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

London EC4M 6XH
United Kingdom

Düsseldorf, October 25, 2004
511/520

Dear Sir David

Re.: Exposure Draft ED7 Financial Instruments: Disclosures

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

General Matters

We support the IASB´s objective to enhance the overall quality of the disclosures on financial instruments. However, in our opinion several proposed disclosure requirements (see our detailed comments) are not reasonable for non-financial institutions. Therefore, ED 7 should distinguish insofar between disclosure requirements for all entities on the one hand and for financial institutions on the other hand.

We agree that the disclosure requirements of IAS 30 and IAS 32 shall be reduced in cases where the decision usefulness of a disclosure does not justify the cost or effort to comply with the requirement. Only in specific cases - as explained below - we are of the opinion that useful requirements are proposed to be deleted.

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Question 1 – Disclosures relating to the significance of financial instruments to financial position and performance

The draft IFRS incorporates disclosures at present contained in IAS 32 Financial Instruments: Disclosure and Presentation so that all disclosures about financial instruments are located in one Standard. It also proposes to add the following disclosure requirements:

a) financial assets and financial liabilities by classification (see paragraphs 10 and BC 13).

b) information about any allowance account (see paragraphs 17 and BC14).

c) income statement amounts by classification (see paragraphs 21(a), BC15 and BC 16).

d) fee income and expense (see paragraphs 21(d) and BC17).

Are these proposals appropriate? If not, why not? What alternative disclosures would you propose?

In principle, we agree with the proposals stated above. In our view, it is reasonable to provide disclosures on financial assts and financial liabilities as well as income statement amounts by classification as defined in IAS 39 because of the different measurement requirements for each class of financial assets and financial liabilities according to IAS 39.

However, we do not agree with the amendment of IAS 32.94 (i). According to IAS 32.94 (i) an entity shall disclose the nature and amount of any impairment loss by class of financial asset, whereas ED 7.22 only requires the disclosure of the amount of any impairment loss by class of financial assets. In our opinion, the nature of an impairment loss is a useful information that should be retained.

Furthermore, the relation between ED 7.21 (b) and IAS 18.35 (b) regarding the disclosure of interest and dividend income should be clarified by the Board.

According to ED 7.21 (d) an entity shall disclose the fee income and expense arising on financial assets and financial liabilities, and from trust and other fiduciary activities that result in the holding or investing on behalf of others. The Board should clarify whether those fees only contain custody account and administrative fees or in addition to this transaction costs and consulting fees. Furthermore, we doubt that these disclosure requirements are reasonable for non-financial institutions.

Question 2 – Disclosure of the fair value of collateral and other credit enhancements

For an entity's exposure to credit risk, the draft IFRS proposes to require disclosure of the fair value of collateral pledged as security and other credit enhancements unless impracticable (see paragraphs 39, 40, BC27 and BC28).

Is this proposal appropriate? If not, why not? What, if any, alternative disclosures would you propose to meet the stated objective?

According to ED 7.39 (b) and ED 7.40 (c) an entity shall disclose the fair value of collateral pledged as security and other credit enhancements unless impracticable. The Board should clarify that those collaterals do not include a retention of title.

As stated by the Board in BC28 and IG16 the fair value of collateral often is difficult to specify, for instance, when mortgage loans are collateralised by residential property or when corporate loans are secured by a floating charge over all of the assets of the borrower. However, it remains unclear whether it is the Board's view that it is impracticable to disclose the fair value of collateral in those cases. In our opinion the reporting entities often will not have sufficient information to calculate the fair values of the collateral unless the collateral comprises traded securities or other assets which are traded on a liquid market. Therefore the disclosure requirement should be restricted to collateral for which fair values are readily available. Without this restriction we expect serious difficulties in particular for non-financial institutions.

Furthermore, pursuant to ED 7.39 (c) an entity shall disclose information about the credit quality of financial assets with credit risk that are neither past due nor impaired. As stated in BC29 the IASB does not specify a particular method for giving this information. However, IG17 to IG19 particularly suggest the disclosure of an analysis of credit exposures using an external or internal credit rating system. Again we believe that many non-financial institutions may have difficulties to provide such information.

Question 3 – Disclosure of a sensitivity analysis

For an entity that has an exposure to market risk arising from financial instruments, the draft IFRS proposes to require disclosure of a sensitivity analysis (see paragraphs 43, 44 and BC36-BC39).

Is the proposed disclosure of a sensitivity analysis practicable for all entities?

If not, why not and what, if any, alternative disclosures of market risk would you propose to meet the stated objective of enabling users to evaluate the nature and extent of market risk?

In our view a sensitivity analysis will provide useful information in theory. However, a sensitivity analysis might be too burdensome for those entities which do not use the sensitivity analysis as an integral part of their management process.

Furthermore, it is difficult and in a way arbitrary to identify a reasonable possible change in the relevant risk variable as required according to ED 7.43 (a). Therefore, it has to be borne in mind that the reliability of a sensitivity analysis will be limited. Moreover, it will be difficult to compare the sensitivity analysis of different entities because each entity will have a different view of a reasonable possible change regarding a certain risk variable, e.g. the interest rate risk or the currency risk. Hence, it could improve the sensitivity analysis if changes of the relevant risk variables would be defined by the Board.

According to IG33 the effect on profit and loss shown in the sensitivity analysis pursuant to ED 7.43 (a) includes the effect on interest income or expense, impairment and currency gain or loss. To provide this information the IASB has to clarify the applicable future period of time.

Furthermore, the Board should provide an best practice example for the disclosure of a sensitivity analysis.

Question 4 – Capital disclosures

The draft IFRS proposes disclosure of information that enables users of an entity's financial statements to evaluate the nature and extent of its capital. This includes a proposed requirement to disclose qualitative information about the entity's objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance (see paragraphs 46-48 and BC45-BC54).

Is this proposal appropriate? If not, why not? Should it be limited to only externally imposed capital requirements? What, if any, alternative disclosures would you propose?

We agree in principle that an entity shall disclose information that enables users of its financial statements to evaluate the entity's capital. However, we do not agree to require disclosures about whether the entity complied with any externally imposed capital requirements during the period as stated in ED 7.47. We believe the confidentiality and clear communication between an entity and its supervisory authority could hamper due to the requirement to disclose non-compliance with external capital targets.

Moreover, for instance, an international group may fall under several jurisdiction each having different external capital requirements. Particularly under such circumstances the required information is hardly relevant to the users of financial statements.

With regard to the disclosure of information regarding capital targets set by management it has to be demonstrated by the Board that this information is relevant to the user of the financial statements. We are concerned that an isolated disclosure of internal capital targets could be misleading and we do not see the particular importance of this information compared with other internally set financial targets.

Question 5 – Effective date and transition

The proposed effective date is for periods beginning on or after 1 January 2007 with earlier adoption encouraged (see paragraphs 49 and BC62-BC67).

Entities adopting IFRSs and the draft IFRS for the first time before 1 January 2006 would be exempt from providing comparative disclosures for the draft IFRS in the first year of adoption (see Appendix B, paragraph B9).

Are the proposed effective date and transition requirements appropriate? If not, why not? What alternative would you propose?

We agree that entities applying the draft IFRS for the first time before 1 January 2006 should be exempt from providing comparative disclosures for the draft IFRS in the first year. However, we do not agree that this exemption should be limited to entities adopting IFRSs for the first time.

Question 6 – Location of disclosures of risks arising from financial instruments

The disclosure of risks arising from financial instruments proposed by the draft IFRS would be part of the financial statements prepared in accordance with International Financial Reporting Standards (see paragraph BC41). Some believe that disclosures about risks should not be part of financial statements prepared in accordance with IFRSs; rather they should be part of the information provided by management outside the financial statements.

Do you agree that the disclosures proposed by the draft IFRS should be part of the financial statements? If not, why not?

We agree that the disclosures proposed by ED 7 should be part of the financial statements as long as there are no specific requirements for the presentation of a Management Decision and Analysis, which could include disclosures which are not directly related to items of the balance sheet or income statement such as qualitative disclosures. Therefore this question should be reconsidered if the IASB starts working on a standard on Management Decision and Analysis.

Question 7 – Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)

Paragraph B10 of Appendix B proposes amendments to the risk disclosures in IFRS 4 Insurance Contracts to make them consistent with the requirements proposed in the draft IFRS. The requirements in IFRS 4 were based on disclosure requirements in IAS 32 that would be amended by the draft IFRS. The Board's reasons for proposing these amendments are set out in paragraphs BC57-BC61.

Do you agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements proposed in the draft IFRS? If not, why not and what amendments would you make pending the outcome of phase II of the Board's Insurance project?

In principle we agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements in ED 7 because the requirements in IFRS 4 were based on disclosure requirements in IAS 32 that would be amended by ED 7. However, we do not agree with an amendment of IFRS 4 only a short time after issuing IFRS 4. This would be to burdensome for insurance companies. Potential amendments should be discussed in phase II of the project on insurance contracts.

However, in case the Board decides to amend IFRS 4 before phase II of the insurance contract project, insurance companies should not be required to provide information according to IFRS 4.39 (b) for the financial years 2005 and 2006 because this requirement will be deleted pursuant to para. B10 of ED 7, Appendix B for annual periods beginning on or after 1 January 2007.

Question 8 – Implementation Guidance

The draft Implementation Guidance accompanying the draft IFRS suggests possible ways to apply the risk disclosure requirements in paragraphs 32-45 (see paragraphs BC19, BC20 and BC42-BC44).

Is the Implementation Guidance sufficient? If not, what additional guidance would you propose?

In our opinion, the Implementation Guidance is sufficient. However, IG16 should provide more guidance to determine whether the disclosure of the fair value of collateral pledged is impracticable (see our answer to Question 2).

The Board should clarify the reason for the disclosure of the amount of change in the fair value of a financial liability designated as at fair value through profit or loss that is not attributable to changes in a benchmark interest rate. We would agree with such a disclosure if the purpose would be showing the effects of changes in own credit risk. However, this is not the case because changes in the fair value could also be attributable to changes of the currency rate, for instance. In case the Board retains this disclosure requirement, it would be helpful if an example for the steps stated in ED 7.12 (a) to (d) to estimate the amount of change in the fair value of the financial liability that is not attributable to changes in a benchmark interest rate would be provided.

Question 9 – Differences from the Exposure Draft of Proposed Statement of Financial Accounting Standards *Fair Value Measurements* published by the US Financial Accounting Standards Board (FASB)

The FASB's Proposed Statement of Financial Accounting Standards Fair Value Measurements, which is open for public comment at the same time as this Exposure Draft, proposes guidance on how to measure fair value that would apply broadly to financial and non-financial assets and liabilities that are measured at fair value in accordance with other FASB pronouncements. That Exposure Draft proposes disclosure of information about the use of fair value in measuring assets and liabilities as follows:

a) For assets and liabilities that are remeasured at fair value on a recurring (or ongoing) basis during the period (for example, trading securities)
- *(i) the fair value amounts at the end of the period, in total and as a percentage of total assets and liabilities,*
- *(ii) how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and*
- *(iii) the effect of the remeasurements on earnings for the period (unrealised gains or losses) relating to those assets and liabilities still held at the reporting date.*

b) For assets and liabilities that are remeasured at fair value on a non-recurring (or periodic) basis during the period (for example, impaired assets), a description of
- *(i) the reason for remeasurements,*
- *(ii) the fair value amounts,*
- *(iii) how those fair value amounts were determined (whether based on quoted prices in active markets or on the results of other valuation techniques, indicating the extent to which market inputs were used), and*

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(iv) the effect of the remeasurements on earnings for the period relating to those assets and liabilities still held at the reporting date.

Disclosures similar to (a)(ii) above are proposed in paragraph 31 of the draft IFRS (and are currently required by paragraph 92 of IAS 32) and disclosures similar to (a)(iii) are proposed in paragraph 21(a).

Do you agree that the requirements in the draft IFRS provide adequate disclosure of fair value compared with those proposed in the FASB's Exposure Draft? If not, why not, and what changes to the draft IFRS would you propose?

We agree.

Question 10 – Other comments

Do you have any other comments on the draft IFRS, Implementation Guidance and Illustrative Examples?

According to IAS 30.19 the disclosures in the balance sheet or the notes shall include several specified assets and liabilities. When ED 7 is finalised IAS 30 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* will be withdrawn. Hence, there will be the need for guidance regarding the balance sheet format for financial institutions which could be provided as an example in the Guidance on Implementing IAS 1.

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

Yours sincerely

Wolfgang Schaum	Norbert Breker
Executive Officer	Technical Director
	Accounting and Auditing