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Dear Sir or Madam,

On behalf of DZ BANK I am writing to comment on EFRAG's Draft Comment Letter (DCL) on the IASB's Exposure Draft Fair Value Measurement (ED).

EFRAG's general position is that the proposals of the ED would work quite well for financial instruments but not for non-financial items. We share EFRAG's concerns regarding the applicability of the proposals to non-financial items. We do however think that these concerns are also justified in many instances when it comes to financial instruments accounting.

One of our major concerns relates to the definition of fair value as an exit price under the ED. In its answer on question 2 of the ED EFRAG accepts the proposed new definition of fair value in so far as it is applied to financial assets and financial liabilities required by existing IFRS to be measured at fair value. Exit value should however to our consideration for any asset or liability including financial instruments only be used where an exit-strategy is pursued according to the business model of the reporting entity. The proposed exit price orientation would probably further shift the focus of financial reporting towards the short-term performance of an entity. We fear that this shift would violate the going concern principle and neglect the long-term business model of the reporting entity. As a result it would become more difficult to reflect the internal economic management of assets and liabilities in the external reporting of the entity. Especially, an exit price notion is only conceptually sound, if there is a perfect market. This means - among other things - that many participants need to be on the market, information must be easily available and market participants should

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act rationally. However, in practise market conditions are often imperfect. This is true for markets for financial instruments as well, as the current financial crisis has shown. Under imperfect market conditions it may be more rational for the holder of a financial asset to hold the asset and collect the cash proceeds of the asset than to consider selling the asset. This straight forward economic observation is reflected by level three of the fair value hierarchy. Entity specific cash flow expectations from holding the asset are much more relevant and useful for users than exit prices under such circumstances. For these reasons it is not accurate to exclusively define fair value as an exit price. The most useful information would be provided if entity specific cash flows were taken into account where they are of prominent relevance. We therefore recommend EFRAG's final comment letter to extend its criticism of the exit price notion to financial instruments accordingly.

Another concern to us is that the highest and best use notion is not meant to be used for financial assets and that they should be fair valued using the in-exchange valuation premise. In its answer on question 5 EFRAG agrees with this proposal of the ED. In practise, there are many instances in which the notions of highest and best use are relevant when determining the value of financial assets. Typical examples are the systematic management of assets and liabilities, economic hedging for financial assets or the orderly acquisition of financial assets. On these grounds we consider it justified to allow the notion of value in use for financial assets as well. We therefore would appreciate EFRAG to reconsider its position on that point.

Unlike EFRAG in its answer on question 7 of the ED, we do not agree that the fair value of a financial liability should be based on its transfer value. The transfer notion is justified for trading liabilities. If there is however no intent to transfer the liability, the fair value of the liability should be based on settlement prices. We do not share the view expressed by the ED that the fair value will be the same regardless whether a liability is settled or transferred. The fact that liabilities are rarely transferred and often are just not transferrable in practise at all, demonstrates that the proposed fair value definition does not work for liabilities as a general principle. For instance, banks frequently issue liabilities for which no market exists. Such liabilities may not be transferred to third parties. They may only be repurchased by the issuer, whereby the repurchase price is determined by the issuer. Those may not at all be representative as a benchmark value for the transfer value of the liability. We would welcome EFRAG to adjust its positioning on this issue.

Furthermore, as stated in its answer to question 8 of the ED, EFRAG believes that it is inappropriate to recognise changes in own credit risk by changing The amount at which the liability involved is recognised and recognising gains or Losses. On the contrary, we advocate the present regulation under IFRS that subsequent fair value measurements of financial liabilities should include changes in the debtor's own credit risk to remain unchanged. For details of our reasoning we refer to our comment letter on EFRAG's DCL on the Discussion Paper Credit risk in Liability measurement dated August 13th 2009. In Particular, EFRAG's DCL on the ED, paragraph 70, states that EFRAG accepts that, when an issuer of a liability can readily settle the liability by purchasing it from the holder in an active market, the settlement value of the instrument as a liability and its fair value as an asset might be the same, and that that value would again include non-performance risk.
In practise, banks regularly can readily settle liabilities, which they have issued them self by purchasing them from the holder in an active market. Therefore we recommend that EFRAG clearly says in a prominent paragraph of its final comment letter that under such circumstances changes in own credit risk of the issuer can and should be included in the subsequent fair value measurement of a liability.

Finally, in its answer to question 11 of the ED EFRAG generally supports the disclosure requirements of the ED as the recent financial crisis has emphasised the need for disclosures pertaining to fair value measurements.
As a general remark we believe that the proposed disclosure requirements may be understandable considered one by one. But taken together, they will be too burdensome to apply. Also information that might be relevant during the current financial crisis might be less useful after returning to ordinary market conditions. Therefore requirements should not be extended too much in the light of the present financial crisis. Details of assumptions are only relevant when entities have few assets. The disclosures should perhaps be more focused on the processes used when measuring at fair value.
The ED (paragraph 58) introduces the requirement that an entity shall disclose for each class of assets and liabilities not measured at fair value in the statement of financial position, but for which the fair value is disclosed, the fair value by the level of the fair value hierarchy. We reject this requirement, as it would create costs and not lead to any added value for users but also as these instruments are not managed on a fair value basis and fair values do not represent the expected return obtained from these instruments. The

requirement was already present in the ED for IFRS 7 but due to the objections of the IASB constituents, it was not included in the final standard. We would appreciate EFRAG to include these aspects in its final comment letter.

If you wish to discuss any of our comments further, please do not hesitate to contact us.

Yours sincerely,
Rainer Krauser
DZ BANK AG