

Dr. Alexander Schaub  
Director General  
European Commission  
Directorate General for the Internal Market

1049 Brussels

24 October 2005

Dear Dr. Schaub,

***Adoption of Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts***

Based on the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards we are pleased to provide our opinion on the adoption of ***Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 4 Insurance Contracts - Financial Guarantee Contracts***, as published by the IASB on 18 August 2005.

The objective of the Amendments is to provide a temporary solution as to how to account for financial guarantee contracts. The Amendments are effective for annual periods beginning on or after 1 January 2006. Earlier application is encouraged.

The IASB does not regard this solution as suitable for the long-term because it can lead to different accounting for contracts that have similar economic effects. It intends therefore to work on a more satisfactory long-term approach to account for such contracts. EFRAG supports the Amendments as a short-term expedient for accounting for financial guarantee contracts. EFRAG considers, however, that a more satisfactory approach that takes into account various features of such contracts will need to be established in due course.

EFRAG has evaluated the Amendments based on input from standard setters and market participants in accordance with EFRAG's due process. EFRAG has concluded that they meet the requirements of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards that:

- i. they are not contrary to the 'true and fair principle' set out in Article 16(3) of Council Directive 83/349/EEC and Article 2(3) of Council Directive 78/660/EEC; and
- ii. they meet the criteria of understandability, relevance, reliability and comparability required of the financial information needed for making economic decisions and assessing the stewardship of management.

For the reasons given above, EFRAG believes that it is in the European interest to adopt **Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 4 *Insurance Contracts - Financial Guarantee Contracts***, and, accordingly, EFRAG recommends their adoption.

On behalf of the members of EFRAG, I should be happy to discuss our advice with you, other officials of the EU Commission or the Accounting Regulatory Committee as you may wish.

Yours sincerely,

Stig Enevoldsen  
**EFRAG, Chairman**