

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

16 January 2015

Dear Sirs,

Ref.: Measuring quoted investments in subsidiaries, joint ventures and associates at fair value' (ED/2014/4)

The International Swaps and Derivatives Association¹ ("ISDA") is pleased for the opportunity to respond to the above referenced Exposure Draft (the 'ED') issued by the International Accounting Standards Board ("IASB"). In this letter we outline our key messages in response to the ED and specifically the illustrative example to IFRS 13.

Key messages:

- Overall, our members support the Board's proposal to include an additional illustrative example to IFRS 13, which addresses the further application of IFRS 13 to financial assets and liabilities with offsetting positions in market or counterparty risk.
- Our members believe that the illustrative example in the ED clarifies the application of the portfolio exception to Level 1 instruments for which market risk is substantially the same.

Illustrative example:

Our members however have two points on the proposed language of the illustrative example, which we believe is currently inconsistent with the main body of the standard.

First, we note that IFRS 13 permits an entity to measure the fair value of a group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

The net risk exposure represents a unit of valuation at which a financial asset or a financial liability is aggregated in the portfolio for the purpose of measurement. This is also consistent with the paragraph IE.47.B in the ED. However, the paragraph IE.47.E in the ED concludes that entity A measures a net long position rather than the net risk position (the net long position has happened to be the same as the net market risk position in this example). We feel, however, that the reference to the measurement of a net long position is inconsistent with the wording of paragraph 48 in IFRS 13

¹ Since 1985, ISDA has worked to make the global over-the-counter (OTC) derivatives markets safer and more efficient. Today, ISDA has over 800 member institutions from 66 countries. These members include a broad range of OTC 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 including exchanges, clearinghouses 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 web site: www.isda.org.

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and paragraph IE.47.B in the ED, as both paragraphs refer to the measurement of net risk position as the unit of measurement.

The view of our members is consistent with paragraph 48 of IFRS 13, that the net market risk rather than net long position represents the unit of measurement. Therefore we suggest amending the language in paragraph IE.47.E of the ED to “Accordingly, Entity A measures the net market risk position which in this example is equivalent to the net long position (500 financial assets) in accordance with the corresponding Level 1 prices.”

Our second point is on the allocation of the portfolio level adjustments to the individual assets or liabilities that make up the group of financial assets and financial liabilities managed on the basis of the entity’s net risk exposure. IFRS 13 in paragraph 50 and 51 refers to the need for such adjustments to be allocated to the individual assets and liabilities for the purpose of presentation. However, paragraph IE.47.G in the ED allocates the resulting net measurement rather than the portfolio level adjustment.

Our members suggest amending paragraph IE.47.G of the ED to clarify that the portfolio level adjustments rather than the resulting net measurement are allocated to the individual assets or liabilities in accordance with IFRS 13 paragraph 50 and 51. This will ensure the illustrative example is consistent with the main concepts within IFRS 13.

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,

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