Kristy Robinson

From: Isabel.Finck@dzbank.de
Sent: Friday, August 21, 2009 10:24 AM
To: CommentLetters
Cc: Yvonne.Donkoff@dzbank.de; Yvonne.Wiehagen-Knopke@dzbank.de

Subject: WG: EFRAG's Draft Comment letter on the IASB's Request for Information - Impairment of Financial Assets: Expected Cash Flow Approach

Dear Madame or Sir,

Please find attached our comments on the proposed impairment model.

Amendments to Question 1:
We support your statement that the IASB staff paper is at a high-level and therefore lacks some details at this stage and would like to add the following items where additinal guidance would be appreciated.
- How are incoming interest payments going to be handled? It would be important to know whether the full amount has to be accounted for as interest income or whether other rules apply. Example: expected cash flow from interest payment: 97 EUR, amount actually received 100 EUR. Interest income increased by 100 EUR?
- Calculation of effective interest rate at initial recognition: are there two calculations necessary; one including, one excluding credit losses? Or is there only one effective interest rate going to be calculated, always incl. credit losses?
- We highly appreciated that the IASB staff paper included an example. Nontheless, it is a very basic example. Therefore, it would be very helpful to get more complex/detailed examples, (1) fixed rate loan including actually received (interest) payments, (2) variable rate loan e.g. deferred payment loan and not only bullet repayment loan, (3) impairment on collective/portfolio basis.
- It would be also helpful to get some guidance on the possible sources of credit loss data; e.g. from regulatory data/ Basel II. As financial instituts are highly regulated it would be a huge advantage if a harmonisation with Basel II could be achieved.

In our opinion the approach is not defined clearly yet so that at this stage it is almost impossible to get a clear picture and to oversee all consequences.

Remark to Question 2:
We support your statement that the implementation of the proposed impairment model is very challanging. A profound evaluation if the approach is operational highly dependes on further and more detailed explanations and guidance (see question 1).

We would like to point out that from our financial institute's perspective the proposed approach does not result in a reduction in complexity and does not necessarily result in better loan loss provisioning. Under the current approach single loan loss provisions are considered as soon as trigger events occur. In determining the recoverable amount expected cash flows are defined on a single deal basis and are therefore very accurate. If there is not trigger, loan loss provisions are calculated based on expected losses already; those are in accordance with the rules of Basel II.
Having this concept in place the question arose what advantages the proposed approach has. In fact, in many cases the most likely scenario is that all contractual payments are fullfilled completely; then it should not be necessary to recalculate the effective interest rate and calculate an impairment loss respectively a later positive adjustment (e.g. reversal of impairment without an earlier impairment). Only if the most likely scenario is that contractual payments are not fullfilled completely, impairments should be considered. For differentiation purposes impairment trigger would still be required.

Remark to Question 3:

At this early stage and the open questions remaining it is rather difficult if not to say impossible to give a realistic estimate which cost may occur from implementing the expected cash flow approach.
But applying the new approach would cause immense costs.
(Additionally, it has to be kept in mind that the implementation of the incurred loss model including a solution for single loan loss provisions and portfolio loan loss provisions caused immense costs already).
- It would be necessary to amend the IT systems that the EIR according to the expected cash flow approach is calculated.
- An IT-solution would have to be implemented to generate the required credit loss data/ default rates.
- A new IT-solution would be required to calculate the impairment loss (initially and subsequently) according to the expected cash flow approach automatically including generation of booking entries.
- Furthermore, it has to be pointed out that it would be necessary to calculate the (single) loan loss provisions twice due to international and national requirements. Maintining two different IT-systems constantly would increase costs even more. (Under the current incurred loss approach a solution could be found to harmonise IFRS and national requirements.)

Implementing the current incurred loss approach including the IT-solution took approximately two years. Within this project the excisting IT-system was amended extensively. Implementing the new approach would take probably even longer as a complete new IT-system would be required.

Remark to Question 4:
We also support approach A for (1) amortisation of upfront costs and (2) Impairment of variable rate instruments.

If you have further questions please do not hesitate to contact me.

Kind regards

Isabel Finck

DZ BANK AG
Group Finance
Koordination Grundsatzfragen
F/GFZK
Platz der Republik
60325 Frankfurt am Main

T +49 69 7447 99623
F +49 69 7447 1902

mailto:Isabel.Finck@dzbank.de

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank, Frankfurt am Main Platz der Republik, 60325 Frankfurt am Main Deutschland/Germany

http://www.dzbank.de
mailto:mail@dzbank.de, T +49 69 7447 01, F +49 69 7447 1685