Deutsches Rechnungslegungs Standards Committee e.V.
Accounting Standards Committee of Germany
® Der Standardisierungsrat

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Berlin, 1 September 2009

Dear Stig,

EFRAG Draft Comment Letter on IASB Discussion Paper 'Credit Risk in Liability Measurement'

Please find attached our final comment letter to IASB.

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 of the
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Berlin, 1 September 2009

Dear David,

Discussion Paper 'Credit Risk in Liability Measurement'

On behalf of the German Accounting Standards Board (GASB) I am writing to comment on the IASB Discussion Paper DP/2009/2 'Credit Risk in Liability Measurement'. We appreciate the opportunity to comment on the Discussion Paper. This letter represents the views of the German Accounting Standards Board (GASB).

We are pleased that the IASB has prepared and issued a Discussion Paper on the arguably most controversial and critical issue regarding fair value measurement. In our view the Discussion Paper prepared by the staff represents an appropriate basis to get the constituents' view on this matter by comparing the arguments in favour of and against in a neutral and comprehensive manner.

After assessing all conceptual and practical arguments, which were partly differently weighted by individual GASB members, the GASB reached the following consensus based on the objective which approach would represent the most relevant and useful information for users of financial statements:

- At initial measurement the own credit risk should be taken into account if it is priced into the transaction that results in the initial recognition of a liability.
- Changes in own credit risk should not be considered at subsequent measurement with two exceptions:
    - The liability is a derivative financial instrument.
    - Management has the intent and the ability to settle the liability with the counterparty to realise gains and losses from fair value changes before maturity ('early settlement').

An appropriate approach in determining the credit risk for the two exceptions mentioned above might be the entity’s corporate bond spread. However, we would not like to give guidance on the determination of the credit risk. In our view an entity should develop its own accounting policy on this issue and should disclose its approach.

In general, we agree with alternative (c) to include the credit risk as presented in paragraph 62 of the Discussion Paper. Differences would result compared to our view of measuring derivate financial instrument and liabilities which are early settled with the counterparty.

We ask for a high level of transparency regarding how these comments will be considered in the IASB’s further discussion on liability and fair value measurement.

For detailed comments we refer to the appendix to this comment letter.

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

Yours sincerely,

Liesel Knorr
President

APPENDIX

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?
If the answer is 'sometimes', in what cases should the initial measurement exclude the price of the credit risk inherent in the liability?
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)?

In our view the own credit risk should be taken into account when a liability is recognised initially, if it is priced into the transaction that results in the initial recognition of a liability.

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?

Changes in own credit risk should not be considered at subsequent measurement with two exceptions:

- The liability is a derivative financial instrument: The GASB believes that fair value is the most appropriate measurement basis for derivative financial instruments. Therefore, as far as own credit risk is reflected in fair value measurement it is consequently included in the subsequent measurement of liabilities that are derivative financial instruments.
- Management has the intent and the ability to settle the liability with the counterparty to realise gains and losses from fair value changes before maturity ('early settlement'): The GASB believes that fair value is the most appropriate measurement basis for non-derivative liabilities when the entity intends to early settle the liability. Therefore, as far as own credit risk is reflected in fair value measurement it should be considered in the subsequent measurement of a non-derivative liability if the reporting entity intends to early settle the liability (e.g. repurchase of own debts).

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?

An appropriate approach in determining the credit risk for the two exceptions mentioned above might be the entity's corporate bond spread. However, we would not like to give guidance on the determination of the credit risk. In our view an entity should develop its own accounting policy on this issue and should disclose its approach.

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?

In general, we agree with alternative (c). Differences would result compared to our view of measuring derivate financial instruments and liabilities which are early settled with the counterparty.