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26 January 2022

Comment letter on the IASB Exposure Draft ED/2021/7 Subsidiaries without Public Accountability: Disclosures

Dear Mr. Barckow,

Thank you for the opportunity to comment on the IASB Exposure Draft on Subsidiaries without Public Accountability: Disclosures. Erste Group appreciates that the IASB addresses the disclosure requirements of financial statements of subsidiaries without public accountability that have parents that prepare IFRS consolidated financial statements.

We welcome the IASB initiative to simplify disclosures for specific types of entities. We would like to note that we have a suggestion for broadening the scope of the standard. It should also include entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This would enable to include financial institutions in the scope which is important for our banking group. This proposal is discussed more in detail below as part of our answers.

If you have any questions regarding our comments, please do not hesitate to contact us.

Yours sincerely,

Gabriele Tauböck
Head of Group Accounting

Question 1—Objective

Paragraph 1 of the draft Standard proposes that the objective of the draft Standard Subsidiaries without Public Accountability: Disclosures is to permit eligible subsidiaries to apply the disclosure requirements in the draft Standard and the recognition, measurement and presentation requirements in IFRS Standards.

Do you agree with the objective of the draft Standard? Why or why not? If not, what objective would you suggest and why?.

Answer:

We agree with the objective of the new IFRS standard. We consider the draft standard to be useful to boost the adoption of IFRS in subsidiaries' financial statements.

Question 2— Scope Paragraphs 6–8 of the draft Standard set out the proposed scope. Paragraphs BC12–BC22 of the Basis for Conclusions explain the Board's reasons for that proposal. Do you agree with the proposed scope? Why or why not? If not, what approach would you suggest and why?

Answer:

We suggest extending the scope of the new draft standard in a way that it enables to include also entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. This would enhance the applicability also to financial institutions. The reasons are following.

The need for financial statements with full IFRS disclosures is widely acknowledged for entities whose debt or equity instruments are traded in a public market and for entities in the process of issuing such instruments for trading in a public market. For example, with the regulation 1606/2002 the EU requires publicly traded companies to use IFRS standards in their consolidated accounts and it allows member states to require or permit IFRS standards in annual accounts of such companies and in consolidated or annual accounts of other entities.[1] The need for financial statements with full IFRS disclosures is less acknowledged for financial institutions. A survey conducted in 2018 showed that only about half of the member states required financial institutions to use IFRS standards in their annual accounts.[2]

We consider that national legislators are in a better position to define additional scope requirements for the new draft standard because they can consider the particular situation in their jurisdiction. For example, financial institutions in countries such as Austria or Germany can be relatively small entities that are linked together by protection schemes, financial guarantees and similar measures. For such entities full IFRS disclosures are of greater use in the consolidated group financial statements rather than in the individual accounts.

Furthermore, we observe that some national legislators currently require less disclosures in annual accounts of financial institutions based on the national GAAPs than would be required when applying the new draft standard. For example, the comment letter from the Financial Reporting Committee sent for this ED shows that under FRS 101 financial institutions in the UK and the Republic of Ireland that are included as parents or subsidiaries in consolidated financial statements can apply the recognition, measurement and presentation requirements of IFRS but with reduced disclosures. The comment letter by SAP SE also suggests that the disclosure requirements of FRS 101 are less extensive than those of the draft standard. In Austria too, it is apparent that the current disclosure requirements for annual accounts of financial institutions based on the national GAAP[3] are less extensive than those required by the exposure draft. This can be taken as an indication that the scope of disclosures in the draft

[1] Cf. Regulation (EC) No 1606/2002, Art 4-5
[2]https://ec.europa.eu/info/sites/default/files/business_economy_euro/company_reporting_and_auditing/documents/ias-regulation-use-of-options-overview_en.pdf
[3] For annual accounts of financial institutions: Section 64 Austrian Banking Act (incl. references to the Austrian Commercial Code)

standard could meet the information needs of users of the financial statements of many financial institutions from the perspective of national legislators.

We consider that the draft standard should cover the information needs in case of financial institutions because the draft standard contains significantly more disclosure requirements for financial instruments than IFRS for SMEs.

We consider that extending the scope of the draft standard to financial institutions would boost the adoption of IFRS standards in annual accounts. The more companies fall within the scope of this draft standard the easier it will be to convince national legislators to allow IFRS standards as an alternative to local GAAP in the individual financial statements. This is vital for our bank because Austrian savings banks which our group covers would be able to apply solely IFRS and would avoid the burden of double book-keepings.

In paragraph BC4 of the basis for conclusions of this ED, one of the Board's rationale for limiting the scope to entities without public accountability is that these entities are also within the scope of IFRS for SME and that the Board can be satisfied that the disclosure requirements in the IFRS for SME standard are sufficient to meet the needs of users of the financial statements of these subsidiaries. We consider that linking the scope of the draft standard to that of IFRS for SME is not helpful because the draft standard would suit different target groups. IFRS for SME would be useful to companies that do not have parents that prepare IFRS consolidated financial statements but that want to prepare transparent and comparable individual financial statements for the purpose of seeking international investors. The draft standard, on the other hand, would be more adequate for companies that are included as subsidiaries in IFRS consolidated financial statements and that want to benefit from the recognition, measurement and presentation requirements that are harmonized with the parent.

Question 3—Approach to developing the proposed disclosure requirements

Paragraphs BC23–BC39 of the Basis for Conclusions explain the Board's reasons for its approach to developing the proposed disclosure requirements.

Do you agree with that approach? Why or why not? If not, what approach would you suggest and why?

Answer:

We agree with the approach to developing disclosure requirements. Please also see the answer to question 8.

Question 4—Exceptions to the approach

Paragraphs BC40–BC52 of the Basis for Conclusions explain the Board's reasons for the exceptions to its approach to developing the proposed disclosure requirements. Exceptions (other than paragraph 130 of the draft Standard) relate to:

- disclosure objectives (paragraph BC41);
- investment entities (paragraphs BC42–BC45);
- changes in liabilities from financing activities (paragraph BC46);
- exploration for and evaluation of mineral resources (paragraphs BC47–BC49);
- defined benefit obligations (paragraph BC50);
- improvements to disclosure requirements in IFRS Standards (paragraph BC51); and
- additional disclosure requirements in the IFRS for SMEs Standard (paragraph BC52).

(a) Do you agree with the exceptions? Why or why not? If not, which exceptions do you disagree with and why? Do you have suggestions for any other exceptions? If so, what suggestions do you have and why should those exceptions be made?

(b) Paragraph 130 of the draft Standard proposes that entities disclose a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The proposed requirement is a simplified version of the requirements in paragraphs 44A–44E of IAS 7 Statement of Cash Flows.

   (i) Would the information an eligible subsidiary reports in its financial statements applying paragraph 130 of the draft Standard differ from information it reports to its parent (as required by paragraphs 44A–44E of IFRS 7) so that its parent can prepare consolidated financial statements? If so, in what respect?

   (ii) In your experience, to satisfy paragraphs 44A–44E of IAS 7, do consolidated financial statements regularly include a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities?

Answer:

We agree with the proposal.

Question 5—Disclosure requirements about transition to other IFRS Standards

Any disclosure requirements specified in an IFRS Standard or an amendment to an IFRS Standard about the entity's transition to that Standard or amended Standard would remain applicable to an entity that applies the Standard. Paragraphs BC57–BC59 of the Basis for Conclusions explain the Board's reasons for this proposal.

Do you agree with this proposal? Why or why not? If not, what approach would you suggest and why?

Answer:

We agree with the proposal.

Question 6—Disclosure requirements about insurance contracts

The draft Standard does not propose to reduce the disclosure requirements of IFRS 17 Insurance Contracts. Hence an entity that applies the Standard and applies IFRS 17 is required to apply the disclosure requirements in IFRS 17.
Paragraphs BC61–BC64 of the Basis for Conclusions explain the Board's reasons for not proposing any reduction to the disclosure requirements in IFRS 17.

(a) Do you agree that the draft Standard should not include reduced disclosure requirements for insurance contracts within the scope of IFRS 17? Why or why not? If you disagree, from which of the disclosure requirements in IFRS 17 should an entity that applies the Standard be exempt? Please explain why an entity applying the Standard should be exempt from the suggested disclosure requirements.
(b) Are you aware of entities that issue insurance contracts within the scope of IFRS 17 and are eligible to apply the draft Standard? If so, please say whether such entities are common in your jurisdiction, and why they are not considered to be publicly accountable.

Answer:

IFRS 17 has a very small, if any, impact on financial statements of Erste Group's subsidiaries. As a result, we do not comment on this question.

Question 7—Interaction with IFRS 1 First-time Adoption of International Financial Reporting Standards

Paragraphs 23–30 of the draft Standard propose reduced disclosure requirements that apply to an entity that is preparing its first IFRS financial statements and has elected to apply the Standard when preparing those financial statements.

If a first-time adopter of IFRS Standards elected to apply the draft Standard, the entity would:

- apply IFRS 1, except for the disclosure requirements in IFRS 1 listed in paragraph A1(a) of Appendix A of the draft Standard; and
- apply the disclosure requirements in paragraphs 23–30 of the draft Standard.

This approach is consistent with the Board's proposals on how the draft Standard would interact with other IFRS Standards.

However, IFRS 1 differs from other IFRS Standards—IFRS 1 applies only when an entity first adopts IFRS Standards and sets out how a first-time adopter of IFRS Standards should make that transition.

(a) Do you agree with including reduced disclosure requirements for IFRS 1 in the draft Standard rather than leaving the disclosure requirements in IFRS 1? Paragraphs 12–14 of the draft Standard set out the relationship between the draft Standard and IFRS 1.

(b) Do you agree with the proposals in paragraphs 12–14 of the draft Standard? Why or why not? If not, what suggestions do you have and why?

Answer:

We agree with the proposed disclosure requirements and the proposal.

Question 8—The proposed disclosure requirements

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. In addition to your answers to Questions 4 to 7:

(a) Do you agree with those proposals? Why or why not? If not, which proposals do you disagree with and why?
(b) Do you recommend any further reduction in the disclosure requirements for an entity that applies the Standard? If so, which of the proposed disclosure requirements should be excluded from the Standard and why?
(c) Do you recommend any additional disclosure requirements for an entity that applies the Standard? If so, which disclosure requirements from other IFRS Standards should be included in the Standard and why?

Answer:

We agree with the proposal.

Question 9—Structure of the draft Standard

Paragraphs 22–213 of the draft Standard set out proposed disclosure requirements for an entity that applies the Standard. These disclosure requirements are organised by IFRS Standard and would apply instead of the disclosure requirements in other IFRS Standards that are listed in Appendix A. Disclosure requirements that are not listed in Appendix A that remain applicable are generally indicated in the draft Standard by footnote to the relevant IFRS Standard heading. Paragraphs BC68–BC70 explain the structure of the draft Standard.

Do you agree with the structure of the draft Standard, including Appendix A which lists disclosure requirements in other IFRS Standards replaced by the disclosure requirements in the draft Standard? Why or why not? If not, what alternative would you suggest and why?

Answer:

We agree and we consider the structure of the draft Standard to be very useful.

Question 10—Other comments Do you have any other comments on the proposals in the draft Standard or other matters in the Exposure Draft, including the analysis of the effects (paragraphs BC92–BC101 of the Basis for Conclusions)?

Answer:

We do not have any other comments.