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Friday 25th June, 2004

Strengthening the IASB's Deliberative Procedures

Dear Ms Pryde,

ISDA appreciates the opportunity to comment on the internal review of the IASB's deliberative procedures, and we welcome the recent focus placed on building public confidence in the standard setting process both by the IASB and the Trustees of the IASC Foundation.

In our comment on the review of the IASC Foundation's constitutional arrangements (letter dated Wednesday 11th February) ISDA put forward a number of suggestions for improvements to the IASB's standard setting process. Many of the suggestions are relevant to the IASB's own internal review, and we welcome the fact that some of them have subsequently been adopted, particularly in relation to the publication of near final drafts of Standards and Exposure Drafts, and also in relation to more extensive observer notes for the monthly Board meetings. Where we believe our other suggestions could be developed further we have included them in the key messages and detail below. However, in general, ISDA welcomes each of the detailed improvements presented in the paper, and regards them as a great improvement to the transparency of the IASB's standard setting process.

Key Messages

ISDA would like to see the IASB focus its internal review on the following improvements: -

- More frequent and more manageable re-exposure of standards;
- The greater use and publication of the results of extensive field-testing;

- More efficient use of existing ties with industry bodies with a view to greater consultation
- Educational workshops on more complex accounting issues e.g. accounting for financial instruments; and
- A requirement for Board members to maintain current and up-to-date knowledge of the interpretation and application of existing accounting standards, and in particular how both IFRS and other GAAPs are being applied across the world.

IASB's Consultative Paper on the IASB's Deliberative Processes

Interim Measures

ISDA welcomes the interim measures put in place recently by the Board to enhance the accessibility and transparency of its deliberative process. In particular, as a majority of our members reside outside the UK, we welcome the opportunity to observe the monthly Board meetings on-line, and we also appreciate access to extended observer notes. However we would encourage the IASB to accelerate other measures, referred to in the press release (dated 24 March, 2004), to further improve access and transparency. These include: making more widely available near final drafts of Exposure Drafts (we note that near final drafts of four EDs were published on June 18th); more regular consultation with expert advisory groups; and more openness around the field-testing of proposals.

Handbook

ISDA supports the publication of a handbook of policies and procedures related to the IASB's due process. Ideally, and where possible, all information relating to the procedures and due process of international standard setting, including the IASC Foundation's constitution (particularly Part b, relating specifically to the IASB), the Preface to the standards themselves and the Framework should be provided for in a single document.

The accessibility and transparency of the IASB's deliberative process

Observer notes?

ISDA believes that the more information that can be distributed and made available in advance on-line, to help observers better follow the debate at the monthly Board meetings the better. In particular, members have found it very difficult to follow the monthly meetings where detailed examples are provided for the Board discussion, and not included in the observer notes. Including more detailed examples has recently improved the transparency and understanding in the US at the Emerging Issues Task Force (EITF) meetings, and was also considered a great help during the FASB's Derivatives Implementation Group (DIG) meetings.

Discussion papers?

Discussion Papers (DPs) can help crystallise current IASB thinking through the enforced deadline and publication of ideas and proposals, however, they can also serve to distract attention and delay the ultimate objective that, ISDA believes, has to remain the issuing of formal Exposure Drafts. Overall, however, ISDA supports the idea of issuing Discussion Papers, and would find them quite useful in determining the preliminary views of the IASB. Alongside other interim measures they may help to

improve industry understanding. As with the other measures, such as field-testing, ISDA would not expect all issues to warrant the publication of a Discussion Paper.

Real time access to Comment letters?

ISDA is happy for comment letters to be posted to the IASB web site as and when they arrive. We would expect the Board and staff to continue to devote equal attention to each letter and judge the merits of the arguments in an objective and dispassionate manner.

The IASB's responsiveness to constituents' comments

ISDA welcomes the decision to experiment with a "two-column" format for summarising both text from the Exposure Draft and subsequent agreed amendments. We would be happy to provide further feedback on the new format as and when it becomes available.

In the past, following extensive ISDA work on specific technical issues and discussions with IASB Board and staff, we have requested to see certain extracts of relevant amended text (e.g. a near-final exposure draft). We have done this to offer our assistance and provide industry support, however, these requests have been declined. ISDA therefore welcomes the announcement that near-final drafts of forthcoming exposure drafts and standards will now be made available (beginning 31 March 2004).

ISDA also welcomes the use of Advisory Groups or appropriate Expert Groups to discuss near-final drafts of text. We offer our support and the resources of ISDA's European and North American Accounting Committees to help staff these groups and provide advice on the interpretation and possible implementation of the drafting. We would be happy to discuss ISDA's involvement in various groups going forward (please contact Ed Duncan at ISDA on 020 7330 3574).

The extent of consultations before releasing proposals and standards

- Re-exposure

In our view the IASB underestimated the timeframe and resources required to complete IAS 32 and 39. As a result, the Board was under considerable pressure not to re-expose the standards and were openly concerned about potential further delays to completion. We feel that the number of decisions and subsequent changes made to IAS 32 and 39 justified further rounds of exposure, whether as a complete draft or in more manageable shorter consultations (e.g. derecognition, fair value measurement, and so on). We believe this would have improved the transparency of the standard setting process and would have reduced the number of implementation issues only now being recognised.

The process for finalising each standard also needs to be improved. We understand that prior to publishing a standard, a review is carried out of the final draft to ensure there are no fatal flaws in the wording. We consider that the final standards would benefit greatly from a wider participation in this process, and specifically by those groups that have been closely involved in prior discussions on the particular aspects of the standards in question.

- Issue specific working groups - Use of Steering Committees/working parties/advisory groups and the status of ad-hoc meetings?

Our members have commented on the need for focus groups, consisting of Board members and industry experts, to be set up to discuss new projects. We would like to see these become a formal part of the standard setting process. The IASB should build on existing ties with key industry bodies with a view to more regular consultation. This would help ensure the Board understands the implications and the level of industry concern surrounding new proposals and enable them to make more informed decisions when approving new standards. We feel this would also help focus the minds of the industry in giving prompt, helpful and constructive advice. Once again we offer our support and the resources of ISDA's Accounting Committees to help staff these groups (please contact Ed Duncan at ISDA on 020 7330 3574).

- Public hearings and field-testing?

Where the IASB propose an accounting methodology that is not currently being used under existing national or international GAAP, ISDA would like to see the results of a more thorough field test made public (e.g. in the case of the derecognition provisions in the IAS 32 and 39 Exposure Draft, published in July 2002). Field tests should involve not just the preparers of accounts, but the specialist business lines likely to be impacted, and the users of accounts as well.

- Diversity and breadth of interests?

The Board and staff of the IASB should also be encouraged to maintain a current and up-to-date knowledge of the interpretation and application of existing accounting standards, and in particular on how both IFRS and other GAAPs are being applied across the world. ISDA considers that serving five years on the Board is too long to be away from the members' field of expertise and that a term of three years would be more appropriate. The Board should establish an on-going educational process that ensures that board members with a more limited understanding of specific technical subjects, such as accounting for financial instruments, are provided with the relevant analysis of the practical implication of any proposals. This will enable them to make better-informed decisions when approving accounting principles and standards and be better prepared to participate in Board meetings. While we would not expect all Board members to be experts on every subject, the vote of each Board member is critical in determining the resulting accounting standard. We have been particularly concerned that a reasonable understanding of financial instruments is currently limited to a very few Board members.

In conclusion

ISDA believes that there is always room for improvement in relation to developing internal working procedures, and that the IASB should strive towards a new global standard for transparency and consultation. We also agree that this should not prevent the Board from being able to take timely decisions in rapidly changing and increasingly complex financial markets. We would recommend the Board consider the merits of each interim measure, particularly the publication of Discussion Papers and conducting of field tests, on a case-by-case basis only, rather than embedding the measures in standard procedures for every project. ISDA is very supportive of the interim measures recently adopted by the IASB to enhance the accessibility and transparency of its deliberative procedures, and we firmly believe that the points raised above could have additional positive effects on the standard setting process. We would be pleased to discuss our comments with members of the Board or IASB staff. Please contact Ed Duncan, Director of European Policy for ISDA, at (0207) 330 3574.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ed Duncan', followed by a long horizontal flourish line.

Ed Duncan
European Policy director at ISDA