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Sir David Tweedie
Chairman of the
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Berlin, 09 May 2007

Dear Sir David

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB discussion paper “Fair Value Measurements”. We appreciate the opportunity to comment on the discussion paper. Furthermore, we would like to discuss our views on this discussion paper in the round-table meetings.

We support the objective of convergence of IFRSs and US-GAAP in order to achieve a single set of high-quality principle-based accounting standards. This requires a comprehensive discussion of the issues between both the IASB and the FASB and with their constituents. In this regard, publishing the proposals in the form of a Discussion paper (instead of an Exposure Draft as originally planned) is, in our view, appropriate.

When comparing SFAS 157 and US-GAAP literature with IFRS literature, we note that IFRSs require or allow fair value measurements in more situations and standards then US-GAAP do. At the same time, the definition of fair value as promulgated by SFAS 157 is narrower. IFRSs currently define fair value as a transaction price between two willing parties and applications in the individual IFRS follow either more an exit or entry price notion or it is not quite clear which notion is followed, i.e. at least two measurement notions are used within IFRS. SFAS 157, however, defines fair value as a marked-based exit price and thus is exclusively using an exit price notion.

In addition, the SFAS 157 definition includes a market perspective which is not contained in such a form in the IFRS definition, i.e. a transaction price between two willing parties does not necessarily require an (active) market. Although the invitation for comment uses the term “market participant view” frequently, we do no fully understand what that term truly means: Does the market participant view require active or at least organised markets? Does this view only require some market participants (but surely more than two willing parties)? Without a clear understanding of the meaning of “market participant view”, we found it difficult to answer some of the questions contained in this invitation for comment.

In relation to liabilities, we disagree that the term “transfer” more accurately describes the fair value measurement objective in IFRSs, as most liabilities are extinguished through performance or settled with the counterparty, but not transferred to a third party.

As mentioned above, the scope of fair value measurements within current IFRS is broader. We believe that in a number of situations where the IFRSs currently require fair value as the measurement basis, an entry price oriented basis would be appropriate, i.e. in IFRS 3 Business Combinations and other areas where there is no intention to actually sell the related asset or transfer the liability. In situations, however, like assets and liabilities in the trading category as well as derivatives, an exit price is considered to be appropriate.

Taking into account the above different notions inherently included in the term “fair value” as well as to facilitate the ongoing discussions regarding this important measurement area, we would prefer replacing the more general term “fair value” by terms, such as “current exit price” or “current entry price” etc., that more closely reflect the measurement basis and underlying measurement objective for each situation. In this regard, the term “fair value” might be understood as an umbrella definition, and the relevant standard would state which of the different notions is to be applied.

Before any final conclusions regarding the definition of fair value are made, a careful analysis of all IFRSs, where fair value measurements are currently required or allowed, is necessary in order to determine the relevant measurement objective in each situation and the measurement basis that meets that objective. We understand that the IASB will perform such analysis, as explicitly stated in the Invitation to Comment, par. 17. We conducted a very high-level analysis of the current IFRS standards that require or allow fair value measurements. In our answer to question 6, we included some examples where we think that the proposed new definition would not be appropriate and consequential amendments need to be considered. These examples are of a preliminary nature and the list is not to be considered all-inclusive.

In addition, the relevant measurement objectives are impacted by the objective of financial reporting, the purpose of financial statements as well as the related more fundamental discussions on measurement dealt with in the Framework Project. Because this project will not be completed in the foreseeable future, this analysis should be based on the current Framework including an appropriate balancing of the qualitative criteria ‘relevance’ against ‘reliability’.

We strongly believe that all necessary consequential amendments resulting from the above analysis should be already incorporated in the subsequent Exposure Draft, thus determining scope of fair value and relevant measurement bases in one step. This should not be postponed to a later project phase and we understand that this conforms to the Board’s proposals. We greatly appreciate this process.

Please find our detailed comments on the questions raised in the Discussion Paper in the appendix below. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

Prof. Dr. Harald Wiedmann

President

ISSUE 1. SFAS 157 AND FAIR VALUE MEASUREMENT GUIDANCE IN CURRENT IFRSS

Q1: In your view, would a single source of guidance for all fair value measurements in IFRSs both reduce complexity and improve consistency in measuring fair value? Why or why not?

We understand that the term "guidance" as used in the Discussion Paper, covers how fair value is to be determined as well as a definition of fair value. Although a single definition of fair value may reduce complexity, any measurement basis used needs to meet the appropriate measurement objective for the relevant asset or liability. We do not believe that an exit price notion is appropriate for all situations where IFRS currently require a fair value measurement. Accordingly we do not believe that a single guidance is appropriate as proposed by the Discussion Paper. It may be, however, worthwhile considering to summarize in such a guidance all relevant measurement bases / notions reflecting 'current value' measurements.

Q2: Is there fair value measurement guidance in IFRSs that you believe is preferable to the provisions of SFAS 157? If so, please explain.

IFRSs do not contain a single source of fair value measurement guidance. Several standards contain specific guidance. Therefore, the provisions of SFAS 157 are not comparable to the specific guidance contained in the IFRSs.

In addition, the current definition of "fair value" in the IFRSs is broader, and the current guidance in the specific IFRSs, where a fair value measurement is used, reflects that fact. Fair value, as currently defined, may also be a market-based entry price, and we think that in some situations an entry price measurement basis is more appropriate when compared to exit price as proposed in the Discussion Paper. For example, IAS 16 allows measuring property, plant and equipment at fair value under the revaluation method. IAS 16 par. 33 allows estimation of fair value based on a depreciated replacement cost approach. A replacement cost approach incorporates an entry price notion. Moreover, IFRS 3 appropriately reflects an entry price based measurement basis. Accordingly, the IFRSs guidance is regarded as preferable in the sense that the measurement bases used in certain situations lead to a more appropriate accounting treatment and better representation of the underlying economic reality and substance.

ISSUE 2. DIFFERENCES BETWEEN THE DEFINITIONS OF FAIR VALUE IN SFAS 157 AND IN IFRSS

ISSUE 2A. EXIT PRICE MEASUREMENT OBJECTIVE.

Q3: Do you agree that fair value should be defined as an exit price from the perspective of a market participant that holds the asset or owes the liability? Why or why not?

Defining the fair value as a market-based exit price means narrowing the definition which in our view would represent an appropriate measurement basis in a limited number of situations only, e.g. trading and derivatives or items where the sale of an asset and transfer of a liability is intended. In other situations where IFRSs currently require a fair value measurement an entry-price approach would be more appropriate (see answer to question no. 6). Therefore, we do not agree that the current IFRS definition of fair value should be replaced by the definition of SFAS 157.

As mentioned in our accompanying letter, we would prefer replacing the more general term "fair value" by terms, such as "current exit price" or "current entry price" etc., that more closely reflect the measurement basis and underlying measurement objective for each situation. In this regard, the term "fair value" might be understood as an umbrella definition, and the relevant standard would state which of the different bases is to be applied.

Q4: Do you believe an entry price also reflects current market-based expectations of flows of economic benefit into or out of the entity? Why or why not? Additionally, do you agree that, excluding transaction costs, entry and exit prices will differ only when they occur in different markets? Please provide a basis for your views.

We agree that an entry price also reflects current market-based expectations of flows of economic benefits because an entity is to be understood as part of the market. The entity buys an asset if the assumed entity-specific value exceeds the entry price plus transaction costs. Expectations of other market participants are only relevant as far as they influence the entry price based on their specific expectations in regard of that asset: It is solely the expectation of the future benefits that will flow to the entity when using the asset (entity specific value) that determines whether or not the entity buys the asset at the current market entry price. Thus, the entity specific value must at least equal or exceed the market entry price (plus transaction costs). If one deems a market-based approximation of the value (i.e. economic benefits flowing to the entity when using the asset) relevant, it would be the market-based entry price (and not the exit price) that is the better proxy.

Regarding part 2 of the question: We agree that the transaction price does not equal the exit price in the situations mentioned in par. 17, part 2 of the Discussion Paper (related party transactions, transactions under duress, different unit of account, different markets). However, we do not agree that, even absent these sources of differences, the transaction price will equal the exit price in many cases, e.g. due to market inefficiencies.

Q5: Would it be advisable to eliminate the term 'fair value' and replace it with terms, such as 'current exit price' or 'current entry price', that more closely reflect the measurement objective for each situation? Please provide a basis for your views.

For the reasoning outlined in our accompanying letter and in our answer to question 3 we agree with using more precise terms, such as 'current exit price' or 'current entry price' that more closely reflect the measurement objective for each situation.

Q6: Does the exit price measurement objective in SFAS 157 differ from fair value measurements in IFRSs as applied in practice? If so, which fair value measurements in IFRSs differ from the measurement objective in SFAS 157? In those circumstances, is the measurement objective as applied in practice an entry price? If not, what is the measurement objective applied in practice? Please provide a basis for your views.

We would like to note that the wording of the question in the invitation to comment appears to be unclear when referring to fair value measurements as applied in practice. We are unable to respond to this without any extensive research with our constituents which is not justifiable as part of our comment letter. Accordingly we conducted a preliminary, high-level comparison of the current IFRS literature with SFAS 157. It became apparent that there are differences, e.g.:

(1) Initial Recognition of assets and a non-monetary consideration: IAS 16.24 and IAS 38.45

On initial recognition and measurement, the cost of an item of property, plant and equipment (or an intangible asset) acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets (provided the transaction has commercial substance and the fair value of the asset received or the asset given is reliably measurable) is determined based on the fair value of the non-monetary consideration.

This requirement implies no explicit notion (exit / entry). We take the view that an entry notion would be appropriate: As set out in our answer to question 4, the entity buys assets (for cash) or exchanges assets (non-monetary consideration) only if the value of the consideration received equals or exceeds the entry price. It is solely the expectation of the future benefits that will flow to the entity when using the acquired asset (entity specific value) that determines whether or not the entity buys the asset at the current market entry price or exchanges one asset for another. Thus, the entity specific value must at least equal or exceed the market entry price (plus transaction costs.)

As to the method to determine fair value, the standard is silent, as the method depends on the kind of asset received as consideration in the transaction.

(2) Revaluation method (IAS 16.31)

The standard states a preference for a “market value”. Neither a market value nor a market price contains an explicit entry or exit price notion. Other alternative methods to determine fair value include the replacement costs. Using replacement costs clearly imply an entry price notion. Consequently, we think that an entry price measurement basis is generally consistent with fair value as required in IAS 16.31.

We think that the use of an entry price oriented basis would be appropriate in this situation also from a conceptual point of view. A market participant based exit price measurement basis would not properly reflect the underlying measurement objective resulting in a replacement cost based approach. The measurement objective is to represent a current market value at the reporting date without assuming a hypothetical sales (exit) transaction.

(3) IFRS 3:

The purchase price allocation requires determining the fair values of the acquired assets and liabilities in a business combination. These fair values are usually determined with an entry price notion, as the entry price for the acquired entity is allocated to the separate assets and liabilities. It is not the measurement objective to determine in a Business Combination the hypothetical exit price at the same moment when the acquisition has been carried out.

(4) IAS 39

On initial recognition, a financial instrument is to be measured at fair value, according to IAS 39.43. IAS 39.AG64 states that this fair value usually equals the transaction price. However, as the transaction price for an acquired asset is the entity’s entry price, IAS 39.43, when considered in conjunction with IAS 39.AG64, implicitly requires an entry price notion. On subsequent measurement, IAS 39.48-49, when considered together with IAS 39.AG71-72, fair value is determined as the bid price in an active market. Thus, on subsequent measurement, fair value is determined on an exit price basis. We note the relevant fair value measurement considerations contained in IAS 39.AG71-72 apply only to subsequent measurement.

ISSUE 2B. MARKET PARTICIPANT VIEW

Q7: Do you agree with the market participant view articulated in SFAS 157? Why or why not?

We are not certain whether the definition of “fair value”, especially the definition of market participants, in SFAS 157 assumes an active or at least an organised market with a certain number of market participants. The IFRS definition might be understood more broadly, being (just) two knowledgeable, willing parties in an arm’s length transaction, as it is defined under current IFRSs. We acknowledge that there are some passages contained in SFAS 157 that seem to imply that the definition requires at least more than two willing parties, i.e. some market participants, albeit not necessarily an active market, e.g. SFAS 157 par. 10. In this regard the SFAS 157 definition includes a market perspective which is not contained in such a form in the IFRS definition.

In addition, we think that the Discussion Paper does not sufficiently set out when a market for a certain financial instrument or good exists. But this question is relevant for a number of issues, e.g.

- Unit of account and blockage factors: Is the acquisition of a controlling interest in a stock corporation carried out in the same market as buying a single share? Or are these two transactions considered as being carried out in different markets (one being the market for shares, the other being the market for the company – or companies - as a whole?)
- Transaction costs: Especially for physical goods, transaction prices are unique to the transaction and reflect, among other parameters, the location.

Q8: Do you agree the market participant view in SFAS 157 is consistent with the concepts of ‘knowledgeable, willing parties’ and ‘arm’s length transaction’ as defined in IFRSs? If not, how do you believe they differ?

As discussed in our answer to question 7, consistency between the market participant view in SFAS 157 with the definition contained in the IFRSs depends on what “market participant view” is supposed to portray. As already mentioned above, there seem to be some references that “market participant view” requires at least more than two willing parties, i.e. some market participants. If the “market participant view” contained in SFAS 157 is to be understood in this sense, there is a difference.

For example, a specialized piece of machinery will be traded at a transaction price between manufacturer and buyer whereby the transaction price meets the current IFRS fair value definition. However, due to the machinery being specialized, there will be no active market at all and the market-based exit price might equal the scrap value.

ISSUE 2C. TRANSFER VERSUS SETTLEMENT OF A LIABILITY

Q9: Do you agree the fair value of a liability should be based on the price that would be paid to transfer the liability to a market participant? Why or why not?

Whilst this approach might be relevant for derivative liabilities as well as for those liabilities the entity actually intends to transfer, we otherwise disagree with this approach as it does not result in relevant information for all other financial and non-financial liabilities.

Most liabilities are extinguished through performance or settled with the counterparty if so contractually agreed. Assuming a hypothetical transfer notion does not appropriately reflect the underlying measurement objective, i.e. to determine the cash flows resulting from the contract's performance, and is therefore unlikely to be relevant. According to our understanding, current IFRSs do not contain such a stringent transfer notion, if any.

Q10: Does the transfer measurement objective for liabilities in SFAS 157 differ from fair value measurements under IFRSs as applied in practice? If so, in practice which fair value measurements under IFRSs differ from the transfer measurement objective in SFAS 157 and how do they differ?

We refer to our answers to questions No. 6 and No. 9.

ISSUE 3. TRANSACTION PRICE AND FAIR VALUE AT INITIAL RECOGNITION

Q11: In your view is it appropriate to use a measurement that includes inputs that are not observable in a market as fair value at initial recognition, even if this measurement differs from the transaction price? Alternatively, in your view, in the absence of a fair value measurement based solely on observable market inputs, should the transaction price be presumed to be fair value at initial recognition thereby potentially resulting in the deferral of day-one gains and losses? Please provide the reasons for your views.

As outlined in our responses to other questions we believe that an exit price approach is the appropriate measurement basis for only those assets or liabilities which are carried at an exit price on a recurring basis (as explained in our response to Q3). From a conceptual point of view, for these assets and liabilities it would be sound that the initial amount recognised might be different from the transaction price, thus resulting in the recognition of day-one gains or losses.

Albeit the above, there are concerns about the reliability of the underlying valuation, in particular when Level 3 of the valuation hierarchy in SFAS 157 is concerned. We believe that this is in particular an area where the Board should carefully consider the balancing of reliability and relevance criteria.

In all other situations where we would support using an entry price notion at initial recognition, the question of day one gains / losses would be irrelevant.

Q12: Do you believe that the provisions of SFAS 157, considered in conjunction with the unit of account guidance in IAS 39, would result in a portfolio-based valuation of identifiable risks of instruments considered in aggregate, or an in-exchange exit price for the individual instruments? Please provide the reasons for your views.

We agree that a portfolio-based valuation of instruments considered in aggregate might be the result.

This highlights the importance of the definition of the unit of account (or unit of measurement). Currently such guidance is limited and the Board should carefully address this issue. However, the effects of including the provisions of SFAS 157 can only be assessed together with the consequential amendments the IASB might propose. We note that the question of where the unit of account is defined (in a potential fair value measurement standard, the Framework or in each single IFRS) is important in this respect.

Defining the unit of account in each single IFRS allows for

- defining the unit of account and / or measurement only in the standards where this issue is relevant and
- defining the unit of account and / or measurement according to different measurement objectives (e.g. portfolio-based measurement only for certain financial instruments).

Irrespective of the above question where the unit of account guidance should be presented, in order to reflect economic reality as well as the markets' views, a portfolio approach should be used where actual transactions are executed on a portfolio basis. On the other hand such specific provisions may add to complexity and might result in ruled-based provisions which should be avoided.

ISSUE 4. PRINCIPAL (OR MOST ADVANTAGEOUS) MARKET

Q13: Do you agree that a fair value measurement should be based on the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability? Why or why not?

For practicality and verifiability purposes, we would support to base the measurement on the principal market. We believe that this concept is properly understood.

In the absence of a principal market, the Discussion Paper proposes to base the measurement on the most advantageous market and it requires transaction costs to be considered when identifying the most advantageous market. Taking transaction costs into account is appropriate in our view, as especially physical goods may not be transported easily or only at significant costs. Location, transportation costs and the market price interact for physical goods. Disregarding the transactions costs specific to this market would not be appropriate.

For situations of level 3 of the hierarchy the exit price would be determined on the basis of a hypothetical market in anyway.

ISSUE 5. ATTRIBUTES SPECIFIC TO THE ASSET OR LIABILITY

Q14: Do you agree that a fair value measurement should consider attributes specific to the asset or liability that market participants would consider in pricing the asset or liability? If not, why?

We agree. Such attributes might include condition, location, liquidity, timing of the transaction which a market participant would consider in a fair value measurement although some costs might be separately billed and referred to as transaction costs.

Q15: Do you agree that transaction costs that would be incurred in a transaction to sell an asset or transfer a liability are an attribute of the transaction and not of the asset or liability? If not, why?

As discussed in our answer to question 14 some transaction costs unique to the transaction might also be reflected by market participants in the fair value measurement and therefore would represent attributes of the asset / liability, i.e. part of the transaction costs will be inextricably linked with the transaction price. For example the buyer of real estate has to pay real estate acquisition tax which would be labelled as transaction costs under the proposal of the Discussion Paper. Nevertheless these costs are part of any potential buyer's consideration and therefore would influence the market price.

In addition some take the view that when using the hypothetical exit price concept of SFAS 157 the related transaction costs, e.g. selling costs for an asset on hand, should also be reflected in the measurement in order to appropriately determine the complete expected inflows or outflows of economic benefits; otherwise the hypothetical concept is not seen as consistently applied. It is interesting to note that IFRS 5 captures this notion when the sale is intended by the reporting entity, i.e. management intention is reflected. SFAS 157, however, would not reflect selling costs and the conceptual distinction between intended sale and hypothetical sale is not convincing.

As outlined above we believe that the distinction between attributes specific to an asset or liability and transaction costs is difficult and the Board should address this issue in its further deliberations.

ISSUE 6. VALUATION OF LIABILITIES

Q16: Do you agree that the risk of non-performance, including credit risk, should be considered in measuring the fair value of a liability? If not, why?

For those items where we would agree with an exit price measurement we would agree that it would be consistent to consider changes in own credit risk in determining the fair value of a liability in a subsequent measurement.

For all other non-financial and financial liabilities where we disagree with such an exit price measurement, i.e. the majority of situations (see answer to question No. 9), we would not agree with considering changes in own credit risk in measuring a liability because this would lead to income effects which in our view would not provide useful information to the users of financial statements. In our view the reporting entity would not be "better off or worse" as inappropriately indicated by such income effects. For the same reasons many users describe these effects as counter-intuitive. Conceptually, there are other arguments against considering "own credit risk" such as neglecting economically linked changes in value of assets such as goodwill and intangibles not reflected in the balance sheet as well as inconsistent aspects under the going concern principles.

ISSUE 7. 'IN-USE VALUATION PREMISE' VERSUS 'VALUE IN USE'

Q17: Is it clear that the 'in-use valuation premise' used to measure the fair value of an asset in SFAS 157 is different from 'value in use' in IAS 36? Why or why not?

It is clear that the two terms have a different meaning although we are not certain whether we fully understood the "in use-valuation premise" and how this premise would have to be applied. By all means, however, there is a risk that confusion is created by the similar terminology and the Board should consider clarifying guidance as well as to avoid this kind of potentially confusing terminology.

ISSUE 8. FAIR VALUE HIERARCHY

Q18: Do you agree with the hierarchy in SFAS 157? If not, why?

Overall we agree with the hierarchy of SFAS 157 which is at least similar to existing IFRSs. In addition, we would suggest using different terms for the amounts determined according to each of the three levels (e.g. market price, implied market price, estimated value), in order not to blur the different qualities of the amounts.

Q19: Are the differences between the levels of the hierarchy clear? If not, what additional information would be helpful in clarifying the differences between the levels?

The differences are clear, although there might be situations in which observable, non-observable and market-collaborated inputs are difficult to distinguish from one another. In addition, clarity could be enhanced by using different terms for the amounts determined according to the three levels (see answer to question 18).

ISSUE 9. LARGE POSITIONS OF A SINGLE FINANCIAL INSTRUMENT (BLOCKS)

Q20: Do you agree with the provision of SFAS 157 that a blockage adjustment should be prohibited for financial instruments when there is a price for the financial instrument in an active market (Level 1)? In addition, do you agree that this provision should apply as a principle to all levels of the hierarchy? Please provide a basis for your views.

We note that measuring large blocks of financial assets at the amount determined by multiplying price for a single asset by quantity is, from a conceptual point of view, the wrong concept and approach respectively. The market price for a block would be different as it considers the unit of account and liquidity attributes of the financial instrument (see our response to questions 14).

However, we would agree with such an approach to not allow for blockage adjustments for the sake of reliability only, as it is based on an observable market price. We believe that this argument is valid for level 1 of the hierarchy only, see also below.

We can however envisage situations in which disregarding blockage factors would be inappropriate, e.g. determination of the fair value of an acquired entity in a business combination based on the purchase price when a controlling interest in the entity has been acquired (and minority shareholders still exist). In this case there are actually two different markets: One for single shares, one for large blocks (interests), e.g. in the case when acquiring a controlling interest in a company. Participants in the two different markets are mostly not the same.

There are arguments against prohibiting blockage adjustments on levels 2 and 3 of the hierarchy. When compared to level 1 situations there is no argument in terms of reliability at levels 2 and 3 but the relevance would be diminished, as the block of financial assets is the item to be measured, not a single asset out of that block. Following this, prohibiting blockage adjustments would only be supportable by reliability considerations at level 1.

Again, this is an area where the Board should carefully assess the balance between reliability and relevance.

ISSUE 10. MEASURING FAIR VALUE WITHIN THE BID-ASK SPREAD

Q21: Do you agree that fair value measurement should be determined using the price within the bid-ask spread that is most representative of fair value in the circumstances, as prescribed by paragraph 31 of SFAS 157? Alternatively, do you believe that the guidance contained in IFRSs, which generally requires assets to be valued at the bid price and liabilities at the ask price, is more appropriate? Please explain the basis for your view.

We note that using a price within the bid-ask-spread would be inconsistent with a fair value with an exit price notion. For conceptual reasons, we agree with the current IFRS guidance, being usage of a bid price for assets and an ask price for liabilities.

Q22: Should a pricing convention (such as mid-market pricing or bid price for assets and ask price for liabilities) be allowed even when another price within the bid-ask spread might be more representative of fair value? Why or why not?

For conceptual reasons we would also agree with retaining the mid-price in the limited circumstances currently allowed in IAS 39.AG72. For practicality reasons, however, we could also support a more practical approach like a reasonable accounting convention consistently applied by the respective reporting entity.

Q23: Should bid-ask pricing guidance apply to all levels of the hierarchy, including when the fair value measurement includes unobservable inputs? Why or why not?

We are not convinced whether the bid-ask issue applies in the same way for levels 2 and 3 of the hierarchy. Based on market input bid-ask spreads need to be considered in the valuation of level 2 and 3 items but because it is just one input to the valuation process we do not believe that special guidance like the use of an accounting convention is meaningful.

In addition, forecasting bid-ask spreads requires forecasting liquidity, as the bid-ask spread would be influenced by the (assumed) liquidity for the item to be measured (on the hypothetical market on levels 2 or 3). We are uncertain how the entity could forecast liquidity.

ISSUE 11. DISCLOSURES

Q24: Do the disclosure requirements of SFAS 157 provide sufficient information? If not, what additional disclosures do you believe would be helpful to users and why? Alternatively, are there disclosures required by SFAS 157 that you believe are excessive or not beneficial when considered in conjunction with other disclosures required by IFRSs? Please provide a basis for your view.

We agree that for fair value measurements transparent note disclosures are required. To fully inform the users of the related effects this is in particular important for

- use of an exit price approach,
- inclusion of changes in own credit risk, and
- main assumptions and description of unobservable input for level 3 items. We agree with requiring that verifiable components of the fair values be made transparent.

However, taking into account the implementation of IFRS 7 there are already comprehensive note disclosure requirements on fair value measurements. In order to evaluate whether the disclosure requirements in SFAS 157 (considered alone or in conjunction with disclosures required by IFRSs) are appropriate, a careful cost / benefit analysis needs to be carried out.

Accordingly, we ask the IASB to conduct field tests in order to determine the costs that entities have to incur in order to comply with these disclosure requirements as well as conducting empirical research in order to gather evidence on the information value of the disclosures for the users. Without concrete empirical evidence, we believe that the disclosure requirements of SFAS 157 together with current IFRS disclosure requirements might represent excessive information.

Especially for financial institutions with many financial instruments carried at fair value it is important to require the appropriate level of information. Considering six categories of financial assets and liabilities according to IAS 39 where the carrying amount needs to be disclosed for each of them as well as the fair value which should be comparable to the carrying amount, IFRS 7 requires information which is considered by some groups as already excessive.

Indeed, we promote to provide the user of financial statements with useful information for decision-making. Nevertheless, the user should still be able to understand and process the required information and should not be burdened by an information overload. Accordingly, based on the above requested research work, the IASB should carefully assess the need for any note disclosure proposals and should focus on the truly important ones.

As one example to simplify the disclosures we propose to use the three hierarchy levels as major categories and require disclosures only for these categories, not for the different types of financial assets and financial liabilities measured at fair value.

ISSUE 12. APPLICATION GUIDANCE

Q25: Does the guidance in Appendix A and Appendix B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply under IFRSs? If not, please specify what additional guidance you believe is needed and why.

In our view, it is impossible to include guidance on all possible situations in a standard. Therefore, we think it is important that the standard and the related guidance contain general principles and examples on how to implement those principles to important situations consistently.

Q26: Does the guidance in Appendix A and Appendix B of SFAS 157 sufficiently illustrate the standard's principles and provisions as they would apply in emerging or developing markets? If not, please specify what additional guidance you believe is needed and the most effective way to provide this guidance (for example, through additional implementation guidance or through focused education efforts)?

A single source of fair value measurement guidance can naturally only contain general principles that may be applied throughout different IFRSs and to different situations and items. Implementation guidance that is specific to an item should be included in the relevant IFRS.

ISSUE 13. OTHER MATTERS

Q27: Please provide comments on any other matters raised by the discussion paper.

See our accompanying letter, in particular in respect of the main issue that discussing different definitions of fair value and guidance on how to determine fair value requires a clear understanding of the situations in which fair value measurements have to be applied. As outlined the appropriate measurement objectives need to be analysed and determined for each situation where IFRSs currently require fair value measurements. The Discussion Paper is silent on this and we do not believe that exit price is the appropriate measurement basis in many situations.