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28 September 2012

Dear Mr. Corbi,

Thank you for your letter dated 29 June 2012 outlining ISDA's concerns over the potential removal of the Available for Sale (AFS) filter to determine regulatory capital and how that removal might interact with the potential future accounting for investments classified as Fair Value through OCI (FVOCI) under US GAAP and IFRS.

The IASB understands and appreciates the concerns raised. I would like to take this opportunity to comment on some of the concerns raised in your letter.

Interaction between accounting standard-setting bodies and prudential regulators: OCI treatment under Basel III and the treatment of accounting impairment loss

In your letter you mention ways in which the new Basel III requirements will interface with the classification and measurement requirements in IFRS 9 *Financial Instruments*, especially considering the potential changes resulting from our limited review of IFRS 9.

Before discussing the detailed accounting points you raise, I would like to first take a step back and look at the goals of regulators versus accounting standard-setters in general and specifically how we interact with regulators in our standard-setting process.

As you can appreciate, the objectives of the prudential regulators and the accounting standard-setters include some common interests, but they also differ in some fundamental respects. While the principal objective of prudential regulation is financial stability and the maintenance of adequate capital, the principal objective of the IASB is to "address a demand for better-quality information that is of value to all users of financial statements". This was reflected in our recent Trustee strategy review, which noted that our primary focus should be on transparency of financial information, which will in turn support financial stability.

As you may know, we at the IASB are in constant contact with our stakeholders so that we can understand the potential cost and benefits of our proposals and their potential effects and to ensure that we are meeting our objectives. For example, as outlined in our *Due Process Handbook*, we have an extensive consultation process. This includes consultation with a wide range of interested parties, including a formal process of inviting public comment on Discussion Papers and Exposure Drafts. In addition to our formal due process, we also undertake extensive outreach activities during the course of our projects. Organisations that we consult include, among others, various regulatory bodies.

Our consultation includes regular meetings with prudential regulators, to obtain their input on our projects so as to understand the interaction between their requirements and our proposals, as well as to be aware of any forthcoming changes to their requirements. We are therefore already aware of the issues that you have raised in your letter.

Potential amendments to IFRS 9

As you mention in your letter, the IASB agreed to consider a third measurement category for debt instruments in IFRS 9 (FVOCI). This was in response to three main items: the interaction with the Insurance Contracts project; seeking to reduce differences with the US Financial Accounting Standards Board's (FASB) model and to address some feedback received about the current IFRS 9 model.

I would like to further expand on the feedback received about the current IFRS 9 model. This included concerns from some that, in certain circumstances, simple debt instruments would be measured at fair value through P&L when that would not appropriately reflect the entity's business model. In addition, some were confused about when financial assets would be considered to be 'held to collect', including the extent to which sales would contradict this concept. We were also made aware of some interpretations of the contractual cash flows criteria that were narrower than had been intended. As part of the limited review of IFRS 9, the IASB tentatively agreed to clarifications to IFRS 9 to address these concerns.

The IASB and FASB have also decided to specifically define the FVOCI category. The boards have tentatively agreed that FVOCI classification will apply to debt instruments that have payments that are solely principal and interest but that are held in a business model with the objective of both collecting contractual cash flows and selling the instruments.

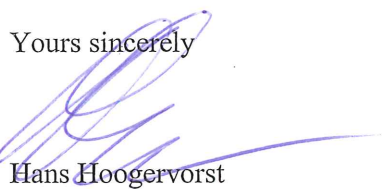
The boards defined the FVOCI category for two main reasons: to strengthen and further clarify the objective of the business model that results in classifying financial assets at amortised cost, and to explicitly capture business models in which both amortised cost and fair value information is relevant. Defining this category provides better information to users of financial statements. In addition, including this category, along with our tentative decisions to make some remeasurements of insurance liabilities through OCI, can assist in better representing the business model of insurance companies who are major holders of financial instruments.

Our initial expectation is that there should be a greater movement from the Fair Value through Profit or Loss (FVPL) category (rather than from the amortised cost category) to the FVOCI category. We have however become aware during our outreach that some have interpreted IFRS 9 in such a way that the 'held to collect' category as redefined would be narrower than they have viewed it to be currently. This seems in part to have arisen from a misunderstanding in some cases of the intended scope of amortised cost in IFRS 9 as currently published. Some who are concerned about movements from amortised cost in practice may find that the effect of the introduction of FVOCI is actually to reduce the volume of assets that would have been measured at FVPL.

We will however have a better understanding of the effects of this proposed third measurement category after we receive the comment letters on the pending Exposure Draft.

Thank you again for your continued interest in our projects. I remain available to discuss any concerns or questions you may have.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Hans Hoogervorst", is written over the typed name.

Hans Hoogervorst

IASB Chairman

Copy to:

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