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International Accounting Standards Board
1st Floor
30 Cannon Street
London
EC4M 6XH

Ref.: ED/2010/8: Insurance Contracts

Dear Sirs,

The International Swaps and Derivatives Association's (ISDA) Accounting Policy Committee[1] appreciates the opportunity to provide comments and observations with respect to the above mentioned Exposure Draft ("ED") issued by the International Accounting Standards Board ("IASB"). We recognise that the IASB have worked jointly with the Financial Accounting Standards Board ("FASB") who have issued a Discussion Paper which, although broadly the same as the ED, contains a few alternative views for comment on the scope and measurement.

Within the remainder of this letter we have limited our response to the issue of scope related to financial guarantee contracts issued, which are explicitly scoped into the above referenced ED on Insurance Contracts. As a result, in the Appendix attached, we have provided a detailed response to question 11(c) of the ED only.

Key Messages:

- ISDA does not believe that financial guarantee contracts issued should be within the scope of the IFRS for Insurance Contracts since the resulting recognition, measurement and presentation from applying the accounting for Insurance Contracts, would be inconsistent with how financial guarantee contracts are managed within reporting entities which are not in the insurance business.

[1] ISDA's Accounting Policy Committee members represent leading participants in the privately negotiated derivatives industry and include most of the world's major financial institutions, as well as many of the businesses, governmental entities and other end users that rely on over-the-counter derivatives to manage efficiently the financial market risks inherent in their core economic activities. Collectively, the membership of ISDA has substantial professional expertise and practical experience addressing accounting policy issues with respect to financial instruments and specifically derivative financial instruments.

- For financial institutions, all financial instruments are managed within the risk framework of the entity's business model, with no distinction being made for specific contractual features that distinguish certain contracts related to credit defaults from other such contracts, for example, letters of credit and credit default swaps.
- For financial institutions, financial guarantees issued are managed consistently with other similar contracts, typically either on an expected loss or fair value basis, and as a result we do not support proposals that would result in similar contracts being accounted for in a way that is inconsistent with risk management practices and results in a lack of comparability of instruments which are managed as part of the same business model.
- We recommend that the IASB permit entities to account for financial guarantee contracts issued in line with their business model. For financial institutions this would result in financial guarantees issued being in the scope of IFRS 9 *Financial Instruments*, where we would recommend that the measurement basis should be consistent with the approach being discussed by the Board for loan commitments, with the retention of the fair value option.

We hope you find ISDA's comments informative and useful. Should you have any questions or desire further clarification on any of the matters discussed in this letter please do not hesitate to contact the undersigned.

Yours faithfully,

Tom Wise
HSBC Bank plc
Chair of Accounting Policy Committee

Antonio Corbi
International Swaps and Derivatives Association
Risk and Reporting

Attachments:
Appendix – Response to question 11(c) raised by the IASB

Appendix – Responses to question 11 raised by the IASB

Question 11: Definition and scope.

(c) Do you agree that the contracts currently defined in IFRSs as financial guarantee contracts should be brought within the scope of the IFRS on insurance contracts? Why or why not?

ISDA do not agree that contracts currently defined in IFRS as financial guarantee contracts that are currently within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") should be within the scope of the IFRS on insurance contracts.

We believe that this creates an arbitrary line between credit default related contracts and financial guarantee contracts, which are both risk managed by financial institutions as financial instruments. The result of this arbitrary line is that contracts risk managed in line with the entity's business model are recognized, presented and measured differently, depending on whether those instruments meet the definition of a financial guarantee contract or not.

We are concerned that the accounting for financial guarantees issued as insurance contracts will result in a lack of comparability across the financial services industry, whereby contracts viewed by risk management and reported to senior management on the same basis are accounted for very differently.

Finally, we believe that the proposals for financial guarantees issued will result in insurance valuation expertise having to be introduced into financial institutions purely for external reporting purposes and we question whether there is any incremental benefit of this cost.

We recommend that the Board include a scope exclusion for financial guarantee contracts issued by entities where the accounting model proposed by the IFRS on insurance contracts is inconsistent with the business model of the entity and how that instrument is risk managed and reported to senior management. We recommend that where the business model of the entity is one of managing the risks in these contracts as financial risks, then financial guarantee contracts issued should be explicitly scoped into IFRS 9. This could be accommodated within the ED by relatively small amendments to the guidance within B18 (g), B19 and B22.

Scoping financial guarantee contracts issued into IFRS 9 - where this is consistent with the business model of the entity - will ensure consistency with other similar contracts such as loan commitments. We therefore propose that recognition and subsequent measurement for financial guarantee contracts issued be consistent with the model that the Board is currently considering for loan commitments, as discussed in the Board meeting on 24th August 2010 on Amortised Cost and Impairment. In that meeting, the Staff recommended that loan commitments should be subject to an expected loss model consistent with loan financial assets, as loan commitments are subject to similar credit analysis and risk management and because it results in consistency of accounting treatment.

Some of our members, consistent with their business model, manage financial guarantee contracts issued of a fair value basis therefore we would propose that consistent with IAS 39, and the recent amendments to IFRS 9, the fair value option be retained for such contracts.