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Direct dial	:	Tel.: (+31) 20 301 0391 / Fax: (+31) 20 301 0279
Date	:	Amsterdam, 31 October 2003
Re	:	Exposure Draft ED 5 Insurance Contracts

Dear Sirs,

The Netherlands Council for Annual Reporting (CAR) appreciates the opportunity to respond to the *Exposure Draft ED 5 Insurance Contracts* (further referred to as ED 5).

In the attachment we answer the specific questions raised in ED 5 together with additional comments we have.

We wish to draw your attention to our response to the first question raised by you in ED 5. We would strongly recommend reconsidering a solution for the mismatch in the measurement basis of insurer's assets and liabilities that, under strict criteria, would allow the measurement of assets held to back insurance contracts to be measured at amortised cost.

Yours sincerely,

Prof. dr. Martin Hoogendoorn RA
(Chairman CAR)

EXPOSURE DRAFT 5 - INSURANCE CONTRACTS

Question 1 – Scope

(a) The Exposure Draft proposes that the IFRS would apply to insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The IFRS would not apply to accounting by policyholders (paragraphs 2-4 of the draft IFRS and paragraphs BC40-BC51 of the Basis for Conclusions).

The Exposure Draft proposes that the IFRS would not apply to other assets and liabilities of an entity that issues insurance contracts. In particular, it would not apply to:

(i) assets held to back insurance contracts (paragraphs BC9 and BC109-BC114). These assets are covered by existing IFRSs, for example, IAS 39 *Financial Instruments: Recognition and Measurement* and IAS 40 *Investment Property*.

(ii) financial instruments that are not insurance contracts but are issued by an entity that also issues insurance contracts (paragraphs BC115-BC117).

Is this scope appropriate? If not, what changes would you suggest, and why?

(b) The Exposure Draft proposes that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract (paragraph C3 of Appendix C of the draft IFRS). Would this be appropriate? If not, why not?

CAR response:

(a) ED 5 addresses insurance contracts rather than entities. We support this decision on the grounds that it specifies the basis of accounting for similar contracts, regardless of the legal structure of the entity issuing the contract.

Clause (a) (i) of Question 1 refers to the requirement that assets held to back insurance contracts must be accounted for using IAS 39 *Financial Instruments: Recognition and Measurement* (and IAS 40 *Investment Property*). In practice those assets will usually fall into the category "available-for-sale" and therefore be accounted for at fair value with gains and losses taken to equity. This will lead to a mismatch between the measurement basis of assets (normally fair value) and insurance liabilities (usually amortised cost according to current local GAAP). We believe this approach is inadequate and should be improved, preferably by allowing the measurement of assets held to back insurance contracts to be measured at amortised cost under strict criteria.

We would recommend a very restricted relaxation of the tainting rules that constrain the held-to-maturity category of financial instruments in IAS 39. That relaxation would be limited to the short period during which phase I applies. Under this solution a certain number of fixed interest rate instruments held by insurance entities to match insurance liabilities (using well defined criteria to demonstrate the matching designation) could be designated at outset as held-to-maturity. This designation should be subject to strict criteria which force companies to implement a system that makes sure that specific assets (held to back insurance liabilities) are designated to specific liabilities. An unexpected sale of such designated financial assets before maturity date should not be the trigger for the tainting rules that constrain the held-to-maturity category if and only if the sale is a necessary reaction by the management to an unexpected and significant change in insurance risk (e.g. change in mortality or lapse rates). Any general practice of managing portfolios to optimise interest rate returns depending on current fluctuations of financial markets should not fall within the described exemption. This means that simple mis-estimations should not be hidden under this system

Clause (a) (ii) of Question 1 relates to the scoping out of investment contracts from ED 5, because they should be accounted for under IAS 39. We agree with this but note the importance of consistency of accounting treatment of long-term financial contracts between the IFRS for insurance contracts and IAS 39 in general.

ED 5 lists a number of scope exclusions. We believe this list should be further extended with fixed fee service contracts where the level of service depends on an uncertain event, for example maintenance contracts where the service provider agrees to repair specified equipment after a malfunction. The fixed service fee is based on the expected number of malfunctions, although it is uncertain that the machines will actually break down. BC 23 claims that the definition of insurance refers to "an event that adversely affects the policyholder" as to exclude prepaid contracts to provide services whose cost is uncertain. However, this objective is not realised in the example described above, as the malfunction of the equipment does adversely affect its owner.

(b) We believe it is appropriate that weather derivatives are brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract.

<u>Question 2 – Definition of an Insurance Contract</u>

The draft IFRS defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary' (Appendices A and B of the draft IFRS, paragraphs BC10-BC39 of the Basis for Conclusions and IG Example 1 in the draft Implementation Guidance).

Is this definition, with the related guidance in Appendix B of the draft IFRS and IG Example 1, appropriate? If not, what changes would you suggest, and why?

<u>CAR response:</u>

We believe that the definition of an insurance contract set out in ED 5 when read in conjunction with the related guidance in Appendix B is not acceptable.

Firstly we believe the first sentence of paragraph B21, which states that insurance risk is significant if it is ***plausible*** that an insured event will cause a ***significant*** adverse change in the present value of the insurer's net cash flows arising from the contract, is inconsistent with the second sentence, which states that this condition is met even if the insured event is ***extremely unlikely***. We recommend providing further guidance on how this paragraph should be read, respectively to consider alternative wording for "plausible" and "extremely unlikely". In our view, the first sentence of paragraph B21 is the proper definition of "significant insurance risk". Furthermore we are concerned that the case where the death benefit exceeds the surrender amount (IG Example 1.2) is too widely drawn in that it will catch almost any contract that has a redemption penalty that is waived on death. This would affect many loans and mortgages otherwise accounted under IAS 39. We would suggest that the example should be re-framed to refer to surrenders where the penalty is in excess of the recovery of outstanding acquisition costs.

Also, we disagree that pure endowments (IG Example 1.4) are best described as "investment contracts unless there is significant mortality risk". Such policies make no payment unless the policyholder survives to the maturity of the policy and they are priced on the assumption that a proportion of policyholders will fail to survive until maturity of the policy. If a larger than expected proportion does survive to maturity, then the insurance company would make a significant loss. Conversely, if a smaller proportion survives the company would make a significant profit. In each case the risk is significant and it is an insurance risk rather than an investment risk.

Finally, under ED 5 entire contracts are classed as insurance based on the presence of insurance risk. In some cases the issuing entity may choose to unbundle the insurance and the derivative component present in the contract, but unbundling of service components is not addressed in ED 5. We believe this guidance could result in some contracts being inadvertently classed as insurance, namely:

- Operational lease contracts whereby the lease payment includes a(n) implicit premium for motor insurance. Provided the conditions in the lease contract are met, the lessee is not liable for damages to the car or to third parties. Depending on the type of operational lease, the lessee may be aware of the amount paid for the insurance cover.
- Car rental contracts, with the same characteristics as described above.

<u>Question 3 – Embedded derivatives</u>

(a) IAS 39 *Financial Instruments: Recognition and Measurement* requires an entity to separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. This requirement would continue to apply to a derivative embedded in an insurance contract, unless the embedded derivative:

(i) meets the definition of an insurance contract within the scope of the draft IFRS; or

(ii) is an option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).

However, an insurer would still be required to separate, and measure at fair value:

(i) a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in an equity or commodity price or index; and

(ii) an option to surrender a financial instrument that is not an insurance contract.

(paragraphs 5 and 6 of the draft IFRS, paragraphs BC37 and BC118-BC123 of the Basis for Conclusions and IG Example 2 in the draft Implementation Guidance)

Are the proposed exemptions from the requirements in IAS 39 for some embedded derivatives appropriate? If not, what changes should be made, and why?

(b) Among the embedded derivatives excluded by this approach from the scope of IAS 39 are items that transfer significant insurance risk but that many regard as predominantly financial (such as the guaranteed life-contingent annuity options and guaranteed minimum death benefits described in paragraph BC123 of the

Basis for Conclusions). Is it appropriate to exempt these embedded derivatives from fair value measurement in phase I of this project? If not, why not? How would you define the embedded derivatives that should be subject to fair value measurement in phase I?

(c) The draft IFRS proposes specific disclosures about the embedded derivatives described in question 3(b) (paragraph 29(e) of the draft IFRS and paragraphs IG54-IG58 of the draft Implementation Guidance). Are these proposed disclosures adequate? If not, what changes would you suggest, and why?

(d) Should any other embedded derivatives be exempted from the requirements in IAS 39? If so, which ones and why?

CAR response:

(a), (b) and (d)

We do not believe that the implementation guidance developed by the Board is sufficiently clear to apply to derivatives embedded in insurance contracts. Notably we expect the analysis of whether an embedded derivative is closely related to the host contract will prove to be complex given the lack of sufficiently clear and comprehensive guidance on the financial characteristics of insurance contracts and will lead to numerous detailed discussions, resulting in non-comparable solutions.

Furthermore, we feel that – although, in general, we do support the requirement to measure derivatives at fair value with all changes in the profit and loss account – much time and effort will be absorbed by such discussions, which effort could (given the limited remaining time available between the publication of a final Phase I standard and the first year of adoption within the EU) better be used to prepare proper disclosures on the risks resulting from the use of (embedded) derivatives.

Given these considerations we would like to propose an alternative approach, exempting insurance contracts from the IAS 39 requirements on embedded derivatives. Instead the wording of paragraph 11 and 12 ED 5 should be altered as to require that all embedded derivatives are explicitly considered as part of the loss recognition test.

This alternative approach ensures that significant obligations resulting from embedded derivatives are reported in the balance sheet without requiring extensive system changes that will be superseded shortly after by phase II of the IASB Insurance project, which will require fair value accounting.

(c) Given our views above on the recognition of derivatives, we believe disclosures on the nature of these derivatives and sensitivity to external factors such as interest rates should be included in the disclosures in the financial statements. Therefore we believe that the Board's proposals for the disclosure requirements for such options are adequate.

Question 4 – Temporary exclusion from criteria in IAS 8

(a) Paragraphs 5 and 6 of [the May 2002 Exposure Draft of improvements to] IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* specify criteria for an entity to use in developing an accounting policy for an item if no IFRS applies specifically to that item. However, for accounting periods beginning before 1 January 2007, the proposals in the draft IFRS on insurance contracts would exempt an insurer from applying those criteria to most aspects of its existing accounting policies for:

(i) insurance contracts (including reinsurance contracts) that it issues; and

(ii) reinsurance contracts that it holds.

(paragraph 9 of the draft IFRS and paragraphs BC52-BC58 of the Basis for Conclusions).

Is it appropriate to grant this exemption from the criteria in paragraphs 5 and 6 of [draft] IAS 8? If not, what changes would you suggest and why?

(b) Despite the temporary exemption from the criteria in [draft] IAS 8, the proposals in paragraphs 10-13 of the draft IFRS would:

(i) eliminate catastrophe and equalisation provisions.

(ii) require a loss recognition test if no such test exists under an insurer's existing accounting policies.

(iii) require an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to report insurance liabilities without offsetting them against related reinsurance assets (paragraphs 10-13 of the draft IFRS and paragraphs BC58-BC75 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you propose, and why?

CAR response:

(a) We regard the exemption as appropriate given the current state of the Board's development of phase II of the project on insurance contracts.

In general we are not convinced of the usefulness of sunset clauses, because we can foresee potential problems in the event that phase II is delayed. It could be that entities would have to fall back to other accounting regimes or could cherry pick different principles of different GAAPs thereby creating their "own GAAP". However, we recognise the need for a high quality comprehensive standard on insurance contracts at the earliest practical time and therefore we welcome the signal from the Board to express its full commitment to issue phase II as soon as possible to accommodate application by the beginning of 2007.

(b) In general we believe that the proposals in (i), (ii) and (iii) are appropriate.

With regard to (b) (i) above our understanding is that the permission to keep such provisions for existing contracts should not cover renewals of contracts, and we therefore recommend that a change of wording of paragraph 10 (a) is made. We suggest that the last four words ("under future insurance contracts") are deleted. We believe that the requirement not to recognise catastrophe provisions or equalisation provisions under future insurance contracts may be interpreted as a permission to recognise them under current insurance contracts (which would also cover renewals of existing contracts) and to carry them forward for an unlimited time. The recommended change in wording would avoid any such misinterpretation.

With regard to proposal (b) (ii), we would like to note that our responses to Questions 3 (embedded derivatives), 6 (unbundling) and 9 (discretionary participation features) would result in a more strict and expanded guidance on the loss recognition test than currently proposed in ED 5.

Question 5 – Changes in accounting policies

The draft IFRS:

(a) proposes requirements that an insurer must satisfy if it changes its accounting policies for insurance contracts (paragraphs 14-17 of the draft IFRS and paragraphs BC76-BC88 of the Basis for Conclusions).

(b) proposes that, when an insurer changes its accounting policies for insurance liabilities, it can reclassify some or all financial assets into the category of financial assets that are measured at fair value, with changes in fair value recognised in profit or loss (paragraph 35 of the draft IFRS).

Are these proposals appropriate? If not, what changes would you propose and why?

CAR response:

We believe that the proposals in (a) and (b) are appropriate.

We understand the ratio behind allowing the use of non-uniform accounting policies for insurance liabilities and related deferred acquisition cost assets of subsidiaries. However we would like to propose introducing the following limitations to reduce the undesired effects of allowing the application of non-uniform accounting policies for the insurance assets and liabilities as described in your response:
- The exemption should only apply to foreign subsidiaries forming part of an international insurance group; and
- The accounting policies of the foreign subsidiary should not differ significantly from the rules applied by the group.

Question 6 – Unbundling

The draft IFRS proposes that an insurer should unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet (paragraphs 7 and 8 of the draft IFRS, paragraphs BC30-BC37 of the Basis for Conclusions and paragraphs IG5 and IG6 of the proposed Implementation Guidance).

(a) Is unbundling appropriate and feasible in these cases? If not, what changes would you propose and why?

(b) Should unbundling be required in any other cases? If so, when and why?

(c) Is it clear when unbundling would be required? If not, what changes should be made to the description of the criteria?

CAR response:

We question, taking the practicability issues into account for a short period of time, the necessity of unbundling as we believe the proposed guidance on loss recognition testing and derecognition will ensure that all insurance assets and liabilities are reported in the balance sheet. If the guidance would not be clear enough on this point, clarification would be the best solution. Furthermore, we believe that unbundling cannot be dealt with in isolation of the project on performance reporting, for which no draft standard is available today.

Question 7 – Reinsurance

The proposals in the draft IFRS would limit reporting anomalies when an insurer buys reinsurance (paragraphs 18 and 19 of the draft IFRS and paragraphs BC89-BC92 of the Basis for Conclusions).

Are these proposals appropriate? Should any changes be made to these proposals? If so, what changes and why?

CAR response:

We do not believe that these proposals are appropriate in the sense that the proposed treatment of certain aspects of the reinsurance of insurance contracts under phase I does not consider in detail the entire accounting for reinsurance, which will only be done for phase II.

We therefore recommend that in general the treatment of all aspects of reinsurance accounting should be addressed in phase II and not in phase I. This would allow reinsurance accounting to be changed consistently with the approach adopted for direct business in phase II thereby avoiding the creation of anomalous results and the need to create financial systems solely for phase I. We would, however, like to maintain the requirement that financial reinsurance is treated as a financial rather than insurance transaction.

Question 8 – Insurance contracts acquired in a business combination

IAS 22 *Business Combinations* requires an entity to measure at fair value assets acquired and liabilities assumed in a business combination and ED 3 *Business Combinations* proposes to continue that long-standing requirement. The proposals in this draft IFRS would not exclude insurance liabilities and insurance assets (and related reinsurance) from that requirement. However, they would permit, but not require, an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the fair value of the contractual rights and obligations acquired, to the extent that the liability does not reflect that fair value. This intangible asset would be excluded from the scope of IAS 36 *Impairment of Assets* and IAS 38 *Intangible Assets*. Its subsequent measurement would need to be consistent with the measurement of the related insurance liability. However, IAS 36 and IAS 38 would apply to customer lists

and customer relationships reflecting the expectation of renewals and repeat business that are not part of the contractual rights and obligations acquired.

The expanded presentation would also be available for a block of insurance contracts acquired in a portfolio transfer (paragraphs 20-23 of the draft IFRS and paragraphs BC93-BC101 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you suggest and why?

CAR response:

We regard these proposals as appropriate.

On a point of clarification, paragraph 20 of ED 5 permits, but does not require, an expanded presentation, that splits the fair value of acquired insurance contracts into two components. BC93 identifies the second component as the present value of in force business. This is a particular example arising in the acquisition of a portfolio of life insurance contracts. However, similar issues arise in other types of insurance business acquisitions. For example, a company acquiring a portfolio of general insurance provisions/claims with an accounting policy that does not discount provisions/claims might recognise an intangible asset (being the difference between the value of the liability in accordance with the acquirer's accounting policy and the fair value of the liability). Confirmation that this intangible asset and potentially other such assets are permitted under the ED 5 would be useful.

We understand that phase I will not exempt insurance assets and liabilities from the requirement for an acquirer to measure assets and liabilities acquired in a business combination in accordance with ED 3 *Business Combinations*. We support this general approach. However, the illustrative example B.3 in ED 3 seems to give rise to an anomaly. Applying, by analogy, the illustrative example B.3 "Customer contracts and the related customer relationships" to insurance contracts, an open book of insurance contracts would be recognised as an intangible asset in a business combination.

However, under ED 3 paragraph 43, it is a precondition that such an asset meets the definition in IAS 38 *Intangible Assets*. Phase I will require the application of IAS 38, which requires control and therefore excludes customer relationships (paragraph 15 of the proposed amendments). For this reason we understand that the portfolio to be valued in the insurance project is limited to the closed book.

We would welcome clarification as to whether an open or closed book approach is seen as most appropriate.

Question 9 – Discretionary participation features

The proposals address limited aspects of discretionary participation features contained in insurance contracts or financial instruments (paragraphs 24 and 25 of the draft IFRS and paragraphs BC102-BC108 of the Basis for Conclusions). The Board intends to address these features in more depth in phase II of this project.

Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?

CAR response:

We support the temporary exemption for contracts with discretionary participating features as an interim measure until phase II is implemented and we agree that an intermediate category, neither liability nor equity, should not be permitted for the unallocated surpluses associated with discretionary participating features in insurance contracts (paragraph 24 (b)).

The mismatch – which we refer to in detail under Question 13 – *Other comments* - caused by the use of different measurement bases for assets and liabilities in profit participating contracts would not arise if the unallocated surplus (unrealised gains and profits) were to be regarded as constructive obligations regardless of the nature of the discretionary features and even though the allocation of unrealised profits or losses to shareholders or policyholders is still to be made. We believe that, where unrealised gains and losses resulting from carrying assets at fair value relate to participating contracts with discretionary features during phase I they shall be regarded as constructive obligations and not as equity. We note that in some instances doubt may arise as to whether certain discretionary participation features constitute constructive obligations. We ask the Board to clarify in the final standard that such discretionary features should be regarded as constructive obligations if market practice makes the payment of the benefits reasonably certain. If this approach to participation rights can be regarded as an improvement it can be regarded as a change in accounting policies permitted under phase I (paragraph 14 of ED 5).

Paragraph 25 of ED 5 requires the application of paragraph 24 to investment contracts that contain both a discretionary participation feature and a fixed element that requires non-discretionary payments. Paragraph 24 (d) requires the issuer of such a contract to continue its existing accounting policies for such contracts subject to the exceptions listed. This results in the continuation of an existing accounting policy of accounting for such contracts as premiums and appears to conflict with the principles applying to other investment contracts. We would appreciate confirmation that this basis of revenue recognition is intended. Also we feel it would be more appropriate to transfer the paragraphs currently included in ED 5 on discretionary participation features in financial instruments to IAS 39.

Finally we believe that discretionary features in insurance contracts should be considered as part of the loss recognition test.

Question 10 – Disclosure of the fair value of insurance assets and insurance liabilities

The proposals would require an insurer to disclose the fair value of its insurance assets and insurance liabilities from 31 December 2006 (paragraphs 30 and 33 of the draft IFRS, paragraphs BC138-BC140 of the Basis for Conclusions and paragraphs IG60 and IG61 of the draft Implementation Guidance).

Is it appropriate to require this disclosure? If so, when should it be required for the first time? If not, what changes would you suggest and why?

CAR response:

We strongly object to the Board's proposal to require disclosure of fair value of insurance liabilities when IASB itself has not determined how those fair values should be arrived at. There is at present a variety of views as to what is meant by fair value in this context (e.g. entry value or exit value) and practical difficulties in setting up models to determine these values (because there is no active market for insurance contracts). To leave the meaning open is to invite different interpretations leading to non-comparable and possibly unreliable information.

Question 11 –Other disclosures

(a) The Exposure Draft proposes requirements for disclosures about the amounts in the insurer's financial statements that arise from insurance contracts and the estimated amount, timing and uncertainty of future cash flows from insurance contracts (paragraphs 26-29 of the draft IFRS, paragraphs BC124-BC137 and BC141 of the Basis for Conclusions and paragraphs IG7-IG59 of the draft Implementation Guidance).

Should any of these proposals be amended or deleted? Should any further disclosures be required? Please give reasons for any changes you suggest.

To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.

(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.

Is this approach appropriate? If not, what changes would you suggest, and why?

(c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS (paragraphs 34, BC134 and BC135).

Should any changes be made to this transitional relief? If so, what changes and why?

CAR response:

(a) Overall we recognise that disclosures on assumptions and volatility of cash flows and "experience to assumptions" disclosures are necessary stepping stones in reaching the fair value measurement aspired by the IASB, and we support the proposed disclosures in (a), (b) and (c) set out in paragraphs 26 to 29 of ED 5 provided such disclosures are balanced between qualitative and quantitative information.

However we believe that certain requirements are broad and could be interpreted to be too burdensome for entities if the Implementation Guidance is not carefully considered together with the wording of the proposed IFRS. For example paragraph 29 (b) requires the disclosure of "those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of future cash flows." In our view this is so widely drawn that it could be taken to require a mass of detailed information about different policy conditions and the potential effectiveness of exclusion clause (as determined in a variety of court cases). The Implementation Guidance in IG38 and 39 suggests that what is required is more limited and general in nature and is required only for “each broad class of insurance liabilities and reinsurance assets held”, It would be helpful if the wording of the standard were to be conformed with that currently in the guidance notes, especially since the Implementation Guidance does not form part of the standard.

There are some disclosures that we regard as sufficiently important to investors that the additional burden is justifiable. In particular, we support the requirement of information on positive or negative claim provision run-offs although we note that the actual information required may differ in detail from that required for US GAAP.

(b) We regard this approach as appropriate.

(c) We do not believe that any changes should be made to the transitional relief.

Question 12 – Financial Guarantees

The Exposure Draft proposes that the transferor of a non-financial asset or liability should apply IAS 39 *Financial Instruments: Recognition and Measurement* to a financial guarantee that it gives to the transferee in connection with the transfer (paragraphs 4(e) of the draft IFRS, C5 of Appendix C of the draft IFRS and BC41-BC46 of the Basis for Conclusions). IAS 39 already applies to a financial guarantee given in connection with the transfer of financial assets or liabilities.

Is it appropriate that IAS 39 should apply to a financial guarantee given in connection with the transfer of non-financial assets or liabilities? If not, what changes should be made and why?

CAR response:

We agree with the Board’s proposal that provides a clear distinction between financial guarantees given by a transferor of non-financial assets or liabilities and a credit insurance given by a credit insurer. As a result, the genuine activities of credit insurance, which meets the definition of insurance, will be covered by the proposed IFRS on Insurance Contracts and therefore will be treated as other insurance contracts. Similarly, financial guarantees provided by industries other than the insurance industry, for example banks, would also be treated as insurance contracts, if they meet the definition.