

The following are comments from the General Insurance Association of Japan with respect to the Exposure Draft “ED7 financial instruments: disclosures” by the International Accounting Standards Board (IASB) on July, 2004.

#### Overall comments

Throughout ED 7, it seems that the Board requires an entity to disclose information in its financial statements as far as it is useful for users. However, we believe that the Board should further discuss whether each information, which is regarded as useful, is appropriate as part of the financial statements in the light of Framework or IAS 1. We especially doubt that some items in capital disclosures (Question 4) and the disclosures of risks arising from financial instruments (Question 6) are appropriate as part of the financial statements, and they should be reconsidered.

#### **Question 4 – Capital disclosures**

**The draft IFRS proposes disclosure of information that enables users of an entity’s financial statements to evaluate the nature and extent of its capital. This includes a proposed requirement to disclose qualitative information about the entity’s objectives, policies and processes for managing capital; quantitative data about what the entity regards as capital; whether during the period it complied with any capital targets set by management and any externally imposed capital requirements; and if it has not complied, the consequences of such non-compliance (see paragraphs 46-48 and BC45-BC54).**

**Is this proposal appropriate? If not, why not? Should it be limited to only externally imposed capital requirements? What, if any, alternative disclosures would you propose?**

As a general matter, we do not disagree with the idea that information about capital should be disclosed. However, as described in overall comments, we doubt that all of the items required in capital disclosures are appropriate as part of the financial statements. Especially, paragraphs 47 (d) and (e) require an entity to disclose whether during the period it complied with the capital targets set by management, and when it has not complied with the targets, the consequences of such non-compliance. However, we believe it is also important to evaluate the capital from the mid-and-long-term perspective, and it is not appropriate to require an entity to uniformly disclose

compliance status with internal capital requirement and the consequences of non-compliance by each period. It should be disclosed individually, in accordance with an entity's management policies, somewhere outside the financial statements such as MD&A.

Moreover, it is not appropriate to deal with capital disclosures requirement in ED 7 because capital relates to all items in the financial statements, and not only to financial instruments.

#### **Question 6 – Location of disclosures of risks arising from financial instruments**

**The disclosure of risks arising from financial instruments proposed by the draft IFRS would be part of the financial statements prepared in accordance with International Financial Reporting Standards (see paragraph BC41). Some believe that disclosures about risks should not be part of financial statements prepared in accordance with IFRSs; rather they should be part of the information provided by management outside the financial statements.**

**Do you agree that the disclosures proposed by the draft IFRS should be part of the financial statements? If not, why not?**

We do not agree with the Board's proposal. We doubt that all the items required in the disclosure of risks arising from financial instruments are appropriate as part of the financial statements. Especially with regard to quantitative disclosures, necessary information may vary in accordance with nature, quantity, and structure of financial instruments the entity has. For example, paragraph 39(a) requires an entity to disclose maximum exposure to credit risk by class of financial instrument. However, if the entity is exposed to credit risk of specific industries or companies by different class of financial instruments, the disclosure of risk exposure by another category (e.g. by industry) might be more useful than that by class of financial instruments. We believe that, as for those items, individual disclosure in accordance with characteristics of financial instruments should be made somewhere outside the financial statements such as in MD&A, rather than uniform disclosures in the financial statements. Therefore, the Board should reconsider whether each item required to disclose is appropriate as part of the financial statements.

#### **Question 7 – Consequential amendments to IFRS 4 (paragraph B10 of Appendix B)**

**Paragraph B10 of Appendix B proposes amendments to the risk disclosures in IFRS 4**

***Insurance Contracts* to make them consistent with the requirements proposed in the draft IFRS. The requirements in IFRS 4 were based on Disclosure requirements in IAS 32 that would be amended by the draft IFRS. The Board's reasons for proposing these amendments are set out in paragraphs BC57-BC61.**

**Do you agree that the risk disclosures in IFRS 4 should be amended to make them consistent with the requirements proposed in the draft IFRS? If not, why not and what amendments would you make pending the outcome of phase II of The Board's Insurance project?**

We do not agree with the Board's proposal. We believe that any amendments should not be made until the accomplishment of phase II of the insurance project except for amendments of cross-references.

In consequential amendments to IFRS 4, there seems to be some inappropriate requirements in which the Board requires far higher level disclosures on insurance contracts, rather than coordinating IFRS 4 with the proposed IFRS. For example, paragraph 39(c) of IFRS 4 is amended to "the disclosures for credit risk, liquidity risk and market risk that paragraphs 32-45 of IFRS X would require if the insurance contracts were within the scope of IFRS X". Sensitivity analysis of market risks is included in paragraphs 32-45 of the proposed IFRS. However, we believe that it is inappropriate to require such high level disclosures during the absence of uniform standard about calculation method of insurance liability. Also, paragraph 38 of IFRS 4 is amended to "An insurer shall disclose information that enables users of its financial statements to evaluate the amount, timing and uncertainty of future cash flows from insurance contracts". However, it is inappropriate to require insurers to disclose such detailed and high level disclosures which "enable users to evaluate" the amount, timing and uncertainty of future cash flows while IFRS 4 is still in effect.

Moreover, in order to comply with the proposed amendments to IFRS 4, insurers may need to make further system changes in addition to the system development now being proceeded in response to IFRS 4. Besides, further system change is predicted one more time in order to measure insurance liability depending on the outcome of phase II. It is against the Board's intention on phase I to impose such heavy burdens on insurers.

As the accounting standard on insurance contracts is being discussed separately from financial instruments in the light of characteristics of insurance contracts, we believe that disclosures on insurance contracts also should be discussed separately in parallel with the basis of discussions in phase II, with consideration to the appropriateness of disclosures.

## **Question 8 – Implementation Guidance**

**The draft Implementation Guidance accompanying the draft IFRS suggests possible ways to apply the risk disclosure requirements in paragraphs 32-45 (see paragraphs BC19, BC20 and BC42-BC44).**

**Is the Implementation Guidance sufficient? If not, what additional guidance would you propose?**

The disclosure of credit risk exposures based on internal credit ratings is taken up in paragraph IG19. However, since internal credit grading system may vary from entities to entities, its disclosure might result in misunderstanding of users. Therefore, we believe that paragraph IG19 should be deleted.

#### **Question 10 – Other comments**

**Do you have any other comments on the draft IFRS, Implementation Guidance and Illustrative Examples?**

Some disclosure requirements in ED 7, particularly in the disclosure of risks arising from financial instruments, seem to be similar to the disclosure requirement (e.g. sensitivity analysis) by some regulatory authorities, such as International Association of Insurance Supervisors. Therefore, we request that the Board ensure consistency between ED 7 and the disclosure requirements by those authorities in order to avoid the confusion of users, if they are substantially the same.