German Banking Industry Committee

Die Deutsche Kreditwirtschaft

German Savings Banks Association | Charlottenstraße 47 |
10117 Berlin | Germany

Dr Andreas Barckow
Chairman
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London
E14 4HD
United Kingdom

Contact: Eric Eispert
Telephone: +49 30 20225- 5782
Fax: +49 30 20225- 5403
E-Mail: eric.eispert@dsgv.de

Our ref
Ref. DK: IASB
Ref. DSGV: 8007

ED/2021/3 "Disclosure Requirements in IFRS Standards—A Pilot Approach - Proposed amendments to IFRS 13 and IAS 19"

January 12, 2022

Appendix 1

Dear Dr. Barckow,

On behalf of the German Banking Industry Committee we welcome the opportunity to contribute to the IASB's public consultation on the Exposure Draft "Disclosure Requirements in IFRS Standards – A Pilot Approach, Proposed amendments to IFRS 13 and IAS 19" released by the IASB on 25 March 2021.

Please find our general comments and our answers to your detailed questions attached to this letter.

If you have any questions or would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,
on behalf of the German Banking Industry Committee
German Savings Banks Association

by proxy	by proxy
Dr. Maik Grabau	Eric Eispert

Coordinator:
German Savings Banks Association
Charlottenstraße 47 | 10117 Berlin | Germany
Telephone: +49 30 20225-0
Telefax: +49 30 20225-250
www.die-deutsche-kreditwirtschaft.de

German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

to ED/2021/3 “Disclosure Requirements in IFRS Standards—A Pilot Approach”
Proposed amendments to IFRS 13 and IAS 19

Our ref
Ref. DK: IASB
Ref. DSGV: 8007

Contact: Eric Eispert
Telephone: +49 30 20225- 5782
Telefax: +49 30 20225- 5403
E-Mail: eric.eispert@dsgv.de

Berlin, January 12, 2022

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks. Collectively, they represent more than 1,700 banks.

Coordinator:
German Savings Banks Association
Charlottenstraße 47 | 10117 Berlin | Germany
Telephone: +49 30 20225-0
Telefax: +49 30 20225-250
www.die-deutsche-kreditwirtschaft.de

General comments

We appreciate the opportunity to comment on the IASB’s Exposure Draft ED/2021/3 “Disclosure Requirements in IFRS Standards — A Pilot Approach / Proposed amendments to IFRS 13 and IAS 19” (the ED). We understand the work of the IASB in order to significantly change the behavior of entities from a “checklist mentality” towards applying more judgement when providing information in the notes. Nevertheless, we do not support the proposed Guidance in all aspects as it does not contain an appropriate balance between high-level principles and more prescriptive guidance when developing the disclosure requirements in the notes.

Currently, the IASB specifies a list of disclosure requirements that preparers of financial statements are required to disclose in the notes, subject to the concept of materiality. To provide some context for the application of this specified list of disclosure requirements, the IASB has in the past added disclosure objectives in some IFRS Standards. In contrast, the proposed Guidance will fundamentally change this as the disclosure objectives will in future become a requirement that preparers would have to satisfy while the list of disclosure requirements (referred to as ‘items of information’ in the proposed Guidance) will be mostly non-mandatory examples to provide context for preparers and to support them in assessing and determining whether the information they have provided in the notes meets the required stated disclosure objectives. This is a fundamental shift. Putting the emphasis on disclosure objectives instead of items of information in order to comply with the disclosure requirements in IFRS would be challenging and burdensome for preparers to apply, difficult for auditors and regulators to review and enforce, and would impair broadly the existing high-level of comparability between entities - which would be negative for users of financial statements.

The reason is that preparers, auditors and regulators would have to exercise significant judgement in order for the proposed disclosure approach to work as intended by the IASB. We therefore agree with the view of the Mr. Martin Edelmann, Mr. Zachary Gast and Ms. Suzanne Lloyd that preparers of financial statements can already provide effective disclosures in their financial statements, and that the primary source of the disclosure problem lies in the application of the materiality concept rather than the perceived prescriptive nature of current disclosure requirements.

Hence, we believe that the IASB should instead tackle the current application shortfalls, rather than changing fundamentally the disclosure approach. In addition, the IASB should use the feedback from engaging with users of financial statements and other stakeholders (e.g. auditors, regulators) early in the standard-setting process as recommended in the proposed Guidance to give better context to the disclosure objectives and to improve the development and drafting of the specific disclosure requirements. This would help preparers to better understand the information that users want and how users intend to use the information in the specific disclosure requirements the IASB has developed.

Should the IASB decide to proceed with the proposed Guidance, we urge the IASB to provide a list of minimum disclosure requirements to lessen the concerns that we have outlined above. We also recommend to the Board to apply the final Guidance prospectively when developing new standards. We do not see any benefits from amending the disclosure sections of existing IFRS Standards (like IFRS 13 and IAS 19) using the final Guidance as in our view no major weaknesses have been identified with those existing IFRS standards. Apart from this, the amount and quality of information stemming from the disclosures given in these standards are generally considered adequate from our perspective.

The proposed Guidance for developing disclosure requirements in IFRS Standards in future

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?

From a conceptual perspective, we understand the IASB’s approach to focus more on the disclosure objectives in the future rather than on extensive, dedicated disclosure requirements, as was the case in the past. The aim of this new approach is to encourage more "judgement" in the provision of information during the preparation of financial statements.

As already explained above, however, we are concerned that the associated more extensive materiality assessment – also against the background of the unchanged disclosure periods – will prove to be difficult to implement. In order to be able to adequately assess which information is to be classified as material or not, comprehensive information must first be requested by the entity during the preparation of financial statements and subsequently analyzed. However, experience shows that the final materiality assessment of all information at group level only becomes available shortly before finalization and publication of the financial reports.

In our view, opening the usually very intensive exchange with the auditor on materiality issues at such a late stage in the process of preparing the financial statements would no longer be feasible in terms of resources and in light of the generally tight schedules for consolidated financial statements. This could ultimately lead to entities tending in fact to provide all the information in the financial statements ("checklist problem"), as they must fear in the event of doubt that they have provided insufficient information after all. This would lead to difficult and time-consuming coordination with their auditor at this critical stage of preparing the financial statements. The desired effect of relieving financial statements from a possible excess of information ("disclosure problem") will therefore probably not be achieved. Nor will there be any of the IASB’s intended "simplifications" in the work processes for preparers of financial statements.

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?

GBIC has no comments to this question

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 generally agree with the IASBs view that the checklist approach could lead to too much irrelevant information in the notes in certain circumstances. However, we question how the approach to minimise requirements to disclose particular items of information, and instead asking companies to focus on disclosing material information only, can be aligned with the requirement of comparability (e.g. with the requirements for an IFRS taxonomy (ESEF) or the planned changes to IAS 1 in the context of ED/2019/7 General Presentation and Disclosures).

Especially supervisory/regulatory authorities are putting an increasing emphasis on comparability between companies/industries. Therefore, we worry that companies likely need to prepare another set of notes using the existing “checklist approach” to satisfy supervisory and regulatory authorities needs in terms of reporting. As a result, preparer would incur additional efforts. In addition, the complexity would also increase further.

From a preparer view a clearly defined set of minimum disclosure requirements is needed for discussions with auditors or enforcement authorities. Due to concerns that relevant information might be missing, preparers may retain their previous approach and stick to working with checklists, so that the intended improvements might not be achieved. Furthermore, we believe that intensive consultations with auditors and regulators will be necessary before the IASB should come up with a revised standard. Those consultations between the IASB and auditors/regulators could help to address preparers’ concerns with regards to increased efforts stemming from potentially necessary duplicate sets of reporting and to get a better understanding of auditors’/regulators’ views on increased “judgement” and comparability in financial reports.

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?

The new "voluntary" disclosures ("while not mandatory...") should be viewed critically in our opinion, as they could in practice work towards a de facto obligation. The IASB has now shifted the decision as to whether or not these disclosures are required to the entities that have to repeatedly "defend" their decision. The supervisory authority or, for example, a new auditor (keyword " auditor rotation") could ultimately demand this information, as there is no clear demarcation as to which information must be disclosed.

Similarly, the wording "while not mandatory" may be subject to very heterogeneous interpretation by users as well as by different stakeholder groups. For example, some users might ultimately interpret the wording as a de facto disclosure obligation, while others may not subject these "voluntary" disclosures to further in-depth consideration. In our view, it is questionable how comparability in reporting among different entities can still be ensured in the future. Similarly, benchmarking within an industry could then lead to a de facto disclosure obligation.

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).

GBIC has no comments to this question

Proposed amendments to IFRS 13 Fair Value Measurement applying the proposed Guidance

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?

GBIC has no comments to this question

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.

With the new approach, extensive disclosures will be required in future – to a similar extent as previously for Level 3 – for those Level 2 measurements that are material. In particular, we understand that the instruments in Level 2 affected are those whose valuation also includes non-observable inputs and which exhibit significant fair value variability. In the new pilot approach, the IASB thereby formulates rules for achieving disclosure objectives solely depending on materiality and fundamentally independent of a level allocation. In relation to the volume of financial instruments at financial institutions, we see the focus primarily on Level 2 measurements.

However, how should materiality be defined here? In the overall view or separately according to positive and negative performance? How are derivatives to be viewed that are in a hedging relationship, i.e., for which the asset and liability sides are to be equally analyzed or which would have to be recognized as a whole from the asset and liability sides? Does the materiality assessment have to be renewed continuously (at each reporting date)? The composition of the categories for financial instruments (fair value measurement vs. at cost measurement) in general and also the level allocation for financial instruments to be measured at fair value in particular is always subject to ongoing changes (additions/disposals) over time. Depending on the business model of a bank this could result in information on a certain level being material one year, but possibly no longer material the following year. How is this compatible with the principle of balance sheet consistency? An annual full materiality assessment also increases the workload for preparers considerably. Furthermore, the question arises as to how suitable audit evidence would be obtained for the materiality assessment. Would the disclosures as a whole have to be collected first from all group companies for example via the IFRS reporting packages in order to be able to sufficiently document that disclosures are dispensable due to immateriality? In our view, the auditor, in particular, will require (quantitative) evidence of materiality in order to classify information as "immaterial". However, this would massively increase the (documentation) workload, especially since most of this work must be carried out manually.

There are still many questions yet to be clarified in this respect, which would also have to be answered by the IASB. Regardless, these questions show that a significant increase in Level 2 disclosures is likely, which we oppose.

In our opinion, the "alternative fair values" under discussion completely change the input parameters used into alternative parameters that could have been included on the reporting date. A range would then have to be determined from these alternative possible parameters, whereas with classic sensitivities, only the variability of the parameter already taken as a basis is changed in order to simulate different characteristics and their impact on fair value. In our view, the proposed "alternative fair values" should be viewed critically, as it is highly discretionary which alternative fair value an entity would use or which alternative fair value a user/stakeholder of financial statements would include. Similarly, there is pressure on the reporting entity to justify why these reported alternative fair values were used and not others.

Furthermore, it is unclear to us how to deal with the fact that significant changes have to be explained verbally in the context of the reconciliation statement. A tabular explanation is still only mandatory for Level 3 measurements; any (voluntary) disclosures for Level 2 measurements could therefore be made in reduced form (only disclosure of the significant causes for changes, but not all the reasons) or even be omitted altogether according to the wording in IFRS 13.116 -117. However, in our view, stating "the most significant causes" implies that an entity would first have to identify all causes in order to obtain a complete picture. In a second step, the most significant causes would then have to be determined and a corresponding record kept that adequately documents the determinations, also for the auditor. We therefore question whether this will not also result in considerable additional work for an entity, which does not lead to a corresponding gain in information.

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question

Proposed amendments to IAS 19 Employee Benefits applying the proposed Guidance

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?

GBIC has no comments to this question

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.

We basically agree to IASB's proposal for characterisation of the specific disclosure objectives. But we disagree regarding the specific objective on "future payments to members of defined benefit plans that are closed to new members". The reason is that we believe the information value for plans that are closed to new members and plans that are open to new members is similar. We therefore recommend to either delete the specific disclosure objective in paragraphs 147N-147O for defined benefit plans that are closed to new members or to incorporate them into paragraphs 147J-147K that relates to the specific disclosure objective for "expected future cash flows relating to defined benefit plans".

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?

With regard to paragraph 147S(d) to give information on "alternative actuarial assumptions reasonably possible at the end of the reporting period that could have significantly changed the defined benefit obligation", our interpretation is that this includes providing disclosures on alternative defined benefit obligations. We disagree with this because:

- Disclosing such alternative information might undermine the legitimacy of amounts that an entity has recognised in its statement of financial position and would lead to confusion (and a lack of intelligibility) amongst users.
- We believe that the costs to produce such information would be significant.

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question

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?

GBIC has no comments to this question