International Accounting Standards Board
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Delivered by email

15 September 2020

Dear Board Members,

Ref.: General Presentation and Disclosures – Exposure Draft: ED/2019/7

The International Swaps and Derivatives Association ("ISDA")[1] welcomes the opportunity to provide input on the above referenced Exposure Draft ('ED') issued by the International Accounting Standards Board ("IASB") in December 2019.

The area that is of predominate interest to our members relates to derivatives. Under the ED's proposals, derivatives would be reported by our members and most other financial services entities within the operating category, which we support. However, for other users of derivatives such as corporates, many of whom are either members or clients of our members, the effects of what is proposed in the ED could be problematic. We have therefore focussed our comments on the proposals for derivatives as they would apply to our member's clients, which we include in the appendix to this letter.

In particular, our members have concerns regarding the requirement to identify those derivatives which are used for risk management purposes but not designated in hedging relationships. The existing hedge accounting requirements are well established and well understood, although sometimes complex to apply in practice.

[1] Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 925 member institutions from 75 countries. These members comprise a broad range of 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, such as exchanges, intermediaries, clearing houses 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 website: www.isda.org. Follow us on Twitter, LinkedIn, Facebook and YouTube.

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Our members are concerned that the proposals for derivatives may lead to the creation of another hedge accounting type framework alongside the existing hedge accounting requirements, adding to the complexity and cost of financial reporting for our members.

We look forward to further supporting the IASB as its work progresses in this area. If it would be helpful, we would be happy to discuss in further detail the points raised above.

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 sincerely,

Fiona Thomson
Managing Director
Goldman Sachs
ISDA European Accounting WG Chair

Antonio Corbi
Director
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Appendix attached

Appendix – Responses to questions in the IASB's ED/2019/7

The interest of our members focuses primarily on derivative financial instruments. We have therefore not responded to questions 1 to 13.

Question 14 – other comments Do you have any other comments on the proposals in the Exposure Draft, including the analysis of the effects (paragraphs BC232–BC312 of the Basis for Conclusions, including Appendix) and Illustrative Examples accompanying the Exposure Draft?

Gains or losses on derivatives

For our members and many other financial services entities, under the proposals in the ED gains and losses on derivatives would be reported in the operating category. We are supportive of this approach.

However our members, in their capacity as advisors and commercial counterparties to corporate clients, understand the challenges that corporate entities would face if the ED's proposals were to be applied. We describe our concerns and provide a possible alternative approach below.

We note that paragraph 57 of the ED outlines the requirements for classification of gains and losses on financial instruments designated as hedging instruments and broadly notes that the gain or loss is recognised in the same category on the statement of financial performance as the risk being managed. Additionally, paragraph 58 of the ED states that the guidance in paragraph 57 should be applied to derivatives used to manage risks if those derivatives are not designated as hedging instruments.

Paragraph 59 of the ED states that:

> *"Gains and losses on derivatives that are not used to manage risks are classified in the investing category except when those derivatives are used in the course of the entity's main business activities applying paragraph 48. When derivatives that are not used to manage risks are used in the course of an entity's main business activities the gains and losses are classified in the operating category."*

This provides for alternative outcomes for derivatives depending on whether paragraph 58 or paragraph 59 of the ED is applicable. Our members are concerned that this introduces another layer of judgement that, potentially, will increase diversity in practice with the risk of reducing comparability between entities. In particular, not only will entities have to determine whether the criteria for applying hedge accounting are fulfilled as is presently the case, but also to judge, in cases where the criteria are not met, whether an economic hedge relationship is established

If the proposals were pursued, there appears to be a risk that it would add a significant layer of unnecessary operational and reporting complexity. This would include the additional governance and controls over how derivatives are allocated to different

categories. There is also the risk it could reduce entities flexibility for how they use derivatives for risk management purposes, particularly if the operational burden for entities to apply the framework is excessive.

Although paragraph 58 introduces the concept of 'undue cost or effort' to allow entities not to apply the requirements of this paragraph, we suggest that a clearer and less burdensome alternative would be for the IASB to allow existing practices to continue but require entities to provide further qualitative disclosure of the derivatives entered into and the economic risks they are mitigating. This would include highlighting the effect on the income statement lines affected as well as further explanation of the risk management strategy to which the derivatives relate. This would potentially not represent a significant increment to the requirements already present in IFRS 7 but has the potential to improve the transparency of entities activities in this area,