ISDA® Safe, Efficient Markets

21st October 2011

International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

Ref.: ED/2011/3: Mandatory Effective Date of IFRS 9

Dear Sirs,

The International Swaps and Derivatives Association's (ISDA) European Accounting Policy Committee[1] appreciates the opportunity to provide comments and observations with respect to the above mentioned Exposure Draft ("ED"). In this letter we outline our key messages in response to the Exposure Draft and in the Appendix we provide our more detailed responses to the specific questions.

Key Messages:

- ISDA members support the Board's deferral of the mandatory effective date of IFRS 9 Financial Instruments.

- The mandatory effective date should be 1 January 2015 at the earliest, assuming that comparative information is not required to be restated, and 1 January 2016 if it is. Furthermore, our members believe that due to further possible delays in completing the impairment and hedge accounting components of IFRS 9 and the insurance project (IFRS 4), the mandatory effective date should ensure a minimum working period of at least two years from the date of issue of the complete IFRS 9 and revised IFRS 4 if comparatives are not required to be restated, and three years if they are.

- Our members believe that entities should be allowed to adopt the standards early, to enable them to improve their financial reporting where it is operationally feasible.

[1] ISDA's Accounting Policy Committee 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. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments.

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- Entities should not be required to restate comparative information on adoption of IFRS 9 due to the extra implementation burden (hence our proposal for the further extension of the mandatory effective date should comparative information be required to be restated) and because the information would not be meaningful to users, given the current transition rules.

We hope you find ISDA's comments useful and informative. Should you have any questions or would like clarification on any of the matters raised in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

Tom Wise	Antonio Corbi
HSBC Bank plc	International Swaps and Derivatives Association
Chair of Accounting Policy Committee	Tax and Accounting

Attachments: Appendix – Responses to specific questions raised by the IASB

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Question 1

The Board proposes to amend IFRS 9 (2009) and IFRS 9 (2010) so that entities would be required to apply them for annual periods beginning on or after 1 January 2015. Do you agree? Why or why not? If not, what alternative do you propose?

ISDA welcomes the Board's decision to postpone the effective date of IFRS 9 (2009) and IFRS 9 (2010) related to the classification and measurement of financial assets and financial liabilities.

In our response of 31 January 2011 to the 'Request for Views on Effective Dates and Transition Methods', we made a number of points which continue to be relevant:

1. Implementation of IFRS 9 will be both expensive and time-consuming for financial institutions, given the need to train staff, plan the project, identify differences, develop solutions, build or amend systems, data feeds and processes, revise business models, products and key performance indicators, determine the effects on tax and regulatory capital, and rectify any possible negative impact on capital.

2. Given that two of the three phases of the IFRS 9 project (impairment and hedge accounting) are still being developed, the original proposed implementation dates cannot realistically be met and it is not possible to determine with any certainty the amount of time that will be required to implement these phases until they are complete. We also stressed that, for most banks, the macro hedge accounting solution is critical to their hedging operations and that any delay to this part of the project would have significant consequences for the timing of their implementation of IFRS 9.

3. The European Commission's (EC) endorsement process for IFRS 9 is unlikely to commence until all parts of the project are complete and the EC would then have to conduct appropriate outreach before endorsement is possible. There needs to be adequate time for this process to be completed before the mandatory effective date.

4. Any delay in the EC's endorsement would reduce the opportunities for European preparers to take advantage of the benefits of early adoption (e.g. reduced comparative disclosures) and any partial endorsement would create another tier of accounting standards, thereby reducing international comparability.

5. SEC registrants are required to provide two years of comparative information and a five year summary of selected information.

6. It is also important that organizations with insurance operations are permitted to delay adoption of IFRS 9 until they can adopt the revised IFRS 4, in order to avoid an extended period of accounting change and to permit financial assets to be classified in a manner which is most consistent with the related insurance liabilities.

We also note that the IASB has previously stated its intention to issue the US Financial Accounting Standards Board's classification and measurement standard to IFRS constituents for comment, with the potential for IFRS 9 to be adjusted as a step towards convergence. This will further delay the completion of IFRS 9 and may potentially delay the start of the EC's endorsement process. Because of these issues, our members believe that the mandatory date of adoption for IFRS 9 should be extended to 1 January 2015 at the earliest, if relief is given from providing comparative information (see Question 2), ensuring a minimum working period of at least two years from the expected date of issue of the completed IFRS 9 and the revised IFRS 4 by the Board. If there is no relief from the provision of comparative information, the mandatory effective date should be no earlier than 1 January 2016, or three years from the date of publication of the aforementioned standards.

Question 2

The Board proposes not to change the requirement in IFRS 9 for comparatives to be presented for entities that initially apply IFRS 9 for reporting periods beginning on or after 1 January 2012. Do you agree? Why or why not? If not, what alternative do you propose?

For the following reasons, our members believe that comparative information should not be adjusted in the year of mandatory adoption:

1. The need to revise comparative information, for four years for an SEC filer, will add significantly to the time required to implement the Standard and would require a further delay in the mandatory adoption date (see Question 1).

2. As required by the current IFRS 9 transition rules, adjusted comparative information would not be meaningful to users. This is because, for comparative purposes, the classification requirements of IFRS 9 would be applied to only those instruments retained on the balance sheet at the date of initial application, while financial instruments de-recognized prior to that date would be classified on the basis of IAS 39, Financial Instruments: Recognition and Measurement (IAS 39). This would result in net income for the current period being shown entirely under IFRS 9 while net income for comparative periods would reflect a mixture of IFRS 9 and IAS 39.

3. The ability to revoke or reapply the fair value option as at the beginning of the date of initial application, and the prospective application of the new hedging requirements, will also mean that the adjusted comparative information will not be comparable with the results of the current year.

Although our members would strongly prefer not to have to restate comparatives at all, should the Board decide to require restatement we recommend:

1. The mandatory date of adoption be made no earlier than 1 January 2016 (see Question 1).

2. Entities that choose to apply IFRS 9 early should be exempted from the need to restate comparative information.

3. For all other entities, only the immediate prior year should be required to be restated, which, in our view, will make it more likely that the SEC will provide an exemption for restatement of earlier periods. Further, the prior year should be fully restated on the basis

of IFRS 9. This would, in effect, require the analysis of the business model, the revocation and reapplication of the fair value option, and the application of the new hedging requirements, all to be made as of the beginning of the prior year.

Other issues

ISDA also recommends that the Board amend IAS 39 in the meantime, to allow the recognition of changes in fair value due to changes in own credit on financial liabilities currently designated at fair value through profit and loss under the fair value option to be recognised in other comprehensive income. This would improve financial reporting substantially in the short term, especially as, for European preparers, it is possible that this amendment could be endorsed by the European Commission much more quickly than IFRS 9.