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

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Berlin, 19 September 2008

Dear David,

Discussion Paper 'Reducing Complexity in Reporting Financial Instruments'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Discussion Paper 'Reducing Complexity in Reporting Financial Instruments' (herein referred to as 'the DP'). We appreciate the opportunity to comment on the Discussion Paper.

As outlined in the DP, the IASB suggests that the long-term solution to reduce today's measurement-related complexity is to apply a single measurement attribute to all types of financial instruments and that fair value seems to be the only measure appropriate to fulfil this need.

Taking into account that

- the IASB projects on 'Financial Statement Presentation', 'Fair Value Measurement Guidance' and 'Conceptual Framework Phase C: Measurement' are either in an early stage of development or due process has not even started yet; and that
- each of these projects will have significant impact on the financial reporting for financial instruments,

the GASB deems an analysis of the outcomes of these other IASB projects under way imperative to commit oneself to a long-term measurement objective. For this reason, pursuing a full fair value measurement of financial instruments as the long-term objective as proposed by the DP is clearly premature at this point in time. Accordingly, it is not appropriate to include this long-term objective as a criterion for assessing any ways in which existing measurement requirements for financial instruments might be improved and simplified (par. 2.2(b)).

The GASB takes the view that, in order to faithfully present the reporting entity and its underlying business, the measurement attribute needs to reflect the intended use of the financial instrument. While holding the view that fair value is the appropriate measurement

attribute for financial instruments held for trading and derivatives, the GASB contends that fair value is not relevant for measurement of financial instruments held for longer-term investment purposes and is, therefore, inappropriate for that purpose.

The GASB accepts that there are strong arguments in favour of fair value as the measurement attribute for financial instruments with regard to providing information about the *financial position* of an entity, both conceptually and based on empirical academic research, although empirical research is not fully conclusive. However, such fair values do not necessarily provide information that helps predict the most likely future cash flows as management may have no intention to sell or discharge itself of the financial instruments, but may have other plans with them that are expected to result in cash flows other than the current fair value. Furthermore, the analysis of the changes in fair value under the current presentation paradigm does pose significant questions as to how the users of financial statements can depict the revenues and expenses related to the core business activities of the entity, in order to arrive at a measurement of the entity's performance that has predictive power, and that is showing the result of stewardship of management as at the reporting date.

Accordingly, the GASB does not support or propose any intermediate steps concerning measurement issues without being able to concur with any long-term measurement objective. The GASB believes that the DP does not represent an appropriate basis for such discussion which should be intensively entertained as part of the 'Conceptual Framework Phase C: Measurement' project.

However, the GASB believes that the hedge accounting requirements in the current IAS 39 are one area where there is room for simplification and improvement in the short or medium term (for details please see our answer to Question 6 in the appendix to this letter).

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

Yours sincerely,

Liesel Knorr
President

Section 1 Problems related to measurement

Q1: Do current requirements for reporting financial instruments, derivative instruments and similar items require significant change to meet the concerns of preparers and their auditors and the needs of users of financial statements? If not, how should the IASB respond to assertions that the current requirements are too complex?

In consultations with preparers, auditors, users and representatives of the finance and accounting science, all groups concurred that reporting financial instruments under IFRSs is generally perceived as complex and over-regulated. They point out that the large number of rules in IAS 39 concealing the underlying principles leads to difficulties in applying IAS 39 in practice.

Sources of complexity

Current complexity in reporting financial instruments is not only related to the current mixed-measurement model in IAS 39. In particular, the following areas besides the number of measurement categories are often cited by practitioners as representing significant challenges:

(1) application of the provisions in IAS 39.5-7 regarding the accounting for contracts over non-financial items

Full fair value accounting for financial instruments does not solve the complexity in distinguishing between contracts to buy or sell a non-financial item that are accounted for as 'own use' contracts and those that are accounted for as derivatives under IAS 39 as if they were financial instruments.

(2) accounting for and applying the requirements on bifurcation of embedded derivatives

Whilst we acknowledge this area would be simplified under a full fair value concept in those cases when derivatives that are embedded in financial instruments, practice shows that often derivatives are embedded in non-financial contracts of various kinds for which the fair value option cannot be invoked. Thus, even under a full fair value concept, a set of rules is likely required.

(3) derecognition (not covered in the current DP)

(4) hedge accounting

We concur with the view that hedge accounting is a major source of complexity in reporting financial instruments. However, we also believe that, even if a full fair value measurement for financial instruments was adopted, there are arguments for retaining at least the cash flow

hedge accounting model, if not both models, but with modifications. Assuming that a hedge accounting model was retained, a set of rules would be unavoidable.

We conclude that, even if all financial instruments were measured at fair value, the areas mentioned above would remain complex.

Inevitable vs. avoidable complexity

We acknowledge that (some) financial instruments are complex by their nature. If the economic reality that is to be reported in the financial statements is complex, the depiction of this reality as reported in the financial statements will unavoidably reflect this complexity. Thus, we think that in those cases only limited possibilities exist to reduce complexity in reporting financial instruments. For example, many believe that retaining two measurement attributes for financial instruments – (amortised) cost and fair value – is appropriate in order to faithfully represent the way entities manage their business and is, therefore, regarded as 'inevitable complexity'.

Changes as a source of complexity

Some of our constituents argue that comprehensive IT processes and systems have been implemented and adapted to meet the current requirements of IAS 39. Any changes to IAS 39 will necessarily give rise to new questions, new implementation issues and, thus, new complexity, not just for the preparers, but all constituents in order to fully understand the impact of all changes made. Hence, we think that any changes to the current requirements must represent a significant improvement to justify the complexity induced by changing the standard. Please see also to our answer to question 2.

Section 2 Intermediate approaches to measurement and related problems

Q2:

(a) Should the IASB consider intermediate approaches to address complexity arising from measurement and hedge accounting? Why or why not? If you think that the IASB should not make any intermediate changes, please answer questions 5 and 6, and the questions set out in Section 3.

(b) Do you agree with the criteria set out in paragraph 2.2? If not, what criteria would you use and why?

As highlighted in our answer to question 1, amending IAS 39 will result in costs and complexity for all constituents. Preparers in particular would incur costs relating to the adjustment of IT processes and systems and for training staff. Suppliers of business software may refrain from changing their standard software if amendments to current standards are

only deemed as “interim”. Changing IAS 39 both in the medium and again in the long term would result in two phases of implementation for preparers, and adaptation for auditors and users of financial statements. Thus, we do support amending IAS 39 only if the improvement is significant enough to justify the costs that the change will bring about. This is reflected in criterion (d) (please see below).

With regard to question 2(b), we do not agree with the criterion in 2.2(b) of the Discussion Paper stating that any proposed intermediate change needs to be consistent with the long-term measurement objective of the IASB of a full fair value measurement for all financial instruments. In fact, we think that the long-term objective (or long-term solution) is what should be fully explored in a comprehensive discussion. Thus, we think it inappropriate to judge proposals against a criterion that is (or should be) the subject of the discussion.

With regard to the other criteria, we think that neither criterion (a) nor (c) is a valid criterion on its own: According to criterion a), any proposal should not reduce the relevance of the information provided (and ideally should enhance it). Similarly, criterion c) requires that any proposal must not increase complexity (ideally, it should reduce the complexity). Thus, logically, any proposal would meet the criteria in par 2.2 if it is neither enhancing the relevance, nor reducing the complexity. We think the criteria should have been phrased differently. Firstly, relevance is, according to the current Framework, an important but only one criterion that, together with other characteristics such as reliability, determines the decision-usefulness of the information provided. Secondly, complexity is a criterion unknown to the Framework. We note however that a balance between benefits and costs is used in the Framework and that complexity will likely be associated with higher costs for all constituents. This being said, we think the other criteria set out in par. 2.2 of the Discussion Paper should have been phrased along the lines of:

- Enhancing the decision-usefulness of the information while not increasing the complexity (similar to criterion (a)) and
- reducing the complexity without diminishing the decision-usefulness of the information (similar to criterion (c))

Criterion (d) is more of a side condition in the sense that any changes with regard to (a) or (c) must be significant enough to justify this change, that is, the benefits must be evaluated against the costs that any change will bring about.

Q3: Approach 1 is to amend the existing measurement requirements. How would you suggest existing measurement requirements should be amended? How are your suggestions consistent with the criteria for any proposed intermediate changes as set out in paragraph 2.2?

As set out in our previous answer, we think that the existing measurement requirements should only be amended if those amendments result in improving the decision-usefulness of the information. As there is currently no consensus on which measurement attribute will lead to the most decision-useful information in a certain situation and given the high number of cross-cutting issues, we are not in a position to express a view which of the proposals would lead to more decision-useful information.

Cross-cutting issues

We refer to our concerns in relation to a number of cross-cutting issues. For example, the question of whether or not the available-for-sale category should be eliminated hinges on the outcome of the financial statement presentation project. If, for example, the structure of the income statement were changed to a statement with only one ‘income number’ (i.e. a distinction between “core (net) income” and ”other comprehensive income” was not retained), the available-for-sale category would be obsolete. We think that including all changes in fair value, in particular within a full fair value measurement model, may not be the most decision-useful way to report the performance of the entity. We consider further work on the question of what constitutes the performance of the entity and how a performance number could be sub-divided in order to enhance the decision-usefulness (realized vs. unrealized, cash flow-based vs. accrual, persistent vs. non-persistent, “core” performance vs. “other” performance”) to be essential. This is acknowledged in pars. 3.82 et seq. of the Discussion Paper.

Retaining the fair value option

We think that retaining the current fair value option is one way to present positions that are economically linked by enabling entities to measure financial assets or financial liabilities that are considered natural hedges on a consistent basis (i.e. fair value) without having to apply hedge accounting, thus avoiding accounting mismatches. However, we think that the fair value option cannot fully substitute fair value hedge accounting, as set out in our answer to question 5.

Q4: Approach 2 is to replace the existing measurement requirements with a fair value measurement principle with some optional exceptions.

(a) What restrictions would you suggest on the instruments eligible to be measured at something other than fair value? How are your suggestions consistent with the criteria set out in paragraph 2.2?

(b) How should instruments that are not measured at fair value be measured?

(c) When should impairment losses be recognised and how should the amount of impairment losses be measured?

(d) Where should unrealised gains and losses be recognised on instruments measured at fair value? Why? How are your suggestions consistent with the criteria set out in paragraph 2.2?

(e) Should reclassifications be permitted? What types of reclassifications should be permitted and how should they be accounted for? How are your suggestions consistent with the criteria set out in paragraph 2.2?

Replacing the existing measurement requirements with a default measurement attribute (fair value), assisted by optional exceptions, might improve the structure of the standard and may make the standard easier to understand. However, we are currently not in a position to express a view on which measurement concept is likely to lead to the most decision-useful information for a certain financial instrument in a given situation. Consequently, we do not feel prepared to express a view on which criteria are suitable for instruments that should be eligible to be measured at something other than fair value. As we hold the opinion that the measurement attribute needs to reflect the intended use of the financial instrument, we do not agree with accounting for financial instruments according to a fair value measurement principle with some optional exceptions in accordance with Approach 2 of the DP. Further, we reiterate that, in our opinion, consistency with the long-term objective to measure financial instruments according to criterion (b) in par. 2.2 of the DP must not be considered an objective, but should be part of the discussion of those questions on which a consensus should be reached.

Concerning reclassifications between the proposed measurement categories, we think that three aspects need to be considered and weighted:

1) Reclassifications impair the comparability of information, both over time and between entities;

2) Reclassifications seem justified if, by reclassifying, the information becomes more relevant. If, for example, measuring financial instruments held for trading purposes at fair value through profit or loss and measuring loans and receivables held for investment purposes at amortized cost is deemed to provide decision-useful information, reclassification of an instrument upon a change of purpose will increase the relevance of the information provided. Similarly, if one holds the view that financial instruments should only be fair valued if fair value can be determined by reference to an active market, reclassifications seems warranted if a market becomes active or inactive;

3) Some believe that reclassifications require some degree of ring-fencing in order to avoid earnings management. This can be achieved by limiting the scenarios where reclassifications are allowed.

This being said, we think it worthwhile to consider whether there are some situations in which reclassifications should be allowed, provided that by reclassifying the instrument, the relevance of the information provided is increased. Alternative ways to tackle (3) we could envisage include:

- Requiring comprehensive adequate disclosures for reclassifications, including past history of reclassifications. This would discipline companies with regard to credibility concerns.

- Reclassifications should not result in any income effects upon reclassification. Assuming that there are two measurement attributes which need to be considered (fair value and amortized cost), there are two possible directions for reclassifications:

    a) an instrument previously measured at fair value is reclassified into a category with measurement at cost or amortized cost: In this situation, all changes in fair value have already been reflected in income;

b) an instrument previously measured at cost or amortized cost is reclassified into a category with measurement at fair value: The difference between the current fair value and the current carrying amount is recognised directly in equity (i.e. as if the reclassification would be accounted for as a restatement).

Q5: Approach 3 sets out possible simplifications of hedge accounting.

(a) Should hedge accounting be eliminated? Why or why not?

(b) Should fair value hedge accounting be replaced? Approach 3 sets out three possible approaches to replacing fair value hedge accounting.

(i) Which method(s) should the IASB consider, and why?

(ii) Are there any other methods not discussed that should be considered by the IASB? If so, what are they and how are they consistent with the criteria set out in paragraph 2.2? If you suggest changing measurement requirements under approach 1 or approach 2, please ensure your comments are consistent with your suggested approach to changing measurement requirements.

Eliminating all hedge accounting (DP 2.32)

Despite being complex, we think that hedge accounting is essential in faithfully representing financial instruments under the current mixed measurement model. Eliminating hedge accounting will certainly reduce complexity, but will, in our view, significantly impair the relevance of the information provided.

A fair value option (DP 2.37-.43)

The present fair value option cannot substitute fair value hedge accounting. This is due to the fact that the fair value option

- cannot be applied to proportions of the hedged item or to single risks the hedged item is exposed to (i.e. a fair value option does not allow a ‘natural partial hedge’); and
- cannot be discontinued at will, which would restrict management’s possibility to reflect in the financial statements strategies to hedge risk exposures dynamically.

Consequently, we think that, all other facts being equal (i.e. the restrictions that are put on the fair value option were retained), fair value hedge accounting needs to be retained. We propose to consider extending the fair value option to other items (see our answer to question 6).

Q6: Section 2 also discusses how the existing hedge accounting models might be simplified. At present, there are several restrictions in the existing hedge accounting models to maintain discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings. This section also explains why those restrictions are required.

(a) What suggestions would you make to the IASB regarding how the existing hedge accounting models could be simplified?

(b) Would your suggestions include restrictions that exist today? If not, why are those restrictions unnecessary?

(c) Existing hedge accounting requirements could be simplified if partial hedges were not permitted. Should partial hedges be permitted and, if so, why? Please also explain why you think the benefits of allowing partial hedges justify the complexity.

(d) What other comments or suggestions do you have with regard to how hedge accounting might be simplified while maintaining discipline over when a hedging relationship can qualify for hedge accounting and how the application of the hedge accounting models affects earnings?

A principle-based approach to hedge accounting

Currently, the hedge accounting provisions in IAS 39 are mainly transaction driven (one-to-one relationships between a hedged item and a hedging relationship, although hedging relationships between more than one hedged item and more than one hedging instrument are possible), except for fair value hedge accounting for a portfolio hedge of interest rate risk and guidance regarding offsetting internal derivative contracts used to manage foreign currency risk. Hedging net exposures of one or more portfolios of transactions is based on sound economic principles and more efficient than hedging single transactions. Taking into account that, due to these reasons, some entities do not hedge single transactions, it seems obvious that transaction-based accounting rules are not consistent with those entities' hedging strategies. Even in cases in which IAS 39 allows preparers to hedge net positions (IAS 39.AG114) or certain portfolios (IAS 39.83 et seq.), it is often not possible for preparers to apply those rules because the rules aim to fit a net position hedging strategy into a transaction-based micro-hedge accounting model. Thus, it might be worthwhile to consider offering the possibility for a positions-based hedge accounting model. A starting point could be to analyse whether the net positions-hedge for interest risk could be extended to other risks. We acknowledge that this is a very challenging task, but nevertheless think that this analysis might have merit.

Possible ways to simplify the current hedge accounting requirements

We can envisage two ways of simplifying the current hedge accounting model in IAS 39 with respect to effectiveness testing of hedging relationships:

- One way would be to eliminate the retrospective effectiveness test, i.e. the requirement that effectiveness of a hedge must result in hedge effectiveness within the range of 80 to 125 per cent (IAS 39.AG105(b)), determined in accordance with

the specified method of assessing hedge effectiveness. We think that requiring recognising, in profit or loss, any hedge ineffectiveness is sufficient to inhibit entities from entering hedging relationships that are unlikely to be highly effective.

- Provided that ineffectiveness was determined at each reporting date and recognised in profit or loss, another way to simplify the existing requirements would be to allow for an easier way in applying the prospective effectiveness test. We would not propose to eliminate the prospective test completely, as this could result in designating hedge relationships that happen to be effective "at random". However, requiring that an *economic relation* between the hedged item(s) and the hedging instrument(s) be documented when designating a hedging relationship would be an appropriate, more principle-based requirement focusing on such qualitative assessment. In case there are serious doubts about the effectiveness of the hedging relationship ex ante, the entity could be required to additionally provide a quantitative assessment of hedge effectiveness prospectively. If a hedge turns out to be no longer 'reasonably effective' it might be considered to retrospectively de-designate hedge accounting for this hedge from the period the hedging relationship has not been considered effective.

Additionally, extending both proposals to partial hedges could be considered, as stated in par. 2.87 in the DP.

Other issues (IAS 39 only) (DP 2.96-.98)

Many preparers, such as utility companies and companies from the chemical and other industries, encounter difficulties when trying to align their business models with IAS 39:

1) Some of their executory contracts (that are not financial instruments, i.e. the underlying is a commodity) fail to meet the definition of 'own use' contracts, resulting in them being accounted for as if these were derivative financial instruments at fair value through profit or loss under IAS 39. Other executory contracts may either meet the 'own use' test or may not be derivatives as defined in IAS 39 at all (and thus, are not even subject to the 'own use' test at all). Assessing whether or not commitments to buy or sell a non-financial item meet the 'own use' exemption is both complex and burdensome and can be arbitrary in some industries.

   Extending the fair value option to some 'own use' contracts would allow entities to account for both derivatives inside the scope of IAS 39 and 'own use' contracts or executory contracts that are outside the scope of IAS 39 at fair value – thus being able to account for 'natural hedges' – without being obliged to meet the hedge accounting requirements according to IAS 39 (especially being "highly effective" within the 80-125% range). The option could be restricted similarly as for financial instruments, by requiring that

   a) by exercising the option accounting mismatches can be eliminated or significantly reduced; or

   b) the option needs to be exercised for the complete portfolio of 'own use' contracts; and

c) the portfolio must be managed on a fair value basis, in accordance with a documented risk management strategy, and information about this portfolio is provided internally on that basis to the entity's key management personnel.

2) When commodities form a substantial part of the production costs of an entity's output, price volatility in relation to the commodities would result in the production costs to be volatile as well. Assuming that the reporting entity is unable to roll over the volatility to its customers (i.e. adjust the prices of the goods accordingly), an entity has an economic incentive to hedge commodity prices. To allow for accounting for 'natural hedges', the fair value option could be extended to commodities, i.e. treated similarly as for financial instruments, provided that these kind of goods are traded in active markets (e.g. oil and gas in the UK, electric power in Europe). Currently, this is only possible for broker-traders in accordance with IAS 2.3(b). Use of the fair value option could be restricted in a way that by exercising the option an accounting mismatch must be eliminated or significantly reduced.

3) Preparers frequently urged the IASB to consider amending IAS 39.82 in order to allow, in limited circumstances, portions of non-financial items to be eligible for hedge accounting. We note that the IASB's Financial Instruments Working Group made a similar suggestion. We highlighted possible situations where we would think that portions should be eligible for being designated as hedged items in our comment letter to the recent IASB's Exposure Draft to IAS 39 "Exposures Qualifying for Hedge Accounting". The situations include:

   a) the cash flows of a commodity contract for **part of the time** the contract is outstanding, e.g. only the first year of a five year gas delivery contract if the first year is traded in an active market.

   b) a **percentage of the cash flows** of a commodity, e.g. for a 100 MWh electricity contract only 70 MWh could be hedged;

   c) **contractually specified cash flows** that are **independent** from other cash flows of that contract, i.e. pricing structures where the price of a commodity is *indexed* to the price of another commodity that is traded in an active market and where the changes in the cash flows can thus be attributed to the changes in a market price observable in an active market, provided that IAS 39.11 is not applicable;

   d) the portion of the cash flows of a commodity contract that is **equivalent to a commodity contract with a quoted fixed or variable price**: this could apply to a long-term own-use power delivery contract at a fixed price; if this contract was hedged with regard to its fair value exposure, ineffectiveness might arise if the power market price had changed: the power delivery contract has a fair value (marked-to-model) which is subject to interest exposure and credit exposure whereas the hedging instrument with a fair value of zero at inception of the hedge is not subject to these exposures so that ineffectiveness will arise if the whole contract is designated as the hedged item.

Q7: Do you have any other intermediate approaches for the IASB to consider other than those set out in Section 2? If so, what are they and why should the IASB consider them?

Please refer to our answers to the preceding question which state our view on any intermediate steps.

Section 3 A long-term solution—a single measurement method for all types of financial instruments

Q8: To reduce today's measurement-related problems, Section 3 suggests that the long-term solution is to use a single method to measure all types of financial instruments within the scope of a standard for financial instruments.

Do you think that using a single method to measure all types of financial instruments within the scope of a standard for financial instruments is appropriate? Why or why not? If you do not think that all types of financial instruments should be measured using only one method in the long term, is there another approach to address measurement-related problems in the long term? If so, what is it?

Please refer to our general comments. Whilst we think that using a single measurement model for all financial instruments would help in limiting the complexity, we currently cannot envisage a single measurement model that would be appropriate for all financial instruments.

Q9: 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?

We acknowledge that for a number of financial instruments, fair value is the only relevant measurement attribute, e.g. derivatives. We also think that for financial instruments held for trading, fair value is, because of the underlying intended use, the appropriate measurement attribute that provides users with decision-useful information. That seems to suggest that, provided a single measurement attribute was to be used for all financial instruments, fair value would be the (only) measurement concept possible. However, on the basis of the DP we are not in a position to express a view whether one single measurement concept for all

financial instruments or a mixed model leads to more decision-useful information. 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.

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.

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.

Q10: Part B of Section 3 sets out concerns about fair value measurement of financial instruments. Are there any significant concerns about fair value measurement of financial instruments other than those identified in Section 3? If so, what are they and why are they matters for concern?

We are not aware of other concerns.

Q11: Part C of Section 3 identifies four issues that the IASB needs to resolve before proposing fair value measurement as a general requirement for all types of financial instruments within the scope of a standard for financial instruments.

(a) Are there other issues that you think the IASB should address before proposing a general fair value measurement requirement for financial instruments? If so, what are they? How should the IASB address them?

(b) Are there any issues identified in part C of Section 3 that do not have to be resolved before proposing a general fair value measurement requirement? If so, what are they and why do they not need to be resolved before proposing fair value as a general measurement requirement?

If the IASB continues to consider changing to fair value accounting for all financial instruments, the four issues outlined in par. 3.81 of the DP (presentation, disclosure, valuation and scope) would indeed have to be addressed beforehand or, in the case of presentation and disclosure, either beforehand or concurrently.

We would like to emphasise that especially the definition and the determination of fair value (especially in case that markets are no longer active) would need to be addressed. We note that this is an integral part of the IASB's project on 'Fair Value Measurement Guidance'. Similarly, we consider it essential that also the Board's projects on 'Financial Statement Presentation' and 'Conceptual Framework Phase C: Measurement' are finished to provide clear conditions for discussing a full fair value measurement model for financial instruments.

With regard to question 11(b) we do not see an issue identified under part C of Section 3 that does not need to be addressed before a full fair value measurement of financial instruments could be discussed.

Q12: Do you have any other comments for the IASB on how it could improve and simplify the accounting for financial instruments?

We have no further comments.