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Friday 28th October, 2005

EXPOSURE DRAFT OF Proposed Amendments to IFRS 3: Business Combinations

Dear Mr Texeira,

ISDA appreciates this opportunity to comment on the Exposure Draft ("ED") of Proposed Amendments to IFRS 3 Business Combinations published on the 12th July.

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 work of both the IASB and the FASB on accounting for financial instruments.

We believe the global nature of financial markets makes it critical that financial instrument accounting has international consistency. ISDA therefore fully supports the development of a single set of high quality, understandable and enforceable global accounting standards and as this is the first attempt by the IASB and FASB to develop a single standard to be applied by the constituents of both Boards, we would like to offer our support in this endeavour. However, acknowledging that this is both a brave and ambitious step, our members have raised significant concerns about certain aspects of the proposals that we believe need to be addressed before any further progress is made. It is not our intention to address the full content of the proposals being put forward, but to offer our comments in those areas most relevant to the derivatives industry. This limited coverage is reflected in the "Key Messages" below.

Key messages from ISDA

Primarily, we have concerns about the approach taken to the proposed amendments, and in particular, about the introduction of a new fair value measurement hierarchy, without sufficient and focused debate within the IFRS user community. Such a move is likely to present significant practical challenges for those implementing IFRS.

We acknowledge that the IASB did not want to hold up the Business Combinations project by waiting for Board decisions on fair value measurement, and we welcome the Board's recent decision to issue for comment further guidance on fair value measurement in the form of a "wrap around" Exposure Draft of the FASB's final statement. However, we are concerned about the potential conflicts the proposed FASB hierarchy included in IFRS 3 has with the fair value measurement requirements under IAS 39 (financial instruments). For example, under the IASB proposal, a financial institution which acquires another financial institution would be required to apply one fair value measurement methodology upon acquisition and another methodology for subsequently measuring the same financial instruments.

ISDA therefore seeks some clarity on how the IASB intends to manage the different timetables for these projects and a better explanation of the likely implications.

ISDA believes that the above serves only to highlight the need for the IASB to start its own comprehensive debate on fair value measurement before introducing changes that have not been widely debated to date outside the US. More importantly, we are concerned about the precedent it may set in respect of due process with respect to future convergence developments, should the IASB go ahead with plans to include in the Business Combinations proposals provisions on fair value measurement imported from another standard setter **without** prior consultation.

We believe that the most appropriate way to manage making progress on the Business Combinations project while anticipating new developments on fair value measurement would be to exclude Appendix E from the Exposure Draft. The proposals in IFRS 3 are not due to become effective for business combinations until the 1st January 2007, and the IASB could make significant progress on the fair value measurement standard during this time. Excluding Appendix E would still leave provisions, to a large extent, consistent with US GAAP, and would send out a clear message to constituents that the IASB intends to follow due process and complete the work on fair value before amendments to IFRS 3 come into effect. With a final fair value measurement IFRS in place, the IASB can then ensure that there will be one standard on fair value measurement consistently applied throughout IFRS, including IFRS 3.

We would be pleased to discuss any of our comments further with the Board or staff. Please contact either Melissa Allen at Credit Suisse or Ed Duncan at ISDA.

Yours sincerely

Melissa Allen

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cc.
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