



Memo

To: International Accounting Standards Board

From: Accounting Standards Board – Canada, Staff

Date: September 24, 2004

Re: **Financial Guarantee Contracts and Credit Insurance**

The following comprises the response of Accounting Standards Board – Canada staff (AcSB staff) to the IASB's Exposure Draft on Financial Guarantee Contracts and Credit Insurance (proposed amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts), dated July, 2004.

RESPONSES TO QUESTIONS IN INVITATION TO COMMENT

Form of contract

We agree that the legal form of contracts such as financial guarantees, letters of credit, credit default contracts or insurance contracts should not affect their accounting treatment.

Scope

We agree that all financial guarantee contracts, as defined, should be within the scope of IAS 39.

Subsequent measurement

We agree that to subsequently measure 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, 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,

is appropriate in the context of existing IFRS.

Effective date and transition

We agree that the proposals should apply to periods beginning on or after 1 January 2006, with earlier adoption encouraged and that the proposals should be applied retrospectively.

Other comments

We suggest that it be clarified that the result of proposed IAS 39, paragraph 4(b), is that only those loan commitments that can result only in issue of a loan or expiry of the commitment unused fall outside the scope of IAS 39. This clarification has proved useful in the Canadian re-exposure draft of an equivalent to IAS 39.

We would be pleased to elaborate on these points in more detail if you require. If so, please contact Peter Martin, Director Accounting Standards at +1 416 204-3276 (e-mail peter.martin@cica.ca), or Ian Hague, Principal Accounting Standards at +1 416 204-3270 (e-mail ian.hague@cica.ca).