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CommentLetters@iasb.org.uk

Amendment to IAS 39: The Fair Value Option

Dear Ms. Thompson:

We appreciate the opportunity to provide comments on the Exposure Draft (ED) of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, The Fair Value Option.

Deutsche Bank fully supports the fair value option as it is currently included in IAS 39 and agrees with the FASB's recent decision to add a fair value option project to its agenda. Currently, if the fair value option is appropriately applied, an entity can reflect its economic position without application of the strict hedge accounting rules or incurring the administrative cost of bifurcating embedded derivatives. Therefore, we object to the provisions in the ED limiting the application of the fair value option. Restricting the fair value option exacerbates the mixed measurement model's asymmetric accounting by requiring an entity to report profit and loss volatility when its position is economically hedged. Specifically, the provision requiring the identification of a "substantially offsetting" exposure to changes in fair value of the designated financial asset or liability (or portfolio of financial assets or liabilities) is similar to the hedge accounting requirements. These restrictions would be unnecessary if appropriate disclosures were required regarding the use of the fair value option. We suggest that a requirement be added such that an entity electing the fair value option must disclose the types of instruments to which the fair value option is being applied and the reasons why it is being applied.

We also object to the provision requiring that a financial asset or liability designated under the fair value option be "verifiable". This provision results in an undesirable dual standard for fair value measurements where financial instruments measured at fair value at the entity's election must be verifiable, but financial assets and liabilities required to be measured at fair value are not subject to this stricter verifiability test. This additional test calls into question other fair values amounts currently recognized in the financial statements, such as trading asset and liabilities or securities available for sale, which are required to be measured at fair value, by suggesting that these fair values are not as reliable. The existing guidance in IAS 39 already prevents the determination of fair value in a manner that inappropriately affects profit and loss. Fair value guidance should be based upon one standard and applied to all financial instruments on a consistent basis.

We are concerned about the reference "For entities subject to prudential supervision such as banks and insurance companies, the powers of the relevant prudential supervisor may include oversight of the application of these requirements and of relevant risk management systems and policies". We believe that

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financial reporting standards should only deal with the requirements of financial reporting and should not describe or endorse the authority of prudential supervisors and other regulators. If regulators' concerns result in an amendment to IAS, the Board's objectives of finalizing IAS and reaching international convergence will be undermined. For example, the FASB's Fair Value Measurement Exposure Draft requires consideration of the effect of an entity's credit standing in the fair value of liabilities, which is contrary to the regulators' concern that an entity might recognize gains or losses for changes in its own credit worthiness in the application of the fair value option. The requirement to disclose the change in fair value not attributable to the change in benchmark interest rate for financial liabilities designated under the fair value option provides adequate information to address this concern of the regulators, who under their own mandate establish regulatory reporting requirements.

We are also afraid that the proposal to restrict the fair value option will result in a delay in the finalization of IAS 39. We encourage the Board to continue to strive towards its goal of finalizing IAS and establishing a complete set of accounting rules for 2005.

If you have any questions regarding this letter, please call me (001-212-250-2660) or Melanie Pinto (001-212-250-1174) or send an electronic message to accounting.policygroup@db.com.

Very truly yours,

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cc: Anthony Di Iorio – Group Controller