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UNITED KINGDOM

Basel, 9 July 2004

**FINANCIAL GUARANTEE CONTRACTS AND CREDIT INSURANCE**

Dear Andrea

We welcome very much the opportunity to comment on the above-mentioned draft Interpretation.

We would like to make the following points:

- We think it would be more appropriate to deal with credit insurance under the Insurance project as this much better reflects its nature. Financial guarantees are in our experience different in character, generally more suitable to consider as financial instruments under IAS 39. Any amendment to IAS 39 should clearly distinguish, on the basis of their economic substance, between contracts covering pure financial risk and those covering significant insurance risk (out of scope).
- We are a bit concerned that the proposals lay down four different ways of handling a liability. Logically the amendment should really only be undertaken when the Liabilities project has been completed (though we are far from convinced that the direction being taken by that project at the moment will give a sensible, practical approach). Consequently the amendment can only be regarded as a stop-gap where such an imperfection has to be lived with. However, we are not convinced of the need for such a stop-gap at all:
  - a) The proposal makes a first distinction between those financial guarantee contracts which stem from a transfer of financial assets/liabilities and those which do not. It is not clear why this distinction should be necessary from a conceptual viewpoint. Should one not rather distinguish first between contracts which are financial liabilities (to apply IAS 39) and those which are not (to apply IAS 37)?
  - b) For those contracts which are not financial liabilities, IAS 37 should apply. By introducing a different measurement basis from IAS 37, the proposed amendment would be undesirable and confusing.
  - c) For those which are financial liabilities, on the other hand, we do not understand why the definition of "derivative" as given in IAS 39 should be twisted to include any financial guarantee contract stemming from a transfer of assets where the contract prevents derecognition or results in continuing involvement – whether or not the IAS 39 definition is met.

In short, for financial guarantee contracts, we do not believe that any amendment to existing standards is necessary. The current standards appear to us to give more sensible answers than what is being proposed for the practical cases with which we deal in an industrial/commercial environment.

We thank you for your attention to the above.

Yours sincerely,

F. Hoffmann-La Roche Ltd

Jane Fulford

Alan Dangerfield