

ISDA

International Swaps and Derivatives Association, Inc.
One New Change
London, EC4M 9QQ
Telephone: 44 (20) 7330 3550
Facsimile: 44 (20) 7330 3555
email: isda@isda-eur.org
website: www.isda.org

Ms. Mary Keegan
Chairman
Accounting Standards Board
Holborn Hall
100 Gray's Inn Road
London
WC1X 8AL
United Kingdom
fred23@asb.org.uk

Monday, 16 September 2002

Dear Mary

Implementation of International Financial Reporting Standards (IFRS) in the UK

ISDA's 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 ASB's work.

ISDA appreciates that the ASB is considering the anticipated implementation of International Financial Reporting Standards (IFRS) by UK listed companies. The implementation represents a monumental change requiring significant time and resource. While we have provided separate comments in relation to the specific proposals contained in FRED 23, we consider the general approach to transition to be a separate matter having significant consequences. In this letter we address our general views on approach to transition to IFRS.

Consistent with the views of the Technical Committee of the Group of 100, the Association of Corporate Treasurers, ISDA is concerned about the proposed method of implementation. The method, which involves an incremental introduction of standards over the next three years, has significant implications for the UK business community. ISDA believes that this incremental approach represents an unnecessarily complex and onerous method of transition to IFRS, involving three years of change and accounting restatement.

ISDA believes that the proposed changes to UK GAAP fall short of the stated objective of easing the transition to IFRS as the proposals differ from IFRS. This is primarily a reflection of unresolved differences between the IFRS and UK GAAP approaches to topics including revaluation, recycling, derecognition and fair value accounting, and an attempt to merge the two systems as an interim step, while additional work is undertaken. ISDA believes that embedding the changes into UK GAAP at this interim stage is premature, particularly as the DTI is currently undertaking a consultation on whether to extend IFRS to unlisted companies.

ISDA appreciates that it should be one of the aims of the ASB to limit the existence of options in accounting standards in order to achieve the objective of comparability between reporting entities.

However we would urge the Board to balance these considerations with the need for companies to demonstrate consistency in reporting across accounting periods. We believe that many companies will wish to put all their financial reporting resources into preparing for a single full adoption of all IFRSs in 2005.

ISDA believes that the adoption of a "big bang" approach with a single move to IFRS best provides for transparency of the conversion process. We acknowledge that there are two versions of the "big bang" approach. The first approach is simply, to wait until 2005 and require wholesale adoption of IFRS at this time. The second approach requires modification of the Companies Act to permit, but not require, early adoption of IFRS. We acknowledge that this second approach would result in an option for a limited period of time, but at a company level it would be quite transparent which GAAP is applied in each period, UK or IFRS. We would therefore ask the ASB to reconsider its proposal before going ahead with the implementation of the seven exposure drafts published in June this year. ISDA would not support any more options other than between IFRS and UK GAAP.

We would be pleased to discuss our comments with the Board or staff. Please contact either Sue Harding, Chair, ISDA European Accounting Committee, at 7888-2664 or Ed Duncan, Assistant Director of European Policy for ISDA, at 7330 3574.

Yours faithfully



Sue Harding
Chair of the ISDA Accounting Committee.



and
Ed A. Duncan
Assistant Director of European Policy at ISDA.