RA/ASC-SUB/mb

CL 48

Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
LONDON
EC4M 6XH

EMAIL: CommentLetters@iasb.org

14 October 2004

Dear Andrea

IASB EXPOSURE DRAFT - PROPOSED AMENDMENTS TO IAS 39 FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT AND IFRS 4 INSURANCE CONTRACTS – FINANCIAL GUARANTEE CONTRACTS AND CREDIT INSURANCE

The Institute's Accounting Standards Committee has considered the above Exposure Draft and I am pleased to set out its comments below.

Response to Detailed Questions

Our responses to the specific questions in the Exposure Draft are set out below:

(i) 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 a 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 BC2 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 understand that this standard is intended only to apply to issuers of guarantees and not to recipients. However we do not believe that this is readily apparent from the exposure draft and we therefore suggest that this should be made clear in the text.

(ii) *Scope*

This 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 with the proposed scope.

(iii) *Subsequent measurement*

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 recognised in accordance with IAS 37* Provisions, Contingent Liabilities and Contingent Assets*; and*

(b) *the amount initially recognised (i.e. fair value) less, when appropriate, cumulative amortisation recognised 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 agree with this proposal.

(iv) *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 with these proposals.

(v) *Other comments*

Do you have any other comments on the proposals?

We have no other comments on these proposals.

If you wish to discuss our comments further, please do not hesitate to contact me.

Yours sincerely

RICHARD ANDERSON
Assistant Director, Accounting and Auditing
Secretary to the Accounting Standards Committee