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# DSR – öffentliche SITZUNGSUNTERLAGE

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| **DSR-Sitzung:** | **130. / 02.04.2009 / 15:45 – 17:45 Uhr** |
| **TOP:** | **04 – Financial Crisis** |
| **Thema:** | **Verabschiedung der Stellungnahme an die Financial Crisis Advisory Group (Stellungnahmeentwurf)** |
| **Papier:** | **04c_Entwurf DSR CL an FCAG** |

Am 10. März 2009 hat die Financial Crisis Advisory Group (FCAG), eine Ende letzten Jahres von IASB und FASB gemeinsam eingesetzte High Level Expertengruppe, um Input zu Themenbereichen aus Rechnungslegung und Finanzberichterstattung im Zusammenhang mit der Finanzmarktkrise gebeten. Der Deutsche Standardisierungsrat konnte sich mit diesem Thema noch nicht beschäftigen. Der vorliegende Entwurf einer Stellungnahme wurde vom Projektmanager basierend auf den in bisherigen Stellungnahmen und ähnlichen Papieren geäußerten Ansichten des DSR zu den angesprochenen Themen erstellt. Da die Kommentierungsfrist am 2. April 2009 endet, sollte die Stellungnahme in der DSR-Sitzung final abgestimmt werden.

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Adam Van Eperen
Financial Crisis Advisory Group
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30 Cannon Street

London EC4M 6XH
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Dear Sir,

**Financial Crisis Advisory Group's request for input**

On behalf of the German Accounting Standards Board (GASB) I am writing in response to the Financial Crisis Advisory Group's (FCAG's) request for input that was published on 10 March 2009. We appreciate the opportunity to submit our input.

While we do not believe that financial reporting has caused the financial crisis, we do believe that it is essential that as a consequence a comprehensive review has to be carried out of existing financial reporting requirements. Any weaknesses identified have to be addressed and improvements have to be made as a matter of priority.

Please find our detailed comments on the questions raised in the FCAG's request for input in the appendix to this letter. We are aware that the FCAG is a joint working group of the IASB and the FASB and is therefore seeking input to help it making recommendations to both Boards. As listed companies in Germany are required to prepare consolidated financial statements in accordance with IFRS, our comments will refer mainly to IFRS and the IASB. If you would like to discuss our comments further, please do not hesitate to contact me.

Yours sincerely,

*Liesel Knorr*
President

**Appendix**

| **Question 1** |
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| From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers. |

We do not believe that financial reporting has caused the financial as some have claimed. However, we do believe that it is essential that a comprehensive review is carried out of existing external financial reporting requirements to determine whether any of those requirements has intensified some or all of the problems that have arisen. It is also essential that any weaknesses identified in the financial reporting requirements are addressed and improvements made as a matter of priority.

In our opinion the financial crisis showed inconsistencies with IFRSs and difficulties in applying them, mainly in the following areas:

- Measuring financial instruments at fair value when markets become illiquid or inactive;
- Disclosures that should be provided to support the measure used;
- Different approaches to determine the impairment of financial assets and for reversal of such impairments;
- Derecognition and disclosures provided for off-balance sheet items, particularly those items that were near to being recognised.

Additionally the crisis revealed differences in the requirements under IFRS and U.S. GAAP, e.g. impairment rules for financial assets, treatment of embedded derivatives in synthetic CDOs, netting rules for derivatives etc. The crisis highlighted the need for one single set of high quality global accounting standards. With regard to the preferable level playing field between IFRS and U.S. GAAP, convergence remains an important goal.

| **Question 2** |
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| If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) |

> recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an entity that is useful to a wide range of users in making economic decisions (Framework para. 12). This will possibly differ from the objectives the prudential regulators try to achieve, mainly financial stability. The GASB, therefore, does not support approaches (1) or (2). On the other hand, not considering the regulatory requirements at all is not preferable as well, thus eliminating approach (6).

> **Question 3**
>
> Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

The GASB does not agree with this indication. We believe that the current standard IAS 27 and particularly SIC-12 have worked well in relation to off-balance sheet items, especially compared to the requirements under U.S. GAAP. In our comment letter on Exposure Draft ED 10 Consolidated financial Statements we have stated that, in our view, the proposed changes on the assessment of control with regard to structured entities do not form an improvement to existing requirements. However, the GASB generally appreciates the IASB's objective to improve the disclosure requirements about consolidated and unconsolidated entities, in particular to better inform (potential) capital providers about the nature of, and risks associated with, a reporting entity's involvement with 'off-balance sheet' activities.

> **Question 4**
>
> Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise

> suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

This issue was in the focus of the Discussion Paper (DP) *Reducing Complexity in Reporting Financial Instruments* issued by the IASB in March 2008. In its comment letter the GASB stated that 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.

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 supports a mixed attributes model with a reduced number of financial instruments categories – fair value through profit or loss and an amortised cost approach with an impairment test – as recently discussed. Regarding the classification of financial instruments into the two categories of this model, GASB holds the opinion – as mentioned above – that this should best be based on management intent.



> **Question 5**
>
> What criteria should accounting standard-setters consider in balancing the need for resolving an ‘emergency issue’ on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

We believe the governance arrangements of the IASB must continue to ensure that it is an independent setter of high quality global standards, with appropriate arrangements for consultation with and accountability to its stakeholders. It is important that the IASB follows appropriate due process that should allow constituents ample time to consider and comment on any changes. The current market conditions indicated that it might be necessary to shorten that due process in certain circumstances. Therefore, the GASB agrees that the IASCF constitution should allow for fast-track and emergency procedures.

The 'ordinary' due process should include all the procedures to be taken by the IASB when developing, revising or amending a standard. As further steps to accelerate the process, the Due Process Handbook should clearly define under which circumstances which procedures may be shortened (e.g. decrease of comment period from 120 to 90 or 60 days) or omitted (e.g. omittance to issue a discussion paper, to hold public discussions, etc.). These gradually accelerated processes should be defined as fast-track processes.

A specific process should be established for cases of emergency. However, to avoid that an emergency process is applied in undue circumstances, the IASCF constitution should set out which circumstances qualify as "emergency". Additionally, we propose that the IASB is required to obtain approval from the Trustees before it may apply the emergency process and that the Trustees consult with the Standards Advisory Council (SAC) before they approve the emergency process. The general principle should be that the more accelerated the process, the higher the hurdle the IASB must take to be allowed to apply the process.

Overall, we like to point out that the IASB should under no circumstances (neither fast-track process nor emergency process) be allowed to completely omit public consultation. However, we agree that at least for the emergency process consultation with the public could, for example, be substituted by consultation with the SAC as representative of the public.

**Question 6**

Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

We have repeatedly expressed our opinion that all unresolved financial reporting issues resulting from the credit crisis should solely be addressed by the IASB and that the IASB's due process should be followed with no exceptions. However, that should not prevent the IASB from drawing on the expertise of others and working in close cooperation with relevant other organisations, e.g. prudential regulators, as the financial crisis does not only affect financial reporting. But in the end, all decisions with impact on IFRSs should be made by the IASB.

**Question 7**

Is there any other input that you'd like to convey to the FCAG?

There are no other issues we would like to raise.