

IASB's Annual Improvements

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Dear Ms. Orobello,

On behalf of DZ BANK I am writing to comment on EFRAG's draft comment letter on the IASB Exposure Draft of Proposed Improvements to International Financial Reporting Standards.

We think that EFRAG's detailed response to IASB's proposals addresses all the issues that are important and constitutes a valuable contribution to the standard-setting process.

As a general comment we share EFRAG's view that it is necessary to take great care when selecting the proposals that are appropriate for the annual improvements process.

Especially the proposed change of the definition of a derivative in IAS 39.9 would not be a minor change from our point of view as a bank. In the opinion of one major auditing firm that came to our attention claims to profits granted by certain financial instruments would constitute non-financial, variable derivative instruments according to IAS 39. Since profits are linked to the specific business activities of one party they would not have been allowed to be separated under the current definition. However, this prohibition would drop according to the proposal. Following this opinion claims to profits granted by profit participating certificates, dormant equity instruments or tier 1 bonds issued by banks could possibly be regarded as derivatives that must be accounted for separately in the future. Such separate accounting would impose a lot of extra work on banks. Our aim is that there is no inappropriate extension of the definition of a derivative.

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Therefore we would welcome EFRAG to add these aspects to its letter in order to further address this very critical issue.

Another proposal that we consider as to be too big to be called a minor amendment is the elimination of the specific criteria for the classification of land and buildings in IAS 17 leases. Reporting entities would have to reassess their classifications of land and buildings under the general classification criteria of IAS 17. Such reassessments would cause a lot of additional work for many entities. Therefore we do not agree with the conclusion reached in EFRAG's letter to support this proposal.

On conceptual grounds we think that the current specific classification criteria do not conflict with the general ones. Owners of land under a long-term lease profit much more from an increase of value than owners of buildings, because land has normally not to be depreciated. In our opinion the existing specific criteria properly reflect this economic reality and should therefore remain unchanged.

Regarded historically we want to point out that the IASB rejected the now proposed change in its 2003 improvements project. Back then the IASB argued that such a change would contradict the risks and rewards approach of IAS 17. With that in mind the IASB offers no sufficient reasoning to call for the then rejected change today.

Finally, we want to emphasise that we do not support the statement of compliance with IFRSs as proposed by the IASB for the reasons set out in paragraph 12 of EFRAG's letter.

Yours faithfully,
Rainer Krauser
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