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International Accounting Standards Board
Sandra Thompson
30 Cannon Street
London EC4M 6XH
United Kingdom

October 8, 2004

Financial Guarantee Contracts and Credit Insurance

Ms. Thompson,

UBS AG is pleased to have the opportunity to comment on the Exposure Draft of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement, Financial Guarantee Contracts and Credit Insurance*. UBS is a strong supporter of the IASB and its initiative to continually improve financial accounting and reporting.

We agree with the IASB's proposal to include guarantees in the scope of IAS 39 and to address their measurement in the appropriate section of the standard. Further, we agree that legal form should not govern accounting and therefore support the proposal to expand the scope of IAS 39 to include guarantee instruments that would meet the definition of an insurance contract under IFRS-4, *Insurance Contracts*. We have included responses to the specific questions asked in Appendix A.

We hope you find our comments useful. Should you wish to speak with us on this topic, your contacts are Ralph Odermatt, Managing Director (+41 1 236-8410) and John Gallagher, Executive Director (+1 203 719-4212).

Regards,

UBS AG

Ralph Odermatt	John Gallagher
Managing Director	Executive Director
Accounting Policies and Support	Accounting Policies and Support

Appendix A

Question 1 – Form of contract

The Exposure Draft deals with contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs if a specified debtor fails to make payment when due under the original or modified terms of the debt instrument (financial guarantee contracts). These contracts can have various legal forms, such as that of a financial guarantee, letter of credit, credit default contract or insurance contract. Under the proposals in the Exposure Draft the legal form of such contracts would not affect their accounting treatment (see paragraphs DC2 and BC3).

Do you agree that the legal form of such contracts should not affect their accounting treatment? If not, what differences in legal form justify differences in accounting treatments? Please be specific about the nature of the differences and explain clearly how they influence the selection of appropriate accounting requirements.

We agree that the legal form of a contract should not affect its classification. We support the view that similar financial products should receive similar accounting treatment. This will help enhance comparability and will ensure that contracts are not structured purely to receive a desired accounting result.

Question 2 – Scope

The Exposure Draft proposes that all financial guarantee contracts should be within the scope of IAS 39 (see paragraph 2 of IAS 39 and paragraph 4 of IFRS 4), and defines a financial guarantee contract as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument" (see paragraph 9 of IAS 39).

Is the proposed scope appropriate? If not, what changes do you propose, and why?

We agree that the proposed scope is appropriate. Regardless of legal form, a contract to reimburse the holder for losses incurred if a debtor fails to make payment is in substance a financial guarantee, and should be accounted for as such.

Question 3 –Subsequent measure

The Exposure Draft proposes that financial guarantee contracts, other than those that were entered into or retained on transferring financial assets or financial liabilities within the scope of IAS 39 to another party, should be measured subsequently at the higher of:

(a) the amount recognized in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
(b) the amount initially recognized (i.e. fair value) less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue (see paragraph 47(c) of IAS 39).

Is this proposal appropriate? If not, what changes do you propose, and why?

We support the proposal for subsequent measurement.

Question 4 – Effective date and Transition

The proposals would apply to periods beginning on or after 1 January 2006, with earlier application encouraged (see paragraph BC27). The proposals would be applied retrospectively. Are the proposed effective date and transition appropriate? If not, what do you propose, and why?

We agree that the proposed effective date and transition rules are appropriate.

Question 5 – Other Comments

Do you have any other comments on the proposals?

No.