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October 23, 2003

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Sirs,

Comments on IFRS ED 5 “Insurance Contracts”

The Accounting Standards Board of Japan (ASBJ) is pleased to comment on the ED5 “Insurance Contracts”. The views expressed in this letter are those of Insurance Contract Working Group under International Issues Standing Committee of ASBJ.

We respect the effort made by IASB, we express dissenting view only on Q10 “Disclosure of the fair value of insurance assets and insurance liabilities”, which seems to be a particularly significant issue in the Exposure Draft. We do not express any comments on other questions at this stage.

We hope that our comments will contribute to the work of the IASB in arriving at its final decision.

Best Regards,

Tetsuro Higuchi
Insurance Contracts Working Group Leader
International Issues Standing Committee
Accounting Standards Board of Japan

Question 10: Disclosure of the fair value of insurance assets and insurance liabilities

IFRS ED 5 requires an insurer to disclose the fair value of its assets and insurance liabilities from 31 December 2006. However, it does not provide any detailed guidance on the fair value.

We do not agree with this disclosure requirement on the fair value from 31 December 2006 due to the following reasons.

1. Key issues including the technique for measuring fair value of insurance contracts (insurance assets and liabilities) are not yet resolved, even after the discussions held in the Steering Committee set up in 1996 and in the discussion in IASB for the last two years. This means that worldwide consensus is not yet established on the measurement issues.
2. Since no guidance on fair value measurement model for insurance contracts will be established until the completion of the IASB Insurance Contracts project (Phase II), insurers will have no way but to use their own measurement models, if disclosure of fair value is required before that stage. We have concern that the diversity of measurement models used by different insurers might severely impair comparability and therefore mislead the users of financial statements, given the difficulty in describing the features of those models in a plain manner.
3. We acknowledge that there is an argument that guidance on the measurement model need not be established prior to the introduction of the disclosure requirement, referring to the precedent of SFAS No.107 “Disclosures about Fair Value of Financial Instruments” in the United States. However, in case of financial instruments, many items had market price from the first and, for many of the items without market price, fair value measurement models had been already established with certain level of reliability. On the other hand, insurance contracts do not have active market and there have been no consensus of fair value measurement model as mentioned above. We believe therefore that the situation for insurance contracts is basically different from that for financial instruments and it is not appropriate to apply the precedent in the United States to insurance contracts.