ISDA® Safe, Efficient Markets

International Accounting Standards Board
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11 December 2015

Dear Sirs,

Ref.: Request for Views: 2015 Agenda Consultation

The International Swaps and Derivatives Association ("ISDA")[1] is pleased for the opportunity to respond to the above referenced Request for Views: 2015 Agenda Consultation ('AC'). Our response is set out in the Appendix to this letter.

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,

David Bradbery
Barclays Bank plc
Chair, European Accounting Committee

Antonio Corbi
ISDA
Risk and Capital

Appendix – Responses to specific questions raised by the IASB

[1] Since 1985, the International Swaps and Derivatives Association has worked to make the global derivatives markets safer and more 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. The Association 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 over 850 member institutions from 68 countries. These members comprise of 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. 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 the Association toward its primary goals; to build robust, stable financial markets and a strong financial regulatory framework. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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Appendix – Responses to specific questions raised by the IASB

Question 1 – The IASB's work plan includes five main areas of technical projects: a) Its research programme; b) Its Standards-level programme; c) Its Conceptual Framework; d) The Disclosure Initiative; and e) Maintenance and implementation projects. What factors should the IASB consider in deciding how much of its resources should be allocated to each area listed above?

Response:

Our members believe that priority should be given to completing the existing standards level programme and the disclosure initiative. There is also sense in completing the revisions to the conceptual framework, although our members note that some of the most important conceptual discussions, such as performance reporting and the use of OCI, the principles to determine derecognition and the FICE assessment have effectively been deferred, to be addressed at the standards level. This means that the conceptual framework will have to be adjusted in future to reflect these developments when they are complete.

Otherwise, as discussed in response to Question 2, our members believe that the most pressing and important research level projects are:

i. Dynamic risk management
ii. Primary statements (in part to help continue the conceptual framework debate on performance reporting)
iii. FICE
iv. The disclosure projects
v. Definition of a business, and
vi. Business combinations under common control

Hopefully, as the IASB completes its current programme of major new standards it will be able to spend more time on maintenance and implementation. While our members believe that IFRS 9 will significantly improve the reporting of financial instruments, it has given rise to a number of questions as to how it should be applied in practice. The same is true for other recent, complex, standards such as IFRS 11 and 15 and is likely also to be the case for future major standards such as Leasing and Insurance. We believe that the TRG process used for IFRS 9 impairment and IFRS 15 have been useful and should be used for other standards if similar questions arise. Meanwhile, IFRIC will no doubt be kept busy. However, at a more fundamental level, our members are concerned that some of these implementation issues could have been avoided had the final drafting of these complex standards been clearer. Meanwhile, the quality of the standards would be improved if there were greater focus on the operability of a standard during the drafting phase. We believe the benefits would outweigh the additional time needed to draft a standard. While it is appreciated that the IASB was under pressure to complete IFRS 9 quickly and IFRS 15 was a converged standard, our members would strongly recommend that the Board should:

i. not rush the final drafting of its standards
ii. open up fatal flaw drafts to a wider range of constituents than in the past (who would need to recognise that the only purpose of the review is to check the wording and operability not the underlying intent); and (critically)
iii. report back to fatal flaw participants how the Board addressed the fatal flaw observations and obtain feedback as to whether the issues have been adequately addressed.

Also, while IFRIC carries out a valuable role, our members have two concerns with the current process:

i. There are a significant number of issues that it cannot deal with because they are classed as being beyond an interpretation. Our members believe that the IASB (or possibly a sub-committee of the IASB or the IFRIC) should act as an urgent issues task force, and be able to provide guidance and correct standards on an ad hoc basis where necessary. To be clear, this would involve items that are not minor and where the annual minor amendments cycle would take too long. The timetable would be closer to that of an IFRIC interpretation, to enable adequate due process to operate.

ii. There are some 'IFRIC' decisions where the standards are deemed to be clear, that need to be given greater authority than the publication of an agenda rejection notice. It would seem strange given the time dedicated to the process and the degree of due process that they have no official status. It would be helpful if the IASB could 'frank' such decisions so that they form part of the IAS 8 hierarchy. This is likely also to be true of the outcome of some of the TRG discussions.

Question 2 – The IASB's research programme is laid out in paragraph 32 and a further potential research topic on IFRS 5 is noted in paragraph 33.
Should the IASB:
a) Add any further projects to its research programme? Which projects, and why? Please also explain which current research projects should be given a lower priority to create the capacity for the IASB to make progress on the project(s) that you suggested adding.
b) Remove from its research programme the projects on foreign currency translation (see paragraphs 39-41) and high inflation (see paragraphs 42-43)? Why or why not?
c) Remove any other projects from its research programme?

<u>Response:</u>

A number of these projects are of lower relevance for our members:

i. Goodwill and impairment
ii. Income taxes
iii. Pollutant pricing mechanisms
iv. Post-employment benefits
v. Share based payment
vi. Equity method
vii. The inactive projects

Otherwise:

Development

Our members regard all the other projects at development stage as important:

i. businesses under common control
ii. the disclosure initiative,
iii. dynamic risk management, and
iv. the FICE project.

Of these, the latter two projects are of particular interest to our members.

Dynamic risk management is important in order to find an accounting framework that fully reflects banks' risk management activities and to get rid of the EU carve out. It would be helpful if work was resumed on this relatively soon, so as to help demonstrate the Board's commitment to this important project. As we wrote in response to the IASB's Exposure Draft (ED) on the Conceptual Framework, it is often not operationally feasible to manage a business using financial information that differs significantly from that reported to shareholders. Otherwise, there is the potential for a disconnect between management activities and how they are reported, with the potential for stakeholder confusion and a need to use non-GAAP measures in the financial report.

The FICE project is necessary, first because IAS 32 is in some areas viewed as rules-based and somewhat inflexible. Hence, rules such as the 'fixed for fixed' criterion and the treatment of economic compulsion prevent some instruments that otherwise 'feel like' equity from being classified as equity, while requiring others to be recorded as equity that 'feel like' liabilities. Second, the standard does not provide an answer to a number of problems that have surfaced since its release, such as the treatment of NCI puts.

FICE would most efficiently be approached as a project to update and revise IAS 32, rather than by starting from first principles. Our members also note that it is often the profit or loss implications of failing equity classification that matter more than the balance sheet treatment. Hence, the perceived problem with the fixed for fixed notion as it affects, for instance, foreign currency convertible bonds, is that it results in gains and losses being recognised on movements in an entity's own equity, even where the issuer has no obligation to settle in cash. IFRS 9, for liabilities designated using the FVO, now requires gains and losses due to changes in an entity's own credit risk to be recorded in OCI. It is inconsistent to require gains and losses due to changes in own equity to still be recorded in profit or loss.

Also, as part of the FICE project, consideration should be given to the potential mismatch between liability accounting under IAS 32 / IFRS 9, and accounting for those same instruments as share based payments under IFRS 2.

Assessment

Consistent with our response to the conceptual framework ED, we strongly agree with inclusion of primary financial statements (formerly performance reporting) as a research project. The Board needs to develop a conceptual basis for what should be recorded in OCI and when it is recycled to profit or loss.

We are hesitant about inclusion of provisions, contingent liabilities and contingent assets as a research project, since we are concerned that the new definition of a liability proposed in the conceptual framework ED may give rise to unexpected consequences, as we expressed in our response to the ED. Bank levies might better be addressed through an amendment to IAS 34, to allow accrual over the year as for staff bonuses.

Inactive

We agree with removing extractive activities and the projects on foreign currency translation and high inflation from the research programme.

Question 3 – For each project on the research programme, including any new projects suggested by you in response to Question 2, please indicate its relative importance (high / medium / low) and urgency (high / medium / low).
Please also describe the factors that led you to assign those rankings, particularly for those items you ranked as high or low.

Response:

See the table below and the remarks previously made in response to Question 2.

Project stage	**Project**	**Importance**	**Urgency**
Assessment stage	Definition of a business	Medium	Medium
	Discount rates	Medium	Medium
	Goodwill and Impairment	N/A	N/A
	Income taxes	N/A	N/A
	Pollutant Pricing Mechanisms	N/A	N/A
	Post-employment benefits	N/A	N/A
	Primary Financial Statements	High	Medium
	Provisions, Contingent liabilities and Contingent assets	N/A	N/A
	Share-based Payment	N/A	N/A
Development stage	Business Combinations under Common Control	High	Medium
	Disclosure Initiative – Principles of Disclosure	High	High
	Dynamic Risk Management	High	High
	Equity Method	N/A	N/A
	Financial Instruments with Characteristics of Equity	High	Medium
Inactive	Extractive Activities / Intangible Assets / R&D	N/A	N/A
	Foreign Currency Translation	N/A	N/A
	High Inflation	N/A	N/A

Question 4 – Do you have any comments on the IASB's current work plan for major projects?

Response:

See our response to Question 1.

Question 5 – Are the IASB and the Interpretations Committee providing the right mix of implementation support to meet stakeholders' needs and is that support sufficient (see paragraphs 19-23 and 50-53)?

Response:

See our response to Question 1

If the Board and IFRIC between them do not help ensure consistent application during the early phases of implementing a standard, other parties (e.g., regulators, industry groups) may seek to satisfy this need, potentially undermining the role of the IASB. This increases the risk that IFRS is not applied consistently worldwide.

Question 6 – Does the IASB's work plan as a whole deliver change at the right pace and at a level of detail that is appropriate to principle-based standard-setting? Why or why not?

Response:
See our response to Question 1

Question 7 – Do you have any other comments on the IASB's work plan?

Response:

No

Question 8 – Because of the time needed to complete individual major projects, the IASB proposes that a five year interval between Agenda Consultations is more appropriate than the three year interval currently required. Do you agree? Why or why not?
If not, what interval do you suggest? Why?

Response:

Five years strikes an appropriate balance as long as there is the ability to amend the agenda as new emerging issues warrant such an amendment.