Deutsches Rechnungslegungs Standards Committee e.V.

Accounting Standards Committee of Germany

ASCG • Joachimsthaler Str. 34 • 10719 Berlin

Dr Andreas Barckow
Chair of the
International Accounting Standards Board
Columbus Building
7 Westferry Circus / Canary Wharf
London E14 4HD

Financial Reporting Technical Committee
Phone: +49 (0)30 206412-12
E-Mail: info@drsc.de

Berlin, 27 September 2023

Dear Andreas,

IASB RfI – *Post-implementation Review IFRS 9 – Impairments*

On behalf of the Accounting Standards Committee of Germany, I am writing to comment on the Request for Information *Post-implementation Review IFRS 9 – Impairments* (herein referred to as 'RfI'). We appreciate the opportunity to comment on and answer the questions raised in the RfI.

We welcome that the impairment requirements in IFRS 9 are principles-based and believe that they generally provide useful information. While acknowledging that these principles are not always applied identically, and therefore comparability might be restricted, we overall consider the approach advantageous and appropriate.

We are aware that the cost of implementing the new impairment model have been high across all industries. However, the recurring cost of applying the new model are rather moderate, and they are justifiable given the perceived (higher) benefit of the resulting financial information.

So far, we received feedback that the new impairment model is working well in practice and most practical challenges have been solved after implementation and nearly five years of application (not including the insurance sector which has started applying the model mandatorily in 2023 only). This said, we like to note that there is no reason for fundamentally changing the principles or requirements of the new impairment model in IFRS 9 at this stage.

For more details on our specific findings, we refer to our responses to the questions of the RfI which are laid out in the appendix to this letter. If you would like to discuss our comments further, please do not hesitate to contact Jan-Velten Große (grosse@drsc.de) or me.

Yours sincerely,

Sven Morich

Vice President

Contact:
Joachimsthaler Str. 34
D-10719 Berlin
Phone: +49 (0)30 206412-0
Fax: +49 (0)30 206412-15
E-Mail: info@drsc.de

Bank Details:
Deutsche Bank Berlin
IBAN-Nr.
DE26 1007 0000 0070 0781 00
BIC (Swift-Code)
DEUTDEBBXXX

Register of Associations:
District Court Berlin-Charlottenburg, VR 18526 Nz
President:
Georg Lanfermann
Vice President:
Prof Dr Sven Morich

Appendix – Answers to the questions in the RfI

Question 1 – Impairment

Do the impairment requirements in IFRS 9 result in:

a) more timely recognition of credit losses compared to IAS 39 and address the complexity caused by having multiple impairment models for financial instruments? Why or why not?

b) an entity providing useful information to users of financial statements about the effect of credit risk on the amount, timing and uncertainty offuture cash flows? Why or why not?

We acknowledge that the new impairment model is working well. We like to confirm that, in particular, it leads to a more timely recognition of credit losses and generally provides useful information in the financial statements. For some reservation as regards the usefulness of additional disclosures, we refer to our answer on Q9.

Question 2 – General approach

a) Are there fundamental questions (fatal flaws) about the general approach? If yes, what are those fundamental questions?

b) Are the costs of applying the general approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

There are no fundamental questions as regards application of the model and its principles. Nevertheless, some application challenges or questions in detail have occurred, but those have been solved during implementation and after five years' application.

Question 3 – Determining significant increases in credit risk

a) Are there fundamental questions (fatal flaws) about the assessment of significant increases in credit risk? If yes, what are those fundamental questions?

b) Can the assessment of significant increases in credit risk be applied consistently? Why or why not?

In responding to (a) and (b), please include information about applying judgement in determining significant increases in credit risk (see Spotlight 3).

There are no fundamental questions as regards determining significant increases in credit risk.

However, we acknowledge some differences in applying the respective requirements, which result from the principles-based nature of the model thereby leaving room for adapting it to the specific circumstances of an entity and its business – which we consider appropriate and supporting decision usefulness of the information provided. Overall, we deem the assessment of significant increases in credit risk to be applied consistently within the principle.

Question 4 – Measuring expected credit losses

a) Are there fundamental questions (fatal flaws) about requirements for measuring expected credit losses? If yes, what are those fundamental questions?

b) Can the measurement requirements be applied consistently? Why or why not?

There are no fundamental questions as regards measurement of expected credit losses. We take the view that the measurement requirements generally are applied consistently. Nevertheless, we again acknowledge that the principles-based nature of the measurement requirements leave room for individual judgements, thus leading to slightly different – but still consistent – application, which we consider appropriate.

In particular, the opportunity of applying *post-model adjustments* and *management overlays* (see "Spotlight 4.2") is of high practical use and very advantageous. It allows for adjusting the "standard" measurement principle in a way that measurement better reflects temporary and/or individual economic circumstances, thus clearly leading to more appropriate and more relevant information about expected credit losses. We like to note that, during the recent years, we have experienced economic situations (or even disruptions) that warranted the need for, and finally led to considerable use of, such overlays and adjustments – as existing models for measuring credit losses would not have captured these situations.

Further, we like to point to another application challenge around prolonged credit exposures (see "Spotlight 4.3"). Measuring expected credit losses can be challenging, or even inappropriate, in the context of credit engagements that are to be prolonged for strategic business purposes. Under these circumstances, measuring credit losses by reflecting the current maximum contractual period would lead to imprecise, if not distorted amounts of credit exposure.

Question 5 – Simplified approach

a) Are there fundamental questions (fatal flaws) about the simplified approach? If yes, what are those fundamental questions?

b) Are the costs of applying the simplified approach and auditing and enforcing its application significantly greater than expected? Are the benefits to users significantly lower than expected?

We are not aware of any fundamental questions.

The simplified approach is mainly applied in the non-financial and the insurance sector; those entities consider the approach being beneficial and reducing complexity. However, accounting experience has proven that cost and complexity reduction is rather limited, as the simplified approach equally requires forward-looking information, which is the main driver for complexity and costs.

Question 6 – Purchased or originated credit-impaired financial assets

Can the requirements in IFRS 9 for purchased or originated credit-impaired financial assets be applied consistently? Why or why not?

We acknowledge that implementing and applying the requirements for purchased or originated credit-impaired financial assets ("POCI assets") has been, and still is, complex. We are aware that fact patterns which lead to POCI requirements being applied mainly occur in the banking sector. Entities affected consider the POCI requirements being neither very useful for preparers nor for users – since the resulting information about credit losses appear counter-intuitive. E.g., the amount of a non-performing loan is, for strategic business purposes, increased. If so, the increased amount would be considered a POCI asset whereas the original amount is stage 3. This given, the initial and the additional loan amount would be accounted for differently – which is in our view neither intuitive nor appropriate as the credit risk is the same.

However, after five years of application, practical challenges generally have been solved and have led to well-established accounting practice. A fundamental change of existing POCI requirements would again change this practice.

We have also learnt from entities affected that a relief from the disclosure requirements – namely, aggregating disclosures for POCI assets and for non-performing assets (stage 3) – would reduce costs notably without reducing the usefulness of disclosed information.

Question 7 – Application with other requirements

Is it clear how to apply the impairment requirements in IFRS 9 with other requirements in IFRS 9 or with the requirements in other IFRS Accounting Standards? If not, why not?

Considering first the interaction of the impairment requirements with other IFRS 9 requirements, we observe some cross-cutting issues that exist from a conceptual prespective. In particular, the interaction of the requirements for impairment, modifications, derecognition, and write-offs remains unclear. However, accounting practice has largely solved those issues. The main question – the interaction of impairment vs. modifications – has been answered by applying a "priority rule" (impairment booked prior to the determination and booking of the modification effect.). While we know, and appreciate, that the IASB intend to address some of these issues within its research pipeline project on "Amortised Cost Measurement", we like to state that any potential amendments or clarifications in this regard would have significant implications to current accounting practice – which is crucial and should be carefully considered.

As regards the interplay of the impairment requirements in IFRS 9 with requirements in other IFRS standards, namely IFRS 15 and IFRS 16, we equally acknowledge cross-cutting issues that remain unsolved – and, as it seems, not only from a conceptual perspective but even in accounting practice. This said, we expect that these issues will arise during the respective

PiRs (PiR of IFRS 15 being under way, PiR of IFRS 16 being expected). However, attention should be paid since any such cross-cutting issues might not be fully covered by a PiR affecting one single IFRS standard only.

Question 8 – Transition

Were the costs of applying the transition requirements and auditing and enforcing their application significantly greater than expected? Were the benefits to users significantly lower than expected?

We are aware that transition has been complex and very costly for most entities from all industries, in particular from the banking sector. Though, five years after initial application, transition costs are considered sunk costs, and, hence, no longer a point of discussion.

Further, we like to mention that the transition reliefs provided, specifically the release from full retrospective application, has enormously helped in lowering transition efforts and costs. While transition reliefs are not unique to IFRS 9, we take the view that a relief from full retrospective application should be considered with any new or amended IFRS standard. In addition, we suggest that any transition reliefs be deliberated and developed in a more systematic way along with, and in parallel to, developing the main requirements of an IFRS standard.

Question 9 – Credit risk disclosures

a) Are there fundamental questions (fatal flaws) about the disclosure requirements in IFRS 7 for credit risk? If yes, what are those fundamental questions?

b) Are the costs of applying these disclosure requirements and auditing and enforcing their application significantly greater than expected? Are the benefits to users significantly lower than expected?

We have not identified fundamental questions about the disclosure requirements.

However, we consider the range and details of disclosure requirements as well as the cost of complying with them to be challenging. Generally, and specifically for entities in non-financial industries as well as in the insurance sector, the conceptual and financial efforts around these disclosures have been (and still are) high compared with the information content. Specifically, entities/industries with rather low, or less material, credit risk exposures have experienced efforts and cost which are not justified by the low amounts of credit risk (or credit losses) finally being disclosed. Moreover, the disclosure requirements in total seem to be designed for the banking sector, for which they appear appropriate and, regardless of the high cost, provide relevant information. Contrary to that, the disclosure requirements appear too burdensome for other industries, and we suggest thinking about some reliefs or reductions.

Finally, as regards the question of whether costs are greater than expected, we are not able to give a useful answer since “expected cost” is not an objective/unbiased measure to be compared with actual costs for disclosing information. However, comparing actual costs with actual benefits instead, we refer to our findings mentioned above and conclude that – apart

from the banking sector – the benefits of credit risk disclosures often do not justify the costs and conceptual efforts to provide them.

Question 10 – Other matters

a) Are there any further matters that you think the IASB should examine as part of the PiR of the impairment requirements in IFRS 9? If yes, what are those matters and why should they be examined?

b) Do you have any feedback on the understandability and accessibility of the impairment requirements in IFRS 9 that the IASB could consider in developing its future IFRS Accounting Standards?

We have not identified any other matters.