

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

30th November 2011

Ref.: Agenda Consultation 2011

Dear Sir,

Thank you for the opportunity to provide our views on the IASB's Request for Views – Agenda Consultation 2011. The International Swaps and Derivatives Association's (ISDA¹) European Accounting Policy Committee welcomes the Request for Views (RV) issued by the IASB in accordance with the requirements in paragraph 37 (d) (ii) of the IFRS Foundation Constitution which requires the IASB to seek views of constituents in developing its future Agenda.

ISDA's European Accounting Policy Committee members represent leading participants in the privately negotiated derivatives industry 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.

Our response to your specific questions is attached as an appendix to this letter. Our main concerns are summarised as follows:

- i) Our members represent global organisations, most of which report under both IFRS and US GAAP. As a consequence, we are disappointed that convergence is no longer regarded as a high priority in the IASB's proposed agenda. Although we appreciate that convergence will not be achieved in the short term, it is the view of the majority of our members that this should continue to be the long term goal of both the Financial Accounting Standard Board (FASB) and the IASB ("the Boards").

¹ Since its founding in 1985, ISDA has worked to make over-the-counter (OTC) derivatives markets safe and efficient. ISDA's pioneering work in developing the ISDA Master Agreement and a wide range of related documentation materials, and in ensuring the enforceability of their netting and collateral provisions, has helped to significantly reduce credit and legal risk. ISDA has been a leader in promoting sound risk management practices and processes, and engages constructively with policymakers and legislators around the world to advance the understanding and treatment of derivatives as a risk management tool. Today, ISDA has more than 800 members from 55 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 OTC derivatives to efficiently manage the financial market risks inherent in their core economic activities. ISDA's work in three key areas – reducing counterparty credit risk, increasing transparency, and improving the industry's operational infrastructure – show the strong commitment of ISDA toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework.

- ii) We agree that the IASB should aim to complete the current priority projects, but otherwise, with the exception of some limited amendments to a few standards, should seek to limit change for a number of years, to establish a 'stable platform'.

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
HSBC Bank plc
Chair of European Accounting Policy Committee



Antonio Corbi
International Swaps and Derivatives Association
Risk and Research

Appendix – Responses to specific questions raised by the IASB

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Question 1

What do you think should be the IASB’s strategic priorities, and how should it balance them over the next three years?

1a Do you agree with the two categories we identified and the five strategic areas within them? If you disagree, how do you think the IASB should develop its agenda and why?

1b How would you balance the two categories and five strategic areas? If you have identified other areas for

the IASB’s agenda, please include these in your answer.

We agree with the two categories and the five strategic areas. However, representing global organisations who report under both IFRS and US GAAP, we are disappointed that convergence is no longer regarded as a high priority in the IASB’s proposed agenda. Although we appreciate that convergence will not be achieved in the short term, it is the view of the majority of our members that this should continue to be the long term goal of the the Boards.

Furthermore, the Group of 20 (G20) has released a Communiqué from their Summit in Cannes, France on 3-4 November 2011, which includes the following observations in relation to accounting standards:

"We reaffirm our objective to achieve a single set of high quality global accounting standards and meet the objectives set at the London summit in April 2009, notably as regards the improvement of standards for the valuation of financial instruments. We call on the IASB and the FASB to complete their convergence project and look forward to a progress report at the Finance Ministers and Central Bank governors meeting in April 2012."

Most of our members have some operations which report under US GAAP and others which report under IFRS, and so convergence is important in alleviating the operational inefficiencies of maintaining two sets of processes. Also, different accounting treatments for similar financial instruments under IFRS and US GAAP are not conducive, either to comparability between the reports of members of the same peer group or investor confidence. Reconciliation and disclosure are no substitute for consistent reporting standards.

Apart from convergence, our members agree that the IASB should aim to complete the current priority projects and address the implementation issues which will then likely arise (see our next paragraph, below) and, otherwise, seek to limit change for a number of years, to establish a ‘stable platform’.

We also share the concern expressed by other constituents that post implementation reviews need to be more wide ranging in scope, in order to examine not only the consequences of implementation but also to ensure that the standards achieved their original objectives.

We also are concerned that there should be a mechanism to help arrive at consistent resolution of urgent issues, as exists under US GAAP and most local GAAPs. These tend to arise either because of new emerging issues, for which the standards were never designed, or because there are found to be ambiguities in the standards resulting in differences in interpretation. This mechanism could be established through a combination of an expanded role for IFRIC and involvement of the Board, to address issues raised by constituents. The current scope and speed of IFRIC has led to regulators in some jurisdictions publishing their own local interpretations, which is not conducive to global consistency of application.

Our more detailed comments on the deferred projects are given in our answer to question 2(b).

Question 2

What do you see as the most pressing reporting needs for standard-setting action from the IASB?

2a Considering the various constraints, to which projects should the IASB give priority, and why? Where possible, please explain whether you think that a comprehensive project is needed or whether a narrow, targeted improvement would suffice?

The practice of ISDA is to restrict our responses to those areas of IFRS which are of common interest to our members and the following paragraphs should be read in that context.

We agree with the need to complete the financial instruments and insurance projects. Our members strongly agree with the plan to undertake projects which are too broad in scope for IFRIC but would also like to see an explicit undertaking to address a number of issues previously referred to the IASB by IFRIC, which were to be subsumed within projects to develop new standards but which have now been deferred. It should be possible to address more issues raised by constituents, such as questions concerning the application of the IAS 39 derecognition rules, without the need to rewrite the entire standard.

2b Adding new projects to the IASB's agenda will require the balancing of agenda priorities with the resource available. Which of the projects previously added to the IASB's agenda but deferred (see table for page 14) would you remove from the agenda in order to make room for new projects, and why? Which of the projects previously added to the IASB's agenda but deferred do you think should be reactivated, and why? Please link your answer to your question to question 2 (a).

We agree that the IASB needs to set priorities. We believe that:

- It is necessary to return to the project on financial instruments with characteristics of equity, as (i) there are a number of practical implementation issues associated with IAS 32, and (ii) there are significant differences on this topic between IFRS and US GAAP. This project should, however, be focussed so as to make targeted improvements to IAS 32, primarily to replace the 'fixed for fixed' rule with a principle that more effectively captures the nature of equity instruments, rather than seeking to change the standard fundamentally. We also note that implementation of a new standard on this subject would not be a major operational burden for most IFRS preparers.

- It is not appropriate to ignore derecognition of financial assets. While we do not propose an entirely new standard, our members believe that targeted improvements based on the IAS 39 principles are required to address a number of significant interpretation issues that currently exist. These include the issues referred to the IASB by IFRIC and what is meant in IAS 39 by ‘continuing involvement’.
- It is important to address disclosure on a comprehensive basis, to seek to focus the disclosures in financial reports so that they both add value to users and are cost effective. We do not recommend a new standard on the topic, but a framework, agreed with the FASB, and an exercise to eliminate overlap between standards and unnecessary and redundant requirements.
- We do not believe that the financial statement presentation project should be reactivated given the need for a ‘stable platform’ throughout the mentioned period of calm. While we agree that Other Comprehensive Income should be considered, we do not agree that Financial Statement Presentation should be advanced further at this time. Rather we would suggest deferring the project altogether or delaying any further work on it until after preparers have had time to implement the new standards that have recently being completed or are currently being developed, including that on financial instruments. We believe that further effort on the Financial Statement Presentation project should not be invested before understanding the effects of these other new standards on the financial statements. Also, with new technological methods of reporting, such as XBRL, we believe that there are wider issues to be debated as to how financial information should be presented. However, this exercise is for the long term, not the next three years.
- Some members believe that it is necessary to include a new project to deal with accounting for foreign currency hedges of ‘future forecast results’ of foreign operations. In our opinion, this issue should be dealt with in the “hedge accounting” standard, but we could understand that the Board would consider it more appropriate to include it in a different standard. Currently IAS 39 does not allow hedge accounting of future forecast results in net foreign operations as they cannot be included as hedged items. The hedge accounting exposure draft did not change this approach and some members believe that this issue should be reopened for discussion, as there is no conceptual reason to wait to hedge dividends from those operations until they are announced, as long as it is possible to make a reliable estimate. Many entities are already making economic hedges of these amounts, since: (i) in some cases future profits are ‘highly predictable’ two or three years in advance and (ii) dividends paid by foreign operations can also be predicted based on the entity’s strategy and group dividend policy. Economic hedges which do not qualify as accounting hedges create P&L volatility and are not understood by investors. Therefore, given that entities are already effectively managing these risks, we believe that the IASB should include this project on its agenda.
- Going forward, there needs to be a more formal process to agree whether new projects should be undertaken. This should include a thorough analysis of the

urgency and probable cost effectiveness and testing against a number of agreed criteria, along with appropriate outreach and opportunity for comment by constituents. By way of example, our members are not convinced that the leasing project should have been given such a high priority, given the number of other critical projects currently being undertaken. In other words, we believe that it is important to establish a mechanism for deciding what projects to reactivate or start, towards which the Agenda Consultation is only a first step.