

Guarantee over a Derivative Contract (IFRS 9 *Financial Instruments*)

The Committee received a request about whether, in applying IFRS 9, an entity accounts for a guarantee written over a derivative contract as a financial guarantee contract or as a derivative.

The request described a guarantee written over a derivative contract between two third parties. Such a guarantee would reimburse the holder of the guarantee for the actual loss incurred—up to the close-out amount—in the event of default by the other party. The close-out amount is determined based on a valuation of the remaining contractual cash flows of the derivative immediately prior to default.

Conclusion

Evidence gathered by the Committee indicated that the matter described in the request is not widespread, and that when the matter does arise, the amounts involved are not material. On the basis of that evidence, the Committee concluded that the matter described in the request does not have widespread effect and it does not have (nor is it expected to have) a material effect on those affected. Consequently, the Committee decided not to add a standard-setting project to the work plan.