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Accounting Standards Committee of Germany
IFRS-Fachausschuss®

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EFRAG
Françoise Flores
Chairman EFRAG TEG
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B-1000 Brussels

Berlin,14 February 2014

Dear Francoise,

EFRAG's Draft Comment Letter on the IASB's Exposure Draft ED/2013/11 Annual Improvements to IFRSs (2012-2014 Cycle)

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to comment on EFRAG's Draft Comment Letter on the IASB's ED/2013/11. We appreciate the opportunity to comment on EFRAG's Draft Comment Letter.

The ASCG welcomes the proposed amendments and agrees with them, except for the amendment to IAS 19. We consider the amendment to IAS 19 neither being sufficiently clear nor being exhaustive to clarify the issue. We provide some specific arguments on this issue in appendix A to this letter. In addition, we have some specific comments that directly relate to EFRAG's tentative views and, if so, additional questions raised by EFRAG. These are portrayed in appendix B to this letter.

If you would like to discuss our views further, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr

President

Appendix A – Answers to the questions of the IASB Exposure Draft

Question 1 - Proposed amendment
Do you agree with the IASB's proposal to amend the Standards as described in the Exposure Draft? If not, why and what alternative do you propose?

Question 2 - Transition provisions and effective date
Do you agree with the proposed transition provisions and effective date for the issue as described in the Exposure Draft? If not, why and what alternative do you propose?

IFRS 5 – Changes in methods of disposal

Q1: We agree with the proposed amendment.

Q2: We agree with both, the transition provisions as well as the effective date.

IFRS 7 – Servicing contracts

Q1: We basically agree with the proposed clarification. However, we would like to point to two particular aspects that warrant further consideration, or even require changes to the proposals as well as to existing requirements:

- The term "continuing involvement" as used in IFRS 7 causes some confusion since it also appears in IAS 39, an "involvement" further appears in IFRS 10. All terms do not share the same understanding. In particular, in IAS 39 it is used in a narrow sense, which only relates to the question of (de)recognition and which comprises the retention of risks and rewards. However, in IFRS 7 and IFRS 10/12 "involvement" is used in a wider sense. We propose to clarify or define the term in IFRS 7.
- The rationale for requiring disclosures (IFRS 7.42E et seq.) about servicing contracts, in case there is a continuing involvement, seems arguable. We wonder whether servicing contracts, as long as they are closed at market conditions, actually warrant particular disclosures simply for the fact that they result from earlier transfers of assets (which are derecognised entirely) – in contrast to those servicing contracts that do not have such "history". This results in a different treatment (i.e. disclosure requirements) of contracts which are essentially similar.

Q2: We agree with both.

IFRS 7 – Applicability of amendments to condensed interim financial statements

Q1: We agree with the amendment as it underlines the principle of IAS 34. However, it does neither explicitly nor implicitly answer the question of whether such offsetting disclosures should be made in condensed interim financial statements. We deem this question being of particular interest for the financial sector. One specific reason is that financial statements prepared in accordance with IFRSs are often compared with those in accordance with US GAAP, with both not facing identical requirements with regard to offsetting (and disclosure) requirements. Thus, it is expected that uncertainty (and incomparability) will remain as to whether, and when, these offsetting disclosures are required in the context of condensed interim financial reports.

Q2: We agree with both.

In addition, we like to note that nearly all IFRS amendments have an impact on interim financial statements. Mostly, those amendments have first to be applied to interim financial statements before they are then applied to annual financial statements. Therefore, we ask the IASB to expand its efforts and carefully consider those impacts and consequences on interim financial statements or reports whenever developing an IFRS amendment and/or new IFRS.

IAS 19 – Discount rate: regional market issue

Q1: We welcome the intention to amend para. 83 in respect of this specific regional market issue. We also agree with solely amending this particular aspect, while other aspects in the area of discount rate are still under discussion and other amendments might be pending.

However, we deem the proposed amendment of para. 83 not being precise enough in order to avoid diversity in practice. First, a concern arises from different views regarding the origin of the high quality corporate bond (HQCB) used. According to one view, all worldwide available HQCB, denominated in the same currency as the post-employment benefit obligation, have to be considered when determining the discount rate. E.g. in determining the discount rate for a post-employment benefit obligation denominated in EURO, all worldwide available HQCB denominated in EURO are to be considered even those issued by an entity headquartered e.g. in Brazil. According to a different view, if there is a deep market for HQCB in one country (e.g. Germany), only HQCB from that country's entities have to be considered in determining the discount rate. If there is no deep market on the country level, one shall consider HQCB from other countries or a region (e.g. Eurozone). Second, we are not sure whether the understanding of this "currency" principle would apply similarly to government bonds. E.g. if there were no deep market for any HQCB in EURO, hence, the discount rate is to be determined by market yields on government bonds "denominated in that currency", should an entity consider government bonds denominated in EURO in its own country, or in any other country of the Eurozone, or even in any country worldwide? Therefore, we urge the IASB to provide more guidance on how to determine the discount rate.

In addition, we would like to mention that, amongst several other aspects about "discount rate" that need clarification, the quality of the government bonds used should also be discussed in this context. While corporate bonds have to be “high quality”, government bonds so far could have a much lower rating, e.g. a "D" rating. We think this warrants clarification.

Generally, we would like to point out that, in our opinion, the objective of the discount rate has to be determined to allow for an adequate interpretation and application of the requirements regarding the discount rate. Therefore we would suggest that the IASB specify the objective of the discount rate in IAS 19.

Q2: We agree with both.

IAS 34 – Disclosure of information elsewhere in the interim financial report

Q1: We basically agree with the proposed amendment. However, we like to note that we deem the wording of "same time" being unclear. Whereas we understand the principle behind, we wonder whether it requires to be the same day or another (longer or shorter) period of time. Thus, we propose to replace "same time" by "same date".

Q2: We agree with both.

Appendix B – Comments to EFRAG's tentative view and questions raised by EFRAG in its Draft Comment Letter to the IASB ED/2013/11

IFRS 5 – Changes in methods of disposal

No further comments.

IFRS 7 – Servicing contracts

We would like to note that EFRAG's tentative view is to support the prospective application. Though, the IASB proposes a retrospective application for this amendment. We therefore ask EFRAG to reconsider its view. The ASCG, however, agrees with retrospective application.

IFRS 7 – Applicability of amendments to condensed interim financial statements

No further comments.

IAS 19 – Discount rate: regional market issue

Like EFRAG, we basically agree with the IASB’s proposed amendments to IAS 19 as they clarify that the depth of the market for HQCB should be assessed at the currency level and not at the country level. However, we do not share EFRAG’s opinion that the IASB, before finalising these proposed amendments, should clarify the objectives underlying the selection and use of the discount rate used to measure post-employment benefit obligation. In our view, this is a fundamental discussion that should not, and cannot, be part of a narrow-scope amendment in the *Annual Improvements Project*. Nevertheless, we agree with EFRAG’s view that a debate about the objectives of discounting is necessary, but this should be part of a broader and more generalised discussion about discount rates and/or accounting for employee benefits.

Regarding EFRAG’s concerns raised in para. 32 to 33 we would like to comment as follows:

- *ad para. 32(a):* When currency zone and economic area differ, the usage of market yields from another economic area to determine the discount rate may not necessarily in line with the objective of the discount rate. In order to evaluate if the outcome is in line with the objective of the discount rate it is important that the IASB determines the objective of the discount rate. Nevertheless, discounting post-employment benefit obligations even with a stronger currency (e.g. US Dollar) is the consistent application of the requirements of IAS 19. Thus, we would suggest to amend the paragraph to clarify that depending from the objective of the discount rate anomalous outcomes could result.

- *ad para. 32(b):* We agree with the problem described in that paragraph.
- *ad para. 32(c):* We are not aware of pension plans in Germany which need to invest in assets from Germany. Furthermore, IAS 19.84 states that the discount rate reflects only the time value of money and not the actuarial risk, investment risk, entity-specific credit risk, or the risk that future experience may differ from actuarial assumptions. And, according to the fundamental view of the IASB, as set out in IAS 19.BC130, the determination of the discount rate should be independent from the plan assets actually held by a plan. Thus, we do not agree with this statement.
- *ad para. 33:* The principal objective of the IASB is, amongst others, to develop a single set of high quality financial reporting standards. Therefore, in our opinion, the IASB cannot consider aspects which are only relevant in a specific jurisdiction. Thus, we do not agree with this statement.

In our opinion, the IASB should provide sufficient guidance on how to determine the discount rate, mainly on the aspects mentioned below (similar to those mentioned in appendix A):

- We deem the proposed amendment of para. 83 not being precise enough in order to avoid diversity in practice. First, a concern arises from different views regarding the origin of the high quality corporate bond (HQCB) used. According to one view, all HQCB available worldwide, denominated in the same currency as the post-employment benefit obligation, have to be considered when determining the discount rate. E.g. in determining the discount rate for a post-employment benefit obligation denominated in EURO, all HQCB available worldwide denominated in EURO are to be considered even those issued by an entity headquartered e.g. in Brazil. According to a different view, if there is a deep market for HQCB in one country (e.g. Germany), only HQCB from that country's entities have to be considered in determining the discount rate. If there is no deep market on the country level, one shall consider HQCB from other countries or a region (e.g. Eurozone). Second, we are not sure whether the understanding of this "currency" principle would apply similarly to government bonds. E.g. if there were no deep market for any HQCB in EURO, hence, the discount rate is to be determined by market yields on government bonds "denominated in that currency", should an entity consider government bonds denominated in EURO in its own country, or in any other country of the Eurozone, or even in any country worldwide? Therefore, we urge the IASB to provide more guidance on how to determine the discount rate.
- In addition, we would like to mention that, amongst several other aspects about "discount rate" that need clarification, the quality of the government bonds used should also be discussed in this context. While corporate bonds have to be “high quality”, government bonds so far could have a much lower rating, e.g. a "D" rating. We think this warrants clarification.

- Generally, we would like to point out that, in our opinion, the objective of the discount rate has to be determined to allow for an adequate interpretation and application of the requirements regarding the discount rate. Therefore we would suggest that the IASB specify the objective of the discount rate in IAS 19.

Finally, we would like to answer to the questions raised by EFRAG as follows:

- *ad para. 34:* In our opinion, the IASB should consider the issues described above.
- *ad para. 35:* We are not aware of any circumstance where these amendments will not result in meaningful outcomes.
- *ad para. 36:* We support the retrospective application of these amendments.

IAS 34 – Disclosure of information elsewhere in the interim financial report

No further comments.