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Thursday 20th November 2003

Draft recommendation for additional guidance regarding the transition to IFRS (Ref: CESR/03 – 323b)

Dear Mr Demarigny

The International Swaps and Derivatives Association (ISDA) welcomes the opportunity to comment on CESR's "Draft Recommendation for Additional Guidance Regarding the Transition to IFRS" published in October 2003.

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.

We share with the IASB their goals of high quality standards that are proven and can be practically applied, whilst accurately reflecting the business of our members and we continue to support the idea of convergence between national and international standards. In October 2002, ISDA commented on "ED1 - First-time application of International Financial Reporting Standards", and our work on the Exposure Draft for IAS 32 and 39 (and subsequent Exposure Draft on "Fair value hedge accounting for a portfolio hedge of interest rate risk") is on going. ISDA has also worked with a number of national standard setters in providing specialist knowledge and practical experience.

ISDA's European Accounting Committee has recently discussed CESR's "Draft Recommendation for Additional Guidance Regarding the Transition to IFRS" and would like to stress the following key messages: -

- European firms should be encouraged to provide markets with appropriate and useful information during the transition phase
- Firms should be encouraged to prepare for the transition from local GAAP to IFRS as early as possible
- CESR should clarify the status and scope of the draft recommendation
- The provision of specific information regarding transition plans should not be made mandatory, the timing of the provision and the format of such information is better left to the individual firms
- The focus of any information provided to the markets should be on the quality of that information rather than the quantity and it should accordingly be released only after it has been subject to appropriate quality control and audit checks
- The transition to IAS 32 and 39 represents the biggest single challenge to our members, and with key elements of IAS 39 still to be finalised, any disclosure on the effects of this transition as early as 2003 or 2004 may be misleading

"Draft Recommendations" status and scope

We fully agree that European listed companies should be encouraged to provide markets with appropriate and useful information during the transition phase from local accounting standards to International Financial Reporting Standards (IFRS). Given the enormity of the task we would also agree that firms should be encouraged to prepare for the transition from local GAAP to IFRS as early as possible. However we would ask CESR to proceed with caution in mandating the provision of detailed information at specified reporting times, as early as 2003, and throughout the transition period for the reasons to be outlined in this letter. We ask CESR to clarify the status of the recommendations, and in particular whether the securities regulators or firms under their jurisdiction would have a choice in following the recommendations or not.

IAS 32 and 39

The biggest challenge in the transition to IFRS for ISDA members will be the implementation of IAS 32 and 39. The affect that this transition will have on the financial reports of banks and large companies will also be of most interest to the users of those reports. Many of our member firms are engaged through ISDA, and other similar industry bodies, in a continuing dialogue with the IASB in an attempt to finalise IAS 32 and 39. As such any requirement or guidance encouraging firms to disseminate information regarding major differences between present accounting policies and IFRS before these standards are finalised (and subsequently endorsed by the European Commission) may result in firms issuing misleading or inaccurate information.

Flexibility

We agree with CESR that firms should not be encouraged to withhold information on the transition to IFRS in 2005, if such information is available earlier. However, we would err on the side of caution in enforcing the timing of the release of information and instead support a more flexible approach. Companies should not feel compelled to provide information before it has been subject to sufficient quality control and audit checks.

The Four Milestones

The four milestones identified by CESR as appropriate times for firms to publish information regarding transition plans provide an adequate framework for the communication process. However, they do not represent the only framework that firms might choose. For example some firms may choose to hold separate analyst meetings or arrange forums for shareholders in which more interaction may be allowed. As such ISDA feels that the recommended framework for the communication process should remain as a "recommendation" or as "guidance" and should not be made mandatory.

Comparatives

In general ISDA supports the requirements set out in IFRS 1, and notes that for both IAS 32 and 39 the requirement to provide comparatives for 2004 has been relaxed. Given the complexity of compliance with IAS 32 and 39 it was considered impractical in the time period provided to prepare comparative statements for 2004. In view of the continuing uncertainty surrounding IAS 32 and 39 and the treatment of hedge accounting, we fully support the IASB's decision.

Quality not quantity

Finally, ISDA would like to point out that much of the focus in CESR's Draft Recommendation is on the quantity of information, whether in relation to each of the three years in transition, the reporting standards being used (old GAAP vs. new etc), or the frequency in which companies report (quarterly, semi-annually, etc). However, the proposed "recommended" disclosures could only be of value to the end user if the comparisons are valid and the content provides meaningful information. The transition to IFRS is an enormous undertaking for European companies and if further information is required and provided, at a European level, without going through sufficient checks and internal controls, investors and markets may suffer from likely corrections and subsequent restatements.

We would be pleased to discuss our comments with CESR in more depth at any time in the future. Please contact Ed Duncan, Assistant Director of European Policy for ISDA, at +44 207 330 3574.

Yours sincerely

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