ISDA Safe, Efficient Markets

Mr Pedro Solves
Chairman EFRAG Supervisory Board
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Commentletter@efrag.org

15th November 2011

Ref.: IASB's Agenda Consultation 2011

Dear Sir,

Thank you for the opportunity to provide EFRAG our views on the International Accounting Standards Board's (IASB) Request for Views, Agenda Consultation 2011. We welcome the opportunity to comment on EFRAG's response to the IASB's Agenda Consultation document, which is being prepared in EFRAG's capacity of contributing to the IASB's due process.

The International Swaps and Derivatives Association's (ISDA[1]) European Accounting Policy Committee welcomes the Request for Views issued by the IASB in accordance with the requirements in paragraph 37 (d) (ii) of the IFRS Foundation Constitution which requires the IASB to seek views of constituents in developing its future Agenda.

ISDA's European Accounting Policy Committee members represent leading participants in the privately negotiated derivatives industry that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments.

The practice of ISDA is to restrict our responses to those areas of IFRS which are of common interest to our members and the comments that we make in the following points should be read in that context:

1) Representing global organisations who report under both IFRS and US GAAP, we are disappointed that convergence is no longer regarded as a high priority in the IASB's proposed agenda. Although we appreciate that it will not be achieved in the short term, it is the view of the majority of our members that this should continue to be the long term goal of the Financial Accounting Standard Board (FASB and the IASB.

[1] Since its founding in 1985, ISDA has worked to make over-the-counter (OTC) derivatives markets safe and efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. ISDA has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has more than 800 members from 55 countries on six continents. These members include most of the world's major institutions that deal in privately negotiated derivatives, as well as many of the businesses, governmental entities and other end users that rely on OTC derivatives to efficiently manage the financial market risks inherent in their core economic activities. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of ISDA toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework.

Furthermore, the Group of 20 (G20) has released a Communiqué from their Summit in Cannes, France on 3-4 November 2011, which includes the following observations in relation to accounting standards:

> "We reaffirm our objective to achieve a single set of high quality global accounting standards and meet the objectives set at the London summit in April 2009, notably as regards the improvement of standards for the valuation of financial instruments. We call on the IASB and the FASB to complete their convergence project and look forward to a progress report at the Finance Ministers and Central Bank governors meeting in April 2012."

Most of our members have some operations which report under US GAAP and others which report under IFRS, and so convergence is important in alleviating the operational inefficiencies of maintaining two sets of processes. Also, different accounting treatments for similar financial instruments under IFRS and US GAAP is not conducive, either to comparability between the reports of members of the same peer group or investor confidence. Reconciliation and disclosure are no substitute for consistent reporting standards.

2) We agree with the tentative views set out in your draft comment letter about the need for 'a period of calm' after completion of the existing projects. However, we are concerned that the summary of projects provided in paragraphs 41 and 44 of your draft comment letter would represent a substantial body of work that would not be consistent with this stated objective. In our view, most of the topics concerned do not appear to be sufficiently urgent or important to be undertaken at this time.

   Paragraph 44 c states that Financial Statement Presentation and Other Comprehensive Income be considered. While we agree that Other Comprehensive Income should be considered, we do not agree that Financial Statement Presentation should be advanced further at this time. Rather we would suggest deferring the project altogether or delaying any further work on it until after preparers have had time to implement the new standards that have recently being completed or are currently being developed, including that on financial instruments. We believe that further effort on the Financial Statement Presentation project should not be invested before understanding the effects of these other new standards on the financial statements.

3) Our members would regard the following as the most important subjects to retain on the agenda, consistent with seeking to minimise the number of new standards over the next few years:

   - Financial instruments with characteristics of equity, as (i) there are a number of practical implementation issues associated with IAS 32 which result in diversity in application, and (ii) there are significant differences on this topic between IFRS and US GAAP.

     This project should, however, be focussed so as to make targeted improvements to IAS 32, primarily to replace the 'fixed for fixed' rule with a principle that more effectively captures the nature of equity instruments, rather than seeking to change the standard fundamentally. This would not require prior completion of the framework. We also note that implementation of a new standard on this subject would not be a major operational burden for most IFRS preparers.

   - Derecognition of financial assets. While we do not propose an entirely new standard, our members believe that targeted improvements based on the IAS 39 principles, are required to address a number of significant interpretation issues that currently exists. These include the issues referred to the IASB by IFRIC and what is meant in IAS 39 by 'continuing involvement'.

- Disclosure. It is important to address disclosure on a comprehensive basis, to seek to focus the disclosures in financial reports so that they both add value to users and are cost effective. We do not recommend a new standard on the topic, but a framework, agreed with the FASB, and an exercise to eliminate overlap between standards and unnecessary and redundant requirements.

4) Priority also needs to be given to developing a mechanism to help arrive at consistent resolution of urgent issues, as exists under US GAAP and most local GAAPs. These tend to arise either because of new emerging issues, for which the standards were never designed, or because there are found to be ambiguities in the standards resulting in differences in interpretation.

   This mechanism could be established through a combination of an expanded role for IFRIC and involvement of the Board, to address issues raised by constituents. The current scope and speed of IFRIC has led to regulators in some local jurisdictions publishing their own local interpretations, which is not conducive to global consistency of application.

We hope you find ISDA's comments useful and informative. Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

Tom Wise	Antonio Corbi
HSBC Bank plc.	International Swaps and Derivatives Association
Chair of Accounting Policy Committee	Risk and Research