

European Financial Reporting Advisory Group
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DZ BANK AG

Extension: -
Fax -

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 Derecognition (ED). The DCL is very critical about the proposals of the ED and we do fully support EFRAG's clear positioning. We therefore only want to draw EFRAG's attention to a few points which are of special importance from our perspective as a preparer of financial reports.

Board of Managing Directors:
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Chairman of the Supervisory Board:
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The DCL's general criticism is that the ED proposes fundamental changes to existing rules in a fast-track procedure instead of focusing on crisis related issues. We think that this criticism is absolutely necessary, for only a proper standard-setting-process ensures that standards of high quality are developed.

DZ BANK AG
Deutsche Zentral-Genossenschaftsbank,
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EFRAG's preferred approach would be for the existing model to be largely retained (DCL B97). We agree with this point of view, because to our experience the current model has worked fairly well in practice. Reporting entities have gotten used to making their Derecognition decisions by judging whether or not the risks and rewards have or have not been transferred. The secondary question of the possession of control or a possible continuing involvement, in case risks and rewards may not well be allocated, has not often become relevant in practice. Therefore we think that EFRAG is absolutely right to criticise the ED for substituting the risks and rewards approach by a new continuing involvement test in the DCL's comments on question 4 of the ED.

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EFRAG especially does not agree with the proposal that repos of the type described in B55 of the DCL should be treated as sales rather than secured loans (DCL B56). DCL B57 goes on to say that this proposed change would fundamentally affect current accounting practice. From our perspective as a bank that is actively involved in the repo-business we strongly support this position of EFRAG and want to give some additional input on the issue. Repo-transactions are a business area of fundamental importance to us and are used extensively for refinancing purposes in our day-by-day business environment. Should repos normally have to be derecognised in the future, it would in many cases be doubtful, if it would still be worthwhile economically to carry out these repo transactions at all. Therefore the proposed accounting for repos might weaken the refinancing capacity of financial institutions. This again could have a negative effect on their ability to provide credit for customers. That way the proposed accounting might make the crisis even worse instead of helping to overcome the problems.

Furthermore, because of the derecognition and subsequent rerecognition of financial assets under a repo-agreement amounts would be recognised in profit or loss, if the carrying amount and the repurchase price of the derecognised financial asset are different. This would cause economically unjustified volatility of the income statement that might irritate users of financial reports. Finally, for the duration of the repo agreement, the entity would have to recognise a forward, showing the difference between the purchase price of the asset under agreement and its current fair market value. Considering the large number of repo-transactions, this requirement would cause a lot of extra work and effort for reporting financial institutions within the repo market.

Commenting on the practical ability to transfer test, EFRAG wonders whether it is reasonable to expect the transferor to know enough about the transferee in all cases to be able to judge whether it has the practical ability to transfer the asset for its own benefit (DCL B74). From our point of view, it would be rather unreasonable to expect the transferor to have that knowledge in all cases considering our business practice. We also share EFRAG's concern about the crucial role that the existence or non-existence of market activity would play under the proposals (DCL B78f) in order to decide, if the practical ability of transfer test is passed or not. The current crisis has demonstrated unmistakably that the determination of market activity may be extremely difficult in business practise.

EFRAG asks constituents for their views on how disclosure requirements could be improved to get better information about risk exposures of entities related to transfers of financial instruments (DCL B130).

IFRS 7.13(b) already requires risk related information for transferred assets that do not meet the Derecognition criteria. Therefore we do not see an urgent need for additional requirements. On the proposals of the ED, we support the argument set out in B126 of the DCL that the requirements for transferred assets that have been derecognised are much too extensive considering the proclaimed purpose of these disclosures. .

Kind Regards,
Rainer Krauser
DZ BANK AG