INSTITUT
DER
WIRTSCHAFTSPRÜFER
IDW

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, July 21, 2004
511/520

Dear Sir David

Re: Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement – The Fair Value Option

We appreciate the opportunity to comment on the Exposure Draft mentioned above and would like to submit our comments as follows:

General Matters

Considering the time frame of the published Exposure Draft we are concerned about the proposed amendments to IAS 39 which are planned to be effective as of 1 January 2005. If an entity intends to publish its first annual financial statements which comply with IFRS for 2005, the opening balance sheet and retrospective application of IAS 39 have to be at 1 January 2004. These entities will already have had to make considerable efforts both of a conceptual and technical nature in order to comply with the requirements of IAS 39 based on the proposed and widely discussed version which was published at the end of December 2003. The IASB's proposals to restrict the application of the fair value option bring additional complexity to the standards which – in our opinion – in most of the cases do not add material value. Therefore, as well as for reasons of practicality and because of the intent of IASB to create a stable platform of Standards by 31 March 2004 at the latest, we do not agree to changing IAS 39 in the short term in this respect.

Institut der Wirtschaftsprüfer
in Deutschland e.V.
Tersteegenstr. 14
40474 Düsseldorf
Postfach 320580
40420 Düsseldorf

Telefonzentrale	0211/4561-0
Fax Geschäftsleitung	0211/4541097
Fax Fachabteilung	0211/4561-233
Fax Bibliothek	0211/4561-204
Internet	www.idw.de
E-Mail	info@idw.de

Geschäftsführender Vorstand:
Prof. Dr. Klaus-Peter Naumann, WP StB, Sprecher des Vorstands
Dr. Gerhard Gross
Dr. Wolfgang Schaum, WP StB

Bankverbindung:
Deutsche Bank AG
Düsseldorf
BLZ 300 700 10
Kto.-Nr. 7 480 213

With respect to a possible later revision of IAS 39 we refer to our comment letter on the Exposure Draft "Financial Instruments – Proposed Amendments to IAS 32 and IAS 39" dated 11 October 2002. We still have concerns with respect to the fair value option from a conceptual point of view, which have not been fully addressed in the proposed amendments. We have particular concern regarding the entity's choice of designating financial instruments - whether assets or liabilities - as measured at fair value with changes through profit and loss. In our as previously stated view, the opportunity for fair value measurement by means of the fair value option should be restricted to those cases in which a reduction of measurement mismatches can be demonstrated by the reporting entity on at least an aggregated level. We would like to suggest that paragraph 9 (b) (iii) be amended to achieve this. The subitems (i), (ii), (iv) and (v) could then be deleted to avoid the standard being rule-based, since paragraph 9 (b) (iii) could cover these items. Instead of complex and detailed rules dealing with the prerequisites of the fair value option the above mentioned general requirement and an additional requirement that the entity demonstrates the business rationale and discloses that the fair value option has been used in line with risk management activities should be sufficient.

Furthermore, as also outlined in our comment letter of October 2002 we are concerned about the effects of accounting for own credit risk, and in particular that any deterioration of a debtor's creditworthiness could result in the recognition of a gain by that debtor as the fair value of its liabilities is perceived to have declined. Although the fair value option will be applied predominantly to financial assets, the reporting entity might also designate financial liabilities. Therefore, we recommend the IASB resolve this issue when permitting fair value measurement for financial liabilities.

Verifiablity Criterion

We are concerned that in formulating the proposed amendments the IASB is establishing a new fair value definition which will make the application of IAS 39 difficult. In addition to a fair value which has to be reliably measured the use of the fair value option according to the proposed amendments requires a fair value to be verifiable. Hence, if the proposed amendments are made financial statements will contain financial instruments with different measurement concepts: reliability on the one hand and verifiability on the other hand. In our opinion this is not reasonable. We propose that the definition of reliability in IAS 39 should be further developed in order to introduce only one test of reliability and ensure that financial instruments – whether resulting from a requirement or through designation – are only measured at fair value if these can be measured reliably as defined in paragraph 48B. There is no reason to have a stricter test for the permitted application of fair value than for the situation that fair value measurement is required. We note that not only would the fair values of unlisted equity securities and derivates based on unlisted equity securities potentially fall into the category of unreliable fair values, but also other instruments' fair values.

Reference to Supervisors

In our opinion, it is not appropriate to refer to the powers of prudential supervisors or other regulators in an accounting standard. Any reference to supervisors might give the impression that these supervisors have authority to interpret IFRS and even have power to overrule or amend standards. The result may be a violation of the level playing field that is aimed at through the adoption of IFRS, as supervisors in different jurisdictions may interpret IFRS inconsistently. Supervisors' mandates in respect of reporting for regulatory purposes should not be extended in any way to interpretation of IFRS for general purpose financial reporting.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Gerhard Gross
Executive Officer

Norbert Breker
Technical Director
Accounting and Auditing