

# ISDA

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31<sup>st</sup> May, 2005

## **IFRIC Draft Interpretation: Reassessment of Embedded Derivatives**

Dear Sir,

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 IASB's work on accounting for financial instruments.

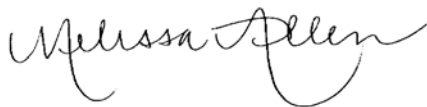
Thank you for the opportunity to comment on D15. We support the consensus, which we believe to be the most appropriate and practical way to interpret paragraph 11 of IAS 39.

However, we consider the proposed wording in the draft interpretation should be amended to only permit a subsequent reassessment if there is a "substantial" change in the terms of the contract. This would prevent an entity from potentially recognising a profit or loss by making a minor change to the contract terms which has no substantive effect. It is important that where the host contract is a financial liability, the subsequent reassessment is carried out giving consideration to the derecognition guidance already outlined in IAS 39. This guidance will often mean the reassessment will, in practice, lead to the extinguishment of the original financial liability and the recognition of a new liability.

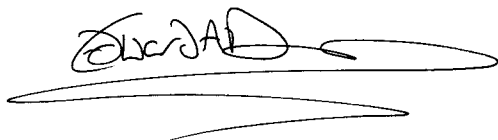
Furthermore, we consider that the draft interpretation should clarify that it would be necessary for a group that acquires a company that has entered into a transaction with an embedded derivative to reassess, on acquisition, whether the derivative should be separated.

We would be pleased to discuss our comments with IFRIC. Please contact Melissa Allen at CSFB on (020) 7883 3598 or Ed Duncan at ISDA on (020) 7330 3574.

Yours sincerely,



Melissa Allen  
Chair of the ISDA European Accounting Committee  
CSFB



Ed Duncan  
Director of European Policy at ISDA.

cc. Colin Fleming – IFRIC project manager (cfleming@iasb.org.uk)