Deutsche Bank

Accounting Policy Group
60 Wall Street, New York, NY 10005

Peggy Capomaggi, Managing Director
Tel. 212 250-2660 / Fax 212 797-0393

October 22, 2004

CL 54

Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

CommentLetters@iasb.org

Re: ED 7 Financial Instruments: Disclosures

Dear Ms. Pryde:

Deutsche Bank appreciates the opportunity to provide comments on the Exposure Draft (the "ED") of the proposed International Financial Reporting Standard, *Financial Instruments: Disclosures*.

We support the Board's effort to consolidate and enhance financial instrument disclosure requirements, however, we have some concerns about the nature and extent of certain proposed requirements. With regard to disclosures about an entity's risk exposures, we believe that some of the information required will not provide meaningful data about the risk profile of an entity and may provide disclosures inconsistent with the risk management practices of an entity. We also have concerns about the location of disclosures about risk within the financial statements of an entity. With regard to disclosures about an entity's capital management, we do not support the proposed requirements for disclosure of compliance with capital targets. In addition, we have concerns about the overall applicability of the risk and capital disclosure requirements in the ED.

We also believe that certain fair value disclosure requirements should be revised due to impracticability. Further, in the interest of harmonization, we support the Board's continued efforts to work with the FASB on convergence with respect to fair value measurement and disclosure issues.

Our detailed comments on the ED are included below.

Credit Risk – Disclosure of Fair Value of Collateral Received

While we recognize the importance of disclosures about an entity's exposure to credit risk, we have certain concerns about the nature and extent of specific quantitative disclosures proposed by the ED. With regard to information about collateral pledged, the disclosure of the fair value of collateral could be misleading because entities are likely to consider "fire sale" or foreclosure scenarios as part of their internal valuations. Such valuations, which may be based on conservative expectations about the potential recovery of the value of the collateral, would be inconsistent with the IAS 39 definition of fair value, which assumes an exchange between "willing parties." As part of their internal valuation analysis, entities may also take into account externally imposed collateral valuation requirements (e.g., regulatory haircuts), which may also lead to a value inconsistent with the IAS 39 concept of fair value.

In addition, we do not believe that the requirement to disclose the fair value of collateral and other credit enhancements associated with credit exposures will provide meaningful information to the extent that credit exposures that are collateral-dependent may be over-collateralized while others are under-collateralized. As any over-collateralization on one exposure does not necessarily compensate for any under-collateralization on another, the disclosure of the fair value of collateral will provide distorted information to users of financial statements. The effect of other credit enhancements will be similarly distortive.

The requirement to provide disclosures regarding collateral, both for total credit exposure as well as specifically for past due or impaired exposures, also presumes that these credit exposures are collateral-dependent. If an entity has both exposures that are collateral-dependent and those that are not collateral-dependent, disclosures regarding collateral will only be meaningful for those that are in fact collateral-dependent.

Because entities manage credit risk and related collateral requirements based on customer relationships, it would not be appropriate to require disclosures of collateral or net credit risk exposure by class of financial assets. While gross credit risk exposures can easily be disclosed by class of financial instrument, a similar breakdown of collateral information would necessitate an arbitrary allocation of customer collateral across classes. Rather than emphasizing the fair value of collateral pledged or credit enhancement received, we would suggest including a requirement to disclose the net exposure to credit risk, after giving effect to any master netting arrangements. As the ED is already requiring entities to provide qualitative disclosures regarding how risks are managed, the disclosure of net credit exposure would provide a meaningful quantitative disclosure that is consistent with actual risk management practices. For banks, this disclosure of net exposure to credit risk would be consistent with the disclosure requirements under the Framework on International Convergence of Capital Measurement and Capital Standards (Basel II).

Market Risk – Disclosure of Sensitivity Analysis

We agree with a need for required quantitative disclosures about exposure to market risk arising from financial instruments and believe that the proposed simple sensitivity analysis would be appropriate for certain entities. However, simple sensitivity analysis may not appropriately capture more sophisticated entities' complex risk environments. We recommend that alternative disclosures be permitted, including widely accepted methods already used by entities to manage market risks, for example, Value-at-Risk analysis. We understand that paragraph BC37 of the ED would allow for more sophisticated analyses, which we presume would include Value-at-Risk analysis.

Location of Disclosures of Risks Arising from Financial Instruments

The ED proposes that the disclosure of risks arising from financial instruments be part of the financial statements prepared in accordance with International Financial Reporting Standards. We believe that users of the financial statements will obtain a better understanding of the nature and extent of risks arising from financial instruments when such information is provided by management in a commentary outside the financial statements. While the audited financial statements support reported actual results as of a point in time, the proposed qualitative disclosures describe management's objectives, policies and processes for managing risks and the proposed quantitative disclosures about the extent to which the entity is exposed to risk are based on management's judgment regarding the effect of reasonably possible changes in relevant risk variables.

Therefore, we suggest that the Board retain the option (as previously permitted under IAS 30) to provide such disclosures either in a commentary that accompanies the financial statements or as part of the financial statements. We note that both the Securities and Exchange Commission and the European Commission have established a framework for commentary accompanying the financial statements, which can accommodate disclosures regarding risk exposures.

Capital - Disclosure of Compliance with Targets

While we recognize the need for certain qualitative disclosures about an entity's capital management, we have some concerns about the required disclosures regarding compliance with capital targets. Many of the same arguments against disclosure of external capital requirements cited in paragraph BC52 of the Basis for Conclusions to the ED also weigh against any disclosure of compliance or non-compliance with those requirements. We believe it is the prerogative of the regulators that impose capital requirements to mandate disclosures related to those capital requirements and compliance therewith.

In addition, we do not believe that the disclosure of compliance with internal capital targets will provide information helpful to financial statement users as internal targets are, by their nature, unique to each entity and as such do not represent a meaningful benchmark to enable users to compare an entity's performance against its peers. We also believe that any requirement to disclose internal targets as well as performance against them could have an effect on the setting of such targets.

Applicability of Risk and Capital Disclosure Requirements

The ED's requirements for all entities (including subsidiaries) to disclose quantitative and qualitative information about risk and capital management do not recognize that most complex entities manage these areas centrally, on a group basis. In situations where entities manage risk and capital adequacy on a group basis, we believe it would be inappropriate to require subsidiaries to make related detailed disclosures in their stand-alone financial statements. We believe such disclosures will not provide meaningful information regarding a subsidiary's true risk exposure, which will be mitigated by the support of the parent entity. Similarly, disclosures about capital management by subsidiaries will not be beneficial. Subsidiaries should be given the option to refer to risk and capital management disclosures in group financial statements.

Fair Value - Disclosure and Comparability with FASB's Proposed Statement of Financial Accounting Standards, *Fair Value Measurements* (the "FASB ED")

We support the Board's effort to provide guidance on qualitative disclosures about how fair value amounts are determined, such as information about the sources and methods used in calculating fair value, and agree that such requirements are appropriate and are consistent with the FASB ED. However, we have concerns about the specifics of certain other proposed fair value disclosures.

We believe that the disclosure of methods and assumptions applied in measuring fair values for each class of financial asset and liability, as prescribed in paragraph 31(a) of the ED, would not be practicable. The level of information needed in order for the disclosure to be meaningful would be voluminous and require undue effort, without commensurate benefit. The FASB ED recognizes this concern and, as such, does not provide for such a requirement.

We believe that the proposed requirement in paragraph 31(c) to disclose the effect of changing assumptions to reasonably possible alternatives that result in significantly different fair values would not be prudent. Management is already required to use its best estimates and assumptions to fairly present its financial position when preparing financial statements and, accordingly, providing alternatives would be burdensome, confusing and possibly misleading.

We recognize that the FASB ED provides guidance on fair value measurement and disclosure, whereas the scope of the ED applies only to disclosure. In the interest of convergence, we support the Board's plan to consider at a later stage a standard that deals generally with all fair value measurement issues similar to the FASB's ED on fair value measurement.

*** ************

If you have any questions regarding this letter, please call me (212-250-2660) or Loretta Goodwin (212-250-1865), or send an electronic message to accounting.policygroup@db.com.

Very truly yours,

Peggy H. Capomaggi
Managing Director – Accounting Policy
Deutsche Bank

cc: Anthony DiIorio – Group Controller