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Date
09.05.2014

**EFRAG's draft comment letter:
Disclosure Initiative (Amendments to IAS 1)**

Dear Ms Flores

As the German Insurance Association (GDV) we take the opportunity to comment on EFRAG's draft comment letter regarding the Exposure Draft ED/2014/1 "*Disclosure Initiative (Proposed Amendments to IAS 1)*" as published by the International Accounting Standards Board (IASB) on 25 March 2014.

The objective of IFRS financial statements is to provide relevant information about financial performance and financial position of the reporting entity. An appropriate level of effective disclosures in notes is necessary to accompany the aggregated information provided in the primary financial statements. Too excessive disclosure requirements are however not only causing significant operational burden on preparers but also leading by users to a phenomenon commonly known as 'information overload'. Consequently, the intended objective of financial statements is at stake if disclosures are too exhaustive and thus not effective.

The ED issued by the IASB responds to such concerns, explicitly expressed during the recent Agenda Consultation 2011. Although we used in general to not support a 'phased approach' for standards setting, we believe that the efforts of the IASB should be explicitly acknowledged as current proposals included in the ED/2014/1 are suitable to produce some relief on short-time basis.

The GDV has the view that the EFRAG draft comment letter, in general, appropriately assesses the amendments to IAS 1 *Presentation of Financial Statements* as suggested by the IASB. However, we strongly disagree with the EFRAG's proposal regarding the potential suggestion towards IASB to introduce an explicit requirement to not disclose immaterial information (paragraph 12 (c) of the EFRAG draft comment letter). We believe that such an obligation might have unintended negative consequences

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(e.g. regarding the efforts related to 'Fast Close'-processes). In addition, we understand that the IASB is supposed to deal with the application of the materiality principle in more depth in a future step of the Disclosure Initiative. Thus, we suggest awaiting the outcome of these deliberations, in particular with regard to the application of the materiality principle on the qualitative level.

Finally, we fully share the acknowledgement expressed by the IASB in the document 'Feedback statement: Agenda Consultation 2011' (December 2012) that "the disclosure process is affected by the enforcement environment." We highly appreciate that the IASB is intended "to ensure that its Standards provide the right tools for preparers, auditors and regulators to work with." In GDV's strong view all the efforts of different initiatives related to financial communication with capital markets should be closely coordinated with the objective to not contradict each other. Otherwise an unnecessary significant coordination burden for affected entities would be created. We believe that an explicit point of view, preventively and explicitly expressed by EFRAG might be useful in this context. Therefore we recommend to EFRAG to consider expressing an expectation how the suggested amendments to IAS 1 should be enforced by statutory auditors or institutions like the European Securities and Markets Authority (ESMA). For similar rationale we support paragraph 26 of the EFRAG draft comment letter which suggests that IASB should address the use of non-IFRS financial information in the notes in the near future.


We hope that our general comments and responses to specific questions (attached) will be helpful to TEG's members in reaching their final conclusions on the IASB's ED/2014/1.

If you would like to discuss our comments further, we would be delighted.

Yours sincerely,



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Member of the Board
German Insurance Association



Hans-Juergen Saeglitz
Head of Accounting
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Annex

[IASB's] Question 1 – Disclosure Initiative amendments

The amendments to IAS 1 arising from the Disclosure Initiative aim to make narrow-focus amendments that will clarify some of its presentation and disclosure requirements to ensure entities are able to use judgement when applying that Standard. The amendments respond to concerns that the wording of some of the requirements in IAS 1 may have prevented the use of such judgement.

The proposed amendments relate to:

- (a) materiality and aggregation (see paragraphs 29–31 and BC1–8 of this Exposure Draft);
- (b) statement of financial position and statement of profit or loss and other comprehensive income (see paragraphs 54, 55A, 82, 85A and 85B and BC9–BC15 of this Exposure Draft);
- (c) notes structure (see paragraphs 113–117 and BC16–BC19 of this Exposure Draft); and
- (d) disclosure of accounting policies (see paragraphs 120 and BC20–BC22 of this Exposure Draft).

Do you agree with each of the amendments? Do you have any concerns about, or alternative suggestions for, any of the proposed amendments?

The GDV appreciates that IASB decided to draw up these narrow-scope clarifying amendments to address the significant concerns on disclosure overload on a short-time basis as a first stage of the Disclosure Initiative. In general, we support the suggested amendments to IAS 1 *Presentation of Financial Statements* as published by the IASB. IAS 1 allows entities the flexibility to provide business model and entity specific information. This flexibility should remain. Especially, the transparency of the information provided can be significantly improved when the most relevant information can be presented or disclosed with the necessary prominence which would also increase the understandability of information provided.

Therefore, we support the IASB's approach to address the interpretation issue caused by the potentially misleading wording (e.g. "as a minimum"-notion in paragraph 54). We also agree with proposed clarifications that entities can and *should* apply judgment while preparing notes as this appears to be a suitable approach to reduce the existing information overload. We support the requirement that entities should consider how to present notes in a systematic manner (paragraph 113) without neglecting the need for understandability and comparability (paragraph 113A).

We suggest however deleting paragraphs 55A (c) and 85A (c) as consistency over time is already required in paragraph 13 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In our view the

consistency as general accounting principle also applies for presentation purposes. The suggestion in paragraph 24 of the EFRAG draft comment letter is thus not supported by us. As a general comment, the standards should be as concise as possible and avoid duplication of statements. The EFRAG' suggestion would contradict this objective.

Additional remarks

We welcome the Disclosure Initiative of the IASB and the issued Exposure Draft ED/2014/1 as a first step aiming to clarify that entities should be enabled to exercise even more management judgment when e.g. complying with disclosures requirements for the notes. We support the efforts undertaken by the IASB to address the disclosure overload concerns. Unfortunately, at the same time we observe some contradicting developments regarding financial reporting:

- coordination of effective standard setting process

The Board is undertaking considerable efforts to improve the effectiveness of financial statements while addressing existing significant concerns with some short-term improvements. At the same time IASB is dealing with final phases of some major standards projects. Within these projects additional exhaustive disclosure requirements are proposed for final approval or have been already tentatively accepted. We strongly believe that some of these decisions should be reconsidered as they are contradicting the explicit objective of effective disclosures.

Example:

For the insurance contracts project (IFRS 4 Phase II) the Board recently (Board Meeting in April 2014) decided to keep the requirement regarding the obligatory disclosure of a confidence level for the risk adjustment in the case, in which an entity uses a different technique for risk adjustment calculation (paragraph 84 of the revised Exposure Draft ED/2013/7 Insurance Contracts, June 2013). In GDV's view this requirement is not appropriate and should be removed without replacement.

In EFRAG's view, this disclosure requirement 'may give a false impression of comparability between insurers'
(*paragraph 105 of EFRAG's comment letter, 15 November 2013*).

The European Insurance and Occupational Pensions Authority (EIOPA) expressed its disagreement with this specific disclosure requirement as this "indirectly suggests that the confidence level approach is superior to all other methods, which would not be consistent with the Board's principles-based approach'

(paragraph 26 of the EIOPA's response to Exposure Draft ED/2013/7 Insurance Contracts, 24 October 2013).

Finally, International Actuarial Association (IAA) expressed the view of professionals that the requirement of paragraph 84 of the ED/2013/7 is strongly objected as the considerable work on the reconciliation exercise will not lead to meaningful information. This disclosure requirement 'may result in confusing, rather than useful information for users'

(page 23 of IAA comments on the IASB 2013 Exposure Draft Insurance Contracts (ED/2013/7), 24 October 2013).

Nevertheless, although the considerable concerns and the common negative assessments are known, the IASB decided to continue to proceed with the problematic disclosure requirement. The GDV does not believe that neglecting and ignoring the valid concerns might contribute in a positive way to increased effectiveness of disclosures in IFRS financial statements. Thus, also current standard projects should address the disclosure overload concerns more appropriate.

- effective coordination of involved parties in standard setting process

The efforts of the IASB's Disclosure Initiative might be contradicted by activities of other institutions dealing with rules for the communication of financial information to users on capital markets.

Example:

On 13 February 2014 the European Securities and Markets Authority (ESMA) released for public consultation a [draft] ESMA Guidelines on how to strengthen the principles of the use of Alternative Performance Measures (ESMA/2014/175). We are concerned that the [draft] ESMA Guidelines on Alternative Performance Measures might have the unintended consequence to contradict the efforts undertaken by the IASB with the Disclosure Initiative.

For this reason we support EFRAG's suggestion in paragraph 26 of the EFRAG draft comment letter which recommends that IASB should address the use of non-IFRS financial information in the notes in the near future.

In general, we believe that IASB should have the leading and coordinating role in designing how financial information should be transmitted to users on capital markets and which information are meaningful enough to be required. To fulfil this role IASB should consider how the different involved parties are interpreting and reacting to IFRS standards as currently drafted. The Disclosure Initiative in general and the published ED/2014/1 are a good starting point for further discussions. The experience and professional advice provided by constituents should be however not neglected.

EFRAG's Question to constituents

- 13 Do you share EFRAG's view that to promote a change in behaviour, the IASB should require that entities 'shall not' (rather than 'need not') disclose immaterial information? If no, please explain.
- 14 Do you identify any difficulty in practice in applying or enforcing this requirement? Please explain.

Although we fully acknowledge the rationale of the suggestion in paragraph 12 (c) of the EFRAG draft comment letter, we do not support the proposal that IASB should explicitly require entities to not disclose immaterial information. We strongly suggest removing the related suggestion in the final comment letter towards IASB.

Our rationale

Paragraph 31 says [as proposed by the IASB in the ED/2014/1]:

"An entity need not provide a specific disclosure required by an IFRS in the financial statement, including in the notes, if the information resulting from that disclosure is not material."

In our view, the EFRAG's suggestion would lead to not practicable requirement and put additional unnecessary pressure on the entities as long the application of the materiality principle on the qualitative level is not explored sufficiently. In particular, we note that paragraph 31 refers to "specific disclosure required by an IFRS". Therefore, there is in first place an implicit assumption of the IASB that that "specific" disclosure is material to users. The judgment exercised by prepares to not disclose the related information might lead to controversial situations and unnecessary tensions when the regulators might continue to have a different approach how to assess if the material disclosures requirements are fulfilled or not. Therefore, we believe that such an obligation might have some unintended negative consequences, especially regarding the efforts related to 'Fast Close'-processes.

Finally, we understand that IASB is supposed to deal with the application of the materiality principle in more depth in one of further steps of the Disclosure Initiative. For these reasons we strongly suggest awaiting the outcome of these deliberations, in particular with regard to application of the materiality principle on the qualitative level and its common understanding.

EFRAG's Question to Constituents

38 Do you agree that an entity should disclose only those accounting policies for which the entity was allowed a degree of discretion in choosing and applying the policy? Please explain.

Yes. We believe that only the critical accounting policies should be disclosed and the repetition of the known accounting methods as described in the standards should not occur. In our view, an accounting policy is critical when it is decisive for the user to take notice of its use and if an entity had a significant degree of discretion in its application.

Nevertheless, entities should still have the flexibility when deciding how to communicate its financial position or performance to users and disclose the relevant accounting assumptions. Therefore we believe that the suggestion in paragraph 35 of the EFRAG draft comment letter is a good one. The main objective is to achieve an understandable flow of relevant information between issuers and users. However, we would not support any suggestion to amend the IAS 1 in a way which might be interpreted as an explicit requirement regarding this aspect. The general relevance principle should continue to apply.

[IASB's] Question 2 – Presentation of items of other comprehensive income arising from equity-accounted investments

Do you agree with the IASB's proposal to amend IAS 1 for the presentation of items of other comprehensive income arising from equity-accounted investments amendments (see paragraphs 82A, BC1–BC6 and the Guidance on implementing IAS 1)?

If not, why and what alternative do you propose?

On the conceptual level we do not disagree with EFRAG's response. We question however if, in this specific case, there is a significant added value to users to justify the operational efforts to distinguish the recyclable and the not-recyclable elements.

[IASB's] Question 3 – Transition provisions and effective date

Do you agree with the proposed transition provisions for the amendments to IAS 1 as described in this Exposure Draft (see paragraphs 139N and BC23–BC25)?

If not, why and what alternative do you propose?

We agree with IASB's view that additional transition provisions are not necessary.