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IFRIC Draft Interpretation D22, Hedges of a Net Investment in a Foreign Operation

ISDA appreciates the opportunity to comment on IFRIC Draft Interpretation D22 on hedges of a net investment in a foreign operation. Many of our members have investments in foreign subsidiaries, associates, joint ventures, and branches, where the functional currency differs from the presentation currency of the parent entity. Therefore we welcome the additional guidance proposed by IFRIC on identifying the foreign currency risks that qualify as hedged items in the hedge of a net investment in a foreign operation, and where, within a group, hedging instruments can be held to qualify for hedge accounting under such circumstances.

ISDA, which represents participants in the privately negotiated derivatives industry, is the largest global financial trade association, by number of member firms. ISDA was chartered in 1985, and today has over 815 member institutions from 56 countries on six continents. These members include most of the world's major institutions that deal in privately negotiated derivatives, 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 that ISDA brings a unique and broad perspective to the IFRIC’s work on accounting for financial instruments.

ISDA believes the IFRIC has reached a sensible and pragmatic solution in its draft interpretation D22. The draft interpretation clarifies that only risk associated with functional currencies, not presentational currencies can be hedged, while allowing a parent entity to hedge a net investment in an “indirect” subsidiary, so where there are intermediary entities with different functional currencies. The draft also allows for a
hedging instrument to be held anywhere within the consolidated group, regardless of the functional currency of the entity that is holding the hedging instrument.

ISDA agrees with the consensus reached and supports the arguments set out in the “Basis for Conclusions” and is happy to support Draft Interpretation D22. We also agree with the effective date and transition provisions, which allow for an earlier application and which provides for an exemption from the application of IAS 8.

We would be pleased to discuss our comments further with the IFRIC or staff and to answer any questions you may have and to arrange this contact either Melissa Allen at Credit Suisse (0207 883 3598) or Ed Duncan at ISDA (0203 088 3574).

Yours sincerely

Melissa Allen
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