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15th January 2009

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

Ref.: Exposure Draft (ED) on “Investments in Debt Instruments” -- Proposed Amendments to IFRS 7

Dear Sirs,

The International Swaps and Derivatives Association (“ISDA”) is pleased to provide the following comments with respect to the above mentioned ED issued by the International Accounting Standards Board (“IASB”).

ISDA has over 840 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 work of the IASB.

In this letter we outline our key messages in response to the Exposure Draft and in the Appendix we provide our more detailed responses to the specific questions.

Key Messages:

- At the roundtable meetings in December a number of our members requested that the IASB and the FASB amend the impairment measurement model for available for sale (AFS) debt instruments so as to align that model with the impairment approach for financial assets recorded at amortised cost. This was consistent with one of the recommendations made in ISDA's response to the Discussion Paper *Reducing Complexity in Reporting Financial Instruments* dated 19 September 2008. We understand that it was not feasible to make changes to the measurement model before the year end, but we are pleased that the IASB has decided to address this issue urgently with the FASB. Therefore ISDA encourages the IASB, together with the FASB, to focus on and complete the impairment project as quickly as possible, rather than proposing new disclosures.

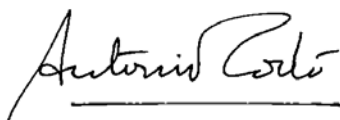
- A number of ISDA members stated at the roundtables that the impairment measurement issue could not be addressed through disclosures. Therefore we do not believe that the IFRS 7 disclosures require any urgent amendment. In summary, we are not supportive of the proposed disclosures.
- As currently drafted, the proposed disclosure under paragraph 30A(a)(ii), does not clearly and concisely provide the effect of the different impairment models, which was the issue that was raised at the roundtables.
- The disclosure of the profit or loss as if all investments in debt instruments had been recorded at fair value through profit or loss as proposed by paragraph 30A(a)(i) was not discussed at the roundtables. Our views around the use of fair value information for all financial instruments were communicated to you in our comment letter onto the Discussion Paper *Reducing Complexity in Reporting Financial Instruments*.
- Overall ISDA believes that the proposed disclosures increase complexity in financial reporting and are costly and difficult for preparers to provide within the required timeframe.

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 Sincerely,



Charlotte Jones
Deutsche Bank AG
Chair, European Accounting Policy Committee



Antonio Corbi
International Swap and Derivatives Association
Risk and Reporting

Attachments:

Appendix – Responses to specific questions raised by the IASB

Appendix – Responses to specific questions raised by the IASB

Question 1

The exposure draft proposes in paragraph 30A(a) to require entities to disclose the pre-tax profit or loss as though all investments in debt instruments (other than those classified as at fair value through profit or loss) had been (i) classified as at fair value through profit or loss and (ii) accounted for at amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

Our members do not agree with the proposal.

ISDA continues to encourage the IASB and FASB to undertake a comprehensive review of the impairment model for all financial instruments as a matter of urgency. At the roundtables a number of our members requested the IASB and the FASB to amend the impairment measurement model for available for sale (AFS) debt instruments so as to align it with the impairment approach for financial assets recorded at amortised cost. This was consistent with one of the recommendations we made in ISDA's response to the Discussion Paper *Reducing Complexity in Reporting Financial Instruments*. Our members are pleased that the Board has added a project to review measurement principles of AFS debt securities to its 2009 agenda. We believe that, only having completed a comprehensive review of the impairment model, can the IASB determine conclusively which impairment disclosures would be useful given that revised model.

Paragraph 30A(a)(i)

Our members disagree with the proposal outlined in paragraph 30A(a)(i) which requires entities to disclose pre-tax profit or loss as if all investments in debt instruments had been held at fair value through profit or loss. This information was not requested at the roundtables. At present the fair value of these instruments is disclosed as required by IFRS 7.25. Our members believe this is sufficient information for users of financial statements to be able to compare institutions which classify these instruments differently. Our views around the use of fair value information for all financial instruments were communicated to you in our comment letter to the Discussion Paper *Reducing Complexity in Reporting Financial Instruments*

Further, by focusing the disclosure on investment debt instruments only, the profit or loss figures disclosed will be distorted since the liabilities used as economic hedges will not be disclosed on a fair value basis. As a result, the proposal would adjust the value of investments in fixed rate debt assets without a similar adjustment to fixed rate liabilities. This has the potential to provide misleading information and not convey the way interest rate exposure is managed within the reporting entity. Also, entities would have entered into alternate hedging strategies if the debt risk were managed on a fair value basis.

In addition, this information is often not readily available or used by management and so is not in line with a key principle of IFRS 7 which focuses on information that management uses. Although the fair value of the instruments is already disclosed as at the beginning and end of the period, additional information would be required to comply with the proposed amendment.

Paragraph 30(a)(ii)

Our members disagree with the disclosure proposed by paragraph 30A(a)(ii). The proposal requires entities to disclose pre-tax profit or loss as if all investments in debt instruments had been accounted for at amortised cost. While similar, this does not provide the information requested at the round tables.

Also, our members note that it would be impractical or extremely difficult for many entities to comply with the proposed requirements given the need for the development of systems and processes to determine the profit or loss that would have been recorded had all AFS debt instruments been recorded on an amortised cost basis, throughout the year, within a very limited period of time, especially since December year end reporting is already well advanced for many entities.

Other

The term ‘investment in debt instruments’ is not defined. We believe the IASB should make clear what instruments it expects to be included within the term debt instrument. For example, is the term expected to include all instruments with fixed or determinable payments or only AFS debt securities, HTM debt securities and all loans and receivables not measured at fair value?

Question 2

The exposure draft proposes to require disclosing the pre-tax profit or loss amount that would have resulted under two alternative classification assumptions. Should reconciliations be required between profit or loss and the profit or loss that would have resulted under the two scenarios? If so, why and what level of detail should be required for such reconciliations?

We do not believe a reconciliation is necessary or helpful to users.

Question 3

The exposure draft proposes in paragraph 30A(b) to require entities to disclose for all investments in debt instruments (other than those classified as at fair value through profit or loss) a summary of the different measurement bases of these instruments that sets out (i) the measurement as in the statement of financial position, (ii) fair value and (iii) amortised cost. Do you agree with that proposal? If not, why? What would you propose instead, and why?

Our members do not support the proposal set out in paragraph 30A(a) as outlined in our response to Question 1, and therefore do not support the disclosure requirements by paragraph 30A(b). The carrying value and the fair value of such instruments are already disclosed in the financial statements. Restating this information is duplicative. The only additional information required by the proposal is the amortised cost of AFS instruments. We note that it would not be possible to derive the effect of a different basis of impairment for AFS instruments, since the proposed disclosure would aggregate cases where the fair value of such instruments is higher than the amortised cost, cases where it is lower but the instrument is unimpaired, and cases where there is impairment.

Question 4

The exposure draft proposes a scope that excludes investments in debt instruments classified as at fair value through profit or loss. Do you agree with that proposal? If not, would you propose including investments in debt instruments designated as at fair value through profit or loss or those classified as held for trading or both, and if so, why?

We do not believe that the disclosure should be extended to debt instruments held at fair value through profit or loss. These instruments are already recorded at fair value and so they can already be compared across institutions.

In addition, if instruments are held at fair value through profit or loss they are managed on this basis. Any hedging instruments, whether liabilities or derivatives, would also be measured at fair value through profit or loss. Disclosure of the effect of a different measurement basis only for investments in debt instruments may give distorted information which is neither useful to users nor comparable across institutions.

Further, without a definition of debt instruments it is unclear whether certain derivatives would be captured by this extended disclosure.

Our members are not supportive of the proposal to require debt instruments to be accounted for in three different ways for disclosure purposes. If the IASB considers the current classification and measurement principles in IAS 39 to be inappropriate then we would prefer the IASB to progress quickly with their project to amend the classification and measurement principles in IAS 39.

Application of these requirements to investments in debt instruments at fair value through profit or loss would also be complex since it would require development of systems and processes to calculate effective interest rates, determine and measure impairment and bifurcate derivatives embedded in them, making the proposal very costly, if not impossible, to implement.

Question 5

Do you agree with the proposed effective date? If not, why? What would you propose instead, and why?

We do not agree with the effective date for these proposals. The proposals require the development and implementation of systems to collect the required information, which cannot be done in such a short space of time, particularly as December reporters are now well advanced with their year end process.

Question 6

Are the transition requirements appropriate? If not, why? What would you propose instead, and why?

The transition requirements are appropriate. Not requiring comparatives would be helpful if the proposals are adopted.