CL 4

24 September 2004

Ms Andrea Pryde
Assistant Project Manager
International Accounting Standards Board
30 Cannon Street
London EC 4M 6 XH
UNITED KINGDOM

Dear Ms Pryde

Financial Guarantee Contracts & Credit Insurance

The Group of 100 (G100) is pleased to respond to the request for comment. Our responses are set out below.

Q1 ***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.

The G100 believes that the accounting treatment of contracts and transactions should be based on their economic and commercial substance and not their legal form. However, in some circumstances the legal form is integral to the economic substance of an arrangement.

Q2 ***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 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?

The G100 agrees with the proposal to include all financial guarantee contracts in the scope of IAS 39.

Q3 ***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:*

- *the amount recognised in accordance with IAS 37 'Provisions, Contingent Liabilities and Contingent Asset's; and*
- *the amount initially recognised (ie fair value) less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue (see paragraph 47c of IAS 39).*

Is this proposal appropriate? If not, what changes do you propose, and why?

The G100 agrees with these proposals.

Q4 ***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?

The G100 supports an application date of 1 January 2006 with early adoption permitted.

Q5 ***Other Comments****: Do you have any other comments on the proposals?*

No.

Yours sincerely,

John V Stanhope
National President

c.c. Mr D Boymal, Chairman - AASB