

# ISDA

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## **ISDA PROPOSAL TO ESTABLISH SUB-COMMITTEE FOR FINANCIAL INSTRUMENTS ACCOUNTING.**

Dear Mr Rutteman

The International Swaps and Derivatives Association (ISDA) appreciates the opportunity to put forward its proposal to establish a sub-committee of EFRAG for Financial Instruments accounting.

ISDA supports the work of EFRAG in developing and expressing a European position on matters related to international financial reporting standard setting. ISDA fully supports the development of a single set of high quality, understandable and enforceable global accounting standards and we applaud the decision taken by the European Union in June 2002 to adopt the 'IAS Regulation' requiring listed companies, including banks and insurance companies, to prepare their consolidated accounts in accordance with IAS from 2005 onwards.

With all but two of the standards endorsed by the European Union for adoption in 2005, the Commission, with EFRAG's help, is well on its way to making a major

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contribution to the harmonisation of accounting standards across the globe. The completion of IAS 32 and 39 continues to be the major challenge facing the IASB and the focus of mounting criticism in Europe, with questions being asked about the complexities and/ or general direction of International Financial Reporting Standards. Accounting for financial instruments, and in particular derivatives, is complex and the scope, ambition, and likely impact of IAS 32 and 39 extends well beyond the financial markets.

In order to help EFRAG establish a well-informed European voice on financial instruments accounting, ISDA would like to propose a Financial Instruments Sub-committee similar to that established by the insurance industry. The long drawn out process of reviewing IAS 32 and 39 serves to illustrate the specific challenges associated with financial instruments accounting. The volume of industry comment, the need for extensive consultation, and the growing criticism of the standard setting process is an indication of the level of expertise required to understand the full impact of an international financial instruments standard. Members of the Sub-committee, operating under the umbrella of the TEG, would bring this expertise to the table. Official positions/papers on financial instruments accounting would continue to be issued by the TEG on advice of the Financial Instruments Sub-committee.

Members of the Financial Instruments Sub-committee of EFRAG should possess:

1. Strong background in accounting for financial instruments (to cover local GAAP, US GAAP, and IFRS)
2. Working knowledge of financial markets (preferably current market practitioners)
3. Up-to-date knowledge of derivatives and structured products (structurers, intermediates, and end users)

ISDA would like to see EFRAG's TEG consult with this expert group on the likely impact of proposed standards, their interpretation and application in relation to financial instruments and current market practises. Furthermore the Sub-committee, by monitoring and contributing to the research projects of global standard setters (e.g. the Reporting Comprehensive Income (Performance Reporting) developed jointly by the IASB and the UK's ASB) would help EFRAG achieve its objective to be more proactive and allow EFRAG to present European concerns at the earliest stage. This would encourage industry support and backing at the very start of the standard setting process, and help to avoid future stand-offs between market practitioners and standard setters.

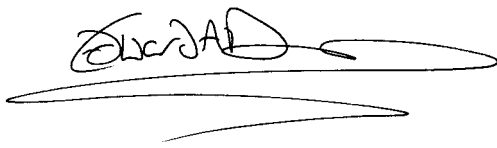
ISDA believes that such a Sub-committee would add significant value to the European consultation process, improving links with the financial industry, enabling consideration of a greater level detail, and helping EFRAG to establish itself as a credible resource in the overall standard setting process.

We would be pleased to discuss our proposals with the Supervisory Board or staff at anytime. Please contact Ed Duncan, Assistant Director of European Policy for ISDA, at 7330 3574.

Yours sincerely



Melissa Allen  
Chair of the ISDA European Accounting Committee  
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Ed Duncan  
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