SAP SE
Dietmar-Hopp-Allee 16
69190 Walldorf
Germany
T +49 6227 7-47474
F +49 6227 7-57575
info@sap.com

SAP SE, Dietmar-Hopp-Allee 16, 69190 Walldorf

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London, E14 4HD
United Kingdom

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Dr. Christopher Sessar
Dr. Michael Link
Corporate Financial Reporting
T +49 6227 7-79089
E michael.link@sap.com

SAP's Comment on the Exposure Draft ED/2021/3 Disclosure Requirements in IFRS Standards

Dear Board members and staff,

Thank you for the opportunity to comment on your Exposure Draft ED/2021/3 Disclosure Requirements in IFRS Standards.

SAP is a market leader in enterprise application software and one of the leading experience management, analytics, and business intelligence companies. The SAP Group has a global presence and employs more than 100,000 people worldwide. SAP is publicly listed on the Frankfurt Stock Exchange and the New York Stock Exchange and is a member of Germany's DAX and TecDAX as well as the Dow Jones EURO STOXX 50, the Dow Jones Sustainability Index World, and the Dow Jones Sustainability Index Europe. Our consolidated financial statements comply with both IFRS as issued by the International Accounting Standards Board (IASB) and IFRS as endorsed by the European Union.

In general, we appreciate the Board's intention to improve how information is communicated in the financial statements and to streamline and simplify disclosures. Furthermore, we think shifting from a rules-based approach for disclosures to a principle-based approach is the right direction. However, in our opinion the principles proposed might be too generic. By replacing unambiguous and objective guidance on items that should be disclosed if determined material, with the proposed principles and sometimes unclear objectives, the Board implicitly assumes that the information necessary to fulfil those objectives can be determined precisely, objectively and at due cost. In our opinion, this is not the case. Instead, the proposed changes are too much based on subjective interpretations of generic objectives which involves the risk of making the collaboration between the reporting entity, auditors, and regulators challenging and contradicting to IFRS's main goals (decision usefulness, comparability, etc.).

From our perspective, there are and have been several parallel initiatives underway regarding the disclosure problem. We would have preferred the IASB to allow itself sufficient time to analyze the impacts

SAP SE
represented by the Executive Board: Christian Klein (CEO), Sabine Bendiek, Luka Mucic, Dr.-Ing. Jürgen Müller, Scott Russell, Thomas Saueressig, Julia White
Chairman of the Supervisory Board: Hasso Plattner / Commercial Register Mannheim HRB 719915
Deutsche Bank AG, Heidelberg (BLZ: 672 700 03) account: 0912030, SWIFT-BIC: DEUT DE SM 672, IBAN: DE78 6727 0003 0091 2030 00
Tax-ID: 32497/82215; Vat-ID: DE 143454214

of recent changes such as the definition of materiality (applicable from 2020 onwards) before further initiative such as ED/2021/3 is commenced.

Instead of giving general and specific disclosure objectives as outlined in ED/2021/3, we suggest the IASB to increase clarity by referring companies to existing guidance (Framework, IAS 1, Practice Statement “Materiality”), but explicitly encouraging and supporting companies to select disclosures material for themselves and the users of their financial statements. If necessary, we think a refinement of the existing guidance listed above should be considered.

Additionally, we are concerned about a reduced comparability of financial statements. Pursuing the approach outlined by the Board might lead to company specific factors (e.g., influence of certain investors) to increase influence upon their disclosures. This might in turn lead to various sets of disclosures for companies and thus to impaired comparability of disclosures between companies as well as disclosures of an individual company throughout the years endangering the overarching IFRS goal of providing decision-useful information. Lastly, evaluating the information to be disclosed requires continuous effort, leads to increased complexity, and potentially also cost for preparers and users of financial statements.

The appendix to this letter contains our detailed comments on the questions raised in the ED. Please do not hesitate to contact us if you would like to discuss our comments further.

Yours sincerely,

Dr. Christopher Sessar Chief Accounting Officer	Dr. Michael Link Finance Specialist

Appendix: Questions for Respondents

Question 1: Using overall disclosure objectives

(a) The Board uses the overall disclosure objectives to bridge IAS 1.9 and the respective accounting topic, such as IAS 19. This approach generally makes sense. However, it only adds value when the (general) purpose of financial statements is specifically tailored to the accounting topics. Therefore, the overall disclosure objective should not just repeat IAS 1.9 (as seen, for example, in ED IAS 19.24A; see also our answer to Question 7 (b)).

Overall disclosure objectives are generic in their nature and thus too unclear to enable preparers to identify information necessary to meet user information needs and might raise additional questions. Example: If a disclosure was identified as "necessary to meet user information needs" in the prior year(s), is the same disclosure needed in the current year (and how will the process of identifying required changes look like and what will this cost (money and time))? Overall disclosure objectives for topics with only very limited disclosures (such as defined contribution pension plans; see Q15) might, compared to existing disclosure requirements, add only limited value, as they (1) remove clear and concise disclosure requirements and (2) might thus trigger additional irrelevant disclosures.

(b) For each accounting topic, the overall disclosure objectives further clarify the general purpose of financial statements. However, this alone does not help to solve the disclosure problem, because different parties might come up with different ideas and interpretation regarding information needs, which potentially leads to extensive discussions (or biased / selective information). For example, companies might receive investor feedback on a regular basis and thus have a good understanding of their individual informational needs, whereas auditors and regulators might apply a more general, less company-specific understanding of the materiality concept.

Question 2: Using specific disclosure objectives and the disclosure problem

(a) The "explanation of what the information is intended to help users do" is too vague. Para 147E (b), for example: "Identify amounts to include in their analyses". One of the main reasons why IFRS Standards contribute to the disclosure problem is the lack of specific disclosure requirements. Providing overall and specific disclosure objectives (which are often quite generic themselves) does not solve this problem. With truly specific disclosure requirements (as currently partially expressed in the IFRS Standards), a much clearer path could be given for preparers. Keeping those specific disclosure requirements and adding a general reference to existing guidance issued by the IASB to ease the preparer's decision to determine which of those disclosures are material under the given circumstances might be a better way forward ensuring continuity and comparability.

(b) As a result, we believe, also for auditors and regulators, that the disclosure objectives do not yet provide a sufficient basis to determine whether an entity has applied judgment effectively.

Question 3: Increased application of judgement

(a) + (c):

- This approach in our view may become challenging to apply in practice, because companies might (1) still disclose irrelevant information (shall-disclosures), and (2) have extensive discussions with their auditors as to whether additional disclosures are necessary or not (quantitatively and/or qualitatively).
- In practice, this might lead to auditors influencing a preparer's reporting away from a sufficient level of disclosure towards a disclosure overload or underload (creating the risk of e.g., a "Audit-Firm-A"-set of disclosures / risk of bias). Especially in Germany, we already see such a development regarding a new auditing standard (IDW PS 350 n.F.) that allows the auditor to distinguish between typical ("lageberichtstypisch") and atypical ("lageberichtsfremd") information in the management report. Only disclosures deemed typical by the auditor is audited with a reasonable level of assurance. Disclosure of further information is thus discouraged.
- See also our answers to Q1 and Q2.

(b) We do not think this approach would be effective. Disclosure examples listed in the Standards, even if not mandatory, might still be seen as a possible checklist. It is understandable that users like to have a checklist at their disposal because it reduces uncertainty and presumably increases efficiency the preparation process. Hence, in our view, this ED will probably only trigger a one-time effort to assess the information given in the notes. For the years thereafter, preparers however might simply keep those changed disclosures ("business as usual"-attitude).

(c) We believe this approach would be difficult to operationalize for reporting entities. We also think this approach may be difficult to enforce, as the company might rely on information not available and/or not accepted by enforcement bodies, such as questions from investors (see our answer to Q2 b)).

(d) We would expect higher costs in the first year as well as in the years thereafter (see also our answer to Q3 b)). However, we believe such costs are entity-specific (entities that regularly consider feedback from investors when drafting their disclosures and align with their auditor might have less costs). Executing the Board's intended approach (in other words, revisiting the disclosures on a yearly basis, or at least when the underlying reported business transactions change), would mean technical and operational changes in the notes preparation processes, resulting in additional follow-up costs for preparers (for example due to changes in XBRL tagging) and users of financial statements – which also contradicts an efficient, automated preparation process. On the other hand, changes in the notes might increase efforts for users of financial statements to process the reported data and might thus lead to increased costs for them.

Question 4: Describing items of information to promote the use of judgement

We agree that the language is clearly formulated and that, in turn, the entities need to apply judgement to determine how to meet specific disclosure objectives. It is explicitly stated that the disclosures are not mandatory. A possible alternative wording could be "while not mandatory, [...] the entity should consider making at least the following disclosures to meet the disclosure objective". This would make the necessity to evaluate the respective requirements even clearer.

Question 5: Other comments on the proposed Guidance

Generally, we agree to BC194 (b): "would force entities, auditors and regulators to apply judgement". However, the Board implicitly assumes that the information necessary to fulfil the objectives can be determined precisely, objectively, and at due cost, which we believe is not the case.

Regarding BC 191: Increasing the application of judgement might lead to regular changes as to the information to be disclosed (or "cherry-picking"). These changes might occur from one year to another year, or even during the preparation of financial statements, andcontradict IAS 1.45-46 "consistency of presentation".

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

We think that the proposed objective is generally suited for achieving the goal of providing useful information to users of financial statements. However, we are unsure whether the proposed objective will ultimately result in more useful information, as this depends on whether and how quickly a change in the mindset of preparers and auditors takes place or whether they continue to follow a "more [disclosure] is better" mantra and continue applying a checklist consisting of all the IFRS 13 disclosure requirements irrespective of materiality.

Also, we are unsure whether, in the Board's view, materiality refers to the carrying amount of assets/liabilities measured at fair value or to the fair value portion included in the carrying amount.

> Example: Money market fund (MMF) carried at fair value of €3 billion, investment amount €3.003 billion, fair value portion –€3 million, materiality threshold of entity €100 million:
>
> - If materiality refers to the carrying amount of assets: MMF would be subject to IFRS 13 disclosures

- If materiality refers to the fair value portion included in the carrying amount: MMF would not be subject to IFRS 13 disclosures

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

(a) We generally agree that the proposed specific disclosure objectives capture detailed user information needs.

However, we also see some inconsistencies in the BC in contrast to the IE and/or believe that extending some of the disclosures to Level 2 of the fair value hierarchy might not be meaningful:

- IFRS 13.103 (b) requires disclosure of the relation between the characteristics of assets/liabilities measured at fair value and their categorization in the fair value hierarchy.
  BC76 states that the requirement is not meant to explain how an entity determines in which level of the fair value hierarchy the assets/liabilities belong. Instead, "users can achieve this understanding from informative descriptions about the classes of items categorized within each level of the fair value hierarchy more effectively than through information about how an entity determined to which level an item belongs".
  However, IE60 does not merely contain a description of the nature and characteristics of items but also a justification why they are put into a certain level of the fair value hierarchy, specifically in (d): "The majority of derivatives that the entity enters into are executed over the counter. Therefore, these derivatives are primarily classified as Level 2, as the readily observable market inputs to these models are corroborated through recent trades, dealer quotes, yield curves, implied volatility or other market-related data."
  We believe that the Board should stick to its own objective throughout the whole ED or define more precisely what the expectations are.

- IFRS 13.111 requires disclosing alternative fair value measurements.
  BC 85 b) and BC 86 lay out that the users wish to understand the "range of possible fair values, BC84a)" is often better achieved by other means than detailed sensitivity information.
  However, the only example included in IE66 is a detailed sensitivity analysis.
  We believe that if the Board is convinced that sensitivity analysis is often only a second-best solution to fulfill the specific disclosure objective in IFRS 13.111 and 13.113, the Board should enrich the IE by such other examples that are superior to sensitivity analyses.

- IFRS 13.111 requires disclosure of reasonably possible fair value measurements and IFRS 13.114 requires disclosure of the movements in fair value measurements. While this is meaningful for many assets/liabilities, it might not be for all. For example, most non-financial entities hold freestanding derivatives but there is usually always an underlying balance sheet item to be hedged. While the derivatives are measured at fair value and are thus subject to IFRS 13, the underlying balance sheet items are not. We believe that disclosing reasonably possible fair value measurements for material freestanding derivatives is not meaningful information for the user, as any alternative fair value measurement would always be countered by a contrary movement in the underlying the financial statement user might not take into account and would this misjudge the exposure the fair value measurement uncertainties.

(b) We welcome the introduction of specific disclosure objectives. However, we do not believe that the introduction of these objectives necessarily leads to a focus on relevant information and the removal of irrelevant information, as the items of information that are necessary to meet the objectives mostly contain previous disclosure requirements (including the same wording), which means that preparers and auditors might easily fall back to a checklist approach.

(c) We do not agree with regards to the requirements in IFRS 13.111 et seq. It is understandable that users would like to evaluate the magnitude of possible fair value fluctuations and their impact on the financial statements to draw conclusions for future developments and related risks and thus make informed investment decisions. However, we see the following drawbacks:

- Especially non-financial entities do not always manage assets/liabilities measured at fair value towards fair value; hence, they do not have the current system infrastructure to easily report such reasonable alternative fair value measurements.
- Especially for assets/liabilities categorized in Level 3, entities do not always have insights into how significant unobservable inputs could reasonably have developed.

(d) The Board’s objective is to free up disclosures from insignificant detail and focus on relevant information. This is made clear in the overall disclosure objective IFRS 13.100 and in IFRS 13.101. We welcome that. We also understand that, in the Board’s view, materiality and significance are general concepts valid throughout the IFRS that do not need continuous mention.

We nevertheless believe that the overall disclosure objective could be better accomplished by including a reference to materiality also in the specific disclosure objectives, for example, by inserting the word “significant” into IFRS 13.103, IFRS 13.107, IFRS 13.111, and IFRS 13.114: “For [significant] recurring fair value measurements...”.

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

a) We agree with para 105, as we consider linking the amounts of fair value measurement with the level of the fair value hierarchy to be valuable information for the user.
With regard to paragraph 116, we believe that a reconciliation for some assets/liabilities is more meaningful than for others. Where the preparers do not consider it meaningful, they should be allowed to only explain the significant changes verbally to conform with paragraph 114 as is allowed for Level 1 and Level 2.

b) Yes, we agree.

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

a) Yes, we agree.

b) Only where fair value measurements might become relevant for steering purposes. Where fair value measurements are disclosed but entities hold assets/liabilities to maturity to collect or pay principal, this information might be misleading.

c) See b) above.

d) No further comments.

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

a) We agree, as we consider linking the amounts of fair value measurement with the level of the fair value hierarchy to be valuable information for the user.

b) Yes, especially for those assets/liabilities that are not managed towards fair value but for which fair value must be disclosed as for those items an explanation that there is hardly a fair value risk from the entity’s perspective might be very valuable to the reader.

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

No further comments.

Question 12: Overall disclosure objective for defined benefit plans

The proposed overall disclosure objective does not add much new guidance. In the current version of IAS 19.135, an entity already had to describe the risks of its defined benefit plans and had to explain amounts in its financial statements resulting from such plans. Furthermore, IAS 19.136 already gave entities discretion regarding the level of detail, aggregation, disaggregation, and so on. The only novelty seems to be the explicit reference to the information needs of the users of financial statements. However, considering the existing guidance (Framework, IFRS PS 2), it was already our understanding that only information material for users of the financial statements had to be disclosed.

With regard to the overall disclosure objective applied to IAS 19 (ED IAS 19.25A), the Board only repeated the general objectives as outlined in IAS 1.9. It is questionable whether such an approach of simply repeating the purpose of financial statements really adds value for the preparers.

Furthermore, the general reference made in para 147A of the ED might be too vague to enable preparers to decide which information should be disclosed (see our answer to question 1).

Question 13: Specific disclosure objective for defined benefit plans
See our answers to Q3 and Q12.

It is not entirely clear to us why the Board proposes specific disclosure requirements for closed defined benefit plans. In BC133, the Board argues that users are uncertain as to how long the closed defined benefit plans will continue to affect the entity. However, we believe that users are more interested in defined benefit plans that are open for new members, as the remaining period of those plans is probably longer than for those plans which are already closed. A longer duration leads to a possibly higher volatility of actuarial assumptions (and thus more volatility in the financial statements) as well as cash flows throughout the remaining period. It is not clear why closed defined benefit plans are mentioned as a separate specific disclosure requirement.

In addition to this, we tend to disagree that an "executive summary" as stated in BC112 is necessary. In this regard, ED 147D requires the preparers to disclose information that enables users of financial statements to understand the amounts and the components of the amounts arising from defined benefit plans. In essence, that is what IAS 19 para. 140 currently requires from entities. It is not clear why preparers should summarize a note which is already condensed to decision-useful information.

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

(a) The specific disclosure requirements reduce required disclosures and can be viewed as a step in the right direction. However, "shall-disclosures" outline already a set of information that users might deem irrelevant (see para 147F of the ED). For example, in our IAS 19 note, we usually consider past service costs and net interest on the net defined benefit liability not as material components of pension expenses for defined benefit plans. Making such disclosures mandatory (1) contradicts the Board's overall approach, and (2) might lead to a disclosure overload.

(b) In contrast, we welcome the approach for "the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective" (see para 147I). We believe that the proposed amendment would achieve a good balance between being prescriptive and giving guidance. Consequently, we would propose applying this approach for the disclosures outlined in para 147F, 147M, and 147V as well (with a more binding wording, see our answer to Q4).

Question 15: Overall disclosure objective for defined contribution plans

For defined contribution plans, companies oftentimes only disclose expenses (occasionally accompanied by a brief description of the respective plans). We believe that an overall disclosure objective does not add value in case of such already minimal disclosures.

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

Not relevant for us.

Question 17: Disclosures for other types of employee benefit plans

The overall disclosure objective is too generic to give preparers guidance on what to disclose. Please also see our answer to Q15 in this regard.

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

We firmly believe that application of judgement and omission of disclosures identified as not material is already possible by using existing guidance. For example, in 2018, we redesigned our IAS 19 disclosures.

- (a) To determine necessary disclosures, we referred to the guidance given in:
    - a. Conceptual Framework (QC11) and IAS 1.7 and 8.5-6 (definition of material information and material omissions)
    - b. Practice Statement “Materiality”, para. 17, which describes informational needs of primary users of an entity's financial statements
- (b) Based on this guidance, we:
    - a. Deleted implicitly given information (for example, portion of unfunded and partially or fully funded plans), and
    - b. Deleted information identified as not material (for example, items of total expense).
- (c) By using the approach described above, we believe that our redesigned IAS 19 disclosures already fulfil the requirements outlined in this ED and effectively address the disclosure problem. In other words, encouraging prepares to apply existing guidelines considering materiality might be a good alternative approach to effectively address the disclosure problem.
- (d) This process is easier when having a catalogue of specific disclosures to choose from (as is currently the case).