ERNST & YOUNG

Ernst & Young Global Limited
Becket House
1 Lambeth Palace Road
London SE1 7EU

Phone: [44] 20 7980 2000
Fax: [44] 20 7980 0275

Web site: http://www.ey.com

8 October 2004

International Accounting Standards Board
30 Cannon Street
London
EC4 M6XH

For the attention of: Ms. Sandra Thompson

Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

The global organisation of Ernst & Young is pleased to submit its comment on the Exposure Draft: ("ED") Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts.

Overall, we support the proposals outlined in the ED, except as noted in the attached appendix.

We would be pleased to discuss our views with the Board or staff at its convenience.

Please contact David Lindsell at 0207 980 0106 or Tony Clifford at 0207 951 2250.

Yours faithfully

Ernst & Young

Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

Appendix: Responses to specific questions:

QUESTION 1 – FORM OF CONTRACT

The Exposure Draft deals with contracts that require the issuer to make specific 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 paragraph 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 agree with the principle that the legal form of a contract should not determine the accounting for that contract.

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 a loss it incurs because a specified debtor fails to make payment when due in the 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 of the Amendments.

QUESTION 3 – 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 Asset; ;and

b) the amount initially recognised (ie 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?

Exposure Draft of Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts

We agree with the proposals for subsequent measurement however we also refer you to Question 4 for other comments.

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 with the proposed effective date and transition provisions.

QUESTION 5 – OTHER COMMENTS

Do you have any other comments on the proposals?

We recommend that should financial guarantees be recognised as financial instruments within the scope of IAS 39, then it should be possible to apply the fair value option to these instruments and hence to carry financial guarantees at fair value with changes in fair value recognised in profit or loss.