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January 31, 2011

Susan M. Cosper
Director of Technical Application and Implementation Activities
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: File Reference Number 1890-100, Discussion Paper: Effective Dates and Transition Methods

Dear Ms. Cosper:

The International Swaps and Derivatives Association's (ISDA) Accounting Policy Committee¹ appreciates the opportunity to provide comments and observations on the Financial Accounting Standards Board's ("FASB") Discussion Paper: *Effective Dates and Transition Methods* (the "Discussion Paper").

ISDA's Accounting Policy Committee is represented by organizations that operate in various businesses across the globe; therefore, our responses to the questions for respondents are intended to reflect the consensus views of our membership on the overall approach for how the effective dates and transition methods for the accounting standards pertaining to the significant convergence projects should be determined and operationalized. As each of our member organizations may be affected differently by the various standards, our responses are focused on how the adoption of multiple, significant accounting changes can be managed in the most meaningful yet, cost efficient and practical way. Additionally, many of our U.S. domiciled members operate globally and, therefore, are, in many cases, mandated to issue statutory financial statements prepared under IFRS in addition to the primary reporting required of the parent company under U.S. GAAP. For this reason, convergence in many areas is of great interest to us and we continue to encourage the Boards to develop common recognition, measurement, financial statement presentation, and disclosure models under the major projects.

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¹ ISDA's Accounting Policy Committee 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. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments.

During the past 18 months, ISDA has observed the issuance of proposals and final standards where convergence in critical areas is still lacking (e.g., classification and measurement of financial instruments, consolidation of investment companies, derecognition of financial assets, etc.). Without full convergence, the sheer cost and effort to implement two sets of accounting changes across global organizations likely will prove to be significant and put extensive pressure on companies required to implement changes to both U.S. GAAP and IFRS during the same time period. Even if convergence is achieved on the projects within the scope of the Discussion Paper, we strongly recommend that the FASB provide mandatory effective dates that are no earlier than five years beginning after the issuance date of the last major finalized standard.

In the appendix attached hereto, we have responded to the applicable questions for respondents included in the Discussion Paper. We hope you find ISDA's comments informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter, please do not hesitate to contact the undersigned.

Daniel Palomaki

Daniel Palomaki

Citigroup

Chair, N.A. Accounting Policy Committee
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Appendix

1. Please describe the entity (or the individual) responding to this Discussion Paper.

ISDA has over 800 member institutions from 56 countries on six continents. These members include most of the world's major financial 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. As such, we believe that ISDA brings a unique and broad perspective to the FASB's standard setting initiatives in the area of financial instruments and our comments below give particular emphasis to the Financial Instruments Exposure Draft (even though our members are affected by substantially all of the projects within the scope of the Discussion Paper).

ISDA members are preparers of financial statements. Most of our members in North America prepare their consolidated financial statements under U.S. GAAP; however some members use IFRS as their primary basis of accounting. Subsidiaries of a significant number of our members that operate globally prepare their local/statutory financial statements under IFRS. Many of our members are also some of the principal users of financial statements prepared under both U.S. GAAP and IFRS, and rely on financial statement information when making lending or investment decisions or in advising clients.

- 2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition, and leases):
 - a. How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each the new standard?

The projects with the most significant requirements for training, planning and implementation are financial instruments, leases, and revenue recognition.

Since the issuance of the Exposure Drafts on Financial Instruments in May 2010, Revenue Recognition in June 2010, and Leases in August 2010, there have been a number of significant developments including the following:

- The FASB began redeliberating the classification and measurement requirements for financial instruments. It is unclear what changes the FASB will make to its Financial Instruments Exposure Draft and therefore the time required to understand, plan for, provide training on, and implement the requirements that ultimately will be included in the FASB's standard on classification and measurement cannot be estimated.
- The FASB and IASB are revisiting the financial instrument impairment model and concluded in mid-December 2010 that the Boards will issue a single exposure draft of an improved impairment model that is more consistent with the expected losses model proposed in the IASB's Exposure Draft, *Amortized Cost and Impairment*. The Boards anticipate issuing a final standard by the end of the second quarter of 2011. As of today, it is not possible to determine the amount of time that will be required to plan for and implement the forthcoming changes to the impairment of financial

instruments model under U.S. GAAP and IFRS, as it will depend on the details included in the final standard.

- The FASB anticipates issuing an exposure draft of the IASB's proposed standard on hedge accounting in order to seek feedback from constituents. It is unclear what, if any, elements of the IASB's exposure draft on hedge accounting the FASB will incorporate into its proposed changes to ASC Topic 815. Similar to our remarks regarding the proposed classification and measurement and impairment standards, we are unable to estimate the amount of time required to understand, plan for, provide training on, and implement any potential changes to ASC Topic 815.
- The FASB and IASB issued an exposure draft on the Offsetting of Financial Instruments on January 28, 2011. The exposure draft proposes significant changes to the U.S. GAAP netting guidance and the disclosure of certain information that companies may not be currently tracking, and may change netting practices under IFRS for certain transactions (e.g., repurchase agreements). Additionally, certain of the proposed requirements may introduce operational issues that will require significant time to address (e.g., payment netting across contracts subject to a legally enforceable netting arrangement). As such, both U.S. GAAP and IFRS preparers will need sufficient time to evaluate the impact of these changes to various aspects of their businesses, operations, regulatory mandates, and contractual arrangements.
- The Boards continue to deliberate revisions to the proposed revenue recognition model and anticipate issuing a final standard by the end of the second quarter of 2011.

ISDA members, that are SEC registrants, are required to include more expansive financial data and disclosures in year-end financial statement filings. This requirement will significantly increase the amount of time needed to prepare for the various accounting changes expected to occur over the next 12-18 months. Therefore, the mandatory adoption date should be no earlier than the fifth calendar year-end beginning after the issuance date of the last major finalized standard. Further, our members believe that the mandatory date of adoption for the major accounting standards within the scope of the Discussion Paper should be no earlier than January 1, 2016.

The following example illustrates the estimated minimum amount of time our members would need to prepare for the adoption of the new standards.

- Assume that the final standards pertaining to the projects within the scope of the Discussion Paper are issued by 12/31/2011
- Assume the reporting enterprise has a calendar year-end
- Assume the mandatory effective date is January 1, 2016

Time line	Milestone
Calendar years ended 12/31/2012 and 12/31/2013	Plan, collect and evaluate financial reporting for applicable reporting periods
Calendar year ended 12/31/2014	Finalize collection and evaluation of financial reporting information and drafting of mock financial statements based on existing accounting rules and new rules in parallel
Calendar year ended 12/31/2015	Report under existing accounting rules and new rules in parallel (second comparable period in 2016 financial statements)
Interim and annual periods within 2016	Report entirely under new rules

b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

The costs that our members will incur will vary by institution and ultimately will depend on the requirements underpinning the final standards. Costs and other resource needs will arise from the following activities:

- Interpretation of the new standards and policy selection,
- Identification and assessment of the financial, operational, business, regulatory and tax impact,
- Solution development and detailed planning and project management,
- Revision of business models and adjustments to strategies, structures and products,
- Updating of accounting policies and manuals, and preparation of transition adjustments,
- Training of finance personnel and others who are affected by the changes,
- Systems and process amendments,
- Development of new data feeds, revision of management reporting processes, key performance indicators, budgets and compensation arrangements,
- Establishment of new control processes, Sarbanes-Oxley verification and audit, and
- Investor and other stakeholder communication.

In total, it is expected that the costs of implementation of the proposed standards within the scope of the Discussion Paper will be very significant.

3. Do you foresee other effects on the broader financial reporting system arising from these new standards?

- For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements?
- Will they give rise to a need for changes in auditing standards?

Several of the proposed standards pose numerous potential regulatory capital and tax consequences, such as leases, revenue recognition, and financial instruments (including offsetting). For instance, the leasing standard will have considerable consequences, given that the current distinction between operating and finance leases is deeply embedded in so many laws and regulations around the world.

- 4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project?
 - If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

As the transition method for many forthcoming standards for which significant changes to current GAAP have not been determined by the FASB, our views may change as more information becomes available. That said, with respect to the proposed standards that will most significantly impact our members such as the accounting for financial instruments, revenue recognition, and leases, additional time will be needed to evaluate and quantify the impact of the new standards during the period between the date the last major standard is issued as final and the date the first set of financial statements is published under the new standards.

Therefore, we strongly recommend that the FASB provide mandatory effective dates that are no earlier than five years beginning after the issuance date of the last major finalized standard (refer to our illustrative example in our response to Q2a). We also strongly recommend that the FASB provide the option to early adopt any or all of the standards so that preparers can manage the implementation at their own pace and efficiently manage the deployment of resources necessary to convert systems and processes to the new standards. Providing this flexibility will enable companies to adopt standards once they are prepared to do so rather than being required to adopt all standards on a single date, the latter of which could place significant constraints on resources responsible for implementing the changes and require substantial communication with a variety of stakeholders such as analysts, lenders, investors, and regulators in a narrow time period.

- 5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:
 - a. Do you prefer the single date approach or the sequential approach?
 - Why?
 - What are the advantages and disadvantages of your preferred approach?
 - How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).

Our members favor the ability to use a single date approach, but also to voluntarily adopt the various standards prior to the mandatory effective date (see Q6 below). A single date approach would enable entities to plan their transition in a coordinated manner and make it

easier to explain the changes to various stakeholders such as analysts, lenders, investors, and regulators.

b. Under a single date approach, what should the mandatory effective date be and why?

As discussed in our response to Q2, deliberations on many of the major standards have not yet been completed and therefore we anticipate that these standards will not be finalized until the second half of 2011 or later. As such, if there is a single date, ISDA recommends that it be no earlier than January 1, 2016, or, at a minimum, no earlier than five years beginning after the issuance date of the last major finalized standard (refer to our illustrative example in our response to Q2a) to enable companies to implement the new requirements. This would enable our members that are SEC registrants to collect the information necessary to fully comply with the transition requirements.

c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.

In general, most of our members do not support the sequential approach as ISDA believes that a single date approach coupled with the election to early adopt any or all standards balances the needs of both users and preparers of the financial statements.

d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Please see our responses to Q5a and Q6, in which we recommend a single date approach, but permitting entities to adopt any standards early.

- 6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date?
 - Why or why not?
 - Which ones?
 - What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

As stated earlier in this letter, our members support the ability for companies to choose to early adopt any or all of the newly issued standards. The ability to implement specific standards earlier would enable entities to take earlier advantage of improved financial reporting where they have the operational ability to do so. Additionally, providing this choice will allow companies to manage the overall implementation process (including information technology changes) across their businesses in a more efficient and cost effective manner, minimize disruptions within the financial reporting function, and better react to any changes in the pace or direction of standard setting and other reporting mandates (e.g., regulatory reporting).

Additionally, permitting companies to early adopt any or all newly issued standards will be greatly beneficial to companies that are adopting IFRS for the first time. The ability to apply any or all of the new standards early would enable first-time adopters to initially convert to IFRS without the need for a second, substantial, conversion one or two years later. This would reduce the costs of conversion and make it easier for users to understand the impact.

- 7. For which standards, if any, should the Board provide particular types of entities a delayed effective date?
 - How long should such a delay be and to which entities should it apply?
 - What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)?
 - Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

ISDA is of the view that the mandatory adoption date should be no earlier than the fifth calendar year-end beginning after the issuance date of the last major finalized standard. Further, our members believe that the mandatory date of adoption for the major accounting standards within the scope of the Discussion Paper should be no earlier than January 1, 2016 (refer to our illustrative example in our response to Q2a).

8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

If the final standards are sufficiently similar such that they are, in effect, converged, then comparable effective dates for IFRS and U.S. GAAP would be helpful to both users and preparers. Coincident effective dates would make it easier for users to understand the impact of the new accounting requirements, enhance comparability, and also would streamline the implementation efforts of preparer groups that are required to report under both IFRS and U.S. GAAP.

Many of our U.S. domiciled members operate globally and, therefore, are, in many cases, mandated to issue statutory financial statements prepared under IFRS in addition to the primary reporting required of the parent company under U.S. GAAP. As such, the introduction of materially dissimilar effective dates and transition methods will put extensive pressure on companies required to implement changes to both U.S. GAAP and IFRS (especially for standards where convergence is expected). Therefore, we recommend the FASB and IASB work towards developing consistent transition methods and effective dates for all standards within the scope of the Discussion Paper.

9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

As many of ISDA's members are lenders to and investors in private companies, and routinely rely on the financial statements of private companies in making business and resource allocation decisions, our preference is to have a single set of accounting standards that apply to all companies—private or public—to maintain comparability amongst all U.S. GAAP preparers and reduce the complexity, cost, and effort associated with analyzing the financial statements of prospective borrowers. Therefore, we generally do not support the premise of establishing a separate standard setting process and creating separate recognition and measurement principles for private companies.

We are concerned that establishing a separate accounting standard setting process for private companies will result in weak financial reporting. However, we do acknowledge that small and medium-sized entities are often resource constrained, especially in the area of financial reporting, and therefore, ISDA could support the provision of additional transition time (through delayed effective dates) to small and

medium-sized entities similar to what was proposed in the FASB's Financial Instruments Exposure Draft.