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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
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United Kingdom

Berlin, 15 December 2008

Dear David,

Exposure Draft 'Improving Disclosures about Financial Instruments – Proposed amendments to IFRS 7'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Exposure Draft 'Improving Disclosures about Financial Instruments – Proposed amendments to IFRS 7' (herein referred to as 'the ED'). We appreciate the opportunity to comment on the Exposure Draft.

We understand that the amendments proposed in the ED are meant to be appropriate steps taken by the IASB in response to the credit crisis. Hence, the expanded disclosures, especially regarding the fair value hierarchy, focus primarily on banks and other financial institutions. Generally, the disclosures required by IFRS 7 shall enable users of financial statements to evaluate the significance of financial instruments for the financial position and performance of the reporting entity. Even for entities with less financial instruments this significance level will in most cases lie above materiality, so that IFRS 7 is fully applicable.

Please find our detailed comments on the questions raised in the ED 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

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Appendix

GASB comments on the questions set out on the IASB's Exposure Draft 'Improving Disclosures about Financial Instruments - Proposed amendments to IFRS 7'

Fair value disclosures

> **Question 1**
>
> Do you agree with the proposal in paragraph 27A to require entities to disclose the fair value of financial instruments using a fair value hierarchy? If not, why?

We agree with the proposal to introduce a fair value hierarchy into IFRS 7 for disclosing the fair value of financial instruments.

> **Question 2**
>
> Do you agree with the three-level fair value hierarchy as set out in paragraph 27A? If not, why? What would you propose instead, and why?

We basically agree with the three-level hierarchy as set out in paragraph 27A. However, we would like to raise the following two issues. We understand the reasons for using the terminology from IAS 39 *Financial Instruments: Recognition and Measurement* rather than from SFAS 157 for the fair value hierarchy. Despite using that terminology, the fair value hierarchy proposed in the ED is considered to be consistent with the one in SFAS 157. We therefore suggest explicitly emphasizing this consistency in the Basis for Conclusions. Additionally, we would like to point out the resulting inconsistency of the fair value hierarchy used for disclosure and measurement purposes. We recommend revising the five-level fair value hierarchy currently contained in IAS 39 in due course. As such a proposed revision is beyond the scope of this ED, we believe that the amended IFRS 7 should at least include a mapping of the five levels in IAS 39 into the three-level hierarchy proposed in the ED.

> **Question 3**
>
> Do you agree with the proposals in:
>
> (a) paragraph 27B to require expanded disclosures about the fair value measurements recognised in the statement of financial position? If not, why? What would you propose instead, and why?
>
> (b) paragraph 27C to require entities to classify, by level of the fair value hierarchy, the disclosures about the fair value of the financial instruments that are not measured at fair value? If not, why? What would you propose instead, and why?

We fully agree with the proposals set out in paragraph 27B regarding expanded disclosures about the recognised fair value measurements. We believe that the suggested tabular format is an appropriate form of presentation and welcome the illustrative examples included in the implementation guidance.

Paragraphs 27B (b)(i) and (c) require, among other disclosures, a description of where the gains or losses (both the total and the unrealised portion) are presented in the statement of comprehensive income. In this respect the illustrative example in IG13B distinguishes between **trading income** and **other income**. We assume that this represents an example taken from the perspective of a bank, possibly influenced by a similar illustrative example in SFAS 157 A.35. However, trading income does not represent a standard income statement line item, even for a bank. It should be clarified that the presentation requirement might be fulfilled by other means as well. In general, we believe that an illustrative example should demonstrate a representative case. We therefore recommend using a more representative example, preferably from the perspective of a non-financial institution, as the majority of preparers applying IFRS 7 will be non-financial institutions.

Paragraph 4 of IFRS 7 states that this standard applies to recognised and unrecognised financial instruments and thus applies also to those financial instruments (such as some loan commitments), which are outside the scope of IAS 39. In our opinion, a corresponding clarification should be included in paragraph 27C.

Liquidity risk disclosures

> **Question 4**
>
> Do you agree with the proposal in paragraph 39(a) to require entities to disclose a maturity analysis for derivative financial liabilities based on how the entity manages the liquidity risk associated with such instruments? If not, why? What would you propose instead, and why?

See our response to Question 5.

> **Question 5**
>
> Do you agree with the proposal in paragraph 39(b) to require entities to disclose a maturity analysis for non-derivative financial liabilities based on remaining expected maturities if the entity manages the liquidity risk associated with such instruments on the basis of expected maturities? If not, why? What would you propose instead, and why?

We disagree with the proposed different treatment of derivative and non-derivative financial liabilities. We also oppose the proposal in paragraph 39(b) that will result in disclosing two quantitative maturity analyses if the entity manages liquidity risk based on expected maturities, because in this case users of financial statements cannot evaluate which of the two figures better forecast the actual future cash outflow and thus users do not obtain enhanced information, i.e. the underlying principle of presenting a worst case scenario does not lead to useful information in general.

In our opinion there should be only one quantitative maturity analysis for both derivative and non-derivative financial liabilities which should be based on expected maturities. Those have to be in alignment with IAS 1 (current/non-current distinction) to avoid that the disclosures made differ from the balance sheet classification.

In addition, there should be a requirement to expand the maturity analysis by qualitative information if the actual cash flows can significantly vary from expectations, i.e. in regard of timing and amount. We believe that in these cases such information is superior to another quantitative schedule. We agree that determining the possible variations from the expected cash flows will mean in many cases referring to contractual maturities, especially when the cash flows can occur significantly earlier than expected. However, referring to contractual maturities only is not always meaningful as liquidity risks do not only result from timing differences.

Our general concern – relating to both derivative and non-derivative financial liabilities – is that disclosing maturity analyses only is not sufficient to display the complete liquidity risk. That is because there is no requirement to disclose the risk related to the ability of delivering the assets intended for settling the financial liabilities. Appendix B11E states that a maturity analysis of those financial assets shall be disclosed only if appropriate.

Question 6

Do you agree with the amended definition of liquidity risk in Appendix A? If not, how would you define liquidity risk, and why?

We do not agree with the amended definition of liquidity risk as we believe that it is not appropriate. We acknowledge the intention of the Board to clarify that the disclosure requirements would not apply to financial liabilities that will be settled in the entity's own equity instruments. However, following the amended definition the disclosure requirements would also not apply to financial liabilities that will be settled with non-financial assets. In our view, there are also liquidity risks inherent in those barter transactions that should be disclosed.

Effective date and transition

Question 7

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

See our response to Question 8.

Question 8

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

We believe that setting 1 July 2009 as the proposed effective date in connection with retrospective application is very ambitious. Entities that have not already made these disclosures on a voluntary basis may require a considerable amount of time to adjust their processes that will generate the necessary data. Accordingly, disclosing comparative data will cause an additional burden for those entities. On the other hand, we understand that these additional disclosures are urgently expected under the current market situation and entities which already have these available should be encouraged to immediate disclosure. On balance we therefore suggest requiring prospective application of the amendments for annual periods beginning on or after 1 January 2009 unless it is impractical to do so.