Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

DRSC

DRSC e. V. • Joachimsthaler Str. 34 • D-10719 B

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IFRS Technical Committee

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Prof Dr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
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Berlin, 12 January 2022

Dear Andreas,

IASB Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19)*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2021/3 *Disclosure Requirements in IFRS Standards – A Pilot Approach (Proposed Amendments to IFRS 13 and IAS 19)* issued by the IASB on 25 March 2021 (herein referred to as the 'ED'). We appreciate the opportunity to comment on the ED.

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Our responses to the complete set of questions raised in the invitation to comment are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Ilka Canitz (canitz@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Appendix – Answers to the questions in the ED

Questions 1 - 5

[Antwortentwürfe noch zu erstellen]

Question 6 – Overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition
Paragraphs BC62–BC73 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position after initial recognition. Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? If not, what alternative objective do you suggest and why?

Proposed overall disclosure objective (paragraphs 100, BC62-BC63)

We generally agree with the overall proposed disclosure objective and the IASB's reasoning for proposing the overall disclosure objective for assets and liabilities measured at fair value in the statement of financial position, as described in paragraphs BC62-BC73. As already explained more generally in our response to questions 1 and 2, we welcome the IASB's approach to use disclosure objectives to describe users' information needs and require entities to disclose information that meets those needs.

However, we note that the IASB has not fundamentally "rethought" fair value measurement disclosures. Rather, current requirements in IFRS 13 already include a disclosure objective in paragraphs 91-92 and the proposed specific disclosure objectives and items of information build on the existing disclosure requirements, as well. Therefore, some preparer rendered a critical view of whether fair value measurement disclosures will change in practice.

Our main concern regarding the proposed overall disclosure objective, however, relates to the requirements to assess whether information provided in the notes meets overall user information needs (i.e., should additional information be disclosed?). As already explained more generally in our response to question 1, it is unclear which additional information an entity might need to disclose to comply with an overall disclosure objective that is not captured by the specific disclosure objectives. Regarding the disclosures on assets and liabilities measured at fair value, the IASB explains in paragraph BC63, that an entity will need to disclose additional information if there are any material uncertainties associated with fair value measurement that have not been captured by the specific disclosure objectives. However, it is unclear which information, and under which circumstances an entity might be required to disclose additional information to satisfy the overall disclosure objective. We therefore recommend the IASB explain further, under which circumstances disclosures on measurement uncertainties are currently missing in practice that would require an entity to disclose additional information in order to comply with the overall disclosure objective.

Level of detail (paragraphs 101, BC64-BC73)

We agree with the IASB's decision to avoid reference to levels of the fair value hierarchy in the proposed disclosure objective and items of information. From a conceptual perspective, we believe it is appropriate that the nature and extent of fair value measurement disclosures should vary solely based on the nature of the fair value measurements (i.e., measurement uncertainty inherent in fair value measurement).

Further, we believe that the IASB has well identified and adequately describes the current deficiencies in fair value measurement disclosures (ref. paragraphs BC65-70). In our experience:

- Level 3 fair value measurements are often subject to lengthy disclosures in the notes, while the amounts are often not material (especially when compared to Level 2 fair value measurements),
- Level 2 fair value measurements are often material and frequently comprise the largest portion of an entity's fair value measurements. However, Level 2 fair value measurements have a wide of measurement uncertainty and subjectivity, with some Level 2 fair value measurements being close to Level 1 (e.g., when a transaction price is based on transactions of other market participants, such as Bloomberg data) and some Level 2 fair value measurements having a higher measurement uncertainty (e.g., when, in the absence of market transactions, a fair value measurement is based on interest yield curves),
- Level 1 fair value measurements often comprise a smaller portion of an entity's fair value measurements.

However, we have received some critical comments from our constituency on the IASB's proposals regarding the level of detail. Some preparers are concerned that it is unclear to what extent detailed information on Level 2 fair value measurements should be disclosed under the proposals. These preparers were concerned that almost all fair value measurements classified within Level 2 of the fair value hierarchy would be subject to the same disclosure requirements that are currently required only for Level 3 fair value measurements. In their view, this would result in a significant increase of fair value measurement disclosures, especially for banks. Whilst the IASB explains in paragraph BC73(ii) that entities are expected to consider disclosing information about measurement uncertainty for material fair value measurements that are categorised within Level 2 but for which the categorisation is close to Level 3, in practical terms, this statement was not considered to be helpful for entities in determining for which fair value measurements additional disclosures should be made.

Other preparers considered that avoiding reference to levels of the fair value hierarchy is counterintuitive. They stated that the levels of the fair value hierarchy have proven in practice to be good proxy for measurement uncertainty inherent in fair value measurements (i.e., in this respect, it is logical that the current requirements of IFRS 13 require the more detailed information to be disclosed for Level 3 fair value measurements). Further, in their view, the levels of the fair value hierarchy continue to be a good proxy for measurement uncertainty. Consequently, these entities rendered the view that the nature and extent of the disclosures might not change significantly in practice.

Other stakeholders noted that the proposals pose some significant operational challenges that need further consideration (especially for banks): In practice, fair value measurements are not prepared at group level (e.g., by a group department), rather fair value measurements are prepared at legal entity level and reported to the parent entity. Consequently, valuation techniques and inputs used may differ between subsidiaries. By contrast, the current system of IFRS 13 disclosure requirements (i.e., by level of the fair value hierarchy) is operational, as is can be "rolled out" and implemented uniformly across subsidiaries. By contrast, under the proposals, judgement is required (at subsidiary level), as to which assets and liabilities measured at fair value are subject to high measurement uncertainty und subjectivity, for which more detailed information should be disclosed (at group level). This means, that entities (especially banks) will need to adapt their reporting processes and systems to identify those assets and liabilities measured at fair value (at subsidiary level) for which they deem more detailed information necessary to be disclosed and to capture the information needed.

Given the feedback from our constituency, we believe that including a requirement for entities to consider the level of detail necessary to satisfy the disclosure objective alone, will not achieve the desired objective of reinforcing the importance of proper application of materiality judgements. Rather, we believe that the IASB needs to explain in more detail, for which assets and liabilities measured at fair value entities would be expected to provide more detailed information (compared to current fair value measurement disclosures). Therefore, we suggest the IASB develop application guidance that explains further:

- how an entity should apply judgment in determining which information about fair value measurements is material, and
- for which material fair value measurements categorised within Level 2 an entity should consider disclosing additional information about measurement uncertainty that is currently required only for Level 3 fair value measurements (i.e., which Level 2 fair value measurements are close to Level 3?),
- what information and is to be considered as material and "entity-specific" and hence should be disclosed, and
- which disclosures are immaterial and need not be disclosed (for example, for items of information, some additional guidance is included in the Basis for Conclusion, such as paragraph BC81, that explains that the IASB does not expect an entity to disclose every technique and input used in deriving its fair value measurements; whilst for other items of information guidance is missing).

Format and presentation of the proposed disclosure section

Overall, we believe that the proposed amendments to IFRS 13 have significantly improved the way the disclosure requirements are drafted and presented and also include some relief for preparers (especially for non-financial entities). For example:

- As disclosure requirements are not differentiated by level of fair value hierarchy, the structure and comprehensibility of the disclosure section have significantly been improved,
- The volume of disclosure requirements has been reduced, and a more “principles-based approach” has been adopted through the introduction of disclosure objectives. By contrast, the current disclosures requirements in IFRS 13 were perceived as a very long, “rules-based” catalogue of disclosure requirements,
- The proposed items of information are described by using less descriptive language when compared to current disclosure requirements in IFRS 13 (ref. e.g., paragraph 93 of IFRS 13: “*An entity shall disclose, at a minimum, ...*"),
- The "*threshold*" that would require entities to disclose certain items of information has been raised to "*significant*" (e.g., paragraphs 107 and 114 refer to “*significant techniques and inputs used in determining the fair value measurements*” and “*significant reasons for changes in the fair value measurements”*),
- Some items of information for which current IFRS 13 requires disclosure have been removed (e.g., information about the valuation processes), and
- The proposals do not require entities to disclose information about all reasons for changes in the fair value measurements. By contrast, current paragraph 93(e) of IFRS 13 requires entities to disclose a tabular reconciliation and contains a fixed catalogue of reconciling items that need be included in the reconciliation.

Notwithstanding our general support on the format and presentation of the proposed amendments to IFRS 13, we have received mixed feedback from our constituency on the content of the of the proposals.

Many preparers rendered a critical view on the proposals, wishing that the IASB had offered more relief (especially for corporate entities), beyond reinforcing the importance of appropriate materiality judgements and encouraging entities to omit immaterial information. These preparers are concerned that also under the proposals fair value measurement disclosures will continue to be lengthy while often not providing meaningful information to users of financial statements.

Further, many preparers are concerned on the cost-benefit-balance of the proposals. These preparers reiterated their concerns that the proposals would require entities to demonstrate and document the judgments applied in determining what information is relevant to meet users’ information needs and hence should be (or needs not be) disclosed. Applying the proposals would hence result in more time and resources spent on applying judgements and its respective documentation; however, preparers questioned whether disclosures would change significantly in practice, and thus doubted whether the benefits of the proposals exceed the cost of preparation and documentation.

Question 7 – Specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss approaches that the Board considered but rejected.

(a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about assets and liabilities measured at fair value in the statement of financial position after initial recognition? Why or why not? If not, what changes do you suggest?

(b) Do you agree that the proposed specific disclosure objectives would result in the provision of information about material fair value measurements and the elimination of information about immaterial fair value measurements in financial statements? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate.

(d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

Assets and liabilities within each level of the fair value hierarchy (paragraphs 103-104)

We agree with the proposed specific disclosure objective and the IASB's reasoning as explained in paragraphs BC75-B76.

We welcome that the IASB emphasises that an entity is not expected to explain the categorisation of each class of assets and liabilities (ref. paragraph BC75), rather an entity should provide information that enables users to understand the relative subjectivity in the entity's assessment of where the fair value measurements of assets and liabilities are in the fair value hierarchy (ref. paragraph 104).

However, we have received feedback from preparers from our constituency that it is unclear whether and to what extent disclosures about the fair value measurements of each class of assets and liabilities measured at fair value by the level of the fair value hierarchy should change in practice. Further, these stakeholders explained that the proposed Illustrative Example 15 does not help entities in applying judgement and determining which information should be disclosed or omitted.

Measurement uncertainties associated with fair value measurements (paragraphs 107-108)

We agree with the proposed specific disclosure objective that would require entities to disclose information about significant techniques and inputs used in determining the fair value measurements for each class of assets and liabilities measured at fair value.

We welcome that the IASB emphasises that an entity is not expected to disclose every technique and input used in deriving its fair value measurements; rather an entity should provide information about techniques and inputs that are *significant* to the entity's fair value measurements and give rise to uncertainty in those measurements (ref. paragraph BC80).

We believe that focusing the disclosure objective on *significant* valuation techniques and inputs used might improve communication effectiveness and encourage entities eliminate immaterial information. Therefore, we agree with the IASB's proposal to require entities disclosing information about *significant techniques and inputs* in determining fair value measurements.

Reasonably possible alternative fair value measurements (paragraphs 111-112)

We do <u>not</u> agree with the proposed specific disclosure objective that would require entities to disclose information about alternative fair value measurements for each class of assets and liabilities measured at fair value, using inputs that were reasonably possible at the end of the reporting period.

Firstly, we are concerned whether the proposals would be operational. For preparers, the costs associated with preparing such information would be high, as entities would be required to set up new processes and implement system changes to develop alternative fair value measurements. While calculating an alternative fair value measurement might work for a single asset (such as a single investment property), calculating and aggregating such information across a class of assets and liabilities measured at fair value (and across legal reporting entities) is complex and subject to significant operational challenges (e.g., investment property located in different countries, requiring country-specific assumptions on reasonably possible alternative inputs to be used, such as maintenance costs, market rents, discount rates, etc.). These operational challenges become even more severe, if fair value measurement information is not prepared at group level (e.g., by a group treasury department), but are prepared at subsidiary level and are based on different valuation models and methods used by the reporting entities. Further, also practical issues have to be considered, as the proposals do not provide any guidance on what range of alternative inputs is to be considered as "*reasonably possible*".

Secondly, we are concerned that disclosing alternative fair value measurements might undermine the legitimacy of fair value measurements that the entity has recognised in its statement of financial position. Entities might be faced with questions by users on whether fair value measurements recognised in statement of financial position are appropriate or whether another value within the disclosed range of alternative fair value measurements was more appropriate.

Thirdly, we question at what level of granularity information about alternative fair value measurements (including inputs used) should be disclosed in the notes, as information, once aggregated by classes of assets and liabilities, might be meaningless and possibly misleading for users of financial statements.

Lastly, we do not agree with the IASB's statement in paragraph BC85(b) that information about the overall possible range of fair value measurements at the end of the reporting period is more useful to users than detailed sensitivity information. Rather, we believe that calculating alternative fair value measurements is more complex and involves significant judgement. Further alternative fair value measurements are subject to measurement uncertainty. Therefore, we are concerned that disclosing a range of alternative fair value values gives users of financial statement a false sense of accuracy. By contrast, sensitivity disclosures are well-established in practice and are perceived to provide useful information, especially for entities from the financial sector, as sensitivity information provides users of financial statements with a sense of potential variability of fair value estimates.

For the reasons above, we do not agree with the proposed disclosure objective. Rather, we recommend the IASB retain current sensitivity analysis disclosures.

If the IASB decides not to follow our recommendation of retaining current sensitivity analysis disclosures, we would like to note that the proposed disclosure objective might need to be rephrased, as entities would currently be required to disclose alternative fair value measurements in general for each class of assets and liabilities measured at fair value. By contrast, current requirements of IFRS 13 require disclosure of sensitivity information only for Level 3 fair value measurements. This means, that the under proposals, the amount of sensitivity disclosures could increase significantly, if the IASB expects an entity to disclose alternative fair value measurements *for <u>each</u> class of assets and liabilities* measured at fair value. As we believe that sensitivity disclosures are most useful for users for those fair value measurements that that are subject to measurement uncertainty, we propose the IASB clarify that entities are not necessarily expected to disclose alternative fair values for *each* class of assets and liabilities measured at fair value.

Reasons for changes in fair value measurements (paragraphs 114-115)

We agree with the proposed specific disclosure objective that requires entities to disclose information about the significant reasons for changes in the fair value measurements. Further, we welcome that the IASB's proposals focus on reasons for changes that are significant to fair value measurements to help entities apply judgement and improve their communication effectiveness.

Further, we welcome that the IASB is not proposing to extend the existing requirements to disclose a tabular reconciliation to Level 1 and/or Level 2 fair value measurements. Requiring entities to prepare a detailed reconciliation for Level 1 and/or Level 2 fair value measurements would involve significant effort (including ERP system changes) for preparers. Therefore, we agree with the IASB's proposal not to require entities to disclose a reconciliation for fair value measurement other than those categorised in Level 3 of the fair value hierarchy. Please also refer to our response to questions 8 below.

Question 8 – Information to meet the specific disclosure objectives for assets and liabilities measured at fair value in the statement of financial position after initial recognition

Paragraphs BC74–BC97 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about assets and liabilities measured at fair value in the statement of financial position after initial recognition, and discuss information that the Board considered but decided not to include.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 105, 109 and 116 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

Measurement uncertainties associated with fair value measurements (paragraphs 109-110)

We agree with the proposed items of information. In addition, we welcome that the proposed items of information are focusing on information about the *significant* valuation techniques and inputs used in determining fair value measurements. We believe that by emphasising that entities are expected to disclose information about techniques and inputs that are *significant* to the entity's fair value measurements and give rise to uncertainty in those measurements (ref. paragraph BC80), preparers will be better encouraged to omit immaterial information.

We note that the proposed specific disclosure objective on measurement uncertainties does not include any new (nor amended) items of information. Instead, also current paragraphs 93(d) and 93(i) of IFRS 13 require entities to disclose a description of the valuation techniques and inputs used in the fair value measurement (for recurring and non-recurring fair value measurements categorised within Level 2 and Level 3 of the fair value hierarchy). Therefore, we do not expect any material changes in relation to what information will be disclosed applying the proposals, except that entities may review their fair value measurement disclosures and omit immaterial information (i.e. descriptions of valuation techniques and inputs that are not significant to the entity's fair value measurements).

Reasonably possible alternative fair value measurements (paragraph 113)

We do <u>not</u> agree with proposed items of information. As already explained in more detail in our response to question 7, we are concerned whether the proposals would be operational and provide users of financial statements with meaningful information. Further, we have some concern about some of the practical aspects of the proposal. Therefore, we recommend the IASB not to require entities to disclose information about *reasonably possible alternative fair value* *measurements*. Rather, we suggest that current sensitivity analysis disclosures should be retained.

Reasons for changes in fair value measurements (paragraphs 116-117)

We agree with proposed items of information.

Regarding the proposed requirement to disclose a tabular reconciliation for recurring fair value measurements categorised in Level 3 of the fair value hierarchy, we welcome that the IASB is not requiring entities to include in the reconciliation a line item for every reason for changes in the amount of fair value measurements (ref. paragraph 116, BC93). Whilst we agree that focussing disclosures on information about the significant reasons for changes in the fair value measurements might improve communication effectiveness, we note that the proposals do not offer a relief to preparers. Indeed, in terms of data capturing, all reasons for changes in the amount of fair value measurements need to be captured to decide which changes are significant and need to be disclosed in the reconciliation.

Further, we welcome that the IASB proposes that entities only need to disclose a detailed reconciliation for recurring fair value measurements classified within Level 3 of the fair value hierarchy (see paragraph 116). We note that, also under current paragraph 93(e) of IFRS 13, entities are only required to disclose a detailed reconciliation for Level 3 fair value measurements. Therefore, in practice, entities already have processes and systems in place to capture the information needed for a detailed reconciliation that separately discloses every reason for changes (i.e., movement types) in the amount of Level 3 fair value measurements. However, these processes and adaptations to ERP systems have been costly to implement and would also be costly to implement if the IASB decided to expand the scope of the requirement to disclose a detailed reconciliation to fair value measurements categorised outside Level 3 of the fair value hierarchy. Therefore, we welcome that the IASB expects entities only to disclose an explanation (i.e., a narrative description) of the significant reasons for changes in recurring Level 1 or Level 2 fair value measurements (ref. paragraph 117, BC96). In practice, significant reasons for changes in recurring Level 1 or Level 2 fair value measurements are well-known and can be explained by entities (typical reasons are: additions, derecognition or measurement changes). Therefore, if narrative explanations are sufficient to meet the disclosure objective, and no quantitative information needs to be disclosed, entities are likely to easily comply with proposed the disclosure objective.

Question 9 – Specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Paragraphs BC98–BC99 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

(a) Do you agree that the proposed specific disclosure objective captures detailed user information needs about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes? Why or why not? If not, what changes do you suggest?

(b) Do you agree that this proposed specific disclosure objective would result in the provision of useful information about assets and liabilities not measured at fair value but for which fair value is disclosed in the notes? Why or why not?

(c) Do you agree that the benefits of the specific disclosure objective would justify the costs of satisfying it? Why or why not? If you disagree, how should the objective be changed so that the benefits justify the costs?

(d) Do you have any other comments about the proposed specific disclosure objective?

We do not agree with the proposed disclosure objective, as its scope covers all assets and liabilities not measured at fair value, but for which other IFRS Standards require disclosure of fair value information. Whilst we like the idea to of providing users of financial statements with a sense of fair value estimates for items not measured at fair value in the statement of financial position, our main concern (as explained in more detail below) relates to the limited information value of these disclosures.

We agree with the IASB's conclusion that users of financial statements need information about nature and characteristics of items that are not measured at fair value but for which the fair value is disclosed in the notes to assess how those items affect an entity (ref. paragraphs BC99 and BC75). However, we do not agree with the statement in paragraph BC98 that information about the fair value for items not measured at fair value in the statement of financial position is useful for investors in preparing enterprise value calculations or forecast analysis. Instead, we believe this is only true for some items (such as the fair value of investment property, as required by paragraph 79(e) of IAS 40, if the entity applies the cost model). Therefore, we recommend the IASB undertake a review of the requirements in other IFRS Standards that currently require the disclosure of the fair value of items otherwise not measured at fair value in the statement of financial position.

In practice, disclosures of fair value are widely related to financial assets or financial liabilities not measured at fair value. For these items, paragraphs 25-30 of IFRS 7 require fair value information through supplementary disclosures. In practice, these supplementary disclosures relate to the following items:

- For non-financial entities, fair value disclosures on items not measured at fair value typically relate to an entity's financial liabilities (such as bonds, liabilities to banks, etc.).
- For banks, disclosures on items not measured at fair value mainly refer to loans and receivables measured at amortised cost; the fair value of which is often classified within level 3 of the fair value hierarchy (due to significant non-observable inputs, such as internal credit rating for the customer).

However, this fair value information is not used internally by entities in determining their overall financial position or making decisions about individual financial instruments. Rather, these financial instruments are managed based on cashflows (i.e., future principal and interest payments). Further, we note that the fair values of these financial assets and liabilities is a "hypothetical number", i.e., they fair values will not be realised through a future transaction (such as a sale or a repayment of the financial instruments). That means, that the fair values disclosures do not reveal hidden reserves that an entity could realise, for example, through a future sale. Therefore, we doubt that information about the fair value for these financial instruments will enable users to better forecast future cash flows of the entity.

Question 10 – Information to meet the specific disclosure objective for assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes

Paragraph BC100 of the Basis for Conclusions describes the Board's reasons for proposing the items of information to meet the specific disclosure objective about assets and liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed in the notes.

(a) Do you agree that entities should be required to disclose the proposed items of information in paragraph 120 of the [Draft] amendments to IFRS 13? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

(b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet the specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

As explained above in our response to question 9, we are concerned that many of the current disclosure requirements on the fair value of assets and liabilities not measured at fair value are not useful for users to forecast future cash flows of the entity.

Currently, most of the disclosures for assets and liabilities not measured at fair value in the statement of financial position are related to financial instruments, measured at amortised cost. For these items, IFRS 7 requires entities to disclose for each class of financial assets and liabilities the fair value of that class of assets and liabilities in way that permits it to be compared with its carrying amount. In practice, these disclosures are perceived to be burdensome (i.e., very detailed tabular disclosures, containing information that is not useful for users). However, our main concern is not related to the proposed items of information nor the proposed disclosure objective, rather we believe that the scope of the fair value disclosures (i.e., the requirements in other IFRS Standards that require disclosure of fair value information) needs to be reviewed.

In addition, we have received feedback from preparer that in practice:

- a classification within level 3 of the fair value hierarchy is to some extent “stigmatising” in an entity’s external communication with stakeholders, as it signals that that fair value measurement (and the underlying asset or liability) is subject to a high degree of risks and inherent subjectivity and uncertainty. However, in practice, some banks generally classify loans and advances to customers within level 3, as they have concluded that these fair values should be classified within level 3 due to non-observable inputs used,
- fair value information to be disclosed is subject to measurement uncertainty and sensitive to the inputs used (such as the interest rate), and
- fair value information is costly to prepare.

Therefore, we suggest the IASB review the current requirements in other IFRS Standards that trigger fair value measurement disclosures of items otherwise not measured at fair value (such as the requirements in paragraphs 25-30 of IFRS 7). In our opinion, the IASB should analyse in detail not only what information should be disclosed when other IFRS Standards require disclosure of fair value information, but also for which items (at all) disclosure of fair value information are useful to users (and therefore should be disclosed).

However, we also note that the IASB is not proposing any additional items of information when compared to current disclosure requirements in paragraph 97 of IFRS 13. Thus, entities already have processes implemented to prepare the information needed and will be able to comply with the proposed disclosure objective.

Question 11 – Other comments on the proposed amendments to IFRS 13
Do you have any other comments on the proposed amendments to IFRS 13 in this Exposure Draft, including the analysis of the effects (paragraphs BC214–BC215 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

Proposed amendments to IAS 34

According to the proposed amendments to paragraph 16A(j) of IAS 34, an entity shall provide information about the fair value for financial instruments to meet the requirements in the overall and specific disclosures objectives as required by the proposed amendments of IFRS 13 for assets and liabilities measured at fair value in the statement of financial position after initial recognition. While we consider this approach from a conceptual point of view to be appropriate, we have some concerns regarding the cost-benefit balance of this approach.

Firstly, we note that the volume of disclosures about fair value measurements in an entity's interim financial statements is excessive under the current disclosure requirements of IAS 34 (especially when compared to the volume of other disclosures required by IAS 34). These disclosures are often not considered to be useful for users of interim financial statements in many industries (especially for non-financial entities). In other words, we consider the concerns expressed by stakeholders about fair value measurement disclosures in annual financial statements (as explained in paragraphs BC65-BC70) are equally (or even more) valid for interim financial statements. However, we could not determine from the *Basis for Conclusions* how users evaluate the information they currently receive about fair value measurement in interim financial statements.

Secondly, although entities have in practice implemented processes and procedures to capture the information required by current paragraph 16A(j) of IAS 34, this information is costly to prepare (in particular with regard to level 3 fair value measurements), as the required information for some fair value measurements cannot be automatically retrieved from ERP systems but must be captured 'manually'. As we doubt that extensive disclosures on fair value measurement in interim financial statements are useful to users, we believe that the benefits do not outweigh the costs. Therefore, we would have preferred the IASB to have adopted a more "radical" approach and eliminated the disclosure requirements on fair value measurements in IAS 34.

Effective date and transition

According to the proposed new paragraph C7 of IFRS 13 and paragraph 60 of IAS 34, "*an entity shall apply the amendments from the first annual reporting beginning on or after [effective date]*". As paragraph C7 of IFRS 13 and paragraph 60 of IAS 34 do specify any other specific transitional provisions, this means that the proposed amendments are to be applied retrospectively in accordance with IAS 8 (which includes a restatement of comparatives).

We agree with the IASB's proposal that the proposed amendments shall be applied retrospectively in accordance with IAS 8. As the proposed amendments constitute a conceptual change, we recommend the IASB set an appropriate transition period, which allows entities sufficient time to apply the new approach to their disclosure sections on IAS 19 and IFRS 13 in the notes. If the IASB expects complex changes arising from the proposed amendments (that would require entities to adapt their accounting systems to collect the information needed to comply with proposed disclosure objectives), then a sufficient transition period must be provided.

Question 12 – Overall disclosure objective for defined benefit plans
Paragraphs BC107–BC109 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined benefit plans.   Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined benefit plans? If not, what alternative objective do you suggest and why?

We generally agree with the IASB's reasoning for proposing the overall disclosure objective for defined benefit plans, as described in paragraphs BC107-BC109. However, we observe that the proposed overall disclosure objective is very similar to the current disclosure objective in paragraph 135 of IAS 19. This is surprising as stakeholders told the IASB that employee benefit disclosures applying IAS 19 often do not meet the information needs of users of financial statements (ref. paragraph BC105).

Given that many users said that information about the expected effects of defined benefit plans on an entity's future cash flows is "*the most relevant information they could receive about defined benefit plans*" (ref. paragraph BC121), we would have expected that this information need is reflected by the overall disclosure objective as well.

Further, as already explained more generally in our response to question 1, it remains unclear which additional disclosures are deemed to be necessary that are not captured by the specific disclosure objectives. For example, the IASB explains in paragraph BC107, that an entity will need to disclose additional information if material risks and uncertainties associated with an entity's plans would affect the entity's primary financial statements and have not been captured by the specific disclosure objectives. We therefore recommend the IASB explain further, under which circumstances disclosures are currently missing in practice that would require an entity to disclose additional information in order to comply with the overall disclosure objective.

Further, it is not clear from the proposals in which cases the applied level of aggregation and disaggregation was perceived to be inappropriate in practice. We understand from paragraph BC108 that "*the importance of appropriate levels of aggregation was a prevalent theme throughout the Board's discussions with stakeholders on defined benefit plan disclosures*" and that the IASB intends to address this matter issue by providing examples of features an entity could use to disaggregate information. However, these examples have already been provided by paragraph 138 of IAS 19. Therefore, it is questionable whether the revised guidance will enable entities to better aggregate and disaggregate defined benefit disclosures. Therefore, we recommend the IASB clarify in which situations the level of aggregation of defined benefit disclosures has been perceived as inappropriate by users of financial statements and provide further guidance on how these issues should be resolved.

Question 13 – Specific disclosure objectives for defined benefit plans
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the specific disclosure objectives about defined benefit plans, and discuss approaches that the Board considered but rejected. (a) Do you agree that the proposed specific disclosure objectives capture detailed user information needs about defined benefit plans? Why or why not? If not, what changes do you suggest? (b) Do you agree that the proposed specific disclosure objectives would result in the provision of relevant information and the elimination of irrelevant information about defined benefit plans in financial statements? Why or why not? (c) Do you agree that the benefits of the specific disclosure objectives would justify the costs of satisfying them? Why or why not? If you disagree, how should the objectives be changed so that the benefits justify the costs? Please indicate the specific disclosure objective(s) to which your comments relate. (d) Do you have any other comments on the proposed specific disclosure objectives? Please indicate the specific disclosure objective(s) to which your comments relate.

Amounts in the primary financial statements relating to defined benefit plans (paragraphs 147D and 147E)

We agree with the proposed specific disclosure objective. We believe that defined benefit disclosures would benefit from an upfront "*executive summary*" (ref. paragraph BC112), as this information would help users of financial statements to more easily understand the amounts in the primary financial statements and how they link to the more detailed disclosures about defined benefit plans. We also agree with the IASB that an upfront "*executive summary*" is not costly to prepare and, thus, is a simple and effective improvement in disclosures about defined benefit plans with minimal incremental costs.

Nature of, and risks associated with, defined benefit plans (paragraphs 147G and 147H)

We note that the proposed specific disclosure objective in IAS 19.147G combines very heterogeneous items of information, some of which are likely to lead to the provision of boilerplate information (e.g. the description of how plans are governed and managed and the description of the policies and processes used by the entity to manage the identified (plan-specific) risks). We therefore suggest the IASB revise the specific disclosure objective and the proposed items of information by:

- strengthening the proposed specific disclosure objective, by focusing on the risks associated with defined benefits plans,
- introducing a separate specific disclosure objective for significant changes to defined benefit plans (i.e., plan amendments, etc.), and

- providing further application guidance to enable entities to provide more useful information about the nature of, and risks associated with, defined benefits plans.

In our opinion, the proposed items of information regarding the description of nature of the benefits provided by the plans (paragraph 147I(a)), and the description of plan amendments, curtailments and settlements in the reporting period (paragraph 147I(c)), are significantly different from the other items of information. Further, we believe that information about significant plan amendments, curtailments and settlements is essential for users of financial statements to understand the occurrence and effects of changes to the benefits by the plans. Therefore, we recommend the IASB introduce a separate disclosure objective for significant changes in benefits provided by defined benefit plans.

Further, we suggest the IASB develop further application guidance that enables entities to provide more meaningful, entity-specific disclosures regarding risks arising from defined benefit plans. As the IASB itself explains in paragraph BC116, entities often provide lengthy narrative explanations about their defined benefit plans, which users of financials statements do not find useful. Therefore, we recommend the IASB to illustrate further, which information about the risks associated with defined benefit plans and plan assets is sought to be useful for users.

Expected future cash flows relating to defined benefit plans (paragraphs 147J and 147K)

We agree with the IASB's reasoning that information about the expected effects of defined benefit plans on an entity's future cash flows is useful for users of financial statements. Therefore, we also agree with the IASB's conclusion that a specific disclosure objective capturing user needs about the cash flow effects of defined benefit plans would lead to a significant improvement in defined benefit disclosures.

However, we recommend the IASB clarify the notion of future "*contributions to the plan*". In our opinion, to understand the effect of the defined benefit obligation on the entity's future cash flows, information is necessary to with regard to the 'net cash flows' that comprise both:

- expected future contributions to the plan ("contributions"), and
- expected future benefit payments, directly by the entity to plan participants ("benefit payments")

With regard to our constituency, benefit payments are most commonly paid directly by the entity to the plan participants (regardless of whether (or not) the defined benefit plan is funded). However, from the proposed paragraph 147L(b) it is unclear whether "*contributions to the plan*" include benefits payments that are paid directly by the entity itself (rather than by plan). Therefore, we recommend the IASB clarify that to achieve the proposed specific disclosure objective, an entity shall disclose information about both, expected future contributions to the plan, as well as expected future benefit payments, directly by the entity to plan participants.

Further, we do not agree with the IASB's proposal of a separate specific disclosure objective for "*future payments to members of defined benefit plans that are closed to new members*" (as proposed by paragraphs 147N and 147O). Rather, we believe that users' information needs are very similar for plans that are closed to new members and plans that remain open to new members. Therefore, as discussed in more detail below, we recommend the IASB combine the proposed specific disclosure objective for plans are closed to new members (paragraphs

147N and 147O) with the more general specific disclosure objective in paragraphs 147J and 147K (i.e., "*expected future cash flows relating to defined benefit plans*").

Future payments to members of defined benefit plans that are closed to new members (paragraphs 147N and 147O)

We do <u>not</u> agree with the proposed specific disclosure objective. Rather, we believe that users' information needs for defined benefit plans that are closed to new members are very similar compared to plans that remain open to new members. Both in the case of plans that are closed to new members and in the case of plans that remain open to new members, users of financial statements want to understand the extent to which (i.e., for how long and with what impact on cash flows) the entity has been and will continue to be affected by defined benefit plans. Therefore, we believe that a separate specific disclosure objective for plans that are closed to new members is not justified.

Further, we do not agree with the IASB's reasoning in paragraph BC134 that the period over which an entity will continue to make payments in unlikely to change significantly if a plan is closed to new members. Rather, the defined benefit obligation could increase significantly in future reporting period, if the plan remains open to the accrual of further benefits to current members, even if the plan is closed to new members. Therefore, the defined benefit obligation of a plan that is closed to new members, may also increase (significantly) in future reporting periods, due to employee services to be received in the future.

For the reasons above, we recommend the IASB:

- either delete the proposed specific disclosure objective in paragraphs 147N-147O for defined benefit plans that are closed to new members, or
- combine the specific disclosure objective for defined benefit plans that are closed to new members with the (more general) specific disclosure objective for "*expected future cash flows relating to defined benefit plans*" in paragraphs 147J-147K.

Measurement uncertainties associated with the defined benefit obligation (paragraphs 147Q and 147R)

We agree with the proposed specific disclosure objective. However, we are concerned that the proposed items of information are appropriate to meet users' needs. In particular, we do not agree with the IASB's proposal not to require disclosure of a detailed sensitivity analysis for each significant actuarial assumption. As explained in more detail in our answer to question 14, we believe that the benefits provided by a sensitivity analysis (as currently required by paragraph 145 of IAS 19) outweigh the benefits of a range of possible alternative values for the defined benefit obligation,

Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans (paragraphs 147T and 147U)

We agree with the proposed specific disclosure objective. We welcome and support the IASB's proposals to focus on significant reasons for changes to help entities improve the communication effectiveness of the disclosed information and eliminate any immaterial information. However, we note that the proposed disclosure objective corresponds to the current requirements in paragraphs 140-141 of IAS 19 that require entities to disclose a reconciliation from the opening balance to the closing balance for the net defined benefit liability (or asset) and for reimbursement rights. Further, according to the overarching materiality principle, entities currently are also not required to disclose any immaterial information. Therefore, we believe that the proposals would not significantly change how entities disclose information about reasons for changes in the net defined liability (or asset) and for reimbursements rights.

To improve the format and presentation of the proposals, we recommend the IASB change the order of the specific disclosure objectives. As the proposed specific disclosure objective mainly consists of items of information that entities are *required* to disclose, we suggest placing this disclosure objective – together with other specific disclosure objectives that include items of information as *requirements* – at the beginning of the disclosure section.

Question 14 – Information to meet the specific disclosure objectives for defined benefit plans
Paragraphs BC110–BC145 of the Basis for Conclusions describe the Board's reasons for proposing the items of information to meet the specific disclosure objectives about defined benefit plans, and discuss information that the Board considered but decided not to include. (a) Do you agree that entities should be required to disclose the proposed items of information in paragraphs 147F, 147M and 147V of the [Draft] amendments to IAS 19? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objectives? (b) Do you agree with the proposed items of information that are not mandatory but may enable entities to meet each specific disclosure objective? Why or why not? If not, what changes do you suggest and how would they help an entity to meet the specific disclosure objective?

Amounts in the primary financial statements relating to defined benefit plans (paragraph 147F)

We agree with the proposed items of information as described by paragraphs 147F. However, we suggest the IASB to revisit the proposed Illustrative Example 1 with regard to:

- The total of surpluses and deficits from defined benefits plans cannot be reconciled to the amounts recognised in the statement of financial position, as – in the Illustrative Example – plans that are in a surplus are netted with plans that are in a deficit. Therefore, we question whether the proposed presentation in Illustrative Example 1 is appropriate to illustrate how an "executive summary" can link the more detailed disclosures to the amounts recognised in the primary financial statements.

- In the Illustrative Example, defined benefit plans are aggregated by geographical regions (i.e., UK plans, US plans, etc.). In our opinion, however, an aggregation by the type of funding would generally lead to more useful information for users of financial statements (e.g., a breakdown of defined benefit plans into multi-employer plans, pension direct commitments, funded plans, trust-based pension plans (CTA), etc.).
- We question whether comparative information needs to be disclosed in an executive summary in order to achieve the desired objective. In our opinion, comparative information is not necessary in order to obtain an understanding of the effects of defined benefit plans on the primary financial statements. However, as paragraph 38 of IAS 1 requires entities to present comparative information, it is logical to include comparative information in the executive summary (as proposed by the IASB in the Illustrative Example 1).

Nature of, and risks associated with, defined benefit plans (paragraph 147I)

We generally agree with the proposed items of information as described by paragraphs 147I. As an additional item, we suggest the IASB to include an item of information on the funding status under the regulations of the plan itself. Currently, the IASB is proposing only information about plan-specific investment risks, which is an issue that is subordinated to the funding of the plan. Further, although paragraph 147L includes an item of information regarding financing arrangements, this item of information focusses only on future contributions to the plan (that an entity expects to pay to meet the defined benefit obligation). However, the proposals currently are lacking disclosures on how the benefits are financed in general and on the funding status (calculated according to the regulations of the plan). Such information can help users of financial statements better understand how a deficit in the plan will affect the amount of any subsequent funding arrangements.

Further, as already explained in our answer to question 13, we believe that information about significant changes (such as plan amendments) to the benefits provided by defined benefit plans is essential for users of financial statements. Therefore, we recommend the IASB introduce a separate disclosure objective for significant changes to the benefits provided by defined benefit plans. Alternatively, if the IASB does not follow our recommendation of a separate disclosure objective, we suggest that entities should be *required* to disclose information about plan amendments, curtailments and settlements (if material), i.e., the item of information in paragraph 147I(c) should be a mandatory item.

Further, we believe that information about plan-specific investment risks (ref. paragraph 147I(e)) and a breakdown of the fair value of the plan assets by classes of assets (ref. paragraph 147I(h)) is essentials for users of financial statements. We therefore question whether IAS 19 should *require* disclosure of these particular items of information. However, we acknowledge the IASB's intention to enable entities to apply judgement and determine how to satisfy the specific disclosure objective. On balance, we therefore agree with the IASB's proposal to include these items as non-mandatory items.

Moreover, we note that the requirement in current paragraph 142 of IAS 19 on whether a quoted market price exists in an active market for plan assets is not included in the proposals. This is surprising, as we believe that information about how easily plan assets can be converted into cash (i.e., the liquidability of plan assets) is important for users of financial statements. We therefore recommend the IASB reconsider whether information on the liquidability of plan assets should be retained.

Expected future cash flows relating to defined benefit plans (paragraphs 147L and 147M)

We generally agree with the items of information as proposed by paragraph 147L. However, in detail, we have some comments on the proposed items of information that we believe should be clarified by the IASB.

Firstly, as already explained in our answer to question 13 above, the notion of notion of "*contributions to the plan*" is unclear. Therefore, we recommend the IASB clarify that an entity – to meet the requirements in the proposed specific disclosure objective – needs to disclose information about both types of cash flows: i) contributions to the plan, and ii) benefit payments, directly paid by the entity to plan participants. Further, if the IASB followed our suggestion, it is unclear whether an entity needs to disaggregate expected future cash flows effects that are benefit payments paid directly by the entity to plan participants from contributions to the plan.

Secondly, we believe that entities should be required to disclose *only* information about cash flow effects that relate to the defined benefit obligation at the end of the reporting period. This means, we do not agree with the IASB's tentative decision to allow entities (as an accounting policy choice as proposed by paragraphs 147M, A2-A7) to disclose the expected future cash flow for the defined benefit plan as a whole, including e.g., expected future contributions for employee services to be received in the future, or to expected cash flow effects of future new members to the plan). As an entity can decide, at any time and at its own discretion, to close a defined benefit plan to new members (and/or to future services), it may avoid the future cash flows through its future actions. Consequently, an entity should be required to disclose *only* the expected future cash flows that the entity expects to contribute to the plan (or to pay directly to plan participants) to meet the defined benefit obligation recognised at the end of the reporting period.

When improving the guidance proposed, the IASB should reconsider its tentative decision not to specify a (minimum) period over which an entity should provide information about the expected future cash flow effects of a defined benefit obligation. We understand from paragraph BC131 that the IASB decided not to specify a minimum period to enable entities to apply judgement based on their own circumstances and because users are likely to be interested in similar information to that monitored by management. However, we believe that the IASB should specify a minimum period, to improve comparability across entities.

Furthermore, we believe that entities should be required to disclose the weighted average duration of defined benefit obligations, regardless of whether or not a defined benefit plan is closed to new members or remains open to new members. However, the IASB proposes the disclosure of a duration only as a non-mandatory item, and only for defined benefit plans that are closed to new members (ref. paragraph 147P).

Measurement uncertainties associated with the defined benefit obligation (paragraph 147S)

While we agree with most of the proposed items of information as proposed by paragraph 147S, we have some severe concerns regarding the proposed disclosures of reasonably possible alternative actuarial assumptions and/or a range of possible alternative values of the defined benefit obligation.

Firstly, although we agree with the IASB's objective that disclosing a range of alternative values might enable users to understand where - within that range - the entity's valuation of the defined benefit obligation falls (i.e., whether the valuation is rather "moderate" or "optimistic"), we believe that disclosing a range of alternative values gives users a false sense of accuracy. Entities might need to explain to investors – although the defined benefit obligation recognised at the end of the reporting period represents the entity's best estimate – why it did not reach to another conclusion (e.g., why the entity did not select a "more conservative" value within the disclosed range of alternative values).

Secondly, also from a conceptual point of view, we do not agree with the IASB's proposal of disclosing a range of possible alternative values of the defined benefit obligations (or significant actuarial assumptions). According to current paragraphs 76 and 81 of IAS 19, the actuarial assumptions are an entity's *best estimate* of the variables at the end of the reporting period. Therefore, it is counterintuitive to disclose a range of alternative values that would have been reasonably possible at the end of the reporting period. Rather, disclosing the effects of changes that are considered to be reasonably possible over the period until the end of the next (annual) reporting period (as currently required by paragraph B19 of IFRS 7) would be more consistent with a *best estimate*. In addition, we believe that the IASB needs to analyse how the proposed disclosure of a range of possible alternative values fits into the overall context of sensitivity disclosures that are currently required by other IFRS Standards (such as paragraph 40-41, B19 of IFRS 7 and paragraph 135 of IAS 36). Previously, the IASB had decided to link the sensitivity analysis requirements in IAS 19 to the sensitivity analysis requirements in IFRS 7 (ref. current paragraph BC239(c) of IAS 19).

Regarding the practicability of the proposals, we are concerned that the notion of the "*range of possible alternative values*" is open to subjectivity, as it is unclear, which alternative assumptions are considered to be "*reasonably possible*" at the end of the reporting period. Further, to comply with the proposed specific disclosure objective, entities can either provide narrative explanations about how the measurement uncertainty has affected measurement of the defined benefit obligation or disclose quantitative information (about reasonably possible alternative assumptions). However, it is unclear from the proposal how an entity can comply with proposed specific disclosure objective by narrative explanations only, i.e., without disclosing quantitative information, such as a sensitivity analysis. Therefore, if the IASB decided to retain the requirements to disclose information about "reasonably possible alternative values", we recommend the IASB develop additional application guidance to illustrate on how an entity can determine that range and include examples to demonstrate how an entity might comply with the specific disclosure objective in the notes.

For the reasons above, we do not agree with the IASB's conclusion that information about the sensitivity of the defined benefit obligation to actuarial assumptions is less useful to users than information about a range of alternative values (ref. proposed paragraph BC152). As current paragraph BC236 of IAS 19 explains, users of financial statements had consistently emphasised the fundamental importance of sensitivity analyses to their understanding of the risks underlying the amounts recognised in the financial statements. Therefore, the IASB had decided in its 2011 amendments to include a requirement regarding sensitivity disclosures in IAS 19. In our experience and according to the feedback that we have received from our constituency, this disclosure requirement has proven to be effective in practice. Therefore, we believe that the current requirement in paragraph 145(a) of IAS 19 to disclose a sensitivity analysis for each significant actuarial assumption should be retained.

Reasons for changes in the amounts recognised in the statement of financial position for defined benefit plans (paragraphs 147V and 147W)

We agree with the proposed items of information as described by paragraphs 147V and 147W.

Question 15 – Overall disclosure objective for defined contribution plans
Paragraphs BC156–BC158 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objective for defined contribution plans. Do you agree that this proposed objective would result in the provision of useful information that meets the overall user information needs about defined contribution plans? If not, what alternative objective do you suggest and why?

We understand the IASB's reasons for proposing the overall disclosure objective for defined contribution plans. However, we note that the proposed disclosure objective is – to some extent – vague, as it is not clear what information an entity is expected to disclose.

In our view, an entity could most easily comply with the proposed overall disclosure objective by disclosing the amounts recognised in the statements of financial performance and the cash flows. However, it is not clear from the proposals, whether disclosing *only* the amounts recognised in the statements of financial performance and the cash flows is sufficient to meet the disclosure objective. As the IASB explains in paragraph DG6 of the proposed [Draft] Guidance, to comply with an overall disclosure objective in an IFRS Standard, an entity might need to provide additional entity-specific information that is not directly required by the specific disclosure objectives in that Standard. Therefore, it questionable whether from the proposed paragraph 54A entities would be expected to disclose additional information about defined contribution plans – beyond the amounts recognised in the primary financial statements relating to defined contribution plans. For example, we had discussions on whether an entity would be expected to disclose information about the expected effects of defined contribution plans on its future cash flows.

One reason why the disclosure objective is perceived to be vague could be that the IASB is requiring to disclose *information that enables users of financial statements to understand the effects of defined contribution plans on the entity's financial performance and cash flows*. By contrast, current paragraph 53 of IAS 19 requires an entity to disclose *the amount recognised as an expense* for defined contribution plans. Thus, vagueness arises from the disclosure objective itself, as it circumscribes users' information needs, rather than requiring disclosure of a particular item of information.

However, according to the feedback that the IASB had received during the outreach (prior to publishing the ED), users of financial statement seemed to be satisfied with the limited information they currently receive on defined contribution plans. Users of financial statements are well aware that defined contribution plans (as opposed to defined benefit plans) do not impose risks on the entity (ref. paragraph BC156). Therefore, we wonder why there was a need to amend the current disclosure requirements (by including an overall disclosure objective). In this respect, it is questionable whether the IASB's approach (as explained in paragraph DG13 of the [Draft] Guidance), to develop in the first instance a disclosure objective that is specific enough to make clear what information would satisfy the objective, is appropriate.

For the reasons above, we recommend the IASB clarify what information an entity is expected to disclose under the proposed overall disclosure objective for defined contribution plans. As users' information needs with regard to defined contribution plans are very narrow in scope and limited only to a few items of information, the IASB might also consider the following alternatives when reviewing the proposals:

- Instead of an overall disclosure objective, include a *requirement* in IAS 19 to disclose the amount recognised in the statements of financial performance and cash flows, or
- If the IASB decided to retain the overall disclosure objective, include an exhaustive list of the items of information that an entity must disclose to meet the disclosure objective.

Question 16 – Disclosures for multi-employer plans and defined benefit plans that share risks between entities under common control

Paragraphs BC159–BC166 of the Basis for Conclusions describe the Board's reasons for proposing which disclosure objectives should apply for multi-employer plans and defined benefit plans that share risks between entities under common control.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

Overall, we support the proposals for multi-employer plans and defined benefit plans that share risks between entities under common control. However, we could not determine from the paragraphs B159-B166 whether any deficiencies were identified in practice as regards the information users currently receive for multi-employer plans and defined benefit plans that share risks between entities under common control. Therefore, we question whether the proposals will enable entities to provide more meaningful disclosures in practice. Consequently, we suggest the IASB develop additional guidelines and examples that clarify the users' information needs and illustrate which information should be disclosed and which information should be omitted.

Regarding the practical relevance, it should be noted that the current disclosures requirements on defined benefit plans that share risks between entities under common control apply only to separate financial statements (if prepared in accordance with IFRS Standards) or to the consolidated financial statements of a subgroup. As in our constituency separate financial statements are rarely prepared in accordance with IFRS Standards, disclosures on defined benefit plans that share risks between entities under common control are not to be observed in practice in Germany. By contrast, multi-employer plans are more common in Germany. Therefore, in the following we restrict our response to multi-employer plans.

Regarding the proposals for multi-employer plans in more detail, we agree with the IASB's approach and with its reasoning which disclosure objectives should apply for multi-employer plans. However, we note that the amendments on multi-employer plans include only items of information that were already required by the current disclosure requirements in paragraph 148 of IAS 19. Further, it is unclear from paragraphs BC159-BC166 whether any deficiencies existed in practice that would need to be addressed by the IASB and whether the current disclosures on multi-employer plans meet the information needs of users of financial statements. Our impression is that users do not pay much attention to disclosures on multi-employer plans and do not spend much time analysing this information. However, it is unclear from the Basis for Conclusions what feedback the IASB received from users of financial statements through the stakeholder outreach programme. This is surprising, as multi-employer plans often are associated with significant risks (e.g., through additional funding agreements). We therefore recommend the IASB better explain the information needs of users of financial statements regarding multi-employer plans and illustrate which information should be disclosed and which information should be omitted to meet those information needs.

In practice, we observe that disclosures for multi-employer plans that are accounted for as if they were a defined contribution plan mainly consist of descriptive information that is likely to be boilerplate. We believe that the guidance proposed could be improved by including items of information that would require entities to disclose quantitative information on multi-employer plans. Quantitative information has the advantage of being comparable across entities and less prone to boilerplate descriptions. For example, the IASB might consider including an item of information about how much the entity's contributions have increased over the past few years for a multi-employer plan that is accounted for as if it were a defined contribution plan. We believe that such quantitative information is appropriate to provide information that is more objective and meaningful than narrative information about the entity's risks associated with a multi-employer-plan.

In addition, from a conceptual perspective, it could be criticised that separate presentation of the disclosures for multi-employer plans (i.e., a separate section for multi-employer plans in the notes, including separate tables for multi-employer plans, etc.) is not appropriate if those plans do not differ from other defined benefit plans in terms of risks. Separate presentation would be warranted if the entity is exposed to risks from a multi-employer plan that are different from the risks of other defined benefit plans (e.g., if the entity is liable to the plan for other entities' obligations under the terms and conditions of the plan). In practice, however, disclosures about multi-employer plans are relatively short and are presented together with the disclosures on other defined benefit plans.

Regarding the proposed items of information, we believe that the statement, that a multi-employer plan is a defined benefit plan, as proposed by paragraph 148B(a), is essential for users of financial statements. Therefore, we believe entities should be *required* to disclose that item of information (i.e., that item should be a mandatory disclosure).

Question 17 – Disclosures for other types of employee benefit plans

Paragraphs BC167–BC170 of the Basis for Conclusions describe the Board's reasons for proposing the overall disclosure objectives for other types of employee benefit plans.

Do you agree that these proposals would result in the provision of useful information that meets the overall user information needs about these plans? If not, what alternative approach do you suggest and why?

We understand the IASB's reasons for proposing the overall disclosure objectives for other types of employee benefits. However, we have similar concerns about the proposed overall disclosure objectives as those explained in our response to question 15 in relation to defined contribution plans, i.e., we believe that the proposed disclosure objectives are – to some extent – vague.

We understand from paragraph BC167 that users of financial statements told the IASB that other types of employee benefits are easily to understand und unlikely to affect their analyses. We therefore conclude that users were satisfied with the information they receive under current disclosure requirements of IAS 19. Further, we note that paragraphs 158 and 171 of IAS 19 do not require specific disclosures about other long-term employee benefits and termination benefits. Given that users did not claim any deficiencies under current disclosure requirements, we question whether the introduction of an overall disclosure objective is justified for these types of employee benefits. In particular, we wonder whether entities might need to disclose additional information – beyond the particular items of information as set out in the overall disclosure objectives – to meet information needs of users of financial statement. Therefore, we encourage the IASB explain whether current disclosures about other types of employee benefits meet the information needs of users and illustrate which information should be disclosed (or omitted).

Further, we are concerned that requiring entities to disclose details about the terms of the promises made to employees – as proposed in paragraphs 158A and 171A of the ED – could result in lengthy descriptive disclosures that are likely to be boilerplate. As employee benefit plans vary widely in nature in practice, entities would be required to provide detailed information on various employee benefit plans, that are not relevant to users' analyses. In our opinion, information about the terms of an employee benefit plan is justified only for termination benefits and only when significant changes to termination benefit plans occur (e.g., the announcement of a detailed restructuring plan, including termination benefits). Provisions for restructuring costs are – like defined benefit plans – subject to significant measurement uncertainties. To assess the effects of such restructuring and termination benefit plans, we agree with the IASB that users need to understand the nature of the benefits promised under the plan. Further, provisions for restructuring costs are often subject of queries in capital market communications. Therefore, we believe that disclosures about significant changes to existing (or the announcement of new) termination benefit plans is useful for users. We therefore suggest the IASB reconsider the proposed overall disclosures objectives and require entities to disclose details about the nature of the benefits promised under the plan only in relation to significant changes to (or the announcement of new) termination benefit plans. This is in line with our recommendation to introduce a separate disclosure objective for significant plan amendments, curtailments or settlements of defined benefit plans (please refer to our response to question 13).

On balance, although we understand the IASB's reasoning, we suggest the IASB to apply a "bolder" approach for other types of employee benefit plans to address the disclosure problem more effectively. Given that users did not claim any deficiencies under current disclosure requirements, we believe that the proposed disclosures objectives are redundant. Furthermore, in our view, the proposed disclosure objectives do not capture the information that is relevant for users of financial statements (i.e., targeted information about significant events, curtailments or other matters that significantly changed the benefits promised by a termination plan, such as the announcement of a detailed restructuring plan). Therefore, we believe, if the IASB decided to retain the guidance proposed, the disclosure objectives are not specific enough to encourage entities to focus their disclosures on information that is useful for users of financial statements. Rather, we are concerned that entities will disclose lengthy descriptions about the nature of termination benefits and other long-term employee benefits.

Therefore, in reviewing the proposed overall disclosure objectives, the IASB could consider the following alternatives:

- Instead of an overall disclosure objective, include direct *requirements* in IAS 19 to disclose particular items of information about other types of employee benefit plans, as the potential items to be disclosed are narrow in scope,
- If the IASB decided to retain the overall disclosure objective, provide more specific guidance (e.g., include a specific disclosure object for significant events, curtailments or other matters that significantly changed the benefits promised by a termination plan, or include an exhaustive list of specific items of information that an entity must disclose to meet the disclosure objective).
- Increase an entity's leeway by not requiring specific disclosures at all (as currently set out by paragraphs 158 and 171 of IAS 19).

Question 18 – Other comments on the proposed amendments to IAS 19
Do you have any other comments on the proposed amendments to IAS 19 in this Exposure Draft, including the analysis of the effects (paragraph BC216 of the Basis for Conclusions) and the Illustrative Examples accompanying the Exposure Draft?

We do not have any other comments.