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IASB Exposure Draft ED/2021/3 Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19)

Dear Mr. Barckow,

Siemens welcomes the opportunity to provide its views on the International Accounting Standards Board's (the Board) Exposure Draft ED/2021/3 Disclosure Requirements in IFRS Standards – A Pilot Approach (ED) published in March 2021.

The ED proposes a new approach in setting and phrasing disclosure requirements by introducing overall and specific disclosure objectives for a standard, followed by items of information which preparers will need to consider disclosing to meet those objectives.

We highly appreciate the Board's intent and extensive efforts to take steps to improve the quality of companies' IFRS disclosures by working on its own standard setting process and to attempt to enhance companies' disclosure relevance and effectiveness by more stringently structuring its IFRS standards guided through a newly introduced flow of disclosure objectives as well as illustrating the standards' potential fresh look by showcasing its new approach to future disclosure requirements in sample IFRS 13 and IAS 19.

While not trying to diminish the Board's intent and efforts spent on attempting to improve disclosure effectiveness and disclosure usefulness, we believe, the outcome of the ED and its impact on enhancing companies' IFRS disclosures will be limited. At the same time, we believe, the ED might increase uncertainties about disclosures and, as a result, might impair disclosure quality.

In our opinion, having prepared IFRS Financial Statements for many years, we are convinced that the core issue of the so called "disclosure problem" is attributable to the unavoidable need to stringently apply materiality to disclosures and consequently to the unavoidable need to use judgement in extracting relevant information not surrounded by or scattered throughout irrelevant boilerplate statements and the need to decide how to best communicate relevant information effectively. We don't believe the reason causing the "disclosure problem" is due to missing disclosure objectives. Despite the Board's suggested inclusion of disclosure objectives in IFRS disclosure requirements, prepares, management and auditors will still have to apply materiality and judgement in choosing the most adequate, precise, easy to understand disclosures which best convey relevant, entity-specific yet comparable information about the accounting matter and its impact on the companies' financial statements in line with the various users' needs. Having gone through and having applied the underlying and coherent IFRS accounting and measurement requirements, the disclosure objectives impose itself, almost automatically; the disclosure objectives are indeed obvious to prepares, even presently. We therefore believe, the Board's newly introduced structure of disclosure requirements through guiding disclosure objectives along with disclosure items might result in putting existing disclosures in a new structure accompanied by guiding disclosure objectives. Despite phrased out disclosure objectives, applying materiality and using judgement will remain.

Also, we are afraid, the disclosure objectives (overall and specific) will be phrased too broadly and too general. The broader and the more prescriptive the disclosure objective will be phrased, the wider the room becomes for interpretations, discussions, uncertainties and, what one is concerned most, deviating opinions among preparers, auditors and enforcers regarding relevant and material information. Accordingly, we believe, disclosure objectives which are too broad, will impair disclosure effectiveness and usefulness as well as comparability among entities.

We would like to point out, that even in our current IFRS standards, there are instances in which overall and specific disclosure objectives are included, so are items of information in nature, very similar to those proposed in the ED. Despite the current existence of those disclosure objectives[1], preparers still struggle with applying judgement in disclosing effectively and usefully, no matter if the Board provides disclosure objectives.

- We are particularly concerned, that the Board's new approach of introducing more prescriptive and broad disclosure objectives will increase enforcement challenges, increase preparers' efforts and at the same time reduce comparability among companies, since there will be even more flexibility involved in preparing and auditing disclosures.

Please find our detailed responses in the appendix to this letter.

Should you have any questions or wish to discuss any of the issues in more detail, please do not hesitate to contact Heike Rosicki (heike.rosicki@siemens.com).

Sincerely yours,

Siemens Aktiengesellschaft

Dr. Jürgen Wagner
Chief Accountant and Corporate Financial Controller

Dr. Marco Ebel
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[1] for example, IFRS 3.59 and IFRS 3.61 onwards, throughout IFRS 12, IFRS 15.110 onwards, IFRS 16.51 or IFRS 16.89)

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?

(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?

As described above, we think, the overall disclosure objective is clear to preparers, even now. We believe, it is fair to say, that there is no need to add prescriptive overall disclosure objectives. In some instances, even presently, disclosure objectives are part of disclosure requirements. Despite that, we are still facing the “disclosure problem”. We believe, the core issue of the “disclosure problem” is not a lack of explicitly phrased out disclosure objectives, it rather is owed to the unavoidable need for preparers to apply materiality and use judgement to communicate material transactions and events effectively and usefully, as well as its impact on the financial statements while addressing the various users’ needs. If not applied sufficiently stringent, disclosure quality suffers. Materiality is by nature inherently uncertain and subjective and accordingly, it is prone to interpretation, which will stay, even if there were disclosure objectives in standards. We are particularly concerned, the new approach of more prescriptive guiding disclosure objectives will increase uncertainty, subjectivity, and related discussions, increase enforcement challenges, and, at the same time, reduce comparability among companies. The disclosure problem will stay and might indeed have the tendency to increase through the proposed ED’s approach.

Question 2—Using specific disclosure objectives and the disclosure problem

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

(a) 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:

(i) provide relevant information;

(ii) eliminate irrelevant information; and

(iii) communicate information more effectively?

Why or why not? If not, what alternative approach would you suggest and why?

(b) 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?

See our response above and our response to question 1. We don’t believe the disclosure problem is due to a lack of explicitly phrased out and more prescriptive disclosure objectives – this equally applies to overall and specific disclosure objectives. We are convinced the “disclosure dilemma” is caused by inadvertently needing to apply materiality and consequently the need to use judgements, which is inherently uncertain and subjective. Disclosure objectives won’t solve that dilemma. Using judgement will stay and so will the consequential disclosure problems. One could think, stressing the unavoidable need of applying materiality and using judgement phrased into the disclosure requirements might remind prepares of that need. While we admit, that won’t solve the issue, however, it could serve as a reminder to preparers and auditors to apply the concept of materiality to disclosures stringently.

Question 3—Increased application of judgement 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) Do you agree with this approach? Why or why not? If not, what alternative approach do you suggest and why?
(b) 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?
(c) 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?
(d) Do you agree that this approach would be operational and enforceable in practice? Why or why not?
(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.

We agree with the fact, that in preparing disclosures, applying materiality and using judgement is essential. In fact, it is the key to disclosure effectiveness and usefulness. We believe, preparers, auditors, and enforcers will not truly benefit from adding disclosure objectives to standards. On the contrary, those objectives may even contribute to higher uncertainty and raising subjectivity – it will result in increasing judgment to use by parties involved in the disclosure process resulting in extended discussions and deviating opinions in an iterative process in finding the best way to disclose effectively and usefully with eventually remaining uncertainties, questions, and doubts to deal with. In our view, since efforts increase, so will costs (e.g. as information gathering processes might have to be extended), while the benefits are questionable if not counterproductive. For details, see our discussion above.

Question 4—Describing items of information to promote the use of judgement
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.
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?

We believe the ED's new approach to disclosure requirements may not contribute to enhancing disclosure quality. See our response to question 3 and our rationale above.

Question 5—Other comments on the proposed Guidance
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.
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).

As described above, we believe, the key issue in achieving disclosure usefulness and effectiveness is applying materiality stringently and using judgement throughout the financial statement process. It will not be achieved through spicing up disclosure requirements with disclosure objectives. The key issue will remain and might even increase: to apply judgement to derive high quality disclosures. Disclosure objectives are obvious to preparers. One might think of adding "if material" to current disclosure requirements. While this will not solve the disclosure problem, it could potentially enhance preparers' and auditors' awareness to apply materiality and to use judgement.

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 proposal of an overall disclosure objective for assets and liabilities measured at fair value to enable users of the financial statements to assess the exposure to uncertainties associated to the measurement of the fair value is generally welcome. However, the disclosure objective is already given in IFRS 13 par. 91 and, in our opinion, the existing disclosure objectives materially cover for the planned overall objective. We therefore do not see that an explicit statement of an overall disclosure objective as such provides for useful information.

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?

(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?

(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.

(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.

Please refer to our answers provided for Question 10.

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

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) 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?

(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?

Please refer to our answers provided for Question 10.

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?

(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?

(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?

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

Please refer to our answers provided for Question 10.

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?

(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 agree that the proposed specific disclosure objectives capture detailed information needs and result in the provision of information about material fair value measurement, but we did not identify any substantial changes to the existing IFRS 13 since the standard already covers for the proposed specific disclosure objectives. We therefore generally question the benefit of the revision of IFRS 13. In our practical experience users are generally satisfied with the disclosures provided regarding the fair value measurement and the additional disclosure we provide for material Level 3 instruments. There is currently no need to change the disclosure requirements. Therefore, from our point of view the ED does neither result in any simplifications nor in any improvements and thus will not result in the provision of more relevant and less irrelevant information.

Due to the reasons stated above we do not see any necessity in changing the current IFRS 13 disclosures and thus preparers should not have to bear any additional costs with the introduction of the proposed IFRS 13 disclosures as we currently see no room for substantial improvement.

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?

No comment

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?

The proposal of an overall disclosure objective for defined benefit plans to primarily address the information needs of financial statement users is welcome. However, the stated overall disclosure objectives of IAS 19 to (a) assess the effect of defined plans to the entity's financial position financial performance and cash flows; and (b) evaluate the risks and uncertainties associated with the entity's defined benefit plan are already included in the current version of IAS 19 in par. 135-138. From our point of view, the current IAS 19 disclosure requirements already result in the provision of effective disclosures, i.e., useful information that meets the overall user information needs for defined benefit plans. Therefore, we see no difference to the introduction of IAS 19.147A-C.

An additional problem we identified is, that the Board must bear in mind when formulating overall disclosure objectives for users that there are different user groups which have different information needs. This should also be addressed in the overall disclosure objectives.

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?*
- *(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?*
- *(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.*
- *(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.*

It is indeed important to engage investors early in the standard-setting process, and then develop specific disclosure objectives based on their information needs combined with guidance how to achieve those information needs. What is missing in the Board's ED is to give further input on what information really is lacking in current IAS 19 disclosures. In our practical experience users are generally satisfied with the disclosures provided regarding defined benefits plans
From a preparers point of view there is currently no need for additional disclosures or changes in the disclosure requirements of IAS 19. We would therefore propose to the Board to introduce these disclosure objectives (general and specific) to the standards that are currently under review by the Board or to standards that are newly developed in the future, but not to existing standards where no need to improve the current disclosures was identified.
When analyzing the specific disclosure objectives in the ED and comparing them with the current IAS 19 disclosure requirements we did not identify many noteworthy differences. Therefore, from our point of view the ED does neither result in any simplifications nor in any improvements and thus will not result in the provision of more relevant and less irrelevant information. The increased application of judgement and materiality required with the new ED might even worsen the disclosure problem and result in more irrelevant and less relevant information.
Due to the reasons stated above we do not see any necessity in changing the current IAS 19 disclosures and thus preparers should not have to bear any additional costs with the introduction of the proposed IAS 19 disclosures as we currently see no room for improvement.

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?*
- *(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?*

As stated above from our point of view there is no need to change the IAS 19 disclosure requirements. When including specific disclosure objectives, the Board should also provide the appropriate disclosures to meet these objectives and should not leave all this to the preparers (auditors and enforcers). The problem we see with the new proposal is that preparers will have to explain how they satisfied the specific disclosure objectives and to prepare comprehensive documentation why certain proposed items of information were made and why others were omitted. This will result in additional costs as all information has to be gathered and evaluated first, then extensive documentation is necessary plus increased discussions with auditors on the proper fulfillment of the disclosure objectives and eventually even discussions with enforcers who might have a different view.

The missing guidance regarding the information to be disclosed to achieve the disclosure objectives will probably also result in enforcement issues for auditors and regulators as they have to determine whether the preparers met the disclosure objectives. As stated above the increased application of judgement and materiality required with the new ED might lead to a deterioration of the disclosures for defined benefit plans and thus increase the disclosure problem.
Another issue we see with only providing disclosure objectives and moving away from mandatory items is that developments in technology are not taken into consideration enough. This is also related to comparability which is also difficult to achieve when preparers can provide different forms of information to meet a certain disclosure objective. To ensure comparability and to reduce comprehensive documentation requirements for preparers the Board needs to determine the disclosure requirements necessary to meet the users' needs that have to be consistently applied by all preparers if material. This would contribute to comparability as well as technical considerations when preparing financial reports.

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?

BC156 states that users would like to understand how an entity's defined contribution plans have affected the primary financial statements. Accounting for defined contribution plans is straight forward and the requirement to disclose the amount recognized as an expense for defined contribution plans is already included in IAS 19.54. Except for the expense and the cash outflow defined contribution plans do not affect the primary financial statements. Therefore, we do not see how this proposed objective will result in improved information compared to the current IAS 19.

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 comment

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 comment

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 comment