end, publishing more disclosures. Therefore, we wonder if the benefits expected by the changes to the current IAS 19 disclosures would exceed the costs of implementation.
As well as for IFRS 13, we regret that a comprehensive diagnosis of the existing IAS 19 disclosure requirements has not been conducted prior to the ED proposals to assess existing disclosures to be removed and new disclosures to be added in compliance with the ED requirements. Accordingly, if the Board decides to proceed with the ED proposals, we believe that further consideration should be provided to the transition requirements for the proposed amendments to IAS 19. Notably an adequate medium-term implementation timeframe should be defined.

Question 13—Specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the Board considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest?

We generally agree that disclosure objectives capture detailed user information needs about defined benefit plans.

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not?

We generally agree that adequately applied, this would result in the provision of relevant information about defined benefit plans.

However, in practice this approach might not be consistently applied, ending up in a situation in which sector-specific information will be kept in the financial statements in addition to the information added to meet the specific objectives contained in the ED:

- Regulators. National Competent Authorities in the financial sector are prescriptive on information that must be included in the institutions' financial statements. These requirements collide with the IASB approach.
- Supervisors. Financial institutions prepare a wide range of templates for supervision purposes. For certain items, these templates are commonly included by banks in their financial statements and allow comparability between entities.
- Investors/Auditors. To achieve comparability, we face resistance from auditors and investors to remove information that is no longer useful or material but our competitors disclose it.

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

We generally agree that the benefits would justify the costs of satisfying them.

(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

No additional comments worth highlighting.

Question 14—Information to meet the specific disclosure objectives for defined benefit plans

Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board considered but decided not to include.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives?

We believe that the expected return on the plan assets contained in 147V (h) should not be disclosed due to the difficulty of predicting it and the uncertainty involved in estimating this measure. We consider that the current sensitivity analysis provides meaningful information to users of how the defined benefit obligation would behave in case plausible movements of the main actuarial assumptions take place. This analysis is currently included in most of the actuarial reports, does not require burdensome calculations according to actuaries and are used by them to double-check their obligations' estimates.
While we agree with most of the information required in paragraph 147F, we have concerns about the new obligation defined in paragraph 147F-d) to disclose deferred tax asset or liability arising from defined benefit plans. We do not see the rationale of requesting this information as mandatory. In any case, entities can apply their judgment to disclose the information if relevant. Such request should only be considered as non-mandatory. Should the information be maintained mandatory, the Board should clarify whether deferred tax asset or liability arising from defined benefit plans should be presented on a gross basis or whether offsetting with other deferred tax assets or liabilities arising from other operations is possible.
We disagree with the distinction introduced by the ED between expected future cash flows relating to defined benefit plans (§147J) and future payments to members of defined benefit plans that are closed to new members (§147N). This will imply additional implementation costs for preparers with no benefits for users.
The most useful information is the closing of defined benefit plans to new members, information already provided to users of financial statements. Should the Board put focus on closed defined benefit plans to new members, we believe that a more relevant information would be the capacity of the entity to pay pension benefits and the duration of funding commitment.

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

We generally agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective.

Defined contribution plans

Question 15—Overall disclosure objective for defined contribution plans

Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined contribution plans. Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

No additional comments worth highlighting.

Multi-employer plans and defined benefit plans that share risks between entities under common control

Question 16—Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control

Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board's reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

No additional comments worth highlighting.

Other types of employee benefit plans

Question 17—Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objectives for other types of employee benefit plans.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

No additional comments worth highlighting.

Other

Question 18—Other comments on the proposed amendments to IAS 19

Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

No additional comments worth highlighting.

About ESBG (European Savings and Retail Banking Group)

The European Savings and Retail Banking Group (ESBG) represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 885 banks, which together employ 656,000 people driven to innovate at 48,900 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans, including to SMEs, and serve 150 million Europeans seeking retail banking services. ESBG members commit to further unleash the promise of sustainable, responsible 21st century banking. Learn more at www.wsbi-esbg.org .

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