

November 12, 2024
IFRS Foundation
7 West ferry Circus
Canary Wharf
London E14 4HD, United Kingdom

RE: IFRS IC Tentative Agenda Decision – Guarantee Issued on Obligations of Other Entities

The Saudi Organization for Chartered and Professional Accountants (SOCPA) welcomes the opportunity to offer its views on the above Tentative Agenda Decision (TAD) discussed by the IFRS Interpretations Committee (the IFRS IC) in April 2024.

SOCPA believes that entities encounter significant challenges when determining whether a guarantee qualifies as a 'financial guarantee contract' under IFRS 9. This difficulty stems from the fact that the definition includes the term 'debt instrument,' which is not explicitly defined in IFRS standards. The absence of a clear definition has led to diversity in practice by holders and issuers as entities use judgement to interpret what constitutes a 'debt instrument.' SOCPA therefore supports the IASB's decision, to address broader application questions related to financial guarantee contracts in its next agenda consultation. SOCPA welcomes a specific focus on clarifying the meaning of 'debt instrument' within the definition of a financial guarantee contract.

SOCPA further observes that considerable judgement is required when determining which IFRS standard governs a particular guarantee. This often leads to diversity in practice, with some entities applying IFRS 9, others applying IFRS 17, and yet others applying IAS 37, depending on their interpretation of the specific terms and conditions of the guarantee. Such diversity is exacerbated by ambiguities in the scoping requirements of the relevant standards – example: judgement is required in deciding if a guarantee is within the scope of IFRS 17, particularly when determining whether significant insurance risk has been transferred. For example, does a rental guarantee given by the previous owner to the new owner of an investment property fall within IFRS 9, 17 or IAS 37?

SOCPA notes that many entities encounter difficulties distinguishing between financial guarantees and other types of contracts, such as insurance contracts and contingent liabilities, when accounting for guarantees issued on obligations of joint ventures or other entities. The issue is common to many industries, specifically industries in which guarantees play a significant role. SOCPA notes that guarantees may sometimes be accounted for as derivatives under IFRS 9, which adds further complexity to the issue.

SOCPA encourages the IASB to consider introducing a future project to provide guidance on how preparers should assess whether a guarantee meets the definition of a 'financial guarantee contract.' This would reduce reliance on judgment and the resulting diversity in practice. SOCPA also believes that the IASB could explore whether the election to treat a financial guarantee as either an insurance contract or a financial guarantee contract, as permitted by IFRS 9 and IFRS 17, could be better clarified, especially when considering the irrevocability of such elections.

Please feel free to contact Dr. Abdulrahman Alrazeen at (razeena@socpa.org.sa) for any clarification or further information.

Sincerely,



Dr. Ahmad Almeghames
SOCPA Chief Executive Officer