GDV
DIE DEUTSCHEN VERSICHERER

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Date
25.01.2022

Subsidiaries without Public Accountability: Disclosures
EFRAG's draft comment letter on the IASB's Exposure Draft
(July 2021)

Dear Mr Gauzès

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to provide our comments on EFRAG's draft comment letter ('the DCL') in response to the IASB's Exposure Draft "Subsidiaries without Public Accountability: Disclosures" ('the ED'), published by EFRAG on 30 September 2021 for comments.

First of all, we would like to highlight that we very much appreciate EFRAG's considerable efforts undertaken in context of the ED. The IASB's proposal creates indeed the need for intensive multidimensional considerations, including the consideration of potential endorsement implications at EU level. In this regard we have welcomed EFRAG Secretariat Briefing: *Who would be able to apply it in the EU? An EU Perspective on the IASB's Proposed Scope*, issued by EFRAG on 9 December 2021 to put the IASB's proposal into the EU context and hence to facilitate the debate at EU level.

Like EFRAG, the German insurers appreciate the IASB's initiative to propose a new regular IFRS Standard that would permit eligible subsidiaries to apply the full set of IFRS Standards but with a reduced set of disclosure requirements only. The IASB's initiative is suitable to ease financial reporting to eligible subsidiaries while meeting the reasonable needs of the users of their financial statements. Nevertheless, we support the new IFRS Standard to be applicable on an optional basis to allow for individual group- and entity-specific considerations of its costs and benefits.

Being overall very supportive of the IASB's proposal and its design, we have however identified two essential issues of concern the German insurers raise with the IASB's proposal in the ED:

- We are very much concerned that the IASB envisages to generally exclude insurance undertakings from the scope of the new IFRS

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Standard. We disagree with this aim. Not listed insurance subsidiaries should be eligible to benefit from the reduced set of disclosure requirements foreseen for the other regular IFRS Standards to ensure level playing field with other industries.

- Similarly, and aligned with EFRAG's tentative view in paragraph 80 of the DCL, we are not supportive of the approach proposed by the IASB in the ED regarding disclosure requirements in IFRS 17 *Insurance Contracts*. From our perspective, it is rather counterintuitive to require the full set of disclosure requirements to be applied from the outset and to intend to verify at a later stage only whether a respective relief might be ultimately provided to eligible entities. We recommend instead developing a comprehensive robust set of reduced disclosure requirements also for IFRS 17 when finalising the proposed new IFRS Standard.

We kindly ask EFRAG to recommend the IASB to reconsider also these two key issues of concern when finalising the new IFRS Standard. We believe that **insurers shouldn't be affected by the IASB's final IFRS Standard in a twofold adverse manner**. We would greatly appreciate if the comments of the German insurance industry could be considered when finalising the comment letter of EFRAG.

Our detailed comments and our related rationale are provided in the comment letter as submitted to the IASB (attached hereafter). If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

DIE DEUTSCHEN VERSICHERER

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25.01.2022

Subsidiaries without Public Accountability: Disclosures
Exposure Draft ED/2021/7 (July 2021)

Dear Mr Barckow

On behalf of the German Insurance Association (GDV) we appreciate the opportunity to provide our comments on the Exposure Draft "Subsidiaries without Public Accountability: Disclosures" ('the ED'), released by the IASB on 26 July 2021 for the public consultation.

Overall and as a matter of principle, we welcome and fully support the IASB's initiative to propose a new IFRS Standard that would permit eligible subsidiaries to apply the full set of IFRS Standards but with a reduced set of disclosure requirements only. The IASB's initiative is indeed suitable to ease financial reporting of eligible subsidiaries while meeting the reasonable needs of the users of their financial statements. In this regard we are fully supportive of the objective of the project and of the envisaged new IFRS Standard. Once finalised it can create a great potential for significant operational and cost reliefs for reporting entities in the scope.

We support the proposal that the new IFRS Standard should be applied on an optional basis. It will allow all groups and any eligible reporting entity in the scope to verify on its own whether in its individual specific circumstances it is beneficial or not to apply the new IFRS Standard with the reduced set of disclosure requirements together with the regular set of recognition, measurement, and presentation requirements, while also considering the set of the necessary information to be collected, verified, audited, and provided for the consolidation reporting package purposes. In this regard we share the IASB's initial view that normally the adoption of the new IFRS Standard will be beneficial as more cost-effective for eligible subsidiaries. We agree that those subsidiaries' financial statements with reduced disclosures would remain useful to meet the information needs of their users.

While not providing detailed comments on all the specific questions raised in the ED, we would like to highlight two essential concerns the German

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insurers have with the proposed setup of the new IFRS Standard as laid down in the ED.

Unfortunately, the German insurers, often active on a global basis with several hundreds of foreign subsidiaries, are affected by the IASB's proposal in the ED in **a twofold adverse manner**:

- The insurance undertakings are proposed to be generally excluded from the proposed scope of the new IFRS Standard.
- The ED includes no proposals how the complex disclosure requirements in IFRS 17 *Insurance Contracts* could be reasonably reduced for reporting entities issuing insurance contracts and being eligible to the scope of the proposed new IFRS Standard.

Overall, while we support the IASB's proposed new regular IFRS Standard as a welcome comprehensive approach to ease financial reporting of eligible subsidiaries, we would like to recommend the IASB to reconsider both the issues of concern identified above. We would find it **fully inappropriate to generally exclude the insurance industry from the scope of the proposed new IFRS Standard**. We believe that insurance undertakings being subsidiaries should be in the scope of the new regular IFRS if not listed on a capital market. And irrespective of the potential reliefs regarding IFRS 17, not listed insurance subsidiaries should be eligible to benefit from the reduced set of disclosure requirements regarding the other IFRS Standards to ensure level playing field with other industries.

Finally, we are fully supportive of the proposal that eligible subsidiaries that have chosen to apply this new IFRS Standard shall disclose that fact in their compliance statement as proposed in the ED. We are fully supportive of this level of transparency.

Our comments and our related detailed rationale are provided in the annex to this letter (attached). If you would like to discuss our comments further, please do not hesitate to contact us.

Yours sincerely,

German Insurance Association (GDV)

Annex

The comments of the German insurance industry on the IASB's Exposure Draft "Subsidiaries without Public Accountability: Disclosures", released by the IASB on 26 July 2021 for the public consultation.

General comments

Overall and as a matter of principle, the German insurers welcome and fully support the IASB's initiative to propose a new IFRS Standard that would permit eligible subsidiaries to apply the full set of IFRS Standards but with a reduced set of disclosure requirements only. The IASB's initiative is indeed suitable to ease financial reporting of eligible subsidiaries while meeting the reasonable needs of the users of their financial statements. In this regard we are fully supportive of the objective of the project (Question 1) and of the envisaged new regular IFRS Standard. Once finalised it can create a great potential for significant operational and cost reliefs for entities in its scope.

And we support the proposal that the new IFRS Standard should be applied on an optional basis. It will allow all groups and any eligible reporting entity in the scope to verify on its own whether in its specific circumstances it is beneficial or not to apply the new IFRS Standard with the reduced set of disclosure requirements together with the regular set of recognition, measurement, and presentation requirements, while considering the set of the necessary information to be collected, verified, audited, and provided for the consolidation reporting package purposes. Hence, we back the initial IASB's assessment and motivation in paragraphs 2 and 6 of the Basis for Conclusions that in most of the cases it would be generally the case.

In this regard we share the IASB's view that the adoption of the new IFRS Standard will be beneficial as more cost-effective for eligible subsidiaries, as a higher materiality threshold for the consolidation package used to be applied compared to the one for the financial statement of the respective subsidiary. We agree that those subsidiaries' financial statements with reduced disclosures would remain useful to meet the information needs of their users.

In the following we would like to highlight two essential concerns the German insurers have with the proposed setup of the new IFRS Standard as laid down in the ED. Our comments are accompanied by the detailed rationale why we believe that the issues identified should be reconsidered by the IASB when finalising the new regular IFRS Standard.

Detailed comments

Unfortunately, the German insurers, often active on a global basis with several hundreds of foreign subsidiaries, are affected by the IASB's proposal in the ED in a **twofold adverse manner**. Our rationale is as follows:

- **The proposed scope of the new IFRS Standard**

Regarding the scope of the proposed IFRS Standard the IASB refers in the ED to the **subsidiaries without public accountability** (Question 2). And in paragraphs 6 to 8 of the ED some further principle-based specifications of this term are provided. In this regard we are very much concerned that the scope definition of the new IFRS Standard aims to generally exclude insurance companies via the reference to the term "**fiduciary capacity**" in paragraph 7 (b) of the ED when determining in the ED when an entity has "public accountability" in paragraph 6 (b) of the ED. And we strongly disagree with the outcome of this scoping approach.

- As a matter of principle, we agree with the proposal in paragraph 7 (a) of the ED, i.e., that an entity which has public accountability, because its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market, shall not be eligible to the new IFRS Standard.
- However, we fundamentally disagree that also not listed insurers should be generally excluded from the scope of the proposed IFRS Standard as well. Specifically, we **do not agree with the general presumption in paragraph 7 (b) of the ED** that insurers are holding assets they invest in in a fiduciary capacity and therefore primary insurers and reinsurers as such should generally not benefit from the IASB's proposal.
- Insurers are not in general, as universally suggested by the IASB in the ED, managing assets on behalf of policy holders. In general, insurers are underwriting risks and receiving premiums according to the terms and conditions of insurance contracts and these premiums belong to the respective insurance company at the time received. Moreover, insurers (in life insurance, in property and casualty insurance, and in reinsurance business) generally invest policyholders' premiums for asset-liability-management purposes generally on their own right and on their own risk and with the main aim which is to ensure that their contractual obligations defined in the insurance contracts can be met in all circumstances whenever the specified insured event might occur in the coverage period. Admittedly, some more nuances and specifics to insurance products might arise when for example unit-linked life insurance contracts are considered. But it still does not mean that insurance entities at large are generally and mainly active in a fiduciary capacity for their customers.

- Consequently, and as a matter of fact, insurers are not essentially holding assets in a fiduciary capacity, neither in legal terms nor in economic perspective. Hence, the initial position of the ED is very problematic in this regard and we respectfully ask the IASB to revisit this key issue.
- Furthermore, the main protection for policy holders is provided by the regulatory frameworks being set by specific regulatory legislations in the local jurisdictions (e.g., Solvency II in the EU). Hence, it is not necessary for the IASB to treat policyholders as the potential primary users of the information provided in notes to the insurers' financial statements. If it was the initial intention of the ED for the proposal to generally exclude insures from the scope of the new IFRS Standard, we also believe that the reduced set of disclosure requirements in the proposed IFRS Standard would be fully sufficient for this purpose, even when considering the second issue of concern we refer to below.
- Finally, we acknowledge that regarding the term "public accountability" the scope of the proposed new IFRS Standard is suggested to be aligned with the current scope of the *IFRS for SMEs* Standard. For the rationale provided above, we generally suggest reconsidering this problematic reference to "fiduciary capacity" leading to the general exclusion of not listed insurers in both IFRS Standards, as we also believe that it would be conceptually reasonable to base the scope of the proposed new IFRS Standard on the same set of eligible reporting entities as for the *IFRS for SMEs* Standard. The currently ongoing IASB's work on the envisaged Exposure Draft with potential amendments to the *IFRS for SMEs* Standard is an appropriate opportunity to revisit and properly approach this issue as well. In the case that such a simultaneous scope refinement for the *IFRS for SMEs* Standard is not achievable from the perspective of the IASB in the timeframe given, we suggest then uncoupling the proposed new regular IFRS Standard regarding its scope design from the *IFRS for SMEs* Standard.

Summing up, we agree with the proposal in the ED that listed insurance undertakings should not be in the scope of the new IFRS Standard, as being designated as publicly accountable in paragraph 7 (a) of the ED. We recommend however not to exclude insurers generally from the scope of the new IFRS Standard based on considerations in paragraph 7 (b) of the ED for the reasons provided above.

- **The proposed approach to disclosure requirements in IFRS 17**

The ED does not include any proposals how the voluminous set of complex and burdensome disclosure requirements in IFRS 17 could be reduced for reporting entities issuing insurance contracts and being potentially in the scope of the proposed new IFRS Standard (Question 6). We acknowledge

the IASB's rationale provided in this respect in paragraph 64 of the Basis for Conclusions for not proposing the reduced disclosure requirements for IFRS 17. Nevertheless, we don't back it.

- We believe that, similarly to the other and likewise very recently issued IFRS Standards (e.g., IFRS 15 *Revenue from Contracts with Customers*, IFRS 16 *Leases*), a potential set of reasonably reduced disclosure requirements for IFRS 17 should be explored and developed by the IASB and provided to eligible subsidiaries when finalising the new IFRS Standard. It is rather counterintuitive to require the full set of disclosure requirements to comply with from the outset and to intend to verify at a later stage only whether a relief might be ultimately provided. Such an approach does not seem to be reasonable from our perspective.
- The reference in paragraph 64 (d) of the Basis for Conclusions to the needs of regulators with reference to IFRS 17 is not convincing either. The strict rules-based regulatory requirements as set up in the related legislations in the local jurisdictions are already satisfying these specific needs in a more than sufficient manner.
- Consequently, we believe that those arguments provided in the Basis for Conclusions are not compelling and the application a full set of disclosure requirements for IFRS 17 would result in undue costs and efforts and bring no or only little benefit to the users of financial statements of eligible subsidiaries.

Summing up, we recommend developing a comprehensive set of reduced disclosure requirements also for IFRS 17 when finalising the proposed new IFRS Standard.

General conclusion and some additional comments

Overall, while we support the IASB's proposed new IFRS Standard as a welcome comprehensive approach to ease financial reporting of eligible subsidiaries, we would like to recommend the IASB to reconsider the issues of concern identified above. We would find it inappropriate to generally exclude the insurance industry from the scope of the proposed new regular IFRS Standard. We believe that insurance undertakings being subsidiaries and not listed on a capital market should be in the scope of the proposed new IFRS Standard. Irrespective of the potential reliefs regarding IFRS 17, not listed insurance subsidiaries should be eligible to benefit from the reduced set of disclosure requirements regarding also the other IFRS Standards (e.g., IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement*, IFRS 16 *Leases*, IAS 19 *Employee Benefits*, etc.) to ensure level playing field with other industries.

We are fully supportive of the proposal in paragraph 22 of the ED that eligible subsidiaries that have chosen to apply this new IFRS Standard shall disclose that fact in their compliance statement required by paragraph 110 of the ED. We are fully supportive of this level of transparency.

Furthermore, we would like to highlight that the design and the setup of the new IFRS Standard should indeed have a robust link to the recognition, measurement, and presentation requirements in the full IFRS Standards. Hence, when proposing any amendments to the other regular IFRS Standards, it should be also evaluated and consulted by the IASB with stakeholders whether consequential amendments to the proposed new IFRS Standard should be approached as well. In this regard we are supportive of the IASB's intended simultaneous approach for maintaining the proposed new Standard (paragraph 91 of the Basis for Conclusions). Indeed, any potential benefits for eligible subsidiaries should not be unnecessarily delayed.

Finally, we do not recommend any additional disclosure requirements for the eligible reporting entities applying the proposed reduced set of disclosure requirements (Question 8) and we agree with the proposed structure of the new IFRS Standard as laid down in the ED (Question 9).

Berlin, 25 January 2022