Freudenberg & Co.

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LETTER OF COMMENT NO. 55

5/20/2008

Dear Sir or Madam,

Re: Comments on Preliminary Views on "Financial Instruments with Characteristics of Equity"

We appreciate the opportunity to comment on the FASB´s views on financial instruments with characteristics of equity. This letter expresses the view of Freudenberg & Co. Kommanditgesellschaft, Weinheim, Germany.

From our perspective, the FASB´s project on distinguishing between equity and liabilites is of high importance for German companies also, as in the course of the FASB/IASB-convergence project an existing US-standard could also become effective for IFRS users in case of adoption by the IASB (compare IFRS 8 and SFAS 131).

Since financial reporting standards around the world converge and the importance of US-Statements of Financial Accounting Standards is rising steadily in this context, to focus those standards on American publicly listed companies appears to be insufficient. We are afraid that the current proposals may violate a vital IFRS requirement: the consistent application of those standards independent of legal form or industry. As company law in many European countries provides special rules for partnerships and cooperatives, the FASB should take into account the specifics of such companies in the standard setting process. With concern we observe that one major objective for the FASB approaches seems to be the avoidance of structuring opportunities. In our opinion the primary objective of standard setting should be to develop consistent and principles-based standards for financial reporting and not to avoid abusive structuring practices.

Basic Ownership Approach:

We understand that the basic ownership approach, which is preferred by the FASB, simplyfies accounting requirements for publicly listed companies and does not provide many structuring opportunities. Nevertheless, for European partnerships and cooperatives the basic ownership approach is a highly restrictive construction and would lead to a classification of the interests in a partnership or cooperative as a liability.

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This classification of the partner's contributions as a liability and the associated fair value measurement would cause successful companies to report lower or even negative equity and hence lead to economically meaningless disclosure.

Ownership-Settlement Approach:

We consider the ownership-settlement approach to provide the most decision-useful information, especially for non-publicly listed companies. Although we see the complexity of the approach compared to the basic ownership approach, the ownership-settlement approach allows to account for their shares as equity at least some of the European non-publicly listed legal forms of companies.

Reassessed Expected Outcomes (REO) Approach:

In our opinion the REO approach is too complex and difficult to implement. It should not be followed up any further.

However, all of the approaches discussed are not based on a consistent principle that reflects the proprietary rights of the owners of the company independent of legal form or industry. For this reason we would like to draw your attention to the loss absorption approach (LAA). The LAA was developed on behalf of EFRAG and further European standardsetters and provides decision-useful information in consideration of the proprietary rights of the owners of a company in different legal forms and across different jurisdictions. Therefore, we suggest to include the LAA in the FASB's further deliberations as an adequate alternative to the other approaches.

Kind regards,

Freudenberg & Co.
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