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Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH, United Kingdom

RE: Exposure Draft (ED or Proposal) on the Proposed Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts.

Dear Ms. Pryde:

The Chief Financial Officers of eleven leading insurance companies including life insurers, property and casualty insurers, and reinsurers formed the Group of North American Insurance Enterprises (GNAIE) in 2003. GNAIE members include companies who are the largest global providers of insurance and substantial multi-national corporations. All are major participants in the US markets. The goal of GNAIE is to influence international accounting standards to ensure that they result in high quality accounting standards for insurance companies and, to that end, to increase communication between insurers doing business in North America and the International Accounting Standards Board (IASB) and the United States Financial Accounting Standards Board (FASB). GNAIE works to meet its goals through modeling of proposed accounting standards, analysis, comment, and coordination with various end users of financial reports.

We are writing in response to the proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts. GNAIE is concerned with the IASB's proposal to implement an accounting model for financial guarantees that meet the definition of insurance contracts prior to developing a more robust accounting model for insurance contracts that addresses revenue recognition, liability measurement, recognition of acquisition costs, and income statement presentation. Clearly, such insurance guidance must have applicability to any contract that falls within the definition of insurance, such as the financial guarantee contracts referred to in the ED. Therefore, we believe a more appropriate approach would be to include guidance on financial guarantee contracts classified as insurance within insurance guidance to be developed. This would ensure the accounting model for financial guarantee contracts is consistent with the accounting model for insurance. Further, this approach would ensure that a more robust model for financial guarantee contracts is developed that addresses all of the significant accounting and reporting issues faced by financial guarantee insurers. Our responses to the specific questions raised by the IASB are attached in Appendix A.

We appreciate your consideration of these issues. Please call us at 212.480.0808 if you would like to further discuss these or related issues.

Very Truly Yours,

Douglas Wm. Barnert

Douglas Wm. Barnert
Executive Director
The Group of North American Insurance Enterprises

Appendix A

Question 1 –Form of Contract

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?

We agree that the legal form of a financial guarantee contract should not affect their accounting treatment. However, we believe that the accounting treatment should be based on the substantive coverage provided by the contract. If the risk-assuming entity is effectively indemnifying the risk-ceding entity against loss, such contracts, regardless of their legal form, are consistent with the concept of insurance and should be accounted for as such. Therefore, insurance accounting should be applied to financial guarantees that require payments to be made solely to reimburse the guaranteed party for an actual loss incurred as a result of the failure of a debtor to satisfy its required payment obligations to the guaranteed party.

Insurance companies also enter into other transactions that do not necessarily require the guaranteed party to be exposed to the risk of loss from the debtor's failure to pay (i.e. synthetic transactions). As the guaranteed party is not exposed to the risk of default by the debtor, we do not consider these contracts to be insurance. Therefore, we believe that there should be two accounting models for financial guarantees contracts. Those that meet the definition of an insurance contract should follow the insurance accounting model that is determined under IFRS 4 *Insurance Contracts* and those that do not meet the definition of insurance contracts should be initially recorded and subsequently measured at fair value (see comment to question #3).

Question 2 – Scope

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

We do not believe that the scope is appropriate. This ED proposed that all financial guarantee contracts should be within the scope of IAS 39. Financial guarantee contracts that meet the definition of an insurance contract under IFRS 4 should be included in guidance addressing insurance contracts and not guidance that addresses financial instruments. Similarly, financial guarantees that do not meet the definition of an insurance contract should follow the initial recognition and subsequent measurement criteria of IAS 39.

Question 3 – Subsequent measurement

The Exposure Draft proposes that financial guarantee contracts, other than those 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?

As previously noted, we believe that that financial guarantee contracts as defined in this ED are true insurance contracts which should be within the scope of IFRS 4 and addressed in the context of an insurance model. In so doing, we recognize that additional guidance regarding revenue recognition, loss recognition, and liability measurement may be required for financial guarantee contracts. However, such guidance would clarify the application of the insurance model to financial guarantee contracts and thus be consistent with the insurance model. This proposal for a different model for financial guarantee insurance is unwarranted given its global recognition as a true insurance product by regulatory bodies around the world. As such, we encourage the Board to reconsider its proposal for a different accounting treatment for financial guarantees.

We would also like to note that there are other products that can be entered into through the insurance market or the capital markets (such as weather, power outage and catastrophes protection) that could arguably be scoped out of IFRS 4 because the protection can be provided in more than one legal form. We strongly discourage scoping products that meet the definition of insurance out of IFRS 4 because it results in inconsistent accounting treatment of the various products offered by insurance companies. This makes analyzing our financial results much more difficult for the users of our financial statements.

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.

Is the proposed effective date and transition appropriate? If not, what do you propose, and why?

No. As noted, the guidance related to financial guarantee contracts that meet the definition of insurance needs to be considered in the context of a “broader” insurance model and therefore such guidance should not be finalized and effective prior to the effective date of a more robust accounting model for insurance contracts.

Question 5 – Other comments

Paragraph BC7 of the ED notes that “IAS 37 would require the contracts to be measured at the amount an entity would rationally be expected to pay to settle the obligation or to transfer it to a third party.” We also note that the measurement criteria of IAS 37 require that risks and uncertainties (i.e. risk margin) be taken into account. We are concerned that the guidance referred to in IAS 37 effectively results in the measurement of liabilities at fair value. This could establish a “precedent” for other insurance contracts that may need to be considered by the IASB when developing its measurement guidance for insurance contracts. This further supports delay of this guidance so the IASB can ensure there is appropriate due process on this significant matter to the insurance industry.