Allianz SE

1830-100
Comment Letter No. 23

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Reference:
FASB Exposure Draft Fair Value Measurements and Disclosures / IASB Staff Draft Fair Value Measurement

Ladies and Gentlemen,

The Allianz Group appreciates the opportunity to comment on the FASB Exposure Draft Fair Value Measurements and Disclosures which is nearly identical to the IASB Staff Draft Fair Value Measurement. We support the IASB’s and FASB’s shared objective to establish a single source of guidance for all fair value measurements and disclosures. We believe a new standard will reduce both complexity and diversity in practice as well as increase convergence with US GAAP.

We comment below one aspect, initial fair value determination when shares are purchased directly from the issuer (primary market transaction).

Generally, we agree that for level 1 assets, a quoted price for an asset should not be adjusted due to the size of the entity’s holding of an asset. However, in the instance a large positions of shares are purchased directly from the issuer, the question arises whether the fair value at initial recognition¹ is the issue price or the quoted market price assuming the shares are traded in a market.

Paragraph 58(d) of IASB Staff Draft (FASB Exposure Draft Proposed ASU 820-10-30-3A.d) indicates that a transaction price (issue price) might not represent the fair value of an asset at initial recognition if the market in which the transaction takes place² is different from the market in which the entity would sell the asset³. In such a case, this paragraph could be interpreted in a manner that the initial fair value would equal the quoted price and not the transaction price (issue price). Such an interpretation would lead to a day-1 gain or loss for the difference between the quoted price and the transaction price.

1 IAS 39 and IFRS 9 require that financial assets are measured at fair value at initial recognition.
2 Such as primary market transactions where shares are purchased from the issuer.
3 Such as secondary market transactions where quoted prices are available in a stock market.
We believe that the purchase of shares directly from the issuer should not result in a day-1 gain or loss for the following reasons:

First, we believe at the point of the share issuance, the (primary market) transaction (issue) price represents the fair value of the shares rather than their quoted price. This is the case as at this point in time the transaction volume (number of issued shares) is usually far above the trading volume in the stock market and thus more market participants are involved in the subscription of the shares as in trading activities.

Second, this position is also supported by the existing accounting treatment of the issuance of common shares from the perspective of the issuer. IAS 32 prescribes that equity instruments such as common shares are initially recognized in equity in the amount of the issue proceeds (consideration received). Thus, from the issuer's perspective, day-1 gains or losses are precluded. We believe that such a treatment should also be applied to the holder, regardless whether or not quoted prices are available.

In our view this treatment is important because day-1 gains and losses are reported in profit or loss, whereas day-2 gain and losses are reported in other comprehensive income when the shares are classified as available for sale (IAS 39) or as fair value through other comprehensive income (IFRS 9).

As an additional comment, we believe that the volume of disclosure required by the FASB Exposure Draft / IASB Staff Draft is significant for the preparer of the annual and interim financial statements, and may cause the reader to lose sight of the most important elements such as the fair value hierarchy, significant transfers between the levels, and measurement uncertainties.

In the instance you would like to further discuss our comments, please do not hesitate to contact me at +49 89 3800 14429 or Dietmar Isert at +49 89 3800 19141.

Yours sincerely,

Louise Jordan
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