IASB Question 3 – The operating category: income and expenses from investments made in the course of an entity's main business activities

EFRAG: For those in a regulated industry, would the IASB proposals in paragraph 48, for entities that invest in the course of the entity's main business activities, result in significant changes in practice that would be in conflict with regulation in your industry? Do you expect any additional challenges or significant costs?

- For insurance entities in Germany, we do not perceive any conflicts with regulations coming along with the changes in practice resulting from the respective proposals to classify income and expenses from investments (other than income and expenses from non-integral associates / JVs accounted for using the equity method) made in the course of an entity's main business activities in the operating category.
- We do not expect any additional challenges or significant costs. Naturally, the proposals would come along with one-off implementation costs for setting up the IT systems / processes as well as with costs related to the classification of income and expenses (see also below). However, this argument more generally applies to the proposals related to the structure of the statement of profit or loss and no particular challenges or significant costs are expected to arise from the proposals in paragraph 48 of the ED in specific.

EFRAG: Do you consider that separating returns from investments made in the course of an entity's main business activities from those that are not will be difficult to make in practice? Please explain.

- We do not consider that separating returns from investments made in the course of an entity's main business activities from those that are not made in the course of an entity's main business activities would be difficult in practice. Rather, we agree with the IASB's argument in BC61 of the ED that the information about which investments are in fact made in the course of an entity's main business activities should be available to the respective entities. In particular, we deem this assumption as supportable as the proposals would only be applicable to entities making investments that generate a return individually and largely independently of other resources held by an entity in the course of their main business activities in the first place. Nonetheless, we would like to point out that this assessment is primarily based on our own business model and investment business. Accordingly, we are aware that this may not necessarily apply to all entities.
- Still, certain costs / challenges potentially arise and should be considered in our view:
    - Entities will incur one-off implementation costs for the differentiation between investments made in the course of the main business activities and other investments (currently held) and for setting up the IT systems / processes as well as for the respective classification of investments on an ongoing basis. However, we expect that these costs would be moderate.
    - At initial application of the proposals, there may be a risk of strategic classification, i.e. (currently) low-performing investments may be less likely to be classified as 'investments made in the course of an entity's main business activities'. Also, investments perceived as more risky as well as investments with expected low performance may be less likely to be classified as 'investments made in the course of an entity's main business activities', both at initial application of the proposals as well as going forward.

As such, clear principles are needed to ensure that the classification is made on a consistent basis within and across entities.
    - In a similar vein, guidance is needed with regard to respective re-classifications of investments (and, thus, related income and expenses) to also counteract this potential risk after initial application of the proposals as well as after initial recognition more generally.
    - Further guidance as to the notion of 'in the course of the entity's main business activities' should be provided. In particular, while it is clarified in paragraph B27 of the ED that the specific proposals apply to investment entities, insurers and investment property entities, this is less clear for other entities and requires judgment. For instance, both 'positive' and 'negative' examples as to more judgmental cases could be included to complement the guidance in paragraph B27 of the ED.

IASB Question 4 – The operating category: an entity that provides financing to customers as a main business activity

EFRAG: Do you consider that it is difficult or costly to allocate income and expenses from financing activities and from cash and cash equivalents to those that do or do not relate to the provision of financing to customers? Please explain.

- As this question relates to entities that provide financing to customers as a main business activity, we cannot make an assessment as to the difficulties / costs to allocate income and expenses from financing activities and from cash and cash equivalents to those that do or do not relate to the provision of financing to customers and have not undertaken further analyses in this regard.
- However, two issues / challenges potentially arise and should be considered in our view:
    - Accounting policy choice for financial institutions: We understand the IASB's argument in BC68 of the ED as to the difficulty in allocating income or expenses between the different categories in some cases. However, we would still like to highlight that introducing the accounting policy choice is likely to result in both a loss of comparability between entities and less transparency for entities that do not undertake the allocation. Further, the allocation would lead to more useful information especially for those entities that have a more complex business model, e.g. entities that both provide financing to customers as a main business activity and invest in the course of their main business activities. It is, however, particularly unlikely that these entities would undertake the allocation (as also suggested in BC66 of the ED).
    - Accounting policy choice for non-financial institutions: The 'free' accounting policy choice should not be applicable to entities providing financing to customers as one, but not the key main business activity. Not requiring such entities to present such income and expenses in the financing category would result in both a loss of comparability between entities and less transparency for entities that do not undertake the allocation. Also, this would significantly inhibit achieving the objectives of comparability and transparency for entities with mixed business models for which these objectives are already more difficult to achieve in the first place. In our view, for entities providing financing to customers as one, but not the key main business activity, the respective activities in this area (and related income and expenses) should also be more easily identifiable and separable from

other activities (and related income and expenses) than for entities providing financing to customers as the key main business activity or the single main business activity.

- In our view, an alternative to a 'free' accounting policy choice would be to require entities to undertake the allocation unless this would involve undue cost or effort. For entities for which the allocation would involve undue cost or effort, a set of additional disclosures in a single note could be required to provide further information in this regard. Besides ensuring a higher level of transparency, this would also reduce any potential strategic incentives in making the accounting policy choice.

EFRAG: For those that provide financing to customers as a main business activity and are in a regulated industry, would the IASB's proposals in paragraph 51 of the ED be in conflict with regulation in your industry? Do you expect any additional challenges or significant costs?

As this question relates to entities that provide financing to customers as a main business activity, we have not undertaken any analyses as to whether the IASB's proposals in paragraph 51 of the ED would be in conflict with regulation in the industry nor as to whether any additional challenges or significant costs can be expected.

IASB Question 5 – The investing category

EFRAG: Do you consider income and expenses from cash and cash equivalents (i.e. short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value) as part of the entity's financing (paragraph 51 above) or investing activities (paragraph 52 above)? Please explain.

- To us as an insurance entity, i.e. as an entity that, in the course of its main business activities, invests in financial assets that generate a return individually and largely independently of other resources, paragraph 52(a) would apply, i.e. we would be required to classify income and expenses from cash and cash equivalents in the operating category. We fully agree with this proposal.
- In a similar vein, we fully agree that entities that provide financing to customers as a main business activity shall be required to classify income and expenses from cash and cash equivalents that relate to the provision of financing to customers in the operating category.
- As to other entities / industries, we cannot make an assessment as to a) the difficulties / costs to separate income and expenses from cash and cash equivalents and income and expenses from investments other than cash and cash equivalents, b) the significance / materiality of cash and cash equivalents and, thus, the degree to which these difficulties / costs for separate presentation would be outweighed by respective benefits, and c) whether and to what extent the financing category in fact represents the adequate category from a conceptual perspective, namely whether respective decisions are in fact predominantly interrelated with financing decisions rather than investing decisions or operating decisions (e.g. purchase of raw materials for production), and have not undertaken further analyses in this regard. However, we suggest that the IASB takes these aspects, among other potential aspects raised by concerned entities / industries, into account when finalizing its proposals.

EFRAG: How costly would it be to track whether exchange differences relate to the entity's main business activities, investing activities or financing activities? Please explain.

- Conceptually, the requirement in paragraph 56 of the ED implies that entities would need to determine for each asset / liability whether respective related income and expenses would need to be classified in the operating, investing or financing category in the statement of profit or loss and apply the same logic analogously to the exchange differences included in profit or loss for each asset / liability (i.e. the logic would rely on a fictive classification of all assets and liabilities in the statement of financial position). In this regard, one-off implementation costs for the required fictive classification and for setting up the IT systems / processes as well as for the classification of exchange differences on an ongoing basis would be incurred. While the initial one-off implementation costs might be significant for various entities, we expect that the ongoing costs would be minor.
- In our view, this should apply to all entities, irrespective of their business model and main business activity / activities. Nevertheless, the costs are likely to vary depending on an entity's main business activity / activities:
  - In particular, we expect that for entities that provide financing to customers as a main business activity and entities making investments in the course of their main business activities, given the specific proposals applying to such entities, the majority of exchange differences would arise in the operating category and the tracking of the category to which exchange differences relate should, thus, be less costly and more straightforward.
  - For example, for entities providing financing to customers as a main business activity and electing to classify in the operating category all income and expenses from financing activities and all income and expenses from cash and cash equivalents (thus exploiting the cost relief as discussed in BC285 and BC300 of the ED) exchange differences will primarily relate to two rather than three categories (operating and investing) and the majority of exchange differences is likely to arise in the operating category.
  - For entities making investments in the course of their main business activities, while such a cost relief does not exist, we expect that the majority of exchange differences would arise in the operating category as well. For entities making investments in the course of their main business activities, a scenario in which no income and expenses and, thus, no exchange differences would need to be classified in the investing category is also possible. Under these circumstances, exchange differences could only relate to two rather than three categories (operating and financing). Therefore, for such entities, the tracking should also be less costly and more straightforward.
  - In contrast, we expect that the tracking of the category to which exchange differences relate would be more costly and less straightforward for entities with mixed business models.

IASB Question 6 – Profit or loss before financing and income tax and the financing category

EFRAG: Do you consider income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities (as in paragraph B47 of the ED) as part of the entity's financing or operating activities? Please explain.

- The following reasons would support classifying income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities as part of an entity's operating activities:
  - As the question explicitly refers to income and expenses which do in fact not arise from financing activities, classifying them in the financing category is not fully straightforward from a conceptual perspective.
  - As to concrete items concerned in this context such as income and expenses that reflect the effect of the time value of money related to pension provisions or trade payables, the underlying liabilities arise as a consequence of conducting operating activities.
  - Classifying such income and expenses in the financing category is not fully consistent with the IASB's currently proposed approach to define the operating category as the residual category.
- In contrast, the following reasons would support classifying income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities as part of an entity's financing activities:
  - In their nature and from the perspective of the entity's financial position, such items relate to liabilities, namely a source of entities' financing, even if these liabilities themselves do not arise from financing activities.
  - If an entity was to transfer such a liability (e.g. related to pension obligations) to an external party, the transfer price would be the discounted value and, subsequently, no income and expenses that reflect the effect of the time value of money would arise. As such, the effect of the time value of money should not be presented in the operating category just as a consequence of not transferring the underlying liability to an external party in the first place. In other words, the effect of the time value of money arises as a consequence of this particular decision and not as a consequence of an operating decision. Accordingly, classifying respective income and expenses in the operating category is not fully straightforward from a conceptual perspective.
- To summarize, in our view, there are arguments supporting both approaches. Taking all of the above considerations into account, we have a slight tendency towards considering income and expenses that reflect the effect of the time value of money on liabilities that do not arise from financing activities as part of an entity's financing activities.

IASB Question 7 – Integral and non-integral associates and joint ventures

EFRAG: Do you consider that the IASB needs to expand the new paragraph 20D of IFRS 12, for example to include additional indicators, to reduce the level of judgement involved when making a distinction between integral and non-integral entities? Please explain.

- In our view, the proposals as to how to distinguish between integral and non-integral associates / JVs need to be expanded as we do not believe that the indicators proposed in paragraph 20D of IFRS 12 would be sufficient to ensure that the classification is made on a consistent basis within and across entities. In our view, the distinction would currently require a high level of judgment, thereby reducing comparability across entities. Further, at initial application of the proposals, there may be a risk of strategic classification, i.e. (currently) low-performing associates / JVs accounted for using the equity method may be more likely to be classified as non-integral. Also, associates / JVs accounted for using the equity method perceived as more risky as well as associates / JVs accounted for using the equity method with expected low performance may be more likely to be classified as non-integral, both

at initial application of the proposals as well as going forward. Further, there may be a risk of strategic structuring, e.g. that a name or brand is deliberately shared or not shared depending on the entity's desired classification as integral or non-integral. As such, clear principles are needed to ensure that the classification is made on a consistent basis within and across entities.

- First, from a conceptual perspective, it is unclear why the IASB formulates indicators for a 'significant interdependency' to capture the degree to which an associate / JV does or does not 'generate a return individually and largely independently of the other assets of the entity'. In particular, in light of the definitions for integral and non-integral associates / JVs as proposed in appendix A, it is unclear why the IASB does not formulate the proposed paragraph 20D of IFRS 12 in terms of indicators for whether an associate / JV does or does not 'generate a return individually and largely independently of the other assets of the entity'. This would lead to a stronger alignment between the proposed paragraph 20D of IFRS 12 (and its respective indicators) and the definitions for integral and non-integral associates / JVs as proposed in appendix A.
- Second, we believe that the IASB should both reconsider the included indicators as well as clarify how the indicators shall be applied. In this regard, among others, we suggest that the role of the link between an associate's / JV's main business activities and the entity's main business activities, the underlying purpose of the investment (e.g. necessity to access foreign markets via an associate / JV due to legal or regulatory restrictions) as well as the high level of judgment related to the assessment of a 'significant business disruption' be considered by the IASB. As to the latter, for instance, it might be appropriate in some cases to not only consider the reporting entity's perspective on a stand-alone basis, but rather the business relationship as a whole. In particular, the larger an entity is, the more globally it operates and the more it structures investments or business relationships as associates / JVs, the less likely it seems that difficulties in replacing a business relationship with one specific associate / JV would be deemed as a 'significant business disruption' (at least from a quantitative perspective) while, for the associate / JV, it may in fact be impossible to replace the business relationship with the entity, indicating that the main business activities of the associate / JV and the entity are strongly aligned and interlinked.
- Third, we suggest that the link between the different indicators be considered by the IASB. For instance, the larger an associate / JV, the less likely it seems that the associate / JV and the entity do in fact have integrated lines of business (e.g. the more likely it is that the associate / JV owns separate production sites), however, the more likely it seems that the entity would incur difficulties in replacing a business relationship with this associate / JV that would be deemed as a 'significant business disruption'.
- Fourth, we believe that the IASB should include additional indicators taking into consideration common constellations of associates / JVs (e.g. start-ups, cooperations in R&D, cooperations in foreign markets).
- Finally, both 'positive' and 'negative' examples as to judgmental cases could be included to complement the proposed guidance in paragraph 20D of IFRS 12.
- Also, in our view, it is not clear whether entities shall also apply the proposed definitions to associates / JVs when preparing their separate financial statements under IAS 27 given that the equity method is not applicable. In this context, we would like to highlight that applying the indicators proposed in paragraph 20D of IFRS 12 when preparing single financial statements may lead to different classifications of associates / JVs (as compared to the assessment for the consolidated financial statements). We suggest that the IASB addresses these aspects.

IASB Question 9 – Analysis of operating expenses

EFRAG: Do you consider that it is useful to have disclosures by nature when an entity presents its expenses within operating profit or loss by function (i.e. when an entity assesses that presentation by function provides the most useful information)? Do you anticipate that such information will be costly to provide? Please explain.

- We believe that it will be very costly for entities currently presenting their expenses within operating profit or loss by function (or using a mixed approach) to provide disclosures by nature. In particular, significant one-off implementation costs for setting up the IT systems / processes as well as for the respective analysis, quality assurance and audit procedures on an ongoing basis would be incurred.
- While we generally recognize the information value of disclosures by nature for users of financial statements, we do not believe that – on average and across entities as well as industries – these costs would be outweighed by respective benefits to users of insurers' financial statements for various reasons:
  - First, applying paragraph 68 of the ED, when presenting their expenses within operating profit or loss, entities would be required to use the method that provides the most useful information to users of their financial statements based on a set of newly introduced criteria. This in turn implies that for entities using the function of expense method, the nature of expense method will yield relatively less useful information.
  - Second, applying paragraph B48 of the ED, when providing additional disclosures by nature, an entity would not be required to disclose an analysis of each functional line item by nature. As such, users would not be able reconcile the information about expenses as analyzed by nature and by function. The incremental information value of disclosures by nature would, thus, in our view, be limited. In particular, these disclosures would not shed light on each function's expenses by nature and, thus, e.g. not contribute to users' ability to forecast each function's expenses.
  - Third, an entity presenting its expenses within operating profit or loss by function is already required to disclose additional information on the nature of expenses (specifically including depreciation and amortization expense and employee benefits expense) in accordance with IAS 1.104. If the IASB perceives that entities do not currently disclose sufficient information in accordance with IAS 1.104 and, accordingly, believes that specific additional information on the nature of expenses is missing and should be required going forward, additional specific, yet targeted requirements could be added.
- In addition to these general arguments, we would like to emphasize further critical aspects applying to insurers in particular:
  - In paragraph 65 of the ED, the IASB lists a broad set of additional line items that entities applying IFRS 9 and / or IFRS 17 would be required to present in the statement of profit or loss in the future. Taking into consideration paragraphs 65, 71, B15 and B47 of the ED, this does not only generally impose rather strict requirements as to the structure of an insurer's statement of profit or loss in the first place, it would further require an insurer to present its expenses within operating profit or loss using a mixed approach (as certain prescribed line items would be required in line with the function of expense method while others would be required in line with the nature of expense method) going forward. The fact that the proposals include specific additional presentation requirements and would require insurers to use a mixed approach, in our view, implies that the IASB deems the according presentation of expenses within operating profit or loss as most appropriate and useful for users of insurers' financial statements. Also, it implies that

insurers could generally not elect to present their expenses within operating profit or loss by nature only; as such, it seems like insurers would consequently always be required to provide additional disclosures by nature. As to the latter point, in our view, the IASB should clarify whether this would in fact apply to all entities that are required to use a mixed approach or whether it would only apply to entities that are required to use a mixed approach but analyze the 'discretionary' positions by function.
    - Applying the nature of expense method to a full extent, e.g. also with regard to deferred acquisition costs (namely, to the capitalization, amortization, unlocking, and true-up of DACs), would be associated with significant undue effort / cost for insurers while providing very limited additional benefits to users of insurers' financial statements in our view.
- Taken together, given the significant costs (see above), we do not support the IASB's proposal to require entities to provide disclosures by nature when presenting their expenses within operating profit or loss by function. We believe that this applies generally, but even more so for financial institutions and, in particular, insurers. As such, if such a requirement was in fact imposed, we strongly opt for an exemption for entities whose main business activities relate to the insurance business.
- Further, we would like to add that, in our view, insurers should be exempted from the requirement to present cost of sales separately (as required by paragraph 65 a) vii) in conjunction with paragraph 71 of the ED, when the function of expense method or, likely, a mixed approach is applied). Specifically, against the background of the abovementioned specific additional presentation requirements applying to insurers, a separate disclosure of cost of sales does not seem appropriate / feasible and would be of very limited use for users of insurers' financial statements. In addition, the 'traditional' concept of cost of sales can, in our view, not be transferred to entities whose main business activities relate to the insurance business. As such, even if such a line item was presented by all entities, it would not be comparable across industries. For it to be comparable across insurers, it would need to be clarified how cost of sales should be defined in light of the line items required to be presented by entities applying both IFRS 9 and IFRS 17.

IASB Question 11 – Management performance measures

EFRAG: What is your assessment of the overall costs and benefits of the IASB's proposal on the calculation of the income tax effect and the effect on non-controlling interests for each item disclosed in the reconciliation as required by paragraph 106(b)?

- In our view, the costs associated with requiring entities to calculate the income tax effect and the effect on non-controlling interests for adjustments made in calculating management performance measures are significant, especially for entities with many subsidiaries, and even more so, if these subsidiaries pertain to different tax jurisdictions. In particular, significant one-off implementation costs for setting up the IT systems / processes as well as for the respective reporting, quality assurance and audit procedures on an ongoing basis would be incurred.
- Income tax effect: While entities would be allowed to use a simplified approach 'on the basis of a reasonable pro rata allocation of the current and deferred tax of the entity in the tax jurisdiction(s) concerned or by another method that achieves a more appropriate allocation in the circumstances' to calculate the income tax effect (paragraph 107 of the ED), the degree to which this mitigates the costs while, at the same time, providing useful information to users of financial statements is not clear:

- In our view, further guidance is needed regarding what the IASB would consider as a 'reasonable pro rata allocation' as well as what types of analyses the IASB would expect by entities to determine a 'reasonable pro rata allocation'.
- For instance, it is unclear whether the same simplified allocation mechanism can / shall be applied for all adjustments made in calculating (one or more) management performance measures. While various adjustments may be of more general nature or may stem from overarching events and, thus, concern a broad range of tax jurisdictions, there may also be adjustments that are of more specific nature or stem from events concerning only a specific region or a specific sub-entity. As such, especially for large groups, we deem it difficult to determine a 'reasonable pro rata allocation', namely for which the criterion 'reasonable' would be fulfilled when considering all adjustments made in calculating (one or more) management performance measures.
- In a similar vein, while the nature of adjustments made in each reporting period may remain unchanged (e.g. if an entity always adjusts for restructuring), the actual adjustments may stem from different regions / sub-entities in different reporting periods. For instance, in one period, only German entities may be subject to restructuring projects while, in another period, only US entities may be subject to restructuring projects. As such, it seems like entities would not be able to leverage previous efforts to determine a 'reasonable pro rata allocation' over subsequent reporting periods. While entities would be required to disclose information about how the income tax effect is calculated in accordance with paragraph 106 d) of the ED, major changes in the calculation of the income tax effect could lead to difficulties for users of financial statements and / or require extensive disclosures by entities to explain such major changes.
- Overall, if a 'reasonable pro rata allocation' would need to be determined for each adjustment made in each management performance measure used and this allocation would need to be revised and explained in each reporting period, this simplified approach is unlikely to mitigate the abovementioned costs to a reasonable extent.
- Further, given the fact that a 'reasonable pro rata allocation' represents a simplified approach and taking into consideration the abovementioned difficulties to determine such a 'reasonable pro rata allocation', it is likely that entities would commonly need to conclude that 'another method that achieves a more appropriate allocation in the circumstances' exists. However, the more precise the allocation mechanism an entity would then be required to apply to determine the income tax effect for adjustments made in calculating management performance measures, the less likely it is that the abovementioned costs can be mitigated to a reasonable extent.

- Effect on non-controlling interests: As the current proposals do not include considerations with respect to a simplified approach, all of the abovementioned costs would be incurred. We do not believe that these costs would be outweighed by the respective benefits to users of insurers' financial statements. In addition, our abovementioned considerations relating to the income tax effect would apply analogously.

EFRAG: What is your assessment on number of MPMs that will need to be disclosed by entities under the IASB's proposals? Please indicate which MPMs you have identified.

- Under the current proposals, we believe that the number of MPMs that will need to be disclosed by entities is (surprisingly) limited (although this depends on each entity's current reporting practices and relevant / commonly used performance measures across different industries). In particular, while the scope in terms of 'public communications' seems rather broad, the fact that only 'subtotals of income and expenses' would qualify as MPMs, in our view, significantly limits the number of MPMs.
- To identify our currently used financial figures in public communications outside financial statements, we considered the information made available on our investor relations website for Q4 / FY 2019, i.e., among others, the annual report (incl. the management report), analyst presentations, media presentations, earnings releases, consensus estimates and APM reports.
- We identified the following financial figures: total revenues, internal growth, external growth, operating profit / loss, net income, basic earnings per share, diluted earnings per share, dividend per share, return on equity, combined ratio, new business margin, value of new business, present value of new business premiums, cost-income ratio, shareholders' equity, solvency II capitalization ratio, third-party assets under management, shareholders' net income, total shareholder return, run-off ratio, financial leverage, senior debt leverage, with further segment-specific or entity-specific financial figures (e.g. yield figures), subtotals (e.g. operating investment income) and growth ratios (e.g. earnings growth) of the listed financial figures as well as forward-looking financial figures not further considered in this context.
- In our understanding, only operating profit / loss would qualify as an MPM under the current proposals.
- At this stage, as operating profit / loss also qualifies as an APM in accordance with the ESMA guidelines on APMs, we already prepare disclosures in accordance with the ESMA guidelines on APMs for operating profit / loss.

EFRAG: What is your assessment on the relevance of the MPMs identified (is it too much? too little? which additional ones?)?

- As noted above, under the current proposals, while the scope in terms of 'public communications' seems rather broad, the fact that only 'subtotals of income and expenses' would qualify as MPMs, in our view, significantly limits the number of MPMs.
- Overall, in our view, as compared to the disclosure of more granular information (namely, about the income tax effect and the effect on non-controlling interests which would be associated with significant costs as outlined above) for a subset of performance measures, it would be more useful for users of financial statements if the IASB would enhance the scope of MPMs (see below).
- As such, we would rather be in favor of broadening the scope of MPMs. However, if the remaining proposals were to remain unchanged, this would naturally significantly further increase the costs that will be incurred by entities.

EFRAG: Do you agree with the scope of the IASB's proposals? If not, which alternative (Alternative 1 or Alternative 2 above) would you prefer so that financial statements remain relevant?

- As noted above, we do not agree with the scope of the IASB's proposals and would generally be in favor of broadening the scope of MPMs.

- In particular, in our view, the IASB should a) further include in the scope of MPMs performance measures presented in the financial statements when such measures are not used in other public communications, b) eliminate the restriction of the scope of MPMs to performance measures related to profit or loss, and c) eliminate the restriction of the scope of MPMs to absolute measures and, thus, include in the scope ratios and growth measures.
- As to EFRAG's two alternative proposals regarding which disclosure channels should be considered when identifying MPMs under IFRS going forward, we have the following view:
  - Alternative 1: While restricting the scope of MPMs to performance measures disclosed in the financial statements would generally be more suitable to limit interrelations / overlaps with similar disclosure requirements about performance measures such as the ESMA guidelines on APMs, we believe that the scope would be too narrow from the user perspective. In particular, information about MPMs disclosed outside financial statements is likely also useful for users. While such information may already be disclosed by a large number of entities as a consequence of other existing disclosure requirements, requiring disclosure under IFRS would likely improve the discipline with which these disclosures are prepared as well as eliminate any potential differences in disclosure and assurance requirements across entities which are subject to different jurisdictions. Nonetheless, we strongly recommend the IASB to review its proposals in light of existing disclosure requirements and respective interrelations when finalizing its proposals.
  - Alternative 2: We generally support EFRAG's proposal to restrict the scope of MPMs to performance measures disclosed in the communications released jointly with the annual or interim report, including earning releases. However, we would like to highlight again that we strongly recommend the IASB to review its proposals in light of existing disclosure requirements and respective interrelations when finalizing its proposals. For example, we suggest that, under certain conditions, entities be allowed to make references to other documents when complying with the proposed disclosure requirements. For instance, German entities are required to disclose information about their performance measures in accordance with the ESMA guidelines on APMs in the management report, which is also subject to audit on reasonable assurance level. As such, in our view, they should be allowed to provide the required disclosures on MPMs by cross-reference to the management report.
  - Please note that irrespective of and in addition to these considerations related to the relevant disclosure channels and as outlined above, we believe that the scope of MPMs should generally be broader, i.e. it should not only encompass performance measures related to profit or loss and absolute measures.

EFRAG: Do you agree with EFRAG's suggestion to apply the MPM requirements also to the non-GAAP performance measures, presented within financial statements, that may not satisfy the proposed criteria of MPMs (e.g. adjusted revenues and ratios)?

- As noted above, we do not agree with the scope of the IASB's proposals and would generally be in favor of broadening the scope of MPMs.
- In particular, in our view, the IASB should a) further include in the scope of MPMs performance measures presented in the financial statements when such measures are not used in other public communications, b) eliminate the restriction of the scope

of MPMs to performance measures related to profit or loss, and c) eliminate the restriction of the scope of MPMs to absolute measures and, thus, include in the scope ratios and growth measures (see above).

The ED is introducing more structure in the presentation requirements, including a requirement to present on the face of the income statement a new subtotal named “operating profit or loss”, which will become an IFRS defined measure. Entities that currently use a performing measure labelled “operating profit or loss” on the face or in the notes will be forced to either (i) change the label for their performing measure and continue to use both the old measure and the new IFRS defined “operating profit”, or to (ii) discontinue the pre-existing performance measure, replacing its use with the new IFRS defined “operating profit or loss”.

EFRAG: In the context described above, do you believe that the IASB’s proposals on the structure and content of the statement of profit or loss will lead to an increased number of MPMs?

- Overall, we believe that the proposals will lead to an increased use or at least no decrease in the use of MPMs by entities, especially with regard to an ‘adjusting’ performance measure for ‘operating profit’:
    - As to entities that have used a performance measure labelled ‘operating profit or loss’ or labelled differently, but going into this direction, we believe that they will continue to use this measure going forward. In particular and also taking into account the findings by ESMA on entities’ use of APMs, namely the fact that entities’ adjustments differ significantly from one issuer to another, even within the same sector of activity, as well as the nature of commonly made adjustments (e.g. restructuring or litigation costs), we deem it unlikely, for the majority of entities, that the IFRS-defined ‘operating profit or loss’ will yield a result that is close to what entities currently compute / understand as ‘operating profit or loss’, especially as the IFRS-defined ‘operating profit or loss’ does not account for adjustments. In this context, we would like to highlight that entities’ adjustments are in many cases made in accordance with analysts’ information demand (e.g. with regard to restructuring), which remains unchanged. Based on these considerations, in our view, the proposals do not discourage entities from continuing to use their pre-existing performance measures.
    - Further, we believe that entities that have not used a performance measure labelled ‘operating profit or loss’ or labelled differently, but going into this direction, so far may start to use such a measure going forward, as they will be required to present the IFRS-defined ‘operating profit or loss’, which does, however, not account for adjustments. While such a subtotal did not need to be presented so far and various entities may not have seen a sufficient value added in providing it voluntarily, the respective requirement may now even incentivize such entities to use an entity-specific MPM to avoid ‘misunderstandings’ by users of financial statements as well as analysts and to mitigate potential competitive disadvantages. In particular, if market participants are interested in a measure of ‘operating profit’ and entities do not provide an entity-specific measure, market participants are likely inclined to use the IFRS-defined ‘operating profit or loss’ for their analyses going forward. Potentially, in absence of an entity-specific measure, they may even compare the IFRS-defined ‘operating profit or loss’ of an entity to an entity-specific measure of another entity (if this other entity uses an entity-specific measure) when performing a benchmarking analysis.

- In our view, this also holds when further taking into account the IASB's proposals regarding unusual income and expenses. In particular, we do not believe that entities would consider both sets of proposals in conjunction as rendering their pre-existing performance measures irrelevant and / or redundant. In particular, we do not believe that adjusting the IFRS-defined 'operating profit or loss' for unusual income and expenses will yield a result that is close to what entities currently compute as 'operating profit or loss'. Overall, this, however, also stems from the inherent difficulty to define a 'one-size-fits-all' performance measure for 'operating profit or loss' (with or without considering unusual income and expenses) across entities that would be able to account for all relevant idiosyncratic entity-specific and context-specific factors.
- In our view and also taking into account our argument above, namely that entities' adjustments are in many cases made in accordance with analysts' information demand, the number of MPMs used by entities could only be reduced if the proposals regarding unusual income and expenses would more strongly take this 'external' information demand into account. In particular, if by means of both sets of proposals in conjunction market participants were endowed with the full set of information they need to make adjustments to the IFRS-defined 'operating profit or loss' that they deem as appropriate (based on disclosures provided with respect to unusual income and expenses) by themselves, this would render (all or a subset of) MPMs less useful or potentially even fully irrelevant / redundant for users of financial statements and could, thus, discourage entities from using (all or a subset of) MPMs.

IASB Question 14 – Other comments

EFRAG: Do you agree that the IASB should consider providing more guidance for the presentation of revenues and costs when they are allocated to different business lines on the face of the statement of profit or loss, including consistency with IFRS 8 and disclosure on judgement applied in the allocation process?

In our view, the IASB should provide more guidance for the presentation of revenues and costs when they are allocated to different business activities on the face of the statement of profit or loss. In our view, further guidance could lead to an increase in the degree to which entities with different business activities prepare their financial statements on a consistent and comparable basis.