Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
®
IFRS-Committee

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EFRAG
Acting President Mr Roger Marshall
35 Square de Meeûs
B-1000 Brussels
Belgium

Berlin, 29 June 2015

Dear Roger,

DRAFT ENDORSEMENT ADVICE (DEA) AND EFFECTS STUDY REPORT ON IFRS 9 *FINANCIAL INSTRUMENTS*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on EFRAG's draft assessment of IFRS 9 *Financial Instruments*.

Overall, we are clearly in favour of the endorsement of IFRS 9, which should be unrestricted and without any delay. Although we have identified areas for improvement regarding the DEA, on which we provide our detailed comments below, we emphasise that these are not detrimental to the endorsement.

1. Technical Criteria

We agree with the views set out in the DEA in respect of the technical criteria for endorsement and, thus, agree with the assessment that on balance the technical criteria are met.

2. Conduciveness for the European public good

We also agree with the general assessment of IFRS 9 being conducive to the European public good. However, we feel that some of the views or arguments provided in the DEA are not explained precisely enough and/or some of the conclusions not being drawn properly. These touch on the comparison of IFRS 9 and IAS 39, the assessment of the lack of convergence, and most notably, the interrelationship between IFRS 9 and IFRS 4. Some of these also relate to the cost/benefit analysis. In the following, we make some suggestions how to strengthen or clarify these arguments without altering the respective conclusions or even the overall assessment.

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a) Comparison of IFRS 9 and IAS 39

Generally speaking, the assessment of whether IFRS 9 is superior in comparison to IAS 39 could (and probably should) be more nuanced. While EFRAG is carrying out its assessment for the different areas of IFRS 9 (classification, impairment, hedging) and is providing a balanced view, which we support, we suggest to also distinguish between the affected industries in a similar way as it seems doubtful that the benefits and costs are the same for, say, corporates and the financial services sector (and even within the financial services industry, the benefits may be different for banks vis-à-vis insurance or leasing entities).

As far as the three areas of IFRS 9 are concerned:

- We share EFRAG's positive assessment with regard to hedge accounting, even if the banking industry, being most affected, is rather neutral as an eagerly awaited macro hedge accounting solution is still under development.
- EFRAG's positive assessment with regard to classification seems appropriate only from a corporate's perspective, although it is of minor importance for them. We believe that EFRAG should stop by stating that the classification is different to that of IAS 39 without making an explicit statement as to the superiority.
- With regard to impairment, the EFRAG's assessment for requirements sound confusing as EFRAG's conclusion of a significant improvement explicitly refers to "disclosures" (App. 3, para. 31).

b) Lack of convergence

While we deem an assessment of the impact of the lack of convergence worthwhile, we are not convinced that this should result in a comparison of IFRS 9 and the respective US-GAAP requirements, especially when the latter are still under development, or even in a judgment of which set constitute a better model. Thus, we propose avoiding language such as "superior" or "more appropriate" or "more relevant" (App. 3, paras. 58, 70, 73), but rather assessing whether – in the absence of a level playing-field – the lack of convergence could be detrimental to the European public good or not.

c) Interrelationship of IFRS 9 and IFRS 4

We deem the interrelationship between IFRS 9 and the future standard for insurance contracts ("IFRS 4 *revised*") of being the area of utmost concern. We clearly advocate that a solution be found at the IASB level. We support deferring the mandatory effective date of IFRS 9 for insurers, with early application allowed to cater for jurisdictions in which the move to a current value environment appears to be less a big step. For all other industries, the mandatory effective date should remain 1 January 2018.

This said, we support that EFRAG describes and analyses the benefits and drawbacks in this respect. However, we consider the current description being partly imprecise and the drawbacks not described neutrally. As a consequence, we fear that the conclusion drawn is improper and potentially open to criticism.

We therefore suggest that:

- the description of the benefits be sharpened and refined;
- the description of the drawbacks be less appraising or biased; and
- the conclusion be widened in order to neutrally compare and weight benefits and drawbacks and to result in a more comprehensible and weighed judgment.

With regard to the benefits (App. 3, para. 105), we think that (a) '<u>the information needs of users</u>' – in particular the part of the needs that is deemed not to be met ("information lack") – is not described precisely, but rather an assertion. The assessment should be made in a more nuanced way. Further, (c) '<u>description of the expected accounting mismatch</u>' does not distinguish between those effects that result from a deferred implementation of IFRS 9 and IFRS 4 *revised* (temporary and avoidable effects) and those that would arise even after transition to the new standards (permanent effects). For a practical reason, we also suggest to merge both aspects ((a) and (c)), since they relate to each other and would, if combined, make the point clearer and more comprehensible.

In addition, we think that argument (b) 'additional <u>costs for preparers</u>' also warrants a more robust description. Firstly, additional costs do arise on a stepped implementation of the two standards, but only partially – e.g., some IT system changes occur twice, or implementation projects are set up twice. Secondly, further costs are incurred from introducing some IFRS 9 requirements twice, as the subsequent transition to IFRS 4 *revised* might lead to changes to the choices being made in implementing IFRS 9 – e.g., the business model determination for certain instruments or accounting policy choices might need to be changed. Thirdly, additional costs arise due to the fact that some IFRS 9 implementation steps would be redundant had IFRS 4 *revised* been implemented at the same time – e.g., carrying out the SPPI test for some instruments could be deemed unnecessary.

With regard to the drawbacks (App. 3, para. 106), (a) the deemed <u>improvement by IFRS 9</u> should not be discarded wholesale. Although we share the view that the improvement is limited, this assessment should be provided later, namely be part of the conclusion from weighing benefits and drawbacks (App. 3, para. 107). Also, EFRAG describes the improvement by only considering the impairment model; it would be more neutral if all three areas of IFRS 9 were mentioned and assessed in this respect. Furthermore, we deem (c) '<u>the impact on conglomerates</u>' being far less crucial than commonly assumed, since to our knowledge there are only a few conglomerates left after the financial crisis that have both a substantial banking and a substantial insurance arm. This argument deserves to be mentioned and acknowledged when concluding on benefits and drawbacks of a potential deferral.

Lastly, we are aware that some are worried by the proposal of applying IAS 39 and IFRS 9 simultaneously in the respective segments (i.e., IFRS 9 in the banking arm and IAS 39 in the insurance segment). Whilst we acknowledge that the application of both IAS 39 and IFRS 9 in one group could give rise to a possibility of earnings management, we believe that the accounting issues involved are not insurmountable and could catered for in a number of ways (e.g. by setting a requirement to fully unwind any intragroup effects including classification or by introducing tainting rules, by including further disaggregation in the primary financial statements and/or additional disclosures, etc.). Further, we like to note that in many cases there are supervisory safeguards in play that would prohibit substantial asset transfers between the two segments.

d) Cost/benefit analysis

Finally, some of the aspects mentioned before also relate to the cost/benefit analysis. As explained earlier, the assessment of whether IFRS 9 is superior in comparison to IAS 39 should be more nuanced, depending on the area (classification, impairment, hedging) and the industry affected.

For the insurance business we noted that the benefits from introducing IFRS 9 are far more limited when compared to the banking sector. While hedge accounting might be seen an improvement, the insurers in our constituency have clearly stated that they will only look into this area once IFRS 4 *revised* is in place. The introduction of the new impairment model is operationally challenging and causes high implementation costs without providing similar benefits, as the vast majority of assets backing insurance liabilities must have investment grade rating for prudential reasons. Hence, whilst undeniably having some impact on insurers, the model seems to have been tailored to cater for the business of wholesale banks. Implementing the IFRS 9 classification and measurement model is costly too, and even if insurers consider it accommodating most of their needs, it is deemed not providing general benefits in the sense of being "superior" to the IAS 39 measurement model by some.

Hence, our constituents are not unanimous in their view that, on balance, the benefits of implementing the new proposals outweigh the costs of doing so. Nonetheless, even those that doubt the cost benefit relation being met do not object to a full endorsement of IFRS 9.

<u>3. Conclusion</u>

The concerns mentioned above do not alter the general positive assessment and, therefore, do not impede an unrestricted and undelayed endorsement of IFRS 9.

Please find attached the forms comprising our condensed comments on EFRAG's draft assessment as well as comments received from some of the DAX30 entities to which we have forwarded the DEA.

If you have any further questions, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Andreas Barckow

President

EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Andreas Barckow, ASCG (Accounting Standards Committee of Germany)

(b) Are you a:

☐ Preparer ☐ User ☒ Other (please specify)

National Standard-Setter

(c) Please provide a short description of your activity:

National Standard-Setter

(d) Country where you are located:

Germany

(e) Contact details including e-mail address:

Prof. Dr. Andreas Barckow - c/o DRSC e.V.
Zimmerstr. 30; D - 10969 Berlin
barckow@drsc.de

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

The assessment of the impairment model in respect of the "prudence criterion" is not substantiated (App. 2, para. 189). In addition, there is no link to the respective assessment of the "relevance criterion" (App. 2, paras. 51 et seq.), since we see a trade-off between relevance and prudence with regard to the impairment model.

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

none

The European public good

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and

will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We feel that the assessment of the comparison should be nuanced not only with regard to the different areas (classification, impairment, hedging), but also regarding the industry affected (banking, insurance, others).

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

EFRAG should avoid using language that could be perceived as offensive (e.g. using words such as "superior"). We suggest sticking to assessing whether the lack of convergence could be detrimental to the European public good.

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

The IFRS 9 requirements are not the only cause that have an impact on the investor and issuer behaviour; rather, there are several factors that have a combined impact on the investor and issuer behaviour (e.g. tax laws, prudential supervision, competition law, etc.). Thus, an assessment of the mere IFRS 9 impact is difficult and might not lead to the assessment being "positive", but rather "not negative".

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We underline our preference for a solution on the IASB level.

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

The benefits of a deferral should be described more precisely and more nuanced. The drawbacks should be described in a less tendentious way. Instead, the list of benefits and drawbacks (App. 3, paras. 105 to 106) should be phrased neutrally, followed by a balanced analysis of both (app. 3, para. 107), and resulting in a conclusion that supports a deferral. For more details we refer to our cover letter.

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

None

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial

assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

As a National Standard-Setter we are not in a position to comment on this issue. Those constituents that responded vis-à-vis us, all agree with EFRAG's assessment.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

As a National Standard-Setter we are not in a position to comment on this issue. Most of our constituents agree with EFRAG's assessment. However, depending on the industry and the area of IFRS 9 (classification, impairment, hedging), the benefits from IFRS 9 should be assessed in a more nuanced way. Nonetheless, this is not seen as detrimental to endorsement.

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

☐ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

As a National Standard-Setter we are not in a position to comment on this issue. Most of our constituents agree with EFRAG's assessment. However, the insurance industry noted that it is too early to assess whether the benefits outweigh the costs. It might be safer to say that the costs and challenges are very high. Overall, this should not have a detrimental impact on the endorsement.

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

☒ Yes ☐ No

If you do not agree, please explain your reasons.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

EFRAG

European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

The Linde Group

(b) Are you a:

☒ Preparer ☐ User ☐ Other (please specify)

(c) Please provide a short description of your activity:

Industrial Gases and Engineering

(d) Country where you are located:

Germany with activities in more than 100 countries

(e) Contact details including e-mail address:

Andreas.schatz@linde.com

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We see no further issues.

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We see no further issues.

The European public good

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We see no further issues.

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

> We do not answer this question because the proposed US GAAP guidance is not finalized and the Linde Group is not creating financial statements under US GAAP.

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

> We see no further issues.

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We have no opinion on this questions because it is not applicable to the Linde Group as we are not in the insurance industry

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

We have no opinion on this questions because it is not applicable to the Linde Group as we are not in the insurance industry

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We have no opinion on this questions because it is not applicable to the Linde Group as we are not in the insurance industry

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

We see no further issues

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

☒ Yes ☐ No

If you do not agree, please explain your reasons.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

EFRAG
European Financial Reporting Advisory Group

INVITATION TO COMMENT ON EFRAG'S ASSESSMENTS ON IFRS 9 *Financial Instruments*

Comments should be sent to commentletters@efrag.org by 30 June 2015

EFRAG has been asked by the European Commission to provide it with advice and supporting material on IFRS 9 *Financial Instruments* ('IFRS 9' or 'the Standard'). In order to do that, EFRAG has been carrying out an assessment of IFRS 9 against the technical criteria for endorsement set out in Regulation (EC) No 1606/2002 and has also been assessing impact of IFRS 9 on the European public good.

A summary of IFRS 9 is set out in Appendix 1 to the draft endorsement advice letter.

Before finalising its assessments, EFRAG would welcome your views on the issues set out below and any other matters that you wish to raise. Please note that all responses received will be placed on the public record, unless the respondent requests confidentiality. In the interest of transparency EFRAG will wish to discuss the responses it receives in a public meeting, so we would prefer to be able to publish all the responses received.

EFRAG initial assessments summarised in this questionnaire will be amended to reflect EFRAG's decisions in Appendices 2 and 3 of the draft endorsement advice.

Your details

1 Please provide the following details about yourself:

(a) Your name or, if you are responding on behalf of an organisation or company, its name:

Merck KGaA

(b) Are you a:

☒ Preparer ☐ User ☐ Other (please specify)

(c) Please provide a short description of your activity:

Operations in Chemical and Pharmaceutical Industry

(d) Country where you are located:

Headquarters in Darmstadt, Germany/worldwide subsidiaries

(e) Contact details including e-mail address:

Henning.wiedemeyer@merckgroup.com

Stefan.wich@merckgroup.com

EFRAG's initial assessment with respect to the technical criteria for endorsement

2 EFRAG's initial assessment of IFRS 9 is that it meets the technical criteria for endorsement. In other words, it is not contrary to the principle of true and fair view and it meets meet the criteria of understandability, relevance, reliability and comparability and leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2, paragraphs 2 to 197 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

n/a

3 EFRAG's initial assessment of IFRS 9 is that it leads to prudent accounting. EFRAG's reasoning is set out in Appendix 2 paragraphs 185 to 191 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

n/a

(b) Are there any issues relating to prudence that are not mentioned in Appendix 2 that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No additional issues identified

(c) Are there any other issues that are not mentioned in Appendix 2 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No additional issues identified

The European public good

4 In its assessment of the impact of IFRS 9 on the European public good, EFRAG has considered a number of issues that are addressed in Appendix 3 of the draft endorsement advice.

IFRS 9 compared to IAS 39

5 EFRAG's initial assessment of IFRS 9, and particularly with respect to the impairment and hedging requirements, is that it is an improvement over IAS 39 and will lead to higher quality financial reporting. The assessment is reflected in paragraphs 3 to 52 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

n/a

(b) Are there any issues relating to IFRS 9 compared to IAS 39 that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing to IAS 39? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No additional issues identified

The lack of convergence with US GAAP

6 EFRAG's initial assessment is that IFRS 9 will lead to higher quality financial reporting when compared to current US GAAP and proposed changes to impairment requirements. The assessment is reflected in paragraphs 53 to 74 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

(b) Are there any issues related to the impact of the lack of convergence that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when comparing with US GAAP? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No additional issues identified

Impact on investor and issuer behaviour

7 EFRAG's analysis in this area is based on our understanding of both changes in IFRS 9 and current practices of financial institutions and is not a full impact assessment. In its analysis EFRAG has tried to identify potential negative effects only, to contribute to identifying whether there would be any impediment to IFRS 9 being conducive to the European public good. The assessment is reflected in paragraphs 75 to 99 of Appendix 3 of the draft endorsement advice.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

n/a

(b) Are there any issues related to the impact of IFRS 9 on investor and issuer behaviour that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9? If there are, what are those issues and why do you believe they are relevant to the evaluation?

no additional issues identified

Inter-relationship of IFRS 9 with the future insurance contracts standard

8 EFRAG has initially concluded that the mismatch in timing of the future insurance contracts standard and IFRS 9 will create disruptions in the financial reporting of insurance activities which may not be beneficial to investors and other primary users (see Appendix 3, paragraphs 100 to 110 of the draft endorsement advice). Hence EFRAG proposes to advise the European Commission to ask the IASB to defer the effective date of IFRS 9 for insurers and align it with the effective date of the future insurance contracts standard.

9 In reaching this preliminary position, EFRAG has relied on quantitative assessments prepared by the European insurance industry and released shortly before EFRAG concluded on its tentative advice to the European Commission. EFRAG intends to deepen its understanding of the effect on the reporting by insurance businesses by implementing IFRS 9 in advance of the forthcoming IFRS 4. EFRAG invites all quantitative evidence that can supplement the impact assessment received from the European insurance industry, including evidence gathered by those who oppose the deferral.

(a) Do you agree with this assessment and the subsequent advice to the European Commission?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No opinion on interaction with future insurance contracts standard

(b) Do you think that EFRAG should recommend the EC to grant to insurance businesses a deferred mandatory date of application for the endorsed IFRS 9 if the IASB were not to defer the effective date of IFRS 9?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No opinion on interaction with future insurance contracts standard

(c) Are there any issues related to the inter-relationship of IFRS 9 with the future insurance contracts standard that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the inter-relationship between IFRS 9 and the future insurance contracts standard? If there are, what are those issues and why do you believe they are relevant to the evaluation?

No opinion on interaction with future insurance contracts standard

European carve-out

10 EFRAG has initially concluded that the endorsement of IFRS 9 would not affect the ability of entities to rely on the European carve-out (see Appendix 3, paragraphs 111 to 117 of the draft endorsement advice).

(a) Do you agree with this assessment?

☐ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

No opinion as we do not intend to make use of the carve-out provisions

(b) Are there any issues related to the European carve-out that are not mentioned in Appendix 3 of the draft endorsement advice that you believe EFRAG should take into account in its technical evaluation of IFRS 9 when assessing the EU carve out? If there are, what are those issues and why do you believe they are relevant to the evaluation?

Costs and benefits of IFRS 9

11 EFRAG is assessing the costs that are likely to arise for preparers and for users on implementation of IFRS 9 in the EU, both in year one and in subsequent years. Some initial work has been carried out, and the responses to this Invitation to Comment will be used to complete the assessment.

12 The results of the initial assessment of costs are set out in paragraphs 120 to 155 of Appendix 3 of the draft endorsement advice. To summarise, EFRAG's initial assessment is that overall, IFRS 9 is likely to result in significant costs for preparers related to implementation of and ongoing costs of complying with the standard. However, IFRS 9 is not likely to result in significant costs for users after the transition. At transition costs will be incurred in understanding the new financial reporting.

(a) Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not and (if possible) explain broadly what you believe the costs involved will be.

(b) In addition, EFRAG is assessing the benefits that are likely to be derived from the application of IFRS 9. The results of the initial assessment of benefits are set out in paragraphs 156 to 170 of Appendix 3. To summarise, EFRAG's initial assessment is that overall, users and preparers are both likely to benefit from IFRS 9, as the information resulting from it will be relevant and transparent and therefore will enhance the analysis of users.

Do you agree with this assessment?

☒ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

For industrial companies it appears to be questionable, whether the benefits of the new impairment rules really exceed the significant one-off costs, which will be incurred by establishing new systems, controls, valuation systems etc.

13 EFRAG's initial assessment is that the benefits to be derived from implementing IFRS 9 in the EU as described in paragraph 12 (b) above are likely to outweigh the costs involved as described in paragraph 12 (a) above.

Do you agree with this assessment?

☒ Yes ☒ No

If you do not agree with this assessment, please provide your arguments and indicate how this should affect EFRAG's endorsement advice.

see above

Overall assessment with respect to the European public good

14 EFRAG has initially concluded that endorsement of IFRS 9 would be conducive to the European public good (see Appendix 3, paragraphs 174 to 176 of the draft endorsement advice).

Do you agree with the assessment of these factors?

☒ Yes ☐ No

If you do not agree, please explain your reasons.

Other issues for consideration

Request to provide quantitative data on a confidential basis

15 EFRAG continues its search for quantitative data in the fields of impairment and the inter-relationship between IFRS 9 and the future insurance contracts standard. EFRAG calls upon constituents who have quantitative data available in these fields, to provide it to EFRAG on a confidential basis during the consultation period of the draft endorsement advice. Data provided will be used in finalising the endorsement advice but will not be made public.

The collection of these data is subject to EFRAG's field-work policy which is available on the EFRAG website.

The inter-relationship between IFRS 9 and the future insurance standard is not relevant for Merck.

Should endorsement be halted until quantitative data are available?

16 Based on the results of our questionnaire follow up to the field-tests, it can take up to 2017 to have quantitative impacts of the implementation of IFRS 9 available. It has been argued by some that the quantitative impacts of IFRS 9 should be known before endorsement of the standard is decided upon. EFRAG does not agree with this view and believes that the improvements brought to financial reporting by IFRS 9 should not be withheld from European companies for a period that long.

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Should early application of IFRS 9 be prohibited?

17 It has been argued by some that early application of IFRS 9 should not be allowed for specific regulated industries. EFRAG does not agree with this and is of the opinion that entities should be able to apply IFRS 9 early (see Appendix 2, paragraphs 192 to 195 of the draft endorsement advice).

Do you agree with this assessment?

☒ Yes ☐ No

If you do not, please explain why you do not agree and what you believe the implications of this should be for EFRAG's endorsement advice.

Bahrmann, Cornelia

Von:	Pfaller Isabella - Munich-MR [ipfaller@munichre.com]
Gesendet:	Freitag, 5. Juni 2015 16:06
An:	Bahrmann, Cornelia
Cc:	Hörmann Walter - Munich-MR; Röthemeyer Dr. Iris - Munich-MR
Betreff:	WG: EFRAG Draft Endorsement Advice zu IFRS 9

Sehr geehrte Frau Bahrmann,

For Munich Re we do have the following comments on EFRAG's assessments on IFRS 9:

- We agree that IFRS 9 meets the technical criteria and the question concerning the "European public good" and would recommend to answer these questions in a positive tenor.
- Unfortunately, convergence with US GAAP is not achieved. However, in particular the impairment model in IFRS 9 is principally superior compared with the impairment model under US GAAP.
- The costs for the implementation of IFRS 9 will be very high and the implementation of the new requirements (IT systems) will be challenging; this concerns in particular the new impairment model, which is made for banks and does not really fit for financial instruments of insurance companies. Overall it is too early to say – under cost benefit considerations - if the new requirements will be advantageous compared with the current requirements (IAS 39). In any case, the differences compared to US GAAP and the impairment model are difficult from a international insurance companies perspective.
- Challenging is also the relationship with the future standard for insurance contracts. Currently it is not possible to say how the balance sheets and income statements of insurers will look like under both the new standards.
  However, as we know that both standards will have a big impact on our figures it would be an advantage, if we as insurers had the choice to implement IFRS 9 and the new insurance standard at the same time.
  Otherwise it will be difficult to explain the movements of our figures to investors and analysts and we have to expect comparative disadvantages compared to other branches (not only banks!) at the capital markets.
  Hence, the mandatory effective date of IFRS 9 for insurers should be postponed and aligned with the effective date of the new insurance standard.
  This should not be a European solution, because for global groups a European solution would be challenging as well.
  That means, EFRAG should ask the IASB for an alignment of the effective dates of the two new standards for insurers and to look for solutions in regard to the open questions in this context (in particular: effected entities, conglomerates, …). This alignment should be optional.

Beste Grüße

Isabella Pfaller
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