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Friday 8th October, 2004

Amendments to IAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities

Dear Sandra,

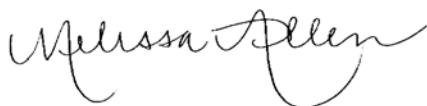
ISDA appreciates this opportunity to comment on the Exposure Draft (“ED”) of *‘Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement, Transition and Initial Recognition of Financial Assets and Financial Liabilities’* which was published by the International Accounting Standards Board (“IASB” or “the Board”) in July 2004.

Our members represent leading participants in the privately negotiated derivatives industry and include most of the world’s major financial institutions, 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 ISDA brings a unique and broad perspective to the IASB’s work on accounting for financial instruments.

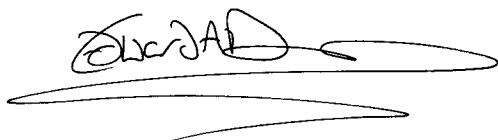
ISDA supports the IASB’s decision to amend the transitional rules in IAS 39 and provide an entity with the option of prospective application of the rules on initial recognition of financial instruments from an agreed date. However, ISDA believes that the option should be to apply the standard prospectively to transactions entered into after 21 November 2002, rather than after 25 October 2002, as currently proposed in the ED, as this is the accepted application date of the rules introduced into US GAAP by EITF 02/03.

The appendix to this letter sets out our detailed answers to the questions posed by the Board. We would be pleased to discuss our comments with the Board or staff. Please contact Melissa Allen at CSFB on (020) 7883 3598 or Ed Duncan at ISDA on (020) 7330 3574.

Yours sincerely



Melissa Allen
Chair of the ISDA European Accounting Committee.



Ed Duncan
Assistant Director of European Policy at ISDA.

Appendix

We outline below our responses to the questions raised by the IASB in the invitation to comment.

1) Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?

ISDA supports the IASB's decision to amend the transitional rules in IAS 39 and provide an entity with the option of prospective application of the rules on initial recognition of financial instruments from an agreed date in order to align the ED with similar rules under US GAAP and EITF 02/03. However, although the original effective date for this EITF was 25 October 2002, it was subsequently amended and the application date of EITF 02/03 is generally regarded as 21 November 2002. Therefore, we believe that the prospective application date should be amended to 21 November 2002. We believe that this provides the best pragmatic alternative to an otherwise difficult implementation issue.

It is important to note that the scope of IAS 39 is broader than equivalent guidance in US GAAP as outlined in EITF 02/03, as IAS 39 applies to all financial instruments (EITF 02/03 currently only applies to derivatives), and thus full convergence may not be achieved. However, it is our view that the IASB's proposal is a critical step towards minimising the significant differences between the two standards.

ISDA also supports the IASB's decision to clarify the rules for the subsequent recognition of 'day one' profit. However, the proposed wording on this issue in the ED provides little clarification except that the 'day one' gains shall not automatically be recognised on 'day two'. We consider that it is important that the IASB works together with the FASB and the recently established Financial Instruments Working Group to develop an appropriate approach to the subsequent recognition of "day one" profit. ISDA would be keen to assist the IASB with this work.

2) Do the proposals contained in the Exposure Draft appropriately address the concerns set out in paragraph 5 of the background on this Exposure Draft? If not, why not, and how would you address these concerns?

As noted above we consider the proposals in the Exposure Draft, once they are amended to reflect our comments, would address the concerns raised by constituents.

3) Do you have any other comments on the proposals

ISDA has no further comments on the ED.