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Exposure Draft Investments in Debt Instruments – Proposed Amendments to IFRS 7

Dear Sir David

Thank you for giving us the opportunity to comment on the "Exposure Draft: Investment in Debt Instruments – Proposed Amendments to IFRS 7" published by the International Accounting Standards Board on 23 December 2008.

A. Basic comments

The proposed amendment to Paragraph 30A represents an additional duty of disclosure for debt instruments which are not valued as at fair value through profit or loss. In our opinion, however, up to now debt instruments have not been defined as a separate class of financial instruments nor as a separate category. Accordingly, because the balance sheet reader cannot relate the additional information balance sheet figures listed in the financial statement, the proposed duties of disclosure do not lead to the user's better understanding of the information disclosed about financial instruments, but rather contribute to misinformation of the balance sheet user.

Moreover, the planned duties of disclosure do not appear to be balanced overall. In particular, it is questionable whether the full extent of the cones-quences resulting from the additional disclosure obligations were taken into account in the development of the exposure draft. In our opinion, the present draft of the standard could cause factual valuation inconsistencies (so-called

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accounting mismatches), which would affect the description of the financial instruments in particular. Thus the planned disclosure obligations would lead to a nearly complete fair-value valuation of the assets side, without taking into account the corresponding refinancing items at this point, so that there is a risk of incorrect interpretation.

Having said that, we explicitly reject the requested additional amendments and supplements to IFRS 7 in the present exposure draft of IFRS 7.

Furthermore, we consider the application of the proposed changes to fiscal years that end on or after 15 December 2008 to be completely unacceptable due to the consequences that would affect internal processes and IT requirements arising therefrom.

Finally, we wish to express our astonishment at the path chosen by the IASB with regard to the supplements and changes to the accounting standards on extremely short notice. In our opinion, the adoption of unbalanced and thus qualitatively dubious standards, with very short deadlines for commentaries and retroactive application as well, undermines the goal of developing high-quality, lasting standards on a sustained basis. We believe that results of the ongoing projects to replace the accounting standards for financial instruments are being anticipated, which with the proposed ED IFRS 7 30A(a)(i) go substantially beyond short-term improvements. Against this background, we explicitly recommend dispensing with the proposed amendment to IFRS 7 at this point in time. After a critical review the proposals should be rethought within the long-term project of the IASB and FASB that deals with accounting for financial instruments and the normal due process should be applied.

B. Answers to the questions

We wish to respond to the individual questions as follows:

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 not? What would you propose instead, and why?

We assume that the disclosure obligation applies only to valuation results for portfolios existing at the balance sheet reference date and wish to comment on the following aspects in this regard:

For debt instruments valued at AfS prices, the required disclosure is cumulatively included in the revaluation reserve in accordance with Paragraph 30A (a) (i). Thus in the normal case, the additional statement of profit or loss resulting from the valuation at amortised cost (if no value reduction was recorded in the current period), would lead to the statement of amortised interest income or expenses, which in our view is not information that would be of any additional value to the readers of the financial statements.

If a value reduction has occurred during the period, the profit and loss values from the fair-value valuation would have almost the same values as those resulting from the valuation at amortised cost, so that in our opinion no information relevant for decision-making would be obtained from the statement of profits and losses resulting from the valuation at amortised cost. On the contrary, the values stated in this case, which are not included in this form in the Statement of comprehensive income, would confuse the readers of the financial statements.

As far as debt instruments valued at amortized costs(LaR and/or HtM) are concerned, the fair values must already be stated in the notes in accordance with IFRS 7.25, so that no additional information would be gained by the readers of the balance sheet in this case either. Likewise, the figures for hedge fair values are also found in the notes, so that this duty of disclosure would not result in any additional useful information for the readers of the financial statements.

For reclassified portfolios, the disclosure obligations specified in IFRS 7.12A also apply, which in our opinion provide the balance sheet readers with sufficient insight into the effects on the Statement of comprehensive income resulting from the changes in value of the relevant financial instrument portfolios.

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?

The statement of profits and losses from debt instruments includes only the profit contributed from the debt instruments in the portfolio on the balance sheet reference date. On the other hand, valuation results or realised results from debt instruments that were already sold during the period or effects from changes in the portfolio during the year are not included. Moreover, because the debt instruments do not constitute a class of financial instruments, but are distributed across various balance sheet items and thus across different Statement of comprehensive income items, the actual Statement of comprehensive income figures for the debt instruments cannot be derived from the Statement of comprehensive income or from the information in the notes. A reconciliation statement prepared using the actual Statement of comprehensive income and the two alternatives thus serves no purpose and does not contain any information relevant to decision-making for the readers of the financial statements. Therefore we explicitly reject the proposed reconciliation statement.

In our view the reconciliation of the profit and loss from the valuation at amortised cost with the valuation at fair value likewise serves no purpose, as these are two different valuation methods which cannot be usefully compared for operational purposes and thus cannot be reconciled, so that we emphatically reject this disclosure obligation as well.

Furthermore, the implementation of these purely fictitiously determined valuation results would involve considerable costs, which however would be out of all proportion to the conveyance of additional information of exceedingly questionable added value in decision-making.
For this reason as well, we explicitly call for the rejection of this disclosure obligation.

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 not? What would you propose instead, and why?

In our opinion, the statement of the debt instruments as specified in Paragraph 30A (b) does not provide any additional useful information, so that we explicitly reject this disclosure obligation. Beyond that we would like to note the following with regard to the proposed disclosure obligations:

The carrying amount of the debt instruments classified as AfS corresponds to the fair value of the financial instruments and is already stated in the balance sheet on the one hand and in the table required by IFRS 7.25.

In our opinion the statement of the amortised cost for debt instruments valued at fair value does not provide any information that is useful or relevant to decision-making for the readers of the financial statements. In those cases in which no reduction of value has taken place, the difference between the amortised cost and the fair value is stated in the revaluation reserve and can be seen in the equity capital. In those cases in which a impairment has occurred, the depreciation is visible via the Statement of comprehensive income, so that a comparison between the fair value and the similarly reduced amortised cost does not provide any useful information.

Financial instruments in the categories HtM and LaR must be stated at amortised cost in the balance sheet. To this extent the carrying amount always corresponds to the amortised cost. The fair value is already specified in the table required by IFRS 7.25. According to a literal application of the exposure draft, and taking into account the current provisions of IAS 39, exceptions to this apply to those financial instruments whose fair value is secured by the designation of a hedge relationship (fair value hedge). Because such hedge adjustments are not part of the amortised cost defined in IAS 39.9, any hedge adjustments contained in the carrying amount and not yet amortised must be corrected for the amortised costs to be stated in the appendix in accordance with Paragraph 7.30A (b) (iii). It is not clear from the draft whether the standard setter intended such an adjustment conceptually. Insofar as it is assumed that hedge adjustments are not to be corrected for purposes of the information in the appendix as per Paragraph 7.30A (b), the informative value of the proposed statement in the appendix for financial instruments of the HtM and LaR categories must be questioned, as all such information can already be found in the balance sheet as a rule. Furthermore, such a requirement would go beyond the desired improvements concerning impairment of AfS debt instruments. We therefore reject the combined duty to disclose the carrying amounts and amortised costs for HtM and LaR instruments.

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?

With regard to the debt instruments, which are valued at fair value through profit and loss, sufficient information is already provided in the notes. An expansion of the scope of application of the exposure draft to these debt instruments would tend to confuse balance sheet readers instead of providing information relevant to their decision-making. As more correctly noted in the basis for conclusion (ED IFRS 7 BC 6), the amortised costs for debt instruments stated at fair value are not usually saved in the systems and thus cannot be determined retroactively.

Question 5 – Do you agree with the proposed effective date? If not, why not? What would you propose instead, and why?

We feel that applying the proposed changes to fiscal years that end on or after 15 December 2008 is completely unacceptable. Against the background of the resulting consequences for internal processes and IT requirements, such initial application on such short notice is not feasible, as the processes for generating the data required for external reports are normally completed at the end of the year. Retroactively adapting the IT systems in order to generate new, additional data would be possible only with a considerable lead time, if at all, so that we explicitly reject the proposed amendment to IFRS 7 for this reason as well.

Due to the considerable work involved in an if at all possible data generation, we see the risk that legal respites for publication of financial information cannot be fulfilled if the first time application is kept at 15 December 2008.

We propose 31 December 2009 as the earliest effective date.

Question 6 – Are the transition requirements appropriate? If not, why not? What would you propose instead, and why?

Even with a first time application for 31 December 2009 the disclosure of comparative information is not possible due to impossible retroactive adaptation of the processes and IT systems. Comparative information can be provided at 31 December 2010 at the earliest.

Should you have questions or require further discussions, we will be pleased to assist you at any time.

Yours sincerely
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