Deutsches Rechnungslegungs Standards Committee e.V.
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® Der Standardisierungsrat

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EFRAG
Stig Enevoldsen
13-14 Avenue des Arts
B-1210 Brussels
Belgique

Berlin, 14 January 2009

Dear Stig,

**EFRAG Draft Comment Letter on IASB Exposure Draft "Investments in Debt Instruments – Proposed amendments to IFRS 7"**

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on EFRAG's draft comment letter on the IASB Exposure Draft *"Investments in Debt Instruments – Proposed amendments to IFRS 7"*. We appreciate the opportunity to comment on EFRAG's draft comment letter.

For the detailed comments we refer to our comment letter to the International Accounting Standards Board's Exposure Draft, which we attached to this letter.

If you would like to discuss any aspects of this comment letter in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
*President*

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Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH

United Kingdom

Berlin, 14 January 2009

Dear David,

**Exposure Draft 'Investments in Debt 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 'Investments in Debt Instruments – Proposed amendments to IFRS 7' (herein referred to as 'the ED'). We appreciate the opportunity to comment on the Exposure Draft.

We acknowledge the accelerated steps the IASB has taken in response to the effects of the international financial crisis on financial reporting. In this respect we appreciate the three roundtable discussions the IASB held together with the FASB, of which one of the results is the present ED.

However, we would like to question the objectives of the proposals in this ED. We disagree with the IASB's assumption that the proposed additional 'as if' disclosures will be beneficial for users of financial statements. In contrast, we believe that the related numbers will rather result in confusion which of the two pre-tax profit or loss numbers is the more appropriate one. Accordingly, we are of the opinion that the 'cost/benefit' test is not met as the proposed disclosures will put additional burden on preparers of financial statements.

This will be especially the case for non-financial institutions – the majority of entities applying IFRS 7 – which generally have a lower amount of financial instruments invested in and/or for which impairment of debt financial instruments classified as available for sale is less an issue.

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

**Appendix**

**GASB comments on the questions set out on the IASB's Exposure Draft 'Investments in Debt Instruments - Proposed amendments to IFRS 7'**

> **Question 1**
>
> The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost.
>
> Do you agree with that proposal? If not, why? What would you propose instead, and why?

We do not agree with the proposal to disclose additional pre-tax profit or loss under the 'as if' scenarios regarding classification of investments in debt instruments (other than those classified as at fair value through profit or loss). We do not believe that such disclosures would bring further benefit for investors and other users of financial statements. We rather think that such disclosures would lead to confusion when determining which pre-tax profit or loss number is the more appropriate one. In a sense such disclosures and resulting confusion also might damage the confidence of constituents that, at each point in time, then current IFRSs represent appropriate and relevant accounting standards.

Additionally, disclosing alternative pre-tax profit or loss numbers that reflect a different measurement model for selected assets only without considering the liabilities side adds – in our opinion – to our doubts of the usefulness of those disclosures.

> **Question 2**
>
> The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions.
>
> Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

As noted above we disagree with the proposed 'as if' profit numbers. If disclosure of the numbers is not required there is no reconciliation to be provided.

However, if the IASB is moving forward with such disclosure requirements we do not believe that reconciliations are necessary because the underlying amounts represent 'as if' numbers only. More important is that these 'as if' amounts are clearly described as such in order to minimise the serious risk of confusion as outlined in our comment to Question 1.

**Question 3**

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost.

Do you agree with that proposal? If not, why? What would you propose instead, and why?

In addition to our overall disagreement outlined in our comments to Question 1 we have specific concerns regarding how those proposed disclosures would provide additional benefits to users of financial statements and improve financial reporting for the following reasons:

- It is our understanding that the proposed table will show two similar numbers per line; e.g. investments in debt instruments classified as available-for-sale are carried at fair value in the statement of financial position, therefore the first two columns (Carrying amount and fair value) will contain the same number. We do not see the benefit of this presentation.
- IFRS 7.25 already requires disclosing the fair value of each class of financial assets, so that the fair value column would represent a repetition of disclosures already included in the notes to the financial statements. Thus, the 'as if' amounts for available-for-sale financial assets measured at amortised cost would remain the only incremental information provided by the table.
- The original suggestion made by participants at the roundtable discussion was to provide disaggregated information about impairment losses recognised for available-for-sale debt instruments, i.e. a split of the impairment loss into (i) the incurred loss portion and (ii) the remainder of the fair value change. That information is not provided by the proposed disclosures under the ED.

**Question 4**

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss.

Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

Bearing in mind our general disagreement with the proposed amendments, we agree with the proposed scope exclusion for investments in debt instruments classified as at fair value through profit or loss for the reasons set out in paragraph 6 of the Basis of Conclusion of the exposure draft, if the IASB was moving forward with the proposal.

**Question 5**

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

See our response to Question 6.

**Question 6**

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

We see practical problems with setting 15 December 2008 as the proposed effective date and therefore requiring the application of the proposed disclosures for financial years ending 31 December 2008. We do not think that all entities have the necessary information already available, as their data generating systems have to be adjusted accordingly well in advance. Also, most listed multinational companies have set the financial reporting deadlines for their subsidiaries in the first two weeks of January 2009. The release of the final standard at a later date will result in problems for necessary subsequent data gathering. If the IASB was moving forward with this proposal, we therefore suggest an effective date that does not require application for 2008 financial years. Earlier application should be allowed so that entities that have that information available, can already disclose it.

In light of the practical problems mentioned, we agree with the proposal not to require disclosing comparative information on initial adoption.