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**FILE REFERENCE NO. 1830-100 - PROPOSED ACCOUNTING STANDARDS
UPDATE: FAIR VALUE MEASUREMENT AND DISCLOSURES (TOPIC 820) –
AMENDMENTS FOR COMMON FAIR VALUE MEASUREMENT AND DISCLOSURE
REQUIREMENTS IN U.S. GAAP AND IFRS**

Dear Mr. Golden,

Deutsche Bank (the Bank) appreciates the opportunity to provide feedback on the Proposed Accounting Standards Update: Fair Value Measurement and Disclosures (Topic 820) – Amendments for Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS (“Proposed ASU”). In this letter we outline our key messages in response to the proposed ASU. Appendix 1 provides our more detailed responses to the specific questions posed by the Financial Accounting Standards Board (FASB).

Key Messages:

- The Bank appreciates the continued efforts to converge US GAAP and IFRS with the aim of creating a single set of high quality global accounting standards. We do not believe there should be a difference between IFRS and US GAAP on the definition and application of fair value measurement.

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- Overall, we believe that the proposed amendments related to the principles of fair value measurement are helpful in clarifying specific issues, specifically the amendments related to valuations for offsetting positions in market or counterparty credit risk. However, we believe the proposed disclosures regarding measurement uncertainty and the fair value hierarchy for instruments not held at fair value on a recurring basis would not improve the understandability of fair value measurements, and in many cases would only provide readers with highly subjective and unreliable information, at a very high cost, that would not provide decision useful information.
- We believe that including the effect of correlation between unobservable inputs in the sensitivity analysis disclosure does not provide additional decision useful information to users of financial statements. We believe that issues with reliability would more than outweigh any benefits given the significant costs involved.
- We believe that the usefulness of the disclosure would be improved by allowing entities to disclose the sensitivity analysis by risk where this is how the unobservable parameters are reviewed and monitored by management. This is more decision useful as it is better aligned with the information that management uses. If there was a debt instrument with an unobservable parameter and a derivative instrument with an equal and offsetting unobservable parameter then the entity would have no net exposure to the unobservable parameter. This is how the risk would be monitored and managed, and therefore how the risk should be disclosed in the financial statements.
- We do not support the requirement to disclose a fair value hierarchy for instruments not held at fair value on a recurring basis. We do not believe that this disclosure provides decision useful information as the instruments are not managed on a fair value basis and the fair values do not represent the expected return to the entity on these instruments. While we support disclosure of the fair value for financial instruments measured at amortized cost it is unclear what value a hierarchy format would provide. Rather we believe that the needs of users are best served by qualitative discussions of the valuation methodologies and assumptions underlying the fair value.
- We remain opposed to prohibition of block discounts throughout the hierarchy, especially in levels 2 and 3. Even in the most active of markets if a large holding of an instrument were sold it could not be disposed of at a value that equals the quoted price multiplied by quantity held when the price is quoted based on a significantly smaller lot size. Whilst we theoretically oppose the prohibition of block discounts at all levels of the fair value hierarchy we could accept the current prohibition relating to

Level 1 instruments, but we believe this prohibition should not be extended to levels 2 and 3.

I hope you find these comments helpful. Should you have any questions or wish to discuss these matters further, please contact me on either +44(207)54-50978 or via email to cynthia.mustafa@db.com.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Cynthia Mustafa', with a stylized flourish at the end.

Cynthia Mustafa
Managing Director
Global Head, Accounting Policy and Advisory Group
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Appendix 1

Question 1: This Exposure Draft represents the Board's commitment toward developing common fair value measurement guidance with the IASB. Do you think the proposed amendments:

- a. Would improve the understandability of the fair value measurement guidance in U.S. GAAP? If not, why not?
- b. Would result in any unintended consequences on the application of the proposed amendments? If so, please describe those consequences.

The Bank appreciates the continued efforts to converge US GAAP and IFRS with the aim of creating a single set of high quality global accounting standards. We do not believe there should be a difference between IFRS and US GAAP on the definition and application of fair value measurement.

Overall, we believe that the proposed amendments related to the principles of fair value measurement are helpful in clarifying specific issues, specifically the amendments related to valuations for offsetting positions in market or counterparty credit risk.

However, we believe certain proposed disclosures would not improve the understandability of fair value measurements, and in many cases would only provide readers with highly subjective and unreliable information, at a very high cost, that would not provide decision useful information.

Although we believe that providing a measurement uncertainty analysis which incorporates the impact of correlation is theoretically useful information, we believe the theoretical benefit is unattainable due to the number of unobservable parameters and the complexity, subjectivity and reliability issues inherent in such a calculation. Additionally, due to the issues above, it would be very difficult, if not impossible, to compare results across competitors, and the costs of attempting to overcome these issues would be significant. Please see our responses to Questions 7 and 8 for a full discussion on the measurement uncertainty analysis.

Additionally, we do not support the amendment to section 825-10-50-10 that requires a fair value hierarchy for instruments not held at fair value on a recurring basis to be disclosed. We do not believe that this disclosure provides decision useful information as the instruments are not managed on a fair value basis and the fair values do not represent the expected return to the entity on these instruments. While we support disclosure of the fair value for financial instruments measured at amortised cost it is unclear what value a hierarchy format would provide. Rather we believe that the needs of users are best served by qualitative discussions of the valuation methodologies and assumptions underlying the fair value. Lastly, since this information is not currently produced or used for any purpose by management, the significant costs of implementing this requirement far outweigh the benefits of such information.

Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or to liabilities? If so, please describe those situations.

Given the proposed exception in paragraph 820-10-35-18I for groups of financial assets and liabilities exposed to market risks and counterparty credit risk, we are not aware of situations in which the concept of highest and best use valuation premise would be appropriate for financial assets or financial liabilities.

Question 3: Do you agree with the proposed guidance for measuring the fair value of an instrument classified in shareholders' equity? Why or why not?

We agree with the proposed guidance and support the continued effort to converge IFRS and US GAAP.

Question 4: The Board has decided to permit an exception to fair value measurement requirements for measuring the fair value of a group of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to a particular market risk (or risks) (that is, interest rate risk, currency risk, or other price risk) or to the credit risk of a particular counterparty.

- a. Do you think that proposal is appropriate? If not, why not?
- b. Do you believe that the application of the proposed guidance would change the fair value measurements of financial assets and financial liabilities that are managed on the basis of the reporting entity's net exposure to those risks? If so, please describe how the proposed guidance would affect current practice.

We strongly support this proposal as the Bank (and the Banking Industry in general) manage and value many of our financial assets and financial liabilities on a portfolio basis.

The proposed guidance would not change our fair value measurements.

Question 5: The Board has decided to clarify the meaning of a blockage factor and to prohibit the use of a blockage factor when fair value is measured using a quoted price for an asset or a liability (or similar assets or liabilities). Do you think that proposal is appropriate? If not, why not?

We remain opposed to prohibition of block discounts across all levels of the fair value hierarchy. Even in the most active of markets if a large holding of an instrument were sold it could not be disposed of at a value that equals the quoted price multiplied by quantity held when the price is quoted based on a significantly smaller lot size. It is accepted economic theory that as supply increases then price falls and this is widely observed in financial markets as large holdings are sold.

We note that several concerns have been raised as to the inclusion of block discounts in fair value:

a) The unit of account represented by the transaction is the individual financial instrument:

We agree that in general the fair value of a quoted financial instrument should equal the quoted price multiplied by the quantity held. However, a discount may be required to reach an exit price for a large position where the quoted price only represents a price for an amount of the instrument that is significantly less than the amount held.

For example, an entity holds one million units of a financial instrument, and can observe a last trade of 10,000 units at a price of \$10 as well as a quoted offer price of \$10 for 100,000 total units. Under the current guidance, the entire position of one million units would be valued at \$10. However, at the reporting date, \$10 is only an appropriate exit price for the first 100,000 units and the exit price of the remaining 900,000 units would therefore be at a price less than \$10 (assuming the offers were deep enough to cover 900,000 units, and ignoring the negative price effect of additional supply flooding the market). Therefore, even if the individual unit is considered the unit of account, using \$10 as the fair value for all 1 million units does not appropriately reflect the exit price of all the individual units at the reporting date. For the avoidance of doubt, the example assumes that the sale of the one million shares could occur in an orderly market and would not be considered a forced or “fire” sale.

b) Market participant sellers will enter into a transaction at the most advantageous price for the instrument. A particular entity’s decision to sell at a less advantageous price because it sells its entire holding rather than each instrument individually is a factor specific to that entity:

The definition of fair value does not include an entity’s intention regarding how or when it will sell the instrument. It is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. To close out a large block of assets at the measurement date would require acceptance of a lower price because as supply increases the price will fall. The fair value of the instrument should include a block discount in order to meet the definition of fair value (i.e. exit price).

There is evidence in the market that as large positions are sold they are not sold at the price which is quoted for small lots i.e. that the fair value of a larger position may be different from the fair value of a smaller position. This market evidence can be used to determine the appropriate block discount that a market participant would use to determine the exit price for a large position.

In addition to our conceptual issues regarding block discounts, we believe the current wording in the Proposed ASU is vague and would lead to inconsistent interpretation and application of the rule. We're also concerned with the movement away from a principles based notion of exit price and more towards specific rule based definitions of exit price.

Lastly, we would like to highlight a potential inconsistency with allowing control premiums and discounts and portfolio valuation adjustments, but not allowing block discounts. It is our opinion that all of the above items may be required to reach the most appropriate exit price and therefore block discounts should not be expressly prohibited.

Question 6: The Board has decided to specify that other premiums and discounts (for example, a control premium or a noncontrolling interest discount) should be taken into account in fair value measurements categorized within Level 2 and Level 3 of the fair value hierarchy when market participants would take into account those premiums or discounts when pricing an asset or a liability consistent with the unit of account for that asset or liability.

- a. Do you think that proposal is appropriate? If not, why not?
- b. When the unit of account for a particular asset or liability is not clearly specified in another Topic, how would you apply that proposed guidance in practice? Please describe the circumstances (that is, the asset or liability and the relevant Topic) for which the unit of account is not clear.

We believe the proposal is appropriate as it is consistent with the notion of exit price.

Question 7: The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If not, why not?

Although we believe that providing a measurement uncertainty analysis which incorporates the impact of correlation is theoretically useful information, we believe the theoretical benefit is unattainable due to the complexity, subjectivity and reliability issues inherent in such a calculation. Additionally, due to the issues above, it would be very difficult, if not impossible, to compare results across competitors, and the costs of attempting to overcome these issues would be significant.

Instruments are classified in level 3 of the fair value hierarchy because of the limited availability of market information, and the resulting uncertainty surrounding valuation parameters. This issue is compounded in a measurement uncertainty analysis that is required to consider the appropriate level of correlation between these unobservable parameters. As with the determination of what is a reasonably possible change in a valuation parameter, the determination of the impact of correlation between unobservable parameters will be highly subjective and will adversely impact the decision usefulness of such analysis. There will be such high levels of subjectivity that comparisons between peers will not be possible.

The proposal would require significant effort and cost to determine reasonable correlations between various unobservable inputs, and even then, these correlations will be subjective and unverifiable. This information is not used by management and so would be produced solely for disclosure requirements.

We believe that the usefulness of the disclosure would be improved by allowing entities to disclose the sensitivity analysis by risk where this is how the unobservable

parameters are reviewed and monitored by management. This is more decision useful as it is better aligned with the information that management uses. If there was a debt instrument with an unobservable parameter and a derivative instrument with an equal and offsetting unobservable parameter then the entity would have no net exposure to the unobservable parameter. This is how the risk would be monitored and managed, and therefore how the risk should be disclosed in the financial statements.

Question 8: Are there alternative disclosures to the proposed measurement uncertainty analysis that you believe might provide users of financial statements with information about the measurement uncertainty inherent in fair value measurements categorized within Level 3 of the fair value hierarchy that the Board should consider instead? If so, please provide a description of those disclosures and the reasons why you think that information would be more useful and more cost-beneficial.

We believe disclosure should focus on information that is used internally by management to manage risks. The disclosure for level 3 should focus on managements approach to monitoring the risk and the controls in place to ensure the best estimate of fair value is presented.

If a sensitivity analysis / measurement uncertainty analysis is found useful by investors we request the ability to disclose the information by risk where this is how the unobservable parameters are managed rather than the balance sheet classification as discussed in our response to question 7.

Question 9: The Board has decided to require limited retrospective transition. Do you think that proposal is appropriate? If not, why not?

Yes.

Question 10: There is no link to the transition guidance for the proposed amendments that the Board believes would not change practice. Are there any proposed amendments that are not linked to the transition guidance that you think should be linked? If so, please identify those proposed amendments and why you think they should be linked to the transition guidance.

It is our interpretation that the only substantive changes as a result of this proposal are related to disclosures only and therefore we would not require additional transition guidance.

Question 11: The amendments in this proposed Update would apply to public and nonpublic entities (that is, private companies and not-for-profit organizations). Should any of the proposed amendments be different for nonpublic entities? If so, please identify those proposed amendments and describe how and why you think they should be different.

N/A

Question 12: How much time do you think constituents would need to prepare for and implement the amendments in this proposed Update?

Developing a methodology and a system solution for the requirement to incorporate correlation into the measurement uncertainty analysis, as well as the requirement to produce all proposed disclosures for interim reports, would take a significant amount of time and resources. Further research is required to determine how much additional time and resource would be required to implement this Proposed ASU in conjunction with the other proposed changes to IFRS and US GAAP.