International Swaps and Derivatives Association, Inc.
One Bishops Square
London E1 6AD
United Kingdom
Telephone: 44 (20) 3088 3550
Facsimile: 44 (20) 3088 3555
email: isdaeurope@isda.org
website: www.isda.org

Sir David Tweedie
IASB Chairman
1st Floor
30 Cannon Street
London
EC4M 6XH
United Kingdom

31st January 2011

Ref.: Request for Views on 'Effectives Dates and Transition Methods'

Dear Sir David,

The International Swaps and Derivatives Association's (ISDA) Accounting Policy Committee appreciates the opportunity to provide comments and observations to the International Accounting Standards Board ("IASB") on the above referenced Request for Views (RV). ISDA's accounting committee is represented by organisations that operate in various businesses across the globe. Therefore, our responses to the questions for respondents are intended to reflect the consensus views of our membership on the overall approach to adopt the accounting standards expected to be issued this year.

Key messages:

- Our members prefer a single mandatory date for adoption of the standards in the scope of the RV.
- The mandatory date of adoption should be 1 January 2015 at the earliest. However, many of our members believe that in view of the complexity of the standards included in the RV, the 1 January 2016 would be better.
- Entities should be allowed to early adopt particular standards to enable them to improve their financial reporting earlier where they have the operational ability to do so.
- The exemption from restating comparative information should be extended to all entities that adopt a standard prior to the mandatory date of adoption.

In the appendix attached hereto, we have responded to the applicable questions for respondents included in the Request for Views.

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 Accounting Policy Committee

Antonio Corbi
International Swaps and Derivatives Association
Risk and Reporting

Appendix:

Request for Views on Effective Dates and Transition Methods

Appendix:

Request for Views on Effective Dates and Transition Methods

Q1. Please describe the entity (or the individual) responding to the RV

ISDA has over 800 member institutions from 56 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 over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. As such, we believe that ISDA brings a unique and broad perspective to the IASB's work as regards financial instruments and our comments below give particular emphasis to IFRS 9, even though our members are affected by all of the projects within the scope of the RV.

ISDA members are preparers of financial statements. Some use IFRS whilst others have US GAAP parents but use IFRS financial statements in subsidiaries in many jurisdictions. Many of our members are also some of the principal users of IFRS, in order to make lending or investment decisions or advice clients, however our response is written principally from a preparer's perspective.

Q2. Focusing only on those projects included in the table in paragraph 18 of the RV

(a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?

The projects with the most significant requirements for training, planning and implementation are financial instruments, insurance, leases and consolidation.

Since the mandatory effective date of IFRS 9 was set as 1 January 2013, there have been a number of developments:

- There have been delays in the IFRS 9 project completion so that the impairment and hedge accounting sections are not due to be published until the second quarter of 2011. As of today, it is not possible to determine the amount of time that will be required to plan and implement these two sections, as it will depend on the final versions of the standard.

- Also, the published hedge accounting chapter of IFRS 9 will exclude the 'macro' hedge accounting solution, without knowledge of which it is difficult to fully assess the impact for banks of other aspects of IFRS 9. For most banks, the macro hedge accounting solution is critical to their hedging operations, and any delay to this part of the project would have significant consequences for their strategies for implementing IFRS 9.

- The European Commission endorsement of IFRS 9 is unlikely to be forthcoming until 2012 at the earliest and is still far from certain to be provided at all to IFRS 9 in its current form. Consequently, there is a risk that the current implementation dates may not provide sufficient time from publication of the complete final standards for the EU to conduct appropriate outreach and to fully endorse it before the mandatory effective date. Any delay in the EU'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. Furthermore, as it stands today, companies which report in many different jurisdictions may be forced to adopt IFRS 9 in some countries (Middle Eastern and African entities), whilst being unable to adopt the standard for European entities. Therefore, in order to minimise the impact of this situation, it is critical that mandatory adoption dates are extended.

- The insurance project has been delayed and it would be impractical for any entity affected by both IFRS 9 and the changes to IFRS 4 to have to implement these changes at different dates.

Because of the issues outlined above, and the need for SEC registrants to prepare two years of comparative information, our members believe that the mandatory date of adoption for IFRS 9 should be extended to at least 1 January 2015. Furthermore, in view of the complexity of the standards included in the RV, many of our members believe that the 1 January 2016 is more appropriate. This assumes that the standards covered by the RV are completed by 30 June 2011 (except for the macro hedge project, which we assume will be finalised by the end of the year).

(b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

The costs that our members will incur will vary by institution and the final versions of the standards, but will arise from the following activities:

- Identification of differences and assessment of the financial, systems, business, regulatory and tax consequences.
- Solution development and detailed planning and project management.
- Systems and process amendments.
- The development of new data feeds.
- Interpretation of the new standards and policy selection.
- Revision of business models and adjustments to strategies, structures and products.
- Requirement to update accounting policies, manuals and preparation of transition adjustments.
- Requirement to train finance personnel and others who are affected by the changes.
- Revision of management reporting processes, key performance indicators, budgets and compensation arrangements.
- Establishment of new control processes, Sarbanes-Oxley verification and audit.

- Investor communication.

In total, it is expected that the costs of implementation will be substantial and similar in magnitude to those incurred on the original adoption of IFRS by European banks in 2005.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements?

There are numerous potential regulatory capital and tax consequences of a number of the proposed new standards, such as leases and consolidation, as well as for financial instruments. For instance, the leasing standard is likely to lead to significant issues given that the current distinction between operating and finance leases is deeply embedded in so many laws and regulations around the world and that there are potential regulatory capital consequences for financial institutions in their capacity as lessees.

Q4. Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

Our members are concerned with two aspects of the transition method for IFRS 9:

- Given the various issues referred to in our response to Q2, our members believe that there should be an extension of the period for which early adoption would be allowed without the need to restate comparative figures. Another issue supporting this proposal is the need for an SEC registrant to present two years of comparative numbers unless an exemption is given by the SEC (which is more likely if an exemption from restating comparative data is provided by the IASB). In addition, revised comparative data would not be very meaningful if revisions to the classification of financial assets are only made for those assets not derecognised before the date of initial application (see the next paragraph). Therefore, we recommend that relief from adjusting comparative information is extended to all those entities who adopt prior to the mandatory date of adoption. This, if the mandatory effective date is deferred at least until 2015 (see Q5(b)), this would mean that comparative information is not required to be amended for those entities which adopt before that date.

- An entity should be allowed to determine comparative numbers based on the application of the new classification requirements of IFRS 9 for the whole comparative period and not just for those assets not derecognised by the date of initial application (DIA). Applying the requirement set out in paragraph 7.2.1 of IFRS 9 would be operationally challenging, as comparative data cannot be determined until after the DIA has passed, and calculation of any adjustments would necessarily be a substantially manual process. In contrast, the use of IFRS 9 for all financial assets in the

comparative period(s) would enable like-with-like figures to be presented (which would be more useful for investors) and the revised comparatives could be produced using a systems solution. This approach would be especially useful for those entities wishing to run their IFRS 9 and IAS 39 systems in parallel during this period.

If the mandatory effective date for IFRS 9 is moved to at least 1 January 2015, to enable entities to prepare meaningful comparative figures, we recommend that entities be required to use the beginning of the first period of comparative data as the DIA rather than the beginning of the reporting period in which the standard is first adopted.

Q5. In thinking about an overall implementation plan covering all of the standards that are subject to this RV:

(a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits).

Our members favour a single date approach but believe that they should be allowed to implement various standards earlier if they so wish (see Q6). A single date approach would enable entities to plan their transition in a co-ordinated manner and make it easier to explain the changes to investors.

(b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why?

As we have already mentioned in our response to Q2, the IFRS 9 macro hedging model and European endorsement are unlikely to be complete by June 2011. If there is a single date it should be 1 January 2015 at the earliest, allowing two years (only one for SEC registrants) to the beginning of the comparative period (for entities with a December year end) to implement the new requirements. This assumes that the current timetable for finalisation of the standards is achieved.

(c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IRFSs.

Our members believe that the complexity of the project, the scale of system changes and the substantial transition issues, would be more easily accommodated within 'a big bang approach' than a sequential approach. Notwithstanding this, however, our members do see benefit in allowing entities to adopt individual standards early, as explained in our response to Q6 below.

(d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Please see our responses to Q5a and Q6 in which we favour a single date approach, whilst permitting entities to adopt any standards early if they are able to so operationally.

Q6. Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Yes. As already stated, our members consider that entities should be allowed to early adopt any of the standards, or phases of IFRS 9 (in the sequence permitted by the IASB). The ability to implement specific standards (or phases) early would enable entities to take earlier advantage of improved financial reporting where they have the operational ability to do so. The practical experience of early adopters may also identify items in the standards where further interpretation, implementation guidance or minor amendments are necessary, and thereby facilitate consistency of application at the mandatory implementation date.

Q7. Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

If the final standards are sufficiently similar that they are, in effect, converged, it would make sense for the mandatory adoption dates under IFRS and US GAAP to be the same. This would make it easier for investors to understand the impact of the new requirements, enhance comparability, and reduce the need for complex multi-staged conversions for those groups which have subsidiaries reporting under both sets of standards (especially where entities share systems and processes , but are subject to conversion at different dates).

Q8. Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

Yes. Permitting first time adopters to apply any or all of the new standards early would enable them to convert to IFRS in the near term without the need for a second, substantial, conversion one or two years later. Without this, the costs of adopting IFRS would be substantially higher and it would be far more difficult to explain the changes to users. Consequently, our members believe that early adoption of the new standards should be permitted for first time adopters of IFRS regardless of whether this is permitted for existing users of IFRS.