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ISDA Comments on FASB/IASB Exposure Draft

NEW YORK, Friday, April 29, 2011 – The International Swaps and Derivatives Association, Inc. (ISDA) filed a comment letter on April 28 with the Financial Accounting Standards Board (FASB) and International Accounting Standards Board (IASB) in response to their exposure draft on the offsetting of financial assets and financial liabilities.

In the comment letter, ISDA acknowledges the desire and offers its support for convergence in the area of offsetting financial assets and liabilities and commends the Boards for working jointly to develop a common set of principles. The letter notes, however, that the proposed principles within FASB's and IASB's exposure draft do not provide the most faithful representation of an entity's financial position, solvency, and exposure to credit and liquidity risk, and will not improve the usefulness of financial statements.

"Reporting derivative assets and derivative liabilities on a gross basis pursuant to the proposal in the FASB/IASB exposure draft rather than on a net basis under current U.S. GAAP would mislead users of financial statements by overstating the economic resources and obligations of the entity," said Conrad Voldstad, ISDA's Chief Executive Officer. "There is a compelling argument that net presentation of all derivative transactions executed under legally enforceable master netting arrangements is more relevant and provides better information than presenting the individual transactions executed under those arrangements on a gross basis."

ISDA favors the current U.S. GAAP offsetting principles as they provide the best reflection of an entity's solvency and exposure to credit and liquidity risk. The basis for ISDA's view is that, upon termination or settlement of transactions subject to a master netting arrangement, the individual derivative receivables do not represent resources to which general creditors have rights and individual derivative payables do not represent claims that are equal to the claims of general creditors. Instead, the net termination amount is the most relevant balance to present.

"As there is no consensus among financial statement users as to whether net or gross presentation is more useful, ISDA questions the Boards' decision to favor a model that impairs the usefulness of the financial statements while raising significant cost-benefit concerns," said Robert Pickel, ISDA's Executive Vice Chairman.

The comment letter is available on ISDA's website at www.isda.org

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About ISDA

ISDA, which represents participants in the privately negotiated derivatives industry, is among the world's largest global financial trade associations as measured by number of member firms.

ISDA was chartered in 1985, and today 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. Information about ISDA and its activities is available on the Association's web site: www.isda.org.

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