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24.09.2004

Dear Mr. Enevoldsen,

**Re: CEIOPS Comments on EFRAG Letter on the Exposure Draft of proposed Amendments to *IAS 39 Financial Instruments Recognition and Measurement* and *IFRS 4 Insurance Contracts: Financial Guarantee Contracts and Credit Insurance***

On behalf of CEIOPS, I am pleased to provide you with some comments about the EFRAG letter on the Exposure Draft of proposed Amendments to *IAS 39 Financial Instruments Recognition and Measurement* and *IFRS 4 Insurance contracts: Financial Guarantee Contracts and Credit Insurance*.

The following comments regard the main areas of concern shared by EU Insurance Supervisors. According to the specific situation in each jurisdiction, some of them might provide additional comments in relation to issues particularly relevant to their own market and regulation.

CEIOPS is not satisfied with the amendments proposed in the Exposure Draft, since we do not agree with the introduction of a new category of contracts called "financial guarantee contracts" and with its accounting treatment.

We believe that significant insurance risk contained in financial or insurance contracts, should be accounted for under IFRS 4. The introduction of such a new category of contracts combining both risks as if it is one and the same type, might cause concerns on comparability, clarity and reliability of the Financial Statements.

The proposed amendments imply a change in the accounting treatment of credit insurance contracts. In this regard, CEIOPS agrees with EFRAG that unnecessary disruption by forcing a change to credit insurers' accounting until phase II is developed, should be avoided. We also would like to underline that IASB had committed itself to limit interim changes for the insurance contracts pending phase I of the project.

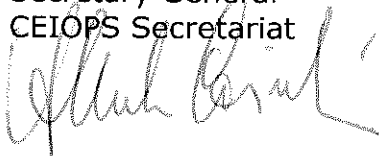
Therefore, we do agree with EFRAG in recommending the IASB to further develop the definition of financial guarantee contracts, in order to exclude the contracts falling under the definition of insurance contracts, for which IFRS 4 is to be applied.

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Should you wish to have any further clarification on CEIOPS's advice or to discuss the proposed issues more in-depth, please do not hesitate to contact Mr Fausto Parente at the following e-mail address [fausto.parente@isvap.it](mailto:fausto.parente@isvap.it) or by phone at +39-06-42.133.481.

Yours sincerely,

Alberto Corinti  
Secretary General  
CEIOPS Secretariat



### **Question 1 – Form of contract**

***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.***

While we agree that the legal form of such contracts should not affect their accounting treatment, we do believe that credit insurance and financial guarantees are substantially different although they cover a similar risk. Consequently, they need not to be accounted for in the same way.

Financial, legal and accounting considerations justify a separate treatment for credit insurance guarantees.

To mention only some of the differences between these contracts, we could say that, in contrast to financial guarantees, credit insurance has been written to cover entire books of receivables. This has been managed through the pooling of risks within a portfolio and is based on complex statistic assumptions and calculations.

### **Question 2 – Scope**

***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 do not agree with the broad scope of the delimitation of financial guarantees, and with the explicit inclusion amongst them of credit insurance contracts.

In particular, we would like to underline that the proposed definition of "financial guarantee contracts" overlaps the definition of "insurance contracts" under IFRS 4, resulting in credit insurance contracts falling under two definitions at the same time ("insurance contracts" and "financial guarantee contracts"), with the latter prevailing over the former. This causes comparability, clarity and reliability concerns among the users of financial reporting standards.

Consequently, we believe that the definition of "financial guarantee contracts" should be further developed in order to clearly exclude any contract falling under the definition of "insurance contract" of IFRS4.

We believe that distinction should be made whether a financial guarantee contract meets the definition of insurance contract envisaged by IFRS 4 or not, irrespective of its legal form. If so, since it generates insurance contract's rights and obligations, it should be accounted for under IFRS 4, as a credit insurance contract. Otherwise, it should be accounted for under IAS 39 as a "pure" financial guarantee contract.

***Question 3 – Subsequent measurement***

***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) (b) the amount initially recognised (ie 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 think that the proposal is not appropriate for credit insurance contracts. As we stated in the opening letter, we believe that changes in the credit insurers' accounting until phase II is developed should be avoided.

Indeed, while developing IFRS 4, the IASB had committed itself to limit interim changes for the insurance contracts pending phase I of the project.

***Question 4 – Effective date and transition***

***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?***

The effective date in IFRS4 is January 1, 2005. This difference might cause uncertainty and difficulties in comparability between years.

***Question 5 – Other comments***

***Do you have any other comments on the proposals?***

We do not have other comments.