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DSR – öffentliche SITZUNGSUNTERLAGE

DSR-Sitzung:	**134. / 17.08.2009 / 15:45 – 17.45 Uhr**
TOP:	**04 – IASB DP Credit Risk in Liability Measurement**
Thema:	**Vorbereitung der Stellungnahme an den IASB**
Papier:	**134_04a_IASB_DP_Credit Risk_Positionspapier+ Stellungnahmen**

Positionen und Stellungnahmen des DSR in der Vergangenheit

1 Im Folgenden werden die bisherigen Aussagen des DSR zum *credit risk* und zur *discount rate* widergegeben. Die Aussagen sollen als Grundlage für die Beantwortung der folgenden Fragen 1+2 des Diskussionspapiers dienen.

Question 1
When a liability is first recognised, should its measurement (a) always, (b) sometimes or (c) never incorporate the price of credit risk inherent in the liability? Why?
(a) If the answer is 'sometimes', in what cases should the initial measurement exclude the price of the credit risk inherent in the liability?
(b) If the answer is 'never':
(i) what interest rate should be used in the measurement?
(ii) what should be done with the difference between the computed amount and cash proceeds (if any)?

Question 2
Should current measurements following initial recognition (a) always, (b) sometimes or (c) never incorporate the price of credit risk inherent in the liability? Why? If the answer is 'sometimes', in what cases should subsequent current measurements exclude the price of the credit risk inherent in the liability?

Positionspapier des DSR zur Finanzmarktkrise (15. April 2009)

Own credit risk

2 Ein weiteres Thema ist die Bilanzierung von finanziellen Verbindlichkeiten zum beizulegenden Zeitwert. Hierbei stellt sich die Frage, ob die Veränderung der eigenen Bonität in der Bewertung zu berücksichtigen ist, was im Falle einer Verschlechterung der Bonität zu einer Reduzierung der Verbindlichkeit und zu einem Ertrag führen würde. Der Deutsche Standardisierungsrat weist bezüglich der Frage, was in die Ermittlung des beizulegenden Zeitwerts eingeht, darauf hin, dass der Konzeption des beizulegenden Zeitwerts entsprechend das Bonitätsrisiko eine wertbestimmende Komponente dieses Bewertungsmodells ist (sowohl auf der Aktiv- als auch auf der Passivseite). Eine ergebniswirksame Erfassung der Veränderung der eigenen Bonität in der Gewinn- und Verlustrechnung lehnt der Deutsche Standardisierungsrat jedoch ab.

Stellungnahmen des DSR an den IASB bzw. EFRAG

Hinweis

3 Die Stellungnahmen sind entsprechend ihres Veröffentlichungszeitpunkts geordnet, dabei werden die neuesten Stellungnahmen zuerst aufgeführt.

IASB DP Leases – Preliminary Views (15. Juli 2009)

CHAPTER 5: SUBSEQUENT MEASUREMENT

Question 10:
Should the lessee be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate? Please explain your reasons.
If the boards decide to require the obligation to pay rentals to be revised for changes in the incremental borrowing rate, should revision be made at each reporting date or only when there is a change in the estimated cash flows? Please explain your reasons.

4 The lessee should not be required to revise its obligation to pay rentals to reflect changes in its incremental borrowing rate because it is inconsistent with the way many

non-derivative financial liabilities are subsequently measured (under the amortised cost-based approach, the carrying amount of financial liabilities is not revised for changes in market interest rates). It would also be inconsistent with an amortised cost-based approach to subsequent measurement since it would factually end up in a fair value measurement. This is because any changes in the lessee's credit spread would result in revisions of the obligation to pay rentals; changes in the own credit risk of a lessee should not be reflected in subsequent measurement of the obligation to pay rentals.

CHAPTER 4: INITIAL MEASUREMENT

Question 6:
Do you agree with the boards' tentative decision to measure the lessee's obligation to pay rentals at the present value of the lease payments discounted using the lessee's incremental borrowing rate?
If you disagree, please explain why and describe how you would initially measure the lessee's obligation to pay rentals.

5 We disagree … Therefore, we recommend keeping the rule as it is currently stated in IAS 17.20 in case it will be impracticable for a lessee to determine the interest rate implicit in the lease - as a fallback position - the lessee's incremental borrowing rate shall be used.

IASB DP Preliminary Views on Amendments to IAS 19 Employee Benefits (24. September 2008)

CHAPTER 7: MEASUREMENT OF CONTRIBUTION-BASED PROMISES

Question 9(b)
To what extent should the effect of risk be included as a component of the measurement approach at this stage of the Board's post-employment benefit promises project? How should this be done?

6 … Specifically, changes in own credit risk should not be considered in the measurement of pension liabilities as the entity has no valid settlement alternatives to realise such changes. If the obligation is intended to be settled by running off the liability (i.e. by making payments to the counterparty as they fall due), no credit risk should be included in the measurement because in this case the liability is not impacted by the employer's individual credit risk (i.e. assuming the entity will continue as a going concern, the employer has to pay the same amount of money regardless of his own credit risk). The same applies when the employer intends to transfer the liability to a third party (immediate buy-out). The buyer's future cash flows resulting from the assumed liability

are not impacted by the employer's credit risk and, thus, the buyer will not be willing to consider the employer's credit risk in the purchase price of the liability. Of course, it could happen that in connection with such a substitution of the obligor the beneficiaries accept a reduction of their pension benefits to receive their pension claims from a counterpart with a better creditworthiness. But this would result in a different unit of account because the pension promise itself would be altered, and should, therefore, not be included in the measurement of the existing obligation.

7 Furthermore, we share the opinion expressed in the *PAAinE Discussion paper 'The Financial Reporting of Pensions'* that credit risk is too difficult to measure, because it is affected by the business risk of the entity/entity's assets, the credit risk of the entity and whether the entity's pension liabilities are funded by separate/prioritised assets. Moreover, it is not the same as the general credit rating of the entity, because this credit rating is probably related to liabilities with other priorities and other secured assets than pension assets. In addition, unlisted entities do not have a credit rating; for them, it is impracticable to obtain a market price for the credit risk of their pension liabilities (see *PAAinE Discussion paper 'The Financial Reporting of Pensions'*, Chapter 5, paragraph 7.10 (f)).

IASB DP Reducing Complexity in Reporting Financial Instruments (19. September 2008)

SECTION 3: A LONG-TERM SOLUTION – A SINGLE MEASUREMENT METHOD FOR ALL TYPES OF FINANCIAL INSTRUMENTS

Question 9
Part A of Section 3 suggests that fair value seems to be the only measurement attribute that is appropriate for all types of financial instruments within the scope of a standard for financial instruments.
(a) Do you think that fair value is the only measurement attribute that is appropriate for all types of financial instruments within the scope of a standard for financial instruments?
(b) If not, what measurement attribute other than fair value is appropriate for all types of financial instruments within the scope of a standard for financial instruments? Why do you think that measurement attribute is appropriate for all types of financial instruments within the scope of a standard for financial instruments? Does that measurement attribute reduce today's measurement-related complexity and provide users with information that is necessary to assess the cash flow prospects for all types of financial instruments?

8 … Particularly, the GASB takes the view that reflecting changes in the entity's own credit risk as gains and losses in the income statement could be misleading. While we

acknowledge that fair value measurement of trading liabilities provides decision-useful information, the GASB does not support the argument that measuring all other liabilities at fair value through profit or loss will provide the user of financial statements with relevant information, due to this effect. It is argued that, while fair value for financial assets is a suitable approximation of the future cash flows to the entity associated with such financial assets, this is not the case for financial liabilities. From the perspective of the reporting entity and as long as the entity is a going concern, the fair value of the liability (defined with a transfer notion) is not a good approximation of the cash flow from the entity. Under the going concern assumption, only the present value of the contracted cash flows faithfully represents the future resource outflow, while the market-based assessment of this present value reflecting the entity's own credit risk and employing a transfer notion is not. Accordingly, much more work is needed on this issue.

9 A minority of the Board members argues that reflecting changes in own credit risk provides the user of financial statements with relevant information, on the grounds that

a) despite the reporting entity being a going concern, the settlement notion might be relevant, from the point of view of the users of financial statements; the f/s need to reflect the assessment of the probability of the entity actually meeting its obligations;

b) reflecting the changes in own credit risk provides information on the wealth transfer between the investors (i.e. holders of equity) and creditors;

c) not reflecting changes in the own credit risk, but reflecting changes of all other credit risk parameters when measuring the liability is inconsistent.

10 These Board members take the view that to a major extent the discussion about changes in own credit risk is due to the current financial reporting being inherently incomplete (in that an impairment of self-generated goodwill that corresponds to a decline in credit risk is not reflected in the financial statements since self-generated goodwill must not be recognised) and that one should not compensate one error by another.

PAAinE DP The Financial Reporting of Pensions (15. Juli 2008)

CHAPTER 5: MEASUREMENT OF LIABILITIES TO PAY BENEFITS

Question 6
Do you agree with the paper's views in the measurement of liabilities to pay benefits? In particular, do you agree that:
b) The discount rate should reflect the time value of money only, and therefore should be a risk-free rate?
d) The liability should not be reduced to reflect its credit risk?

11 b) … Provided that the expected value of the cash outflows is adjusted to consider any inherent risks, it is conceptually justified to discount these cash outflows using a risk-free market discount rate.

12 Die zum *credit risk* getroffenen Aussagen entsprechen der Stellungnahme zum IASB DP *Preliminary Views on Amendments to IAS 19 Employee Benefits* (vgl. Tz. 6 in dieser Sitzungsunterlage)

IASB DP Preliminary Views on Insurance Contracts (10. Dezember 2007)

CHAPTER 5: MEASUREMENT – OTHER ISSUES

Question 14
(a) Is the current exit value of a liability the price for a transfer that neither improves nor impairs its credit characteristics? Why or why not?
(b) Should the measurement of an insurance liability reflect (i) its credit characteristics at inception and (ii) subsequent changes in their effect? Why or why not?

13 We strongly believe that including changes in a reporting entity's own credit spread would not be adequate to measure the exit value of an insurance liability due to the following reason:

14 The current exit value is defined as the amount the insurer would expect to pay at the reporting date to transfer its remaining contractual rights and obligations immediately to another entity. The insurer will not be able to realise adjustments based on changes of its own credit spread when it transfers its insurance liability to another party because another insurer will not take into account any change in the value of a liability due to a deterioration of the insurer's own credit risk and will thus not be willing to take over a liability for an amount that is lower than the expected obligation under the insurance contract. We, therefore, believe that adjustments for credit characteristics are irrelevant when an insurance liability was to be measured at its current exit price as the adjustments for credit characteristics can not be realised by transferring the liability.

15 Overall the consideration of changes in an entity‘s own credit spread when measuring liabilities leads to counterintuitive results: A deterioration of an entity’s credit worthiness results in a decline in the liability’s fair value and therefore to income effects and an increase in equity respectively, 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. Only in case a full fair valuing of the whole balance sheet and the recognition of self generated intangible assets is mandatory such accounting implications will be eliminated.

16 According to the above comments in our model (fulfillment value) as described in appendix A changes in own credit risk are not taken into account.

CHAPTER 3

Question 2
Should an insurer measure all its insurance liabilities using the following three building blocks:
(b) current market discount rates that adjust the estimated future cash flows

17 (b) We support.

IASB DP Fair Value Measurement (9. Mai 2007)

ISSUE 6: VALUATION OF LIABILITIES

Question 16
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?

18 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.

19 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 2C: TRANSFER VERSUS SETTLEMENT OF A LIABILITY

Question 9
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?

20 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.

21 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.

ISSUE 11: DISCLOSURES

Question 24
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.

22 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.

23 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. …

Auszug aus dem Protokoll der 126. DSR-Sitzung (Dezember 2008) zu TOP 10: Accounting for Liabilities

…Der DSR spricht sich für eine Berücksichtigung des *own credit risk* in den Fällen aus, in denen die *expected future cash outflows* durch eine eigene Rückkaufsentscheidung des Unternehmens beeinflusst werden. …

24 … Ein Ratsmitglied greift die Berücksichtigung des *own credit risk* bei der Bewertung noch einmal auf und erläutert, dass nach seiner Auffassung beim vorzeitigen Rückkauf mit der Begleichung das Kreditrisiko sofort herausgenommen wird. Beim Transfer der Verbindlichkeit tritt ein Dritter an die Stelle des Unternehmens. Dem Dritten ist es egal, wie schlecht es dem Unternehmen geht, so dass das Kreditrisiko auch in diesem Fall nicht zu berücksichtigen ist. Bei der Erfüllung der Verbindlichkeit hingegen ist das Kreditrisiko zu berücksichtigen, z. B. ein Mitarbeiter hat das Versprechen, dass er in zehn Jahren eine Pension erhält. Er lebt noch zehn Jahre mit der Unsicherheit, ob das Unternehmen die Pension leisten kann. Nach Meinung eines anderen Ratsmitglieds ist das *own credit risk* nur beim Rückkauf eigener Unternehmensanleihen anzusetzen. Im Moment vor dem Rückkauf sind die Verbindlichkeiten, die dem entgegenstehen, mit dem *own credit spread* abzuzinsen. Zwei Ratsmitglieder stellen gemeinsam fest, dass dies in diesem Moment den *expected future cash outflow* der Verbindlichkeit widerspiegelt. Der DSR spricht sich daher für eine Berücksichtigung des *own credit risk* in den Fällen aus, in denen die *expected future cash outflows* durch eine eigene Rückkaufsentscheidung des Unternehmens beeinflusst werden. Das *own credit risk* ist im Rahmen des erwarteten Zahlungsbetrags ab dem Zeitpunkt zu berücksichtigen, an dem das Unternehmen sich zu einem solchen Rückkauf entschieden hat.

Frage 1 an den DSR

Welche Aussagen bzw. Argumente sollen in eine Stellungnahme aufgenommen werden?

Weitere Fragen des Diskussionspapiers „Credit Risk in Liability Measurement“

Question 3
How should the amount of a change in market interest rates attributable to the price of the credit risk inherent in the liability be determined?

Hinweis

25 In den Paragraphen 18 bis 20 des *Staff papers* werden die Schwierigkeiten bei der Ermittlung des *credit risk* beschrieben.

Beispiel: Old Mutual Annual Report and Accounts 2008

26 'The Change in fair value due to credit risk of financial liabilities designated at fair value through the income statement has been determined as the difference between fair values determined using a liability curve (adjusted for credit) and a risk-free liability curve. This difference is cross-checked to market related data on credit spreads, where available.' (vgl. KPMG-Broschüre *Insurance Reporting Round-up 2009*, Seite 30)

Frage 2 an den DSR

Wie könnte eine Ermittlung des *credit risk* nach Ansicht des DSR erfolgen?

Question 4
The paper describes three categories of approaches to liability measurement and credit standing. Which of the approaches do you prefer, and why? Are there other alternatives that have not been identified?

27 Die drei Kategorien in Paragraph 62 des *Staff papers* sind:

(a) Measure all liabilities using the risk-free rate of interest and expected future cash flows, excluding any expectations about default. Any difference between the resulting amount and cash proceeds (if any) should be charged to income immediately.

(b) Measure all liabilities using the risk-free rate of interest and expected future cash flows, excluding any expectations about default. Any difference between the resulting amount and cash proceeds (if any) should be charged to equity and amortised over the life of the liability.

(c) Measure borrowings and other liabilities that result from an exchange for cash at the amount of the cash proceeds. Measure liabilities that do not have a cash exchange at the present value of expected future cash flows, discounted at market rates that exclude the effect of credit risk. Subsequent current measurements should incorporate changes in market interest rates. Changes arising from the entity's credit quality or the price of its credit should be excluded from the market interest rates. This would have the effect of fixing the credit spread at the original amount and incorporating all changes in the risk-free rate.

Frage 3 an den DSR

Welche Variante befürwortet DSR?