Ladies and Gentlemen,

We appreciate the opportunity to participate in the FASB’s public roundtable meetings to discuss the recent IASB staff draft, IFRS X, Consolidated Financial Statements (the "Staff Draft"). Allianz is a global financial services company operating within the insurance and asset management market segments. As of December 31, 2009, we had total assets of approximately € 584 billion.

While Allianz prepares its consolidated financial statements in accordance with IFRS, we have also had certain securities listed on the New York Stock Exchange until October 2009, and are thus well-versed in the consolidation requirements under U.S. GAAP. Indeed, the joint-project on consolidation is of particular relevance for several of our businesses, and thus we hope that our comments and observations are considered to be relevant and useful as both boards work to complete their respective deliberations on this topic.

In accordance with the related preregistration requirements, please find our responses to the questions included in the roundtable agenda on the pages that follow.

We would be pleased to discuss our comments with you.

Yours sincerely,

Michael Schierhold
Group Accounting Policy Department
1. The Staff Draft provides a single concept of control that is used to evaluate control on a consistent basis for all types of entities (both voting interest entities and variable interest entities). Do you agree that a single-model approach to assess control will provide more consistent financial reporting for all types of entities rather than providing separate models for voting interest entities and variable interest entities? If not, why not?

Allianz supports the IASB's objective to develop a single, principles-based consolidation model based on the concept of control. We observe that, in practice under the current regime, there can be inconsistent application of the control concept depending on the form of the entity in question. Moreover, it is often difficult to conclude whether an entity may be considered a special purpose entity or not.

The recent financial crisis has demonstrated the importance of preparing consolidated financial statements that reflect economic reality. Accordingly, we welcome the introduction of a consistent control principle based on power and returns.

2. The Staff Draft does not incorporate the U.S. GAAP concept of a variable interest entity or a structured entity. Rather, the Staff Draft provides that the way in which control is assessed will vary depending on how the activities that significantly affect the entities' returns are directed. For example, how control is assessed will depend on whether the decisions that significantly affect the returns of the entity are made through voting rights. Without an explicit definition of a variable interest entity, do you believe that (ignoring the differences when analyzing decision making relationships and the effect related party arrangements have on the analysis) the Staff Draft will produce the same conclusions as the recently issued U.S. GAAP guidance for consolidating variable interest entities (FASB Accounting Standards Codification Subtopic 810-10: Consolidation)? If not, what are the situations that produce a different conclusion and why? Do you think it is sufficiently clear how to assess power and control for all types of entities in the Staff Draft?

As noted above, we agree that there should be only one concept to determine consolidation, and that the control principle is an appropriate basis for consolidation. While we recognize that adopting a single control concept involves trade-offs, we do not believe that the guidance for assessing power and control, as presently drafted, is sufficiently clear in all cases.

We will elaborate on certain of our concerns as they relate to the specific questions that follow.

3. The Staff Draft proposes that in order to control an entity, the reporting entity must have the power to direct the activities of that entity. Power is defined as having existing rights that give the reporting entity the current ability to direct activities that significantly affect the entity’s returns. Do you agree with the control principle as articulated in the Staff Draft? Do you agree that there are situations when a reporting entity can have control of an entity controlled through voting rights with less than a majority of voting rights? Why or why not?

4. The Staff Draft states that if the activities that significantly affect an entity’s returns are directed through voting rights, a reporting entity holding less than a majority of the voting rights (assuming no potential voting rights or other contractual rights exist) has power when it can unilaterally direct the activities of the entity that significantly affect the entity’s returns. This assessment requires judgment. The Staff Draft provides application guidance to determine when a reporting entity holding less than a majority of the voting rights in an entity controlled through voting rights has power. Specifically, the Staff Draft provides that, in some cases, a determination can be made about whether a reporting entity has power by just considering the absolute size of the reporting entity’s holding of voting rights, the size of its voting rights relative to the size and dispersion of holdings of the other vote holders, the voting patterns at previous shareholders’ meetings, and other arrangements. Do you believe that there are circumstances when, considering only these factors, an assessment could be made about whether a reporting entity has power? Why or why not?

5. In other circumstances the Staff Draft provides that additional evidence may be needed in order to conclude that a reporting entity holdings less than a majority of the voting rights in an entity controlled through voting rights has power. The Staff Draft includes indicators that may provide additional evidence in these circumstances to assist in determining whether the reporting entity has power. Do
you believe that these indicators provide sufficient guidance to conclude that a reporting entity has power in situations where it is unclear as to whether a reporting entity has power solely based on the absolute size of the reporting entity’s holding of voting rights, the size of its voting rights relative to the size and dispersion of holdings of the other vote holders, the voting patterns at previous shareholders’ meetings, and other arrangements? If not, what additional indicators should be included or which of these indicators should be removed?

We acknowledge that, in certain circumstances, it may be possible for a reporting entity to exhibit control of an entity controlled through voting rights with less than a majority of those voting rights. Furthermore, it may be possible, under a restricted subset of circumstances, to assess power considering only the criteria mentioned in question 4 above.

However, such an assessment of power is likely to be the exception rather than the norm. Indeed, in practice, it may be problematic to obtain the information necessary to perform such an assessment effectively. For example, it is often difficult to obtain ownership positions of minor shareholders in several types of entities, or their respective voting records at shareholders’ meetings. Moreover, even if available, such information may not be the best indicator of power. For example, assessing current power based on the outcome of past shareholders’ meetings would seem to suffer from a representativeness heuristic, and may therefore not form a sufficiently sound basis for a decision.

The additional indicators referred to in question 5 above would seem to provide additional guidance regarding the assessment of power in the scenario described above, but the guidance does not appear consistent. For example, when assessing power based on rights (B11-B17), the guidance emphasizes certain evidence and indicators in paragraphs B14-16. However, when assessing an investor’s voting rights (B37-B41) as described above in question 5, the guidance seems to emphasize B14-B15 but not B16 (ie, returns).

We believe the consideration of returns, indeed as noted in paragraph B16, is a relevant in the assessment of power and should be included with the indicators described in question 5 above. Additionally, the guidance may generally benefit from further elaboration on the notion of “returns” as used throughout the Staff Draft.

6. The Staff Draft requires a reporting entity to consider its rights to obtain additional voting rights of another entity, as well as such potential voting rights (options or convertibles, for example) held by other parties, to determine whether the reporting entity has power. Do you believe the guidance in the Staff Draft is appropriate and operational? Specifically, do you believe that the guidance for determining when potential voting rights are considered substantive is operational? If not, what additional guidance would you suggest?

The Staff Draft’s guidance regarding substantive potential voting rights seems to place significant emphasis on the "moneyness" of options. Accordingly, whether or not potential voting rights are substantive would depend on the value of the underlying. In times of capital market volatility, for example, options can quickly move from being deep in the money to deep out of the money. It does not seem appropriate to have control assessments fluctuate on such a basis.

In general, we recognize that consideration of potential voting rights in an assessment of control is inherently problematic, as those rights generally remain “potential” rights until exercised, and typically do not convey upon their holders the same power as actual voting rights.

7. When determining whether a reporting entity acts as an agent, the reporting entity must consider the overall relationship between it and other parties involved with the entity, considering the following factors:

a. The scope of its decision-making authority over the entity
b. The rights held by other parties
c. The remuneration the reporting entity is entitled to in the arrangement
d. The reporting entity’s exposure to variability in returns as a result of other interests that it holds in the entity.

Do you believe the guidance related to assessing decision-making arrangements in the Staff Draft is appropriate and operational? Do you believe the Staff Draft would lead to appropriate consolidation conclusions?
While the factors mentioned in question 7 above must be addressed in the assessment of a principal/agent relationship, we do not find the guidance in the Staff Draft to be sufficiently operational in all cases.

The case of a fiduciary that manages an investment fund on behalf of unaffiliated investors often makes for a challenging consolidation assessment. For example, in the case of a fund manager that also holds an interest in the investment vehicle it manages on behalf of unaffiliated investors, specific examples are given for cases when the interest is insignificant (although "insignificant" is not further elaborated upon) or substantial (i.e., 95%). However, for everything in between, the guidance merely reverts back to considering all relevant evidence.

8. When evaluating a decision-maker's role, rights held by other parties are considered when determining whether a decision-maker is an agent. Specifically, situations in which a single party holds substantive removal rights and can remove the decision-maker without cause, in isolation, would be sufficient to conclude that the decision-maker is an agent. In such a situation, those rights would be considered together with the other factors included in question 7 above, to determine whether the decision-maker is an agent. Do you believe that removal rights held by numerous parties should be a factor when evaluating whether a decision-maker is an agent? If so, do you agree that it should be one factor but not in and of itself determinative, when evaluating whether a decision-maker is an agent?

In general, we do support the consideration of removal rights as part of the assessment of a potential principal/agent relationship, but this consideration should not be solely determinative.

9. The Staff Draft requires a reporting entity to reassess whether it controls another entity if facts and circumstances indicate that there are changes to one or more of the three elements of control. Do you agree with the principle, and the related guidance in the Staff Draft, is sufficiently clear and operational?

We do not consider the "continuous assessment" principle to be sufficiently operational. The Staff Draft makes clear that the assessment is not limited to correspond with reporting periods, but is instead a continuous one.

In practice, this requirement is likely to prove costly and challenging. Information necessary to properly assess control is not always available on a timely basis. For example, it is uncommon for certain investment vehicles, such as managed funds, to provide real time information of the sort necessary to comply with the continuous assessment principal as described in the Staff Draft. Investors may only receive the relevant information some time after the reporting date.