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Assistant Project Manager
International Accounting Standards
Board
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Our Ref: DCB/JG

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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

We welcome this opportunity to comment on the IASB's Exposure Draft on Financial Guarantee Contracts and Credit Insurance.

We agree that underlying economic substance and not legal form should determine the accounting treatment of a financial instrument. The IASB has already accepted the presence of significant insurance risk as a differentiator between insurance contracts and other financial liabilities. We therefore do not believe that there is a compelling case to require contracts which meet the definition of an insurance contract in IFRS 4 to be accounted for as investment contracts under IAS 39 at this stage. Any further considerations on this issue would be more appropriate under the ongoing discussions relating to Phase II of the IASB's insurance project.

Furthermore, we believe that the definition of a financial guarantee contract within the exposure draft (a contract "*which requires 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*") may bring certain life assurances into scope, such as term assurances or endowments issued in connection with mortgages. Such contracts may pay a benefit to the mortgage lender in the event of default resulting from the death of the borrower. We believe that this was not the intention of the IASB and that, should the IASB proceed with the exposure draft, it would be appropriate to amend the definition in order that such life assurance contracts may continue to be accounted for under IFRS 4 in line with the IASB's original intentions.

Yours sincerely

DAVID BENTLEY
Deputy Group Finance Director