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Sir David Tweedie
Chairman
IASB
30 Cannon Street
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Monday 18th September, 2006

Industry concerns related to the IASB's work on Fair Value Measurement.

Dear Sir,

ISDA is deeply concerned about the IASB's recent announcement that they plan to release a discussion paper as the next step of its project on fair value measurement, allowing for two opportunities for public comment (Press Release dated, 24th July 2006).

This reverses the decision taken by the IASB almost a year ago (September 22nd 2005) when it voted in favour of issuing a "wrap-around" Exposure Draft of the FASB's final standard on Fair Value Measurement (just two IASB Board members opposed). At that time the IASB chose not to delay its fair value measurement project by allowing for a debate on all the issues before issuing its own Exposure Draft recognising that this would delay the project by up to 12 months and could lead to divergence from US GAAP rather than convergence.

Following this original decision ISDA members have observed extensive efforts by both staff and members of the IASB to align their discussions and decisions on the Fair Value Measurement (FVM) project with those of the US standard setter. This has included devoting considerable IASB Board time over the last twelve months discussing, in public, progress made by the FASB on the proposed US standard, covering all aspects of the standard from the definition of fair value to the detail of the revised US hierarchy. We also understand that at least one IASB Board member has been actively engaged in the ongoing discussions taking place in the US.

ISDA fully supported the efforts by both Boards to converge their two projects on FVM. We believe that the global nature of financial markets makes it critical that the measurement of fair value for financial instruments has international consistency. However, since making its decision twelve months ago, the IASB has said that certain constituents are concerned that proceeding directly to an Exposure Draft based on the final FASB Standard on FVM could potentially short-cut the IASB's due process requirements. While ISDA members recognise the importance of the IASB's due process requirements, we believe the co-existence of two FVM regimes, with the possibility of the same financial instrument held by the same entity having two different fair values, to be of even greater concern. This would not only be conceptually flawed, but could lead to a competitive disadvantage for some institutions, cause confusion among investors and diminish the concept of fair value.

It is clear that the implementation of the US standard on FVM will create differences between US GAAP and IFRS with respect to how the entities are required to measure fair value. Based on the IASB's current FVM project plan, it seems unlikely that a final standard will be available for implementation prior to 1 January 2009 at the earliest. Therefore, fair value measurement differences between US GAAP and IFRS could exist for at least two years. In addition, there is concern that, as a result of the further deliberations on the Discussion Paper, further differences will emerge which will only serve to extend the duration of FVM differences between GAAPs.

The IASB cited a number of reasons for delaying the FVM project in the July press release, and our comments regarding these are as follows.

- The IASB have said that constituents have a problem with moving to an "exit price objective" for fair value, particularly when an entity has no intention of selling an asset. ISDA notes that there has been extensive discussion of this concept as part of the public consultation in the US, and we and our members have been active in these discussions. As mentioned above, we also note that the IASB discussed in detail the principles and definition of fair value proposed in the US standard, and although some reservations were expressed, the IASB agreed (vote 12-2, May 2006 Board meeting) with the FASB's proposals.
- The IASB also said that further concerns have been raised about the relevance and reliability of fair value measurement, particularly as constituents perceive there to be an increase in the required use of fair value accounting. ISDA notes that the US standard is designed to provide guidance on how you fair value and not when you are required to use fair value. We suggest that, to allay the concerns of constituents over the increased use of fair value accounting, the IASB could apply the FVM Standard in stages, with the guidelines applying, in the first instance to IAS 39 and other financial instruments standards only (where requirement to fair value financial instruments already exists). Only in its second stage would the IASB seek to apply its FVM standard to other standards such as for inventory, property/plant/equipment, etc. ISDA considers that in limiting the initial application of the fair value guidance to financial instruments only, the IASB can both expedite the standard's implementation, but also address the key area where delayed implementation would have significant adverse effects (as described above). This is similar to the approach taken by the FASB which, due to similar concerns raised in the US, decided to separately address those concerns through FASB Staff Positions.

ISDA would further note that the accounting concepts of relevance and reliability (along with "faithful representation") are currently being discussed in detail as part of the preliminary views paper on a joint conceptual framework issued by both Boards earlier this year and the second stage of the FVM standard as described above, would fit well into this debate.

- Finally, as noted above, a perceived lack of due process has been identified as a concern. ISDA supports the efforts of the IASB and FASB staff in preparing a series of public educational and technical sessions to familiarise the IASB Board with the new FASB Standard (in November and December 2005). We urge the two Boards to continue to engage in similar efforts in educating constituents of the detailed discussions that have already taken place on FVM and the IASB's role in helping the US standard setter develop their proposals. Perhaps this would help allay fears that due process has not been followed, and serve to encourage everyone who has publicly supported the convergence efforts of both Standard Setters. The increasing number and complexity of financial instruments together with the global reach of financial markets makes it imperative that financial instruments accounting is accepted and applied consistently by all users in all jurisdictions. ISDA shares the IASB's goal of 'high quality, understandable and enforceable global accounting standards'. We also continue to support the convergence between national and international standards. Publishing two sets of financial information results in a significant burden for ISDA members who issue and trade across jurisdictions and creates uncertainty among investors with regard to which financial information to use to assess an issuer's performance.

We believe that ISDA brings a unique and broad perspective to the IASB's work on accounting for financial instruments and members of our Accounting Committee would be happy to discuss these comments further with the Board or staff. Please contact either Melissa Allen at Credit Suisse or Ed Duncan at ISDA.

Yours sincerely



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Chair of ISDA's European Accounting Committee
Managing Director, Credit Suisse



Ed Duncan
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Cc:
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