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Dear Sir or Madam,

On behalf of DZ BANK I am writing in order to comment on EFRAG's draft comment letter (dcl) on the Discussion Paper "Reducing Complexity in Reporting Financial Instruments", which was published by the IASB in March 2008. Overall we view the dcl as a valuable contribution to the discussion about the issue that reflects most of our observations and arguments. Therefore we do have only a few comments on the dcl.

The key statement in EFRAG's dcl is that it were premature, and maybe even inappropriate, to decide that full fair value should be the long-term objective for the accounting of financial instruments. Rather there would remain to be a mixed measurement model for the foreseeable future. We think that this is a realistic point of view that is shared by many in our business environment. We therefore agree that any improvements should be made within that mixed measurement model.

Talking about categorisation, the EFRAG's draft says in its appendix, paragraph 22, that improvements were possible by categorising primarily on the facts involved and reflecting the actual business model of the reporting entity. One possible way of doing this would be to replace the existing categories by operating, financing and investment categories. We agree in principle that the categorisation should be based on facts and reflect the business model of the reporting entity. In our opinion categorisation on such facts, thereby reflecting the business model of the reporting entity, is quite well achieved by the existing categories today. We therefore do not see a need to replace them. We would however like to see less strict rules for the reclassification of financial instruments, as business models do change over time

Regarding portfolio hedge accounting, the dcl says in its Appendix Paragraph 47, that companies normally do not hedge specific transactions. Instead, treasury centre would accumulate the transactions and determine net exposures that are then laid off in the market. The dcl goes on to say that IAS 39 accommodates hedges of net positions to some extent (for example through the fair value hedge accounting for a portfolio hedge of interest rate risk). Although the purpose of these rules were to accommodate hedges of net exposures, they were very awkward to apply because they were still rooted in the transaction hedging system. As a result, either entities would not find it possible to use these models at all or they would develop a hedge accounting system that is run on
Different principles from their hedging systems.
In Practice banks might find a way to replicate a hedgeable net position using single transactions. However, their portfolio hedge accounting systems might run apart from the systems in their treasury departments that build up and run economic hedge relationships. Therefore, we support the proposal in the dcl that a priority should be to develop a principle-based hedge accounting system that would allow a portfolio of financial instruments to hedge the net exposure on a portfolio of other instruments and positions.
Furthermore, we would appreciate other types of risks apart from interest rate risk to be eligible for portfolio hedge accounting. Such eligibility would help immensely to reflect economic hedging relationships within hedge accounting under IFRS.

The dcl says in its Appendix, paragraph 50f that partial hedges should be allowed. We strongly support that position, since partial hedging of specific risks or partial hedging of a single economic risk are among the most frequently used economic hedging strategies in practice. To point out this fact seems especially important to us, considering the FASB's current proposals to restrict partial hedging. As convergence goes on, we fear that there is a danger that the IASB might propose to crack down on partial hedging in order to achieve convergence with US GAAP in the long run. The same is true for the rules of designation, dedesignation and Redesignation of hedging relationships, where a high level of flexibility is essential to make our current hedge accounting system work efficiently. We would therefore appreciate the final EFRAG letter to also emphasize the importance of flexibility in designating, dedesignating and redesignating hedging relationships in current accounting practice.

Yours faithfully,
Rainer Krauser
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