8 October 2004

Ref: 7/074

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Sir David Tweedie
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International Accounting Standards Board
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Dear Sir David,

IAIS comments on the Exposure Draft of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts* – Financial Guarantee Contracts and Credit Insurance

Thank you for giving us the opportunity to comment on the Exposure Draft distributed in July 2004.

The IAIS is an international organisation composed of insurance supervisors from more than one hundred and twenty jurisdictions. One of the main objectives of the IAIS is to set standards that insurance supervisors around the world may adopt within their jurisdiction. An important part of this objective is to define a common basis for regulatory reporting by insurance enterprises, so that supervisory financial reports are consistent and system efficiency can be enhanced.

Our interest in the development and implementation of high quality financial reporting standards has been on record for some time, especially in view of the acute need for a single, globally recognised and accepted approach for insurance liabilities. We have also provided significant input to those IASB proposals that will most influence the overall accounting model for regulated insurance enterprises in the interest of providing a meaningful, economically sound portrayal of these enterprises' activities to the external markets.

The following comments cover the Exposure Draft and the Basis for Conclusions on the Exposure Draft of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts – Financial Guarantee Contracts and Credit Insurance* issued in July 2004 by the International Accounting Standards Board.

Our comments are limited to areas where the members of the IAIS Accounting Subcommittee reached a general consensus. It is expected that some of the IAIS members' jurisdictions will provide separate or additional comments in response to some or all of the questions, based on the issues, impact or circumstances relevant to their particular jurisdiction.

We fully agree that the substance of a transaction should primarily determine the appropriate accounting treatment and the measurement principles. As such, similar financial instruments should be accounted for in the same way. Conversely, where different treatment is to apply, the basis for making such a distinction should be applied consistently. In this case that means that the distinction between financial risks and non-financial risks that underpin the definition of *insurance contract* under IFRS 4 should not be disregarded.

There is a consensus among supervisors that similarity between credit insurance contracts and financial guarantee contracts is questionable. Payment under credit insurance is only required upon an insurable triggering event, such as death or disability. Furthermore, it is usually written to cover entire books of receivables and relies on the pooling of non-financial risk within portfolios. As the risks these events relate to are insurance risks, accounting treatment should therefore focus on the insurance aspects of these contracts. Consequently, we are of the opinion that most credit insurance contracts meet the definition of *insurance contract*, in accordance with IFRS 4. As such, these contracts should be accounted for under the same requirements as other insurance contracts. By contrast, financial guarantee contracts are written to cover losses arising from a particular debtor's failure to meet its contractual obligation and are priced on the basis of the financial well-being of the debtor and are therefore solely related to credit risks. These instruments fall within the scope of IAS 39 and should be accounted for under that standard's requirements.

Furthermore, given that the IFRS 4 accounting requirements for insurance contracts are temporary, we believe that any additional, interim change should be avoided before phase II has been completed, as it would cause additional concerns regarding comparability and relevance of financial information.

To sum up, we believe that credit insurance contracts and financial guarantee contracts can differ significantly from each other and, as such, should not be accounted for in the same way. We suggest that the proposed amendments should be modified, in order to make clear that credit insurance contracts should be accounted for under IFRS 4, to the extent that they meet the definition of *insurance contract,* and therefore should be explicitly distinguished from financial guarantee contracts.

If there is any way in which the IAIS Accounting Subcommittee can assist the Board further, please do not hesitate to contact Mr Luc Cardinal at the IAIS Secretariat (tel: +41 61 280 8119; fax: +41 61 280 9151, email: luc.cardinal@bis.org).

Yours sincerely

Alessandro

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