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Accounting Standards Committee of Germany

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Berlin, 18 November 2024

Dear Andreas,

IASB Exposure Draft ED/2024/5 *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures*

On behalf of the Accounting Standards Committee of Germany (ASCG) I am writing to comment on the Exposure Draft ED/2024/5 *Amendments to IFRS 19 Subsidiaries without Public Accountability: Disclosures* issued by the IASB on 30 July 2024 (herein referred to as the "ED"). We appreciate the opportunity to comment on the ED.

We welcome and support the IASB's efforts to update the disclosure requirements in IFRS 19 as regards new or amended IFRS Accounting Standards issued between 28 February 2021 and 1 May 2024 in a timely manner. We appreciate that eligible subsidiaries would benefit from reduced disclosure requirements of new and amended disclosure requirements from the outset of applying IFRS 19.

In substance, we agree with the proposals to retain the disclosure requirements in IFRS 19 that were introduced to IFRS Accounting Standards issued between 28 February 2021 and 1 May 2024.

We concur with the IASB's reasoning for retaining the disclosure requirements as explained in the Basis of Conclusions on the ED and agree with the IASB's conclusion that the principles for developing disclosure requirements for subsidiaries are met.

Notwithstanding our general support, we note that, as a result, a significant number of disclosure requirements were retained in IFRS 19, resulting in extensive disclosures for subsidiaries without public accountability. Given that the objective of IFRS 19 is to save costs for preparers because subsidiaries could provide reduced disclosures while still applying the same recognition and measurement requirements when producing their financial statements that their parent applied for its consolidated financial statements, we are concerned that IFRS 19 will be somewhat diluted, as the extent of disclosures increases towards the amount of disclosures in "full" IFRS Accounting Standards. As a result, applying IFRS 19 might become less attractive

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for eligible subsidiaries. We therefore encourage the IASB to provide more relief for subsidiaries when developing disclosure requirements.

In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. The proposals of the ED clearly depict the weaknesses of the IASB's approach to developing the proposed disclosure requirements. While we broadly agree with the principles for developing disclosure requirements for subsidiaries (as set out in paragraph BC2 of the Basis for Conclusions on the ED), in applying the principles on the ED's proposals, we found that the principles are quite comprehensive and, hence, cover a wide range of information that would need to be disclosed. Therefore, we believe that the IASB should adopt an approach more tailored to the specific information needs of users of a subsidiary's financial statements when developing the reduced disclosure requirements.

We therefore recommend the IASB review its process of developing disclosure requirements for subsidiaries in due course (i.e., after sufficient experience of applying IFRS 19 has been gained, as part of the Post-implementation Review of IFRS 19). In particular, we recommend the IASB engage further with users of the financial statements of eligible subsidiaries (i.e., lenders) what type of information they need, by establishing a dedicated consultative group (similar to the Capital Markets Advisory Committee) for users of the financial statements of subsidiaries without public accountability.

Discussing proposed new disclosure requirements with a consultative group that consists only of users of the financial statements of subsidiaries would allow the IASB to better align the disclosure requirements with the specific information needs of subsidiaries' users of financial statements and balance them with the costs of preparing that information. This approach would have the advantage that the reduced disclosure requirements would be derived more directly from the information needs of the users of financial statements.

Regarding the IASB's decision not to propose reduced disclosure requirements relating to regulatory assets and regulatory liabilities, we do not agree with the IASB's decision, nor its reasoning for that decision. In our view, the reasons put forward by the IASB in paragraph BC36 of the Basis for Conclusions on the ED are not conceptually convincing. In particular, the reasons presented by the IASB are not specific to the prospective Standard on Regulatory Assets and Regulatory Liabilities (RARL) and, therefore, could equally be provided for any other new IFRS Standard. We are therefore concerned that the IASB is establishing a new principle that, if the IASB issues a new IFRS Accounting Standard (or an Amendment), the complete set of the disclosure requirements of that Standard would apply to subsidiaries without public accountability.

In particular, we disagree with the reason provided in paragraph BC36(b) of the Basis for Conclusions, that proposing reduced disclosure requirements only after entities have applied the prospective RARL Standard for some time would allow users to increase their familiarity with the new model for accounting for regulatory assets and regulatory liabilities while allowing the IASB to assess the effectiveness of the disclosure requirements before proposing reduced disclosure requirements. Rather, we believe that from a preparer's perspective it is more appropriate to provide reductions for subsidiaries from the outset so that subsidiaries do not incur high implementation costs for gathering data to comply with disclosure requirements that could be reduced in the future.

We therefore recommend the IASB revisit its decision not to propose reduced disclosure requirements for the prospective RARL Standard and suggest the IASB reconsider reducing disclosure requirements on regulatory assets and regulatory liabilities once the final IFRS Accounting Standard has been published.

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

Question 1 – Presentation and disclosure in financial statements (proposed amendments to paragraphs 137, 142-159 and 163 of IFRS 19, paragraph A3 in Appendix A of IFRS 19 and paragraph B8 of Appendix B of IFRS 19)
The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to IFRS 18. The only substantial change proposed is to remove from IFRS 19 the requirements relating to management-defined performance measures. Instead, an eligible subsidiary that uses management-defined performance measures as defined in IFRS 18 would be required to apply the related disclosure requirements in IFRS 18. The IASB is also proposing to remove the disclosure objective in paragraph 137 of IFRS 19 relating to non-current liabilities with covenants. Paragraphs BC6-BC13 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. Do you agree with the proposal to remove from IFRS 19 the requirements for management-defined performance measures and to require an eligible subsidiary to disclose information about these measures if it uses them? If you disagree with this proposal, please explain your reasons. Are there any other disclosure requirements in IFRS 18 that, in your view, are not applicable to eligible subsidiaries and should therefore be removed from IFRS 19? If so, please specify the disclosure requirements and explain your reasons. Do you agree that following the removal of the disclosure objective in paragraph 137 of IFRS 19, the remaining requirements relating to non-current liabilities with covenants are sufficient and clear?

We agree with the IASB's proposal to retain the disclosure requirements in IFRS 19 relating to IFRS 18 *Presentation and Disclosure in Financial Statements*. We also agree with the proposal to retain to the disclosure requirements relating to non-current liabilities with covenants and believe that the requirements are sufficiently clear. We also agree with the IASB's reasoning as laid out in BC9-BC13 of the Basis for Conclusions.

Notwithstanding our general support, we observe that the principles for developing disclosure requirements for subsidiaries are very broad and as a result applying the principles generally results in a significant number of disclosures being retained for subsidiaries. Applying IFRS 19 could thus become less attractive for eligible subsidiaries. In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. As explained in more detail in our cover letter, we therefore recommend the IASB reconsider its process for maintaining IFRS 19.

Question 2 – Supplier finance arrangements (proposed amendments to paragraphs 167-168 of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to supplier finance arrangements, with some amendments.

The IASB proposes to delete the disclosure objective previously included in paragraph 167 of IFRS 19, consistent with its decision not to include disclosure objectives in IFRS 19. It also proposes:

(a) to add a new paragraph, paragraph 167A, which would include the description of supplier finance arrangements from paragraph 44G of IAS 7; and

(b) to amend paragraph 168 of IFRS 19 to remove the reference to the disclosure objective.

Paragraphs BC14-BC17 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

Do you agree that including explanatory text in paragraph 167A would be helpful to eligible subsidiaries that elect to apply IFRS 19? Please explain your reasons.

Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons.

We agree with the IASB's proposal to retain the disclosure requirements in IFRS 19 relating to supplier finance arrangements.

We note that the disclosure requirements relating to supplier finance arrangements were introduced to IFRS Standards particularly in response to requests from lenders (i.e., credit analysts). Further, we also note that, in practice, supplier finance arrangements are not only entered into at group level, but also at the level of individual subsidiaries. Therefore, we agree with the IASB's reasoning as laid out in paragraph BC16 of the Basis for Conclusions that the proposed disclosures provide users of financial statements with relevant information about short-term cash flows and accordingly the principles for developing disclosure requirements for subsidiaries are met.

Notwithstanding our general support, we observe that the principles for developing disclosure requirements for subsidiaries are very broad and as a result applying the principles generally results in a significant number of disclosures being retained for subsidiaries. Applying IFRS 19 could thus become less attractive for eligible subsidiaries. In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. As explained in more detail in our cover letter, we therefore recommend the IASB reconsider its process for maintaining IFRS 19.

Question 3 – International tax reform – Pillar Two model rules (proposed amendments to paragraphs 198-199 of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments to IAS 12 that introduced:

(a) a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and

(b) targeted disclosure requirements for affected entities.

The only proposed change is to remove paragraph 198 of IFRS 19 and the reference to a disclosure objective in paragraph 199 of IFRS 19.

Paragraphs BC18-BC21 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you agree that following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 196-199 of IFRS 19 are sufficient and clear? Please explain your reasons.

We agree with the IASB's proposal to retain the disclosure requirements in IFRS 19 introduced by the amendments to IAS 12 *International tax reform – Pillar Two model rules* issued by the IASB in May 2021.

We also agree with the IASB's reasoning as laid out in paragraph BC20 of the Basis for Conclusions that the proposed disclosures provide users of financial statements with relevant information to understand the effects of the Pillar Two model rules on affected subsidiaries and accordingly the principles for developing disclosure requirements for subsidiaries are met.

Notwithstanding our general support, we observe that the principles for developing disclosure requirements for subsidiaries are very broad and as a result applying the principles generally results in a significant number of disclosures being retained for subsidiaries. Applying IFRS 19 could thus become less attractive for eligible subsidiaries. In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. As explained in more detail in our cover letter, we therefore recommend the IASB reconsider its process for maintaining IFRS 19.

Question 4 – Lack of exchangeability (proposed amendments to paragraphs 221-223 of IFRS 19)

The IASB is proposing to retain the disclosure requirements in IFRS 19 relating to the amendments for lack of exchangeability issued in August 2023. The IASB amended IAS 21 to require an entity to apply a consistent approach:

(a) to assessing whether a currency is exchangeable into another currency; and

(b) to determining the exchange rate to use and the disclosures to provide if a currency is not exchangeable.

The only proposed change is to remove from IFRS 19 the disclosure objective and the reference to the amount of detail necessary to satisfy that objective.

Paragraphs BC22-BC26 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you agree that following the removal of reference to the disclosure objective, the disclosure requirements in paragraphs 221-223 of IFRS 19 are sufficient and clear? Are there any other disclosure requirements that should be removed from IFRS 19? Please explain your reasons.

We agree with the IASB's proposal to retain the disclosure requirements in IFRS 19 relating to the amendments for lack of exchangeability issued by the IASB in August 2023.

We believe that the disclosure requirements relate to specific circumstances that warrant the disclosure of certain items of information. We also agree with the IASB's reasoning as laid out in paragraph BC24 of the Basis for Conclusions that the proposed disclosures provide users of financial statements with relevant information about measurement uncertainties and about accounting policy choices and accordingly the principles for developing disclosure requirements for subsidiaries are met.

Further, we note that disclosures about lack of exchangeability will only need to be disclosed in rare circumstances. Therefore, providing further reductions in disclosures about lack of exchangeability will only be a relief for very few subsidiaries anyway.

Notwithstanding our general support, we observe that the principles for developing disclosure requirements for subsidiaries are very broad and as a result applying the principles generally results in a significant number of disclosures being retained for subsidiaries. Applying IFRS 19 could thus become less attractive for eligible subsidiaries. In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. As explained in more detail in our cover letter, we therefore recommend the IASB reconsider its process for maintaining IFRS 19.

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Question 5 – Financial instruments classification and measurement (no changes proposed)

Paragraphs 56A–56D of IFRS 19 were added due to *Amendments to the Classification and Measurement of Financial Instruments* issued in May 2024. The paragraphs contain disclosure requirements relating to the effect of contractual terms that could change the amount of contractual cash flows as a result of a contingent event that does not directly relate to basic lending risks and costs (such as the time value of money or credit risk).

The amendments to IFRS 19 were made without reducing the disclosure requirements. Having considered the amendments, the IASB proposes not to reduce the disclosure requirements because they provide users of eligible subsidiaries' financial statements with information about short-term cash flows and obligations, as well as solvency and liquidity.

Paragraphs BC27-BC31 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal.

Do you have comments or suggestions on the proposal not to reduce the disclosure requirements introduced by the amendments to IFRS 7 issued in May 2024? Please explain your reasons.

We agree with the IASB's proposal not to reduce the disclosure requirements in IFRS 19 that were added due to *Amendments to the Classification and Measurement of Financial Instruments* issued by the IASB in May 2024.

We also agree with the IASB's reasoning as laid out in paragraph BC30 of the Basis for Conclusions that the proposed disclosures provide users of financial statements with relevant information about short-term cash flows and obligations, as well as solvency and liquidity and accordingly the principles for developing disclosure requirements for subsidiaries are met.

Notwithstanding our general support, we observe that the principles for developing disclosure requirements for subsidiaries are very broad and as a result applying the principles generally results in a significant number of disclosures being retained for subsidiaries. Applying IFRS 19 could thus become less attractive for eligible subsidiaries. In this context, we have rediscussed the strengths and weaknesses of the IASB's approach to maintaining IFRS 19. As explained in more detail in our cover letter, we therefore recommend the IASB reconsider its process for maintaining IFRS 19.

Question 6 – Regulatory assets and regulatory liabilities

An entity that applies IFRS 19 and the prospective RARL Standard will be required to apply the disclosure requirements in the prospective RARL Standard. The IASB is proposing to remove the disclosure requirements relating to IFRS 14, which were included in IFRS 19, when the prospective RARL Standard is issued and to amend paragraph 4(b) of IFRS 19 such that the disclosure requirements in the prospective RARL Standard remain applicable. These changes would be consequential amendments in the prospective RARL Standard.

Table 1 describes the disclosure requirements the IASB has tentatively decided to include in the prospective RARL Standard. Eligible subsidiaries with regulatory assets and regulatory liabilities would be required to apply all these requirements if IFRS 19 were not amended to reduce the disclosure requirements. Table 1 also illustrates which requirements might be reduced if the IASB were instead to apply its principles for developing reduced disclosure requirements for entities applying IFRS 19.

This Exposure Draft proposes no reductions in disclosure requirements relating to regulatory assets and regulatory liabilities at this stage.

Paragraphs BC32-BC37 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals.

Are you aware of entities that have regulatory assets and regulatory liabilities within the scope of the IASB's project on rate-regulated activities that would be eligible to apply IFRS 19?

Do you agree that an entity applying IFRS 19 and the prospective RARL Standard should be required to apply all the disclosure requirements in the prospective RARL Standard illustrated in Table 1? If you disagree, please suggest the disclosure requirements in Table 1 that an eligible subsidiary applying IFRS 19 should not be required to apply. Please explain your reasons.

The IASB's decision not to propose reduced disclosure requirements for the prospective RARL Standard (paragraphs BC36-BC37 of the Basis for Conclusions)

We do not agree with the IASB's decision not to propose reduced disclosure requirements relating to regulatory assets and regulatory liabilities, nor its reasoning for that decision.

In our opinion, the reasons put forward by the IASB in paragraph BC36 of the Basis for Conclusions are not conceptually convincing. In particular, the reasons presented by the IASB are not specific to the prospective RARL Standard and, therefore, could equally be provided for any other new IFRS Standard.

In particular, the reason provided in paragraph BC36(b) of the Basis for Conclusions, that proposing reduced disclosure requirements only after entities have applied the prospective RARL Standard for some time would allow users to increase their familiarity with the new model for accounting for regulatory assets and regulatory liabilities while allowing the IASB to assess the effectiveness of the disclosure requirements before proposing reduced disclosure

requirements, would be equally valid for any other new (major) IFRS Accounting Standard that introduces a new model of accounting. In this context, we refer to our comment letter on the IASB ED/2021/7 (p. 14), in which we already addressed this issue in relation to IASB's decision not to propose reduced disclosure requirements for IFRS 17 *Insurance Contracts*, whereby the IASB followed the same reasoning.

We are therefore concerned that the IASB is establishing a new principle that, if the IASB issues a new IFRS Accounting Standard (or an Amendment), the complete set of the disclosure requirements of that Standard would apply (without any reductions) to subsidiaries without public accountability. Rather, we believe it is more appropriate to consider on a case-by-case basis whether the disclosure requirements introduced by a new IFRS Accounting Standard (or an Amendment) could be reduced for subsidiaries.

Further, as also acknowledged by the IASB in paragraph BC37 of the Basis for Conclusions, we believe that from a preparer's perspective it is more appropriate to provide reductions for subsidiaries from the outset so that subsidiaries do not incur high implementation costs for gathering data to comply with disclosure requirements that could be reduced in the future. In our opinion, from a preparer's perspective, the highest cost reduction potential exists if reductions are granted from the outset, otherwise the costs for implementing disclosure requirements that could be removed after a few years are sunk costs.

We therefore recommend the IASB reconsider its decision not to propose reduced disclosure requirements for the prospective RARL Standard. As the prospective RARL Accounting Standard has not yet been published and is expected to be effective for annual reporting periods beginning on or after 1 January 2029, we recommend the IASB revisit its decision once the final RARL Standard has been published and consult on reduced disclosure requirements for subsidiaries without public accountability.

Subsidiaries with regulatory assets and regulatory liabilities eligible to apply IFRS 19

We are aware of entities in our jurisdiction that have regulatory assets and regulatory liabilities within the scope of the IASB's project on rate-regulated activities that would be eligible to apply IFRS 19. In our jurisdiction, the German transmission system operators (TSOs) will be within the scope of the prospective RARL Standard. As all German TSOs apply IFRS Accounting Standards in their group financial statements, their subsidiaries would generally be eligible to apply IFRS 19.

However, as already explained in our comment letter on the IASB ED/2021/7 (p. 5), with regard to our jurisdiction, applying IFRS Accounting Standards in separate financial statements does not exempt domestic entities from their duty to prepare statutory annual accounts in accordance with German GAAP. Therefore, applying IFRS Accounting Standards in separate financial statements is very rare, and hence, is limiting the actual relevance of IFRS 19 (if endorsed by the European Union) for German subsidiaries.

On the other hand, foreign subsidiaries of a parent entity having its registered office in Germany might be eligible to apply IFRS 19, if IFRS Accounting Standards are permitted or required under local law for the separate financial statements of that subsidiary.