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DRAFT RESPONSE

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Friday 28th October, 2005

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 32, FINANCIAL INSTRUMENTS: PRESENTATION AND IAS 1, PRESENTATION OF FINANCIAL STATEMENTS: FINANCIAL INSTRUMENTS PUTTABLE AT FAIR VALUE AND OBLIGATIONS ARISING ON LIQUIDATION

Dear Mr Texeira,

ISDA appreciates the opportunity to comment on the Exposure Draft ("ED") of Proposed Amendments to IAS 32, Financial Instruments: Presentation and IAS 1, Presentation of Financial Instruments published on 23rd June.

Our members represent leading participants in the privately negotiated derivatives industry and include most of the world's major financial institutions, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. As such, we believe ISDA brings a unique and broad perspective to the work of the IASB on accounting for financial instruments.

We understand the objective of the Exposure Draft is to develop a limited scope, short term solution to improve the financial reporting of financial instruments puttable at fair value and instruments with obligations arising on liquidation. ISDA is supportive of the Board's intention and welcomes short term amendments to Standards where this results in more relevant and understandable financial reporting. In previous comment letters, ISDA has expressed certain concerns with the presentational requirements outlined in IAS 32, in particular that certain instruments are accounted for as equity even though they have features more akin to a financial liability and visa versa and we appreciate the IASB's efforts to improve financial reporting for these instruments. Having said this, ISDA would not support the amendments in the Exposure Draft, as currently drafted, for the following reasons:

- We are concerned that the proposed amendments are based on a series of rules and not on an underlying accounting principle. In our view, this is more likely to lead to inconsistencies in financial reporting rather than provide more comparable and understandable information. In particular, we would draw to the Board's attention the possibility under the amended rules that two different entities with the same financial instrument could potential be required to account for the instrument in different ways;

- Introducing amendments through a series of rules may create a precedent and lead to the IASB making similar rules based amendments to Standards rather than focusing on longer term principle based solutions. We would not support such an approach and note that this is not in line with the IASB's own Framework for the Preparation and Presentation of Financial Statements; and

- In the ED, the IASB has suggested that this is a matter that requires an immediate fix. Whilst ISDA would agree that many issues in IAS 32 need to be re-deliberated we would note that this particular issue has been dealt with, in the short term, by preparers through the provision of additional disclosure and revisions in the profit or loss and balance sheet formats. To implement new accounting rules without an appropriate basis may actually lead to inconsistencies in the financial reporting of entities with no equity with similar financial instruments being accounted for by some as equity and others as debt.

As a result of the above concerns, we would encourage the Board to withdraw the Exposure Draft and consider these issues, along with other issues arising from the implementation of IAS 32 as part of the joint project on debt and equity.

However, if the Board were to continue with the proposals, although we agree an entity should provide adequate disclosure to enable a user to evaluate the nature and extent of the entity's capital and the proposals in the ED to provide qualitative data and details of the entities objectives and policies and processes for managing capital, we would not consider that disclosure of the fair value of an instrument puttable at fair value is appropriate as the instrument's fair value is based on the performance of the company and its residual value. To provide such disclosures would suggest these instruments are more akin to a financial liability, a view shared by members of the Board in the dissenting views.

Furthermore, should the Board continue with the proposals, we would agree that the proposed changes should be retrospective as it is would be important that the rules be applied consistently to those financial instruments currently in issue and those to be issued in future reporting periods.

We would be pleased to discuss any of our comments further with the Board or staff. Please contact either Melissa Allen at Credit Suisse or Ed Duncan at ISDA.

Yours sincerely

Melissa Allen
Chair of ISDA's European Accounting Committee

Ed Duncan
Director of European Policy at ISDA

cc.
Sir David Tweedie

Chairman, IASB Board of Directors

Stig Enevoldsen,
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