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IDW

Sir David Tweedie
Chairman of the
International Accounting Standards Board
30 Cannon Street

London EC4M 6XH
United Kingdom

Düsseldorf, November 7, 2003
495/532

Dear Sir David

Re.: Exposure Draft ED 5: Insurance Contracts

We appreciate the opportunity to comment on the Exposure Draft mentioned above and would like to submit our comments as follows:

General comments:

We welcome the proposed ED 5 and its objective to permit companies accounting for insurance contracts to apply International Financial Reporting Standards during an interim period without having to make significant systems changes both for the implementation of IFRSs and later upon completion of the final standard (phase II). We recognise the need for an interim standard to act as a bridge towards the phase II. We acknowledge that it has not been possible for the IASB to develop and implement the final standard in time to meet the 2005 introduction deadline for the implementation of International Financial Reporting Standards by listed companies in Europe.

We certainly consider it important that phase II should be completed, and a standard introduced, as soon as practicable so that phase I does not come to be regarded as a standard in the long term. In this respect, although we doubt the usefulness of sunset clauses in general, we interpret their introduction as a firm commitment by the Board to bring the financial standard on insurance contracts into force on 1 January

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2007. Nevertheless, we are concerned that this is a very tight time schedule taking into account that for a timely first time application of phase II appropriate systems will have to be in place in January 2006. Hence, it seems desirable for phase II to be finalised at the end of the year 2004. However, in order to ensure that phase II provides the most relevant and reliable solutions, the standard has to be properly developed, discussed and field-tested.

The key objective of ED 5 is that companies accounting for insurance contracts will largely be able to continue to use their existing practices, but also, that when they do elect to change their accounting policies they are required to move towards policies most likely to be reflected in phase II rather than away from them. In our opinion, this represents a practical approach and we therefore support the proposed IASB Exposure Draft at this phase.

Although we accept that phase I represents an interim standard and a bridge towards the imminent implementation of phase II, we are concerned, since phase I requires insurance entities to change specific parts of their accounting practices which are currently applied under national GAAP whereas other accounting practices may be retained. We fear that piecemeal changes to existing practices, without more detailed consideration of the entire accounting framework for insurance business – which will be achieved in phase II – give rise to the risk that the resulting financial information will, in fact, be less reliable and less relevant to the decision-making needs of the users, judged by the criteria in [draft] IAS 8. This occurs in particular when reinsurance is dealt with separately from insurance.

We acknowledge that the systematic mismatch caused by the application of different measurement bases for financial assets and insurance liabilities presents an issue, which affects the entire insurance industry. This can lead to substantial misunderstandings for the users of financial statements. We comment further on this issue in our answer to question 1.

We also acknowledge that a requirement to disclose the fair value of insurance assets and insurance liabilities from 31 December 2006 would present a dilemma for the insurance industry and it's auditors. We are afraid that, until IASB has decided how fair value should be determined, the disclosure of fair values leads to non-comparable and even unreliable information. We expand this point further in our response to question 10.

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?

(a) We support the decision that this Exposure Draft address insurance contracts, on the grounds that it aims to specify the basis of accounting for all 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 most of those assets will usually fall into the category “available-for-sale” and therefore be accounted for at fair value with gains taken to equity, and impairments taken to profit and loss to the extent that these exceed previous revaluation surpluses. In contrast changes in liabilities are not accounted for as movements in equity.

The intention of the insurance companies is that the assets be retained to provide cover for the liabilities and, thus, there is a close relationship between these two items. In the interim period before phase II is finalised the proposed treatment will lead to a potential for mismatch between the measurement of assets and their corresponding insurance liabilities.

We have considered whether one option to deal with the mismatch issue under phase I could be to require discounting at current interest rates by measuring insurance liabilities. However, we came to the conclusion that discounting of insurance liabilities at current interest rates is not practicable in the short term. This is because it requires many systems changes which may become obsolete in phase II and also requires the appropriate determination of adequate interest rates and risk adjustments respectively, i.e. measurement factors which obviously will also form part of the phase II considerations when the final measurement principles are determined.

Therefore, we would like to raise the question whether, under the accounting situation currently proposed at phase I, the close relationships between assets to back insurance contracts and insurance liabilities might justify an exception to the application of IAS 39 with respect to these assets, or at least a relaxation of the tainting rules with respect to the designation of financial assets as held to maturity under IAS 39 for sales necessary to react in certain unexpected circumstances (e.g. significant unexpected changes in surrender patterns or other assumptions). Thus, the implementation of attribution procedures for those assets, which could be exempted from IAS 39, or a modification of the provisions of IAS 39.83 (c) in an appropriate manner for sales necessary to react in certain unexpected circumstances should be considered.

We agree with clause (a) (ii) of question 1 relating to the scoping out of investment contracts from ED 5 because they should be accounted for under IAS 39.

Moreover, we would like to draw the Board's attention to the point that the draft does not deal with accounting by policyholders for direct insurance contracts. This could lead to the consequence that policyholders will have to apply the hierarchy in ED IAS 8 paragraphs 5 and 6 until phase II is completed. To ensure a consistent treatment of insurance contracts in the financial statements of both insurers and policyholders the Board should reconsider whether policyholders should be included in the scope of phase I.

(b) We agree that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract.

Question 2 – Definition of an insurance contract

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?

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 acceptable. Nevertheless, we would like to encourage the Board to provide additional examples in the Implementation Guidelines for contracts, which may cause doubts with respect to their classification as an insurance contract.

Question 3 – Embedded derivatives

(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?

(a) We are of the opinion that embedded derivatives which carry purely financial risks should be reflected at fair value and concur with the requirements detailed in subsection (a) of this question. We also feel that these proposals should be developed consistently alongside changes in IAS 39 to ensure that derivatives are reflected at fair value. This would remove the need to give further guidance on this matter. However, we acknowledge that, as a result of such proposals, the insurance industry will face a significant workload in respect of implementation. From an insurers perspective developing systems to measure embedded derivatives separately will require considerable resources in terms of both time and effort given the complexity of many insurance products. This might prove unnecessary on completion of phase II.

For reasons of practicality we are prepared to support a principle that allows insurers not to separate embedded derivates if all embedded derivatives are subject of the loss recognition test of the contract as a whole.

(b) We agree that it is appropriate to exempt derivatives such as guaranteed life-contingent annuity options or guaranteed minimum death benefits from segregation and fair value measurement as the payout under such policies is dependant on a contingent event and, thus, these represent insurance elements. We suggest that only those embedded derivatives, which carry purely financial risks, should be unbundled and measured at fair value in accordance with IAS 39.

(c) In line with our views above on the recognition of derivatives, we believe that the Board's proposals for the disclosure requirements for such options are adequate. Also, we suggest that the IASB clarify that embedded derivates that meet the definition of insurance contracts do not need to apply IAS 32, e.g. by adopting the scope of IAS 32 (see App. C1 to ED 5) to that of IAS 39 (see App. C2 to ED 5).

(d) We have not identified any other embedded derivatives that would require exemption.

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 canceled, 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?

(a) We would have to regard the proposed ED 5 as inadequate, if it were intended to be the final standard on accounting for insurance contracts because it permits the use of a variety of accounting policies, certain of which conflict with both the framework and the hierarchy set out in paragraphs 5 and 6 of the proposed amendments to IAS 8, which form the basis for International Financial Reporting Standards. Nevertheless, in the light of our opinion noted above under general comments, we regard the proposed exemption as acceptable given current progress of the project on insurance contracts.

We would like to reiterate the desirability for a high quality comprehensive standard on insurance contracts to be introduced at the earliest practical time and that we welcome the signal from the Board to express its firm commitment to issuing phase II as soon as possible to allow implementation by the beginning of 2007. Phase II should be of such quality, that it leads to reliable values, proven by field tests, both with respect to the implementation methods and their outcomes.

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

With regard to (b) (i) above it is our understanding that the proposed Exposure Draft permits retention of catastrophe or equalisation provisions for existing contracts and the periods covered under the existing insurance contracts but does not cover renewals of contracts or future contracts. However, according to paragraph 10 (a) of ED 5 it remains unclear whether such provisions determined under local GAAP are permitted in respect of future insurance contracts which will have been agreed upon before the date when the future Standard developed in phase II becomes effective. We believe that this would be the appropriate solution for the interim period covered under ED 5 and this should be clarified accordingly. Otherwise, the current requirement of 10 (a) would result in disadvantages for those entities, which have existing insurance contracts running for a short-term period only. Furthermore, if catastrophe or equalisation provisions would not be permitted for those future insurance contracts agreed upon before phase II becomes effective, this would already lead to major system changes in Germany in phase I since equalisation and, especially, catastrophe provisions are currently practice in Germany and form an integrated part of the accounting framework. Under German-GAAP equalisation and, especially, catastrophe provisions are considered as an adequate tool to represent the pooling of risks over time, where pooling within a portfolio is not achieved. They represent future payments for claims not yet incurred that correspond with premium income recognised in the past. The objective of the requirement in Germany for such provisions is therefore to avoid the recognition of unrealised profits rather than to exercise excessive prudence.

With regard to proposal (b) (ii), we understand that it is the intention of the IASB to strive for a certain level of comparability of the accounting by stipulating the requirement for insurers to implement a loss recognition test. However, to ensure a minimum of consistency with respect to the measurement of insurance liabilities we suggest that the Exposure Draft be amended to introduce further guidance in order to bring the measurement of these insurance liabilities more in line with IAS 37.

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?

For an interim period, as intended by the IASB, we accept the proposals, since the objective of ED 5 is to grant temporary exemption from certain international accounting practices in order to avoid undue complications for the insurance industry until phase II of the project has been completed. Nevertheless, we recommend that the wording of paragraph 16 should be clarified to avoid misinterpretations and ambiguity. In our understanding, a new accounting policy that involves any of the issues mentioned in paragraph 16 (a) to (e) will not satisfy the requirements of paragraph 14 for changes in accounting policies. In the case that the new accounting policy does not satisfy the requirements of paragraph 14 insurers should continue using existing accounting policies bearing in mind the exemptions of paragraph 10. We feel that this may need to be "spelt out" in an unambiguous way.

Moreover, we would like to ask the IASB for clarification whether a change from an existing accounting framework to another accounting framework can result in an improvement (e.g. from a rather tax driven accounting framework to an investor information related accounting framework like US-GAAP) and whether this change would be acceptable even if not all of the criteria in ED 5.16 are matched (e.g. US-GAAP prescribes an undertaking's individual discount rate rather than a market discount rate).

Question 6 – Unbundling

The draft IFRS proposes that an insurer should unbundle (i.e. 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?

(a) We believe unbundling is appropriate in the cases mentioned in paragraphs 7 and 8. If insurance liabilities and their attributable deposit components are completely separable, e.g. when an account is held in the name of the policyholder, we contend that the liability should be recognised separately.

(b) No further cases for unbundling should be identified as part of phase I.

(c) Apart from as noted in (a) above, in our opinion, IG 5 and IG 6 of the Implementation Guidance present an unclear example of financial reinsurance and do give not enough guidance as to when unbundling would be required. The example does not illustrate sufficiently and clearly the requirements of paragraph 7.

Question 7 – Reinsurance purchased

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?

In general, we do not believe that the proposals in ED 5 are appropriate because phase I does not consider in detail all issues affecting accounting for reinsurance. The entire accounting requirements for reinsurance will only be addressed as part of phase II of the project. We therefore recommend that the treatment of all aspects of reinsurance accounting be addressed exclusively in phase II. This would allow reinsurance accounting, if necessary, to be changed consistently with the approach adopted for direct business in phase II thereby avoiding the creation of anomalous results and the need for insurers to create financial systems which would be needed solely for the period of adoption of phase I accounting treatments.

Therefore, we believe that a more appropriate approach to dealing with reinsurance would be to permit the retention of local GAAP for phase I, but with the added requirement of an impairment test for possible defaults based upon the IAS 39 test.

Question 8 – Insurance contracts acquired in a business combination or portfolio transfer

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?

We regard these proposals as 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?

We support the temporary exemption for contracts with discretionary participating features until phase II is completed.

However, we do not agree with paragraph 24 (b) that allows the issuer of such contracts to allocate the surpluses arbitrarily between liabilities and equity. In our opinion, the allocation of surpluses should be based on policyholders' contract conditions, and the insurer's practice in the past. In cases where the issuer of such contracts is legally forced to distribute a certain amount of the surplus or is bound by constructive obligations because of either market practice or his own past practice, the surplus should always be recognised as a liability and not as equity.

For valuation adjustments between national financial statements and IFRS financial statements we see a case for analogy with temporary differences between tax financial statements and IFRS financial statements. We therefore suggest that the Board clarify, that the provisions of IAS 12 for deferred taxes can be applied for participating features, e.g. changes of liabilities that correspond with changes of financial assets available for sale must not be included in the income statement, and, if in the case of a reversal the policyholder's participation can be reduced a deferred bonuses asset can be recognised, when the corresponding criteria for deductible temporary differences are fulfilled.

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?

Whilst we recognise the Board's proposal to require disclosure of fair value of insurance liabilities as an interim step towards phase II, we believe it is unreasonable to require fair value of insurance liabilities to be disclosed when IASB itself has not determined by which method those fair values should be arrived at. Currently, there are a variety of views as to what exactly is meant by fair value in this context (e.g. entry value or exit value) and there are a number of practical difficulties in setting up models to determine these values (because there is no active market for insurance contracts). If the IASB leaves the meaning open, it will undoubtedly invite different interpretations, which in turn will lead to non-comparable and possibly even unreliable information, which has to be prepared by the insurer with a considerable amount of effort and attributable cost.

We understand that the IASB intends to complete the phase II standard before phase I comes into force. However, this means that in the standard issued as a result of phase I the IASB is asking for an interpretation of its own requirement before it has given appropriate guidance regarding this requirement. For that reason we believe the disclosure requirement should be introduced only when it is understood (by IASB, users, preparers and auditors) what is called for and IASB has exposed the detailed requirement for public comment.

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?

(a) Subject to our comment below (b), in our opinion, the disclosures in (a), (b) and (c) as proposed in paragraphs 26 to 29 of ED 5 are compatible with the IASBs intention of providing the users of financial statements with relevant information for their needs. Disclosure must, of course, present an appropriate balance between qualitative and quantitative information for this to be achieved satisfactorily.

However, we have doubts that all information mentioned in paragraphs 26 to 29 should be included in the notes to the financial statements. In Germany, for example, information with respect to the management of insurance risks is presented in the management report. Therefore, we believe that the IASB Board should consider whether this kind of information should be subject to the IASB project Management's Discussion and Analysis.

(b) We understand that the purpose of the Implementation Guidance is to support the reader's understanding of ED 5 provisions in the standard itself, rather than being a kind of checklist. We consider this approach to be appropriate. Nevertheless, we suggest that this be made clear within the wording of the final Implementation Guidance.

(c) In our opinion, the transitional relief is satisfactory as currently proposed.

Question 12 – Financial guarantees by the transferor of a non-financial asset or liability

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?

We agree with the proposed treatment.

We would be pleased to answer any questions that you may have or discuss any aspect of this letter.

Yours sincerely

Gerhard Gross
Executive Director

Norbert Breker
Technical Director
Accounting and Auditing