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United Kingdom

Via E-Mail: EBA-DP-2012-03@eba.europa.eu

13 January 2013

Re.: Discussion Paper on Draft Regulatory Technical Standards on prudent valuation, under article 100 of the draft Capital Requirements Regulation (CRR)

Dear Sir or Madam,

The Institut der Wirtschaftsprüfer in Deutschland e.V. [Institute of Public Auditors in Germany, Incorporated Association (IDW)] welcomes the opportunity to respond to the Discussion Paper on Draft Regulatory Technical Standards on prudent valuation, under article 100 of the draft Capital Requirements Regulation (CRR).

In general, we would support articles 31 and 100 CRR requiring institutions to apply prudent valuation standards to all positions measured at fair value when calculating the amount of their own funds and also that they shall deduct from Common Equity Tear 1 Capital the amount of any additional value adjustments necessary. According to article 100 CRR institutions would have to mark their positions to market whenever possible. In the event that measurement at quoted prices in active markets were not possible, institutions would be required to use a valuation technique that provides a prudent estimate of the fair value.

In our opinion, IFRS 13 (Fair Value Measurement) provides a suitably comprehensive framework for measuring fair value. This Standard defines fair value as an "exit price", a notion similar to true realizable value less transaction costs (the price that would be received to sell an asset or paid to transfer a liability) and uses a so called "fair value hierarchy" to enhance the consistency and comparability of fair value measurements. This hierarchy essentially categorizes the inputs used in valuation techniques between three levels. Therefore, we consider that IFRS 13 already provides a suitable basis for determining a fair value that is sufficiently prudent.

We are concerned that EBA's proposals as to how valuation adjustments could, in practice, be applied by institutions in a consistent manner would result in significant differences to the fair value measurement approach of IFRS 13, especially with view to measurement when there is a lack of data.

Whereas IFRS 13 uses unobservable inputs in measuring the asset or liability at so called level III (used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date), EBA's more restrictive solution would be to tie valuation adjustments to a specific confidence level (applying a judgement-based approach).

Finally we would like to point out that a separate valuation for regulation purposes, (indirectly) differentiating between a „prudent" fair value and an „overly optimistic" fair value (e.g. for accounting purposes) may unsettle market confidence (e.g. pro-cyclical impacts due to respective valuation adjustments) and lead to uncertainties regarding the comparability of banks' financial statements (e.g. their informational value) in Europe. Therefore the EBA's principal aim of establishing valuation at a level that will achieve an appropriate degree of certainty, as is considered necessary under certain market conditions (e.g. credit crisis), is unlikely be achieved with these proposals.

Please do not hesitate to contact us, should you have any questions, or if we can provide any more detail regarding our comments.

Yours sincerely,

Klaus-Peter Feld	André Hollnagel
Executive Director	Technical Manager