

# ISDA®

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12<sup>th</sup> April 2010

**Ref: Invitation to a Technical meeting on Classification and Measurement of Financial Instruments, Brussels, 22 April 2010**

Dear Mr Hooijer,

The International Swaps and Derivatives Association (ISDA) appreciate the opportunity to provide comments to the European Commission before the referenced technical meeting in Brussels, as requested by the European Commission in advance of the meeting.

ISDA represents participants in the privately negotiated derivatives industry, and has over 810 member institutions from 57 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.

#### **General issues related to IASB standard-setting activities and IFRS**

- ISDA vigorously supports independent standard setting with robust due process. Independent standard setting and robust due process are key requirements for the production of high quality accounting standards.
- ISDA is concerned that current discussions on existing accounting standards may result in additional European "carve-outs." Jurisdictional carve-outs, reduce comparability, damage confidence in accounting standards and jeopardise current efforts to converge various national accounting standards with IFRS.

**Specific issues related to the meeting on the new Classification and Measurement of financial instruments standard**

ISDA supports the endorsement of IFRS 9 for use in the European Union.

We believe that IFRS 9 is an improvement over the current IAS 39 even if it has not addressed all related concerns and topics identified during the financial crisis. It reduces a significant amount of complexity in the current standard for financial instrument accounting, by reducing the number of measurement categories to two and requiring a single impairment model.

In general, our members believe that the dual classification and measurement of financial assets based on the entity's 'business model' and the characteristic of the assets is appropriate and believe that the IFRS 9 provides adequate application guidance on the business model test to obtain an appropriate classification.

The proposals from the IASB for financial liabilities in respect of retaining the IAS 39 rules on the separation of embedded derivatives from financial liabilities achieves a balance between, on one hand reducing complexity of financial reporting and on the other hand, addressing the concerns regarding the accounting for changes in own credit risk.

Even though the rewrite of IAS 39 is being completed in phases, ISDA does not think that the conclusions on impairment and hedge accounting would have a significant impact on phase one of the IAS 39 replacement project, as released in IFRS 9. Impairment and hedge accounting are a result of classification not a determining factor. Furthermore, the IASB has released an exposure draft on impairment and we expect hedge accounting exposure draft in the first half of 2010.

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,



Tom Wise  
HSBC Bank plc  
Chair of Accounting Policy Committee



Antonio Corbi  
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