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Hans Hoogervorst
Chairman of the
International Accounting Standards Board
30 Cannon Street
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United Kingdom

Berlin, xx March 2013

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Dear Hans,

IASB ED/2012/4 Classification & Measurement: Limited Amendments to IFRS 9

On behalf of the Accounting Standards Committee of Germany (ASCG), I am writing to provide our ~~preliminary~~ views ~~to EFRAG that intends to prepare its draft comment letter~~ on the IASB's ED/2012/4. We appreciate the opportunity to comment on this exposure draft~~early provide our (tentative) position~~.

The IFRS Committee of the ASCG, with support from its financial instruments working group and its insurance working group, has ~~briefly~~ deliberated the proposed amendments and concluded with the following main findings:~~, so its views are regarded tentative and preliminary.~~

- With regard to disabandoning bifurcation of embedded derivatives from financial asset host contracts, and as stated several times, we accept that the IASB has deliberated the issue extensively and has finally concluded to confirm the respective requirements in IFRS 9 (2010).
- We are supportive of an accelerated application of presenting fair value changes due to own credit risk in OCI. However, we do not consider the proposal of introducing it as an option (to early adopt) and only via IFRS 9 in its final version being the preferred solution. Rather, it should become mandatory and it would better be introduced as early as possible, e.g. as a short-term amendment to IAS 39, since finalisation of IFRS 9 still requires

time. Moreover and time-wise, an endorsement of this specific issue seems more likely if it were executed as an IAS 39 amendment.

- We acknowledge that a third category generally adds complexity to the entire model. Thus, its justification needs to be convincing. We are aware that for some industries, such as insurance entities, a FVTOCI category would allow for a measurement (and presentation) of gains or losses that avoids accounting mismatches otherwise occurring under current IFRS 9. However, to our knowledge similar requests have not been raised by other industries in our jurisdiction.
- Further, we have yet to be convinced that the FVTOCI category bears a relation to an underlying business model, esp. when distinguishing it from the current 'buy and hold' and 'buy and sell' models. In particular, the quantity and nature of permissible sales as the essential features seem ambiguous, if not entirely inappropriate.
- We agree, though, that the strongest argument in favour of this measurement category is the potential accounting mismatch arising from measuring certain assets at amortised cost or at FVTPL whilst certain liabilities being measured through OCI. Thus, we suggest considering introduction of a FVTOCI option instead. This option would apply to those instruments meeting the criterion for the AC category, on an instrument-by-instrument basis, and could be exercised at initial recognition only. It would be based on the criterion of an accounting mismatch.
- We deem the provisions relating to the nature and quantity of (permissible) sales of financial instruments classified at AC or at FVTOCI not being operational. Further, the proposed amendments lack a provision describing the consequences of unpermitted sales on the application of this criterion when initially classifying financial instruments in future periods. Whereas under a FVTOCI option - as we have suggested before - the criterion of permissible sales would be redundant, it remains of crucial importance for the AC category.

We also have ~~not yet~~ concluded ~~on~~ that the clarification of the cash flow criterion is not reaching far enough. Generally speaking, we deem this clarification redundant as it only clarifies the impact of materiality, which is an overarching principle anyway. More specifically, we have concluded that if cash flows only covered time value of money and credit risk, this would not acknowledge that contractual interest rates usually comprise other "building blocks", such as a liquidity risk premium or a profit margin. This criterion as defined so far would further leave open how "close" the specific interest rate and the market interest rate should be. In particular, when for specific instruments (and in specific regions) market interest rate conventions do not match the contractual interest rate tenor and/or the maturity - sometimes referred to as "tenor basis spread" - the cash flow criteri-

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on would lead to a classification that seems inappropriate from an economic perspective. Also, the same conclusion would need to be drawn in case of regulated interest rates or if contractual interest rates reflect cross-selling aspects of financial instruments (bundle products).

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~~We will provide a more detailed answer to EFRAG as soon as our discussion as well as our national outreach activities have been concluded.~~

If you would like to discuss our ~~preliminary~~ views in more detail, please do not hesitate to contact me.

Yours sincerely,

Liesel Knorr
President

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