ISDA Safe, Efficient Markets

14 July 2011

Mr Hans Hoogervorst
Chairman
International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

Ref.: ED/2011/1: Offsetting Financial Assets and Financial Liabilities

Dear Sir,

The International Swaps and Derivatives Association's (ISDA) European Accounting Policy Committee[1] would like to provide the following further comments and observations with respect to the above mentioned Exposure Draft ("ED") as a result of the conclusions reached by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") (from now on "the Boards") at their joint meeting on 14th June.

The proposal made in the Exposure Draft was issued in light of requests from users of financial statements and a recommendation from the Financial Stability Board to address the differences in the requirements for offsetting financial assets and financial liabilities under IFRS and US GAAP expeditiously. Thus, the primary objectives of the project, as clearly set out in the Exposure Draft and which we endorse, were to improve and potentially bring to convergence the requirements for offsetting financial assets and financial liabilities.

As you are aware from our previous representations our preferred approach is a converged solution based upon the existing U.S. GAAP methodology for offsetting financial assets and financial liabilities.

However, if our preferred approach were not to be adopted under IFRS, we believe that the IASB should maintain the present offsetting guidance under IAS 32 rather than continuing to develop new guidance based on the original proposals in the Exposure Draft. This would be consistent with the

[1] ISDA's European 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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stated intentions of certain IASB Board members to not significantly change current offsetting practices under IFRS.

Moreover, if the IASB were to introduce new offsetting requirements based on the proposals in the ED, IFRS-preparers would be required to undertake significant implementation work. In our opinion, the costs of this work would far outweigh any potential benefits that the new requirements would provide to users of financial statements compared with the information currently provided under IAS 32.

Thus we believe that the IASB should retain its existing guidance for offsetting financial assets and financial liabilities and that the Boards should establish another short-term joint project with the purpose of identifying the disclosures necessary to reconcile the differences in offsetting financial assets and financial liabilities under U.S. GAAP and IFRS.

We believe that these new disclosure requirements should be limited in nature and should focus on providing the users of financial statements with appropriate quantitative and qualitative information about the different offsetting practices employed, without requiring preparers to provide a high volume of complex data, which in many cases is not easily obtainable and could lead to more subjectivity.

Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

Tom Wise
HSBC Bank plc
Chair of Accounting Policy Committee

Antonio Corbi
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