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Gavin Francis
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EXPOSURE DRAFT: INVESTMENTS IN DEBT INSTRUMENTS

Dear Mr. Francis,

Deutsche Bank appreciates the opportunity to provide comments on the IASB Exposure Draft (ED) Investments in Debt Instruments.

In this letter we outline our key messages in response to the Exposure Draft and in the Appendix we provide our more detailed responses to the specific questions. In summary we are not supportive of the proposals.

Key Messages:

- We believe that the impairment model for AFS debt instruments is flawed and the measurement basis needs to be urgently addressed. We acknowledge that there was insufficient time available in 2008 following the joint IASB FASB round tables to change the measurement basis with proper due process. We would urge that this joint project is given a high priority and include the development of appropriate supporting disclosures.

- We do not believe that the measurement issues can be addressed by disclosures and therefore do not believe that extensive additions to IFRS 7 were warranted, under accelerated due process and with such immediate effect.
- We are not supportive of the effective date proposed. Retrospective application will result in significant operational challenges.
- We are not supportive of the proposal outlined in 30A(ai). We do not believe this information is useful to users of financial statements. If instruments are not classified as fair value through profit or loss they are not managed on a fair value basis. Overall this information is not useful or comparable across institutions.
- We discussed in our 'Reducing Complexity' comment letter that we are supportive of a mixed measurement model and so we do not think undue prominence should be given to alternative profit or loss figures using a single measurement model. We believe the proposed disclosures increase the complexity in financial reporting.
- We would request that the IASB develop a more structured approach to developing disclosure requirements rather than issuing ad hoc additions to allow appropriate systems to be developed to meet these requirements.

We hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact me on +44(207)54-76640 or via email to charlotte.jones@db.com.

Yours sincerely,

Charlotte Jones

Global Head of Accounting Policy and Advisory Group

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APPENDIX 1: RESPONSES TO QUESTIONS

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

We believe that the impairment model for AFS debt instruments is flawed and requires urgent amendment. We acknowledge that there was insufficient time available following the round tables to address the impairment measurement model with sufficient due process during 2008. We believe the IASB should address the measurement principles for AFS debt impairment as a matter of priority during 2009 and are pleased that a project to amend IAS 39 has been added to the IASB Board agenda. Appropriate disclosures should be developed as part of this project.

Specifically we believe that when an AFS debt instrument is impaired the amount that should be taken to the P&L should be the element relating to the incurred credit losses. It should not include other fair value movements such as changes in expectations and movements in liquidity of the instrument. This issue was raised at the round tables held jointly between the IASB and the FASB.

The proposed disclosures do not clearly and concisely address the issue regarding the AFS debt impairment model.

Overall we do not agree with the proposal outlined in paragraph 30A(ai). We do not believe the information is useful to financial statement users for the reasons explained below. The proposal effectively requires certain financial instruments to be accounted for in three different ways, this is not efficient or desired.

Paragraph 30(a)(i)

The proposal requires entities to disclose pre-tax profit as if all debt instruments had been held at fair value through profit and loss. At present the fair value of these instruments is disclosed as required by IFRS 7.25. We believe this is sufficient information for users of financial statements to be able to compare institutions which classify these instruments differently.

The instruments that are classified as available for sale or as loans and receivables are not managed as if they were at fair value through the profit or loss (FVTPL). If they were classified as FVTPL then the risks would be managed in different ways e.g. credit risk may be managed through derivative contracts rather than financial guarantees. As such this disclosure does not allow comparison across entities which use the trading and FVO classifications to differing extents since they do not show the different risk mitigation strategies which would be pursued by the entities.

Further, by focusing the disclosure on debt instruments only the P&L figures disclosed will be distorted since the related liability hedges will not be disclosed on a fair value basis. For these reasons the disclosure will be meaningless to both preparers and users of financial statements.

Management do not collect or use the information required by this proposal in managing the business. It would require significant system development to be able to analyse and explain the different profit and loss figures resulting from three different measurement bases for debt instruments.

We do not understand the driver for this proposed disclosure since it does not address the concerns raised at the round tables, further it is not explained in the basis of conclusions. We are supportive of a mixed measurement model for the reasons explained in our comment letter 'Reducing Complexity in Financial Instruments'. We believe that this disclosure only increases complexity.

Paragraph 30(a)(ii)

The proposal requires entities to disclose pre-tax profit as if all debt instruments had been accounted for at amortised cost. We believe the AFS debt impairment model is flawed and needs to be addressed and that this cannot be achieved through disclosure.

Other

The term "investment in debt instruments" is not defined in IAS 39 or IFRS 7 for the holder. We believe the IASB mean that the scope of the disclosure to cover instruments with fixed or determinable payments including debt securities and loans and receivables. A definition of "an investment in debt instruments" is required so that the scope of this disclosure requirement is clear.

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions. Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

We do not believe that the paragraph 30A(a) should be introduced. We do not believe the information is useful and so a reconciliation to the information is also not useful. In addition the reconciliation would be very costly and time consuming since we would need to maintain a profit and loss explain process using three different measurement bases for these instruments.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

We are not supportive of the proposed disclosure requirement. The carrying value and the fair value of such instruments are already disclosed in the financial statements. Restating this information is duplicative. We are supportive of reducing complexity in financial reporting and we believe that duplicate information only increases complexity. The only additional information in the proposal is for AFS debt instruments that are impaired. We believe the measurement model should be addressed urgently and appropriate disclosure requirements introduced following the amendment to the measurement model.

Question 4

The exposure draft proposes a scope that excludes investments in debt

instruments classified as at fair value through profit or loss. Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

We do not believe that the disclosure should be extended to instruments held at fair value through profit and loss. These instruments are held at fair value and so they can already be compared across institutions. Amortised cost does not provide a number which can be compared across institutions since the instruments may be purchased at different times and at different prices.

In addition if the instruments are held at fair value through profit and loss they will be managed on this basis. Any hedging instruments would also be measured at fair value through profit or loss. By showing a different measurement basis for only a portion of the balance sheet (debt instruments) gives distorted information which is neither useful nor comparable across institutions. Without a definition of debt instruments we do not know whether certain derivatives would be captured by this disclosure if extended.

We are not supportive of the proposal to require debt instruments to be accounted for in three different ways for disclosure purposes. If the IASB consider the current classification and measurement principles in IAS 39 to be inappropriate then we would prefer the IASB to progress quickly with their project to amend the classification and measurement principles in IAS 39.

Additional complexity in applying these requirements to instruments at fair value through P&L is that it would also require impairment monitoring for all debt instruments at fair value through P&L and bifurcation of embedded derivatives for these instruments. This would be very costly to implement.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We do not agree with the effective date for these proposals. We do not think the disclosures require urgent amendment.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The transition requirements are appropriate. Not requiring comparatives is helpful.