

Mr Theodor Stolojan MEP  
European Parliament,  
05F243,  
60 Rue Wiertz,  
B1047, Brussels

9<sup>th</sup> September 2013

Dear Mr Stolojan,

Ref.: Accounting and Financial Reporting; Role of EFRAG, True and Fair View, and Prudence.

As rapporteur for “*Financial reporting and auditing: Union programme 2014-2020 to support specific activities*” we are writing to you with regard to the current debate on the above referenced topics, and, in particular the use of International Financial Reporting Standards (IFRS) in the European Union (EU), the effectiveness of the EU influence on the International Accounting Standard Board (IASB) and the debate surrounding the concepts of “prudence” and “true and fair”.

Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 60 countries. These members include a broad range of OTC derivatives market participants including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure including exchanges, clearinghouses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's web site: [www.isda.org](http://www.isda.org).

ISDA’s priorities include facilitating that the financial markets in which our members operate are stable and efficient. Financial reporting plays an important role in ensuring these conditions exist and to this end ISDA fully supports the work of the IASB in developing and delivering globally converged high quality accounting standards. The G20 have repeatedly recognised this important work, most recently in July 2013<sup>1</sup>. In order for the IASB to continue

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<sup>1</sup> Communiqué issued at the conclusion of the G20 Meeting of the G20 Finance Ministers and Central Bank Governors in Moscow on 19-20 June 2013.

their work and maintain credibility, it is essential that the IASB's independence is preserved: we believe the IASB's independence to be the bedrock of high quality accounting and reporting standards worldwide.

Given that IFRS is a global framework of accounting standards, there is a natural limit to the influence of the EU on its development as the EU is one of many geographies with an interest in IFRS. The EU institutions have significant experience and expertise in the development and application of accounting standards, which is of great value to the development of IFRS. We believe that the EU should encourage its stakeholders to contribute to the IASB's thinking as it formulates and develops accounting and reporting principles. However, we believe that linking the IASB's funding to achieving specific goals<sup>2</sup> would impair the IASB's independence. The challenge is to strike the right balance to ensure that the EU institutions continue to facilitate the development of IFRS as a genuine global accounting framework, but that no one jurisdiction has a disproportionate influence.

We note the on-going debate, in part a response to the financial crisis, on the relative importance of 'prudence' and 'neutrality', and how it interacts with fair presentation ('true and fair view') and the impact of fair value accounting on the economy and investment.

We believe that transparency in reporting performance is essential to ensure management is held accountable to stakeholders. In achieving this objective, accounting for certain items at fair value is appropriate, for example in some circumstances such as when financial instruments are actively traded on markets, where historical cost is an outdated and irrelevant measure. Not applying fair value in such cases leads to a loss of information and does not achieve a 'true and fair view'. We also believe that a distinction should be drawn between the perceived risks that market prices used to arrive at fair value may not be reliable, and the risk of market manipulation of prices. Market manipulation cannot be tolerated, but this shouldn't be used as a blanket criticism of applying market values to account for certain items, as reported recently by some commentators<sup>3</sup>.

ISDA believes that the overarching requirement to present a 'true and fair view' (fair presentation) is a key aspect of financial reporting, as made prominent by a number of commentators, investor groups and legal opinion<sup>4</sup>. The debate about the extent to which prudence should form part of this requirement is important and particular care should be taken in this area before any conclusion is reached. An appropriate balance between prudence and neutrality must be maintained to preserve transparency and consistency with a 'true and fair view'. We note that the IASB released a discussion paper on 17 July 2013<sup>5</sup>, which consults constituents on whether prudence should be included in the IASB's Conceptual Framework.

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<sup>2</sup> For example whether the concepts of Prudence and True and Fair are given greater weight in the IASB's Conceptual Framework

<sup>3</sup> Financial Times, 17 July 2013, "At Enron and in the banks, assets were marked to values set by biased traders", by John Kay

<sup>4</sup> George Bompas QC, 8 April 2013

<sup>5</sup> IASB Discussion Paper: Review of the Conceptual Framework, published in July 2013 with comment period closing 14 January 2014

It is appropriate that the question of prudence has been raised in this context and we strongly encourage interested parties to contribute their views to the IASB as part of their consultation process. We therefore believe that we need to balance the influence of the EU with safeguarding the independence of the IASB and allowing the debate to take place. The particular danger is that a premature conclusion at the EU level could easily turn out to be unrepresentative of a final consensus reached.

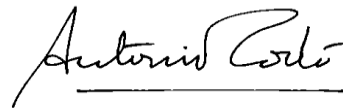
We also include in an Appendix some specific comments regarding the Committee on Economic and Monetary Affairs proposal for a regulation (2012/03654 (COD)) and related amendments. A similar version of this letter has also been sent to Dr Syed Kamall.

We look forward to constructively contributing to the debate and would be pleased to discuss any of the topics of this letter with you at your convenience.

Yours faithfully,



David Bradbery  
Barclays Bank plc  
Managing Director  
Chair of Accounting Policy Committee



Antonio Corbi  
ISDA  
Assistant Director  
Risk and Capital

Appendix: comments regarding the Committee on Economic and Monetary Affairs proposal for a regulation (2012/03654 (COD)) and related amendments.

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Theme	Amendment	Comment
Funding of the IASB	22, 32	Making the IASB's funding contingent on achieving certain objectives laid down by the EU would impair its ability to draft globally accepted, converged, high quality accounting standards, and impair its independence. If this approach were adopted other jurisdictions would require similar mechanisms and the IASB would rapidly lose the independence and credibility it needs to pursue the objective of producing high quality accounting standards.
Funding of EFRAG	23, 25, 27, 28, 72	EFRAG is well established in the EU standard setting process but its role and mandate is, in the eyes of some stakeholders, not well defined or understood. This should therefore be reviewed and amended as necessary considering the experience since 2005 of applying IFRS in the EU and feedback from stakeholders. In particular, we believe that a clarification of EFRAG's role as part of the Maystadt review, perhaps so that EFRAG has a clearer responsibility for building consensus in the EU and / or articulating the diverse views of the EU stakeholders, would represent an appropriate evolution of EFRAG's role. Any changes to the governance in relation to EFRAG should be subject to public consultation.
IASB and EFRAG governance	23, 28, 29	Making the IASB's and EFRAG's funding contingent on achieving governance requirements laid down by the EU would impair their independence undermining their credibility and effectiveness.
True and fair; prudence	17, 46	Fair presentation is one of the fundamental objectives of financial reporting in IFRS and is taken to mean the same as 'true and fair'. Excessive prudence (i.e. prudence that is no longer neutral) may be contradictory to the concept of 'true and fair' since it could have the potential to distort the presentation of the company's performance. Since "prudence" and "true and fair" are essentially accounting and reporting concepts which are very hard to legislate for, it is preferable for the debate on what they mean and how they should be reflected, to take place in the context of the IASB Conceptual Framework discussion. That way all interested stakeholders, including the European Parliament, can fully contribute to the debate, which is then more likely to conclude with a general EU consensus having been reached that can then be passed

		into legislation.
Convergence	15, 38	The G20 has repeatedly indicated its strong support for the global convergence of accounting standards. The G20 represents the senior authorities and decision makers who work constructively together in a coordinated and unified fashion to address matters of global economic importance. Whilst the views of other stakeholders should be acknowledged the view of the G20 carries significant weight.