CCDG
COUNCIL ON CORPORATE DISCLOSURE & GOVERNANCE

8 October 2004

CL 28

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

(By post and email: CommentLetters@iasb.org)

Dear Ms Pryde,

EXPOSURE DRAFT OF PROPOSED AMENDMENTS TO IAS 39 *FINANCIAL INSTRUMENTS: RECOGNITION AND MEASUREMENT AND IFRS 4 INSURANCE CONTRACTS* – FINANCIAL GUARANTEE CONTRACTS AND CREDIT INSURANCE

1. We are writing to provide our comments on the Exposure Draft of the proposed amendments to IAS 39 *Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts – Financial Guarantee Contracts And Credit Insurance* issued by the International Accounting Standards Board (IASB) in July 2004. Our comments below address the specific questions set out in the "Invitation to Comment" section.

Question 1

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.

We agree that the legal form of such contracts should not affect their accounting treatment. The substance of the contracts should determine the accounting treatment.

Question 2

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?

We are of the view that it does not matter that all financial guarantee contracts should be within the scope of IAS 39. However, in view of the entity's perspective and the flexibility offered by IFRS 4 i.e. the liability adequacy test (which should be reconsidered in Phase 2 of the Insurance Contracts project), insurance companies should be permitted to use the accounting treatment proposed in either IFRS 4 or IAS 39 and IAS 37 for the time being.

Question 3

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 Assets*; and

(b) the amount initially recognised (i.e. 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?

We are of the view that the proposal is not appropriate in view of our response to Question 2 above.

Question 4

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 are of the view that the proposed effective date and transition are not appropriate. We have put forth a recommendation in our response to Question 2 that we hope would be accepted. Nevertheless, if the proposals in the ED are adopted as they stand, then our view is that the proposed effective date should be the same as that of Phase 2 of the Insurance Contracts project.

Question 5

Do you have any other comments on the proposals?

We do not have any further comments.

2. Should you require any further clarification, please contact Mr Ramchand Jagtiani, Deputy Director, at the Institute of Certified Public Accountants of Singapore via email at jagtiani@icpas.org.sg. Thank you.

Yours sincerely,

Derek How
Secretary, CCDG