The Life Insurance Association of Japan

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November 14, 2003

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

Dear Sirs/Madams,

The Life Insurance Association of Japan is pleased to send the comments on the Exposure Draft of proposed amendments to IAS 39, “Financial Instruments: Recognition and Measurement” to International Accounting Standards Board.

We feel great respect for the efforts made by IASB and would like to appreciate you for providing us with an opportunity to render our comments on the draft documents.

The attached comments represent those of the Life Insurance Association of Japan consisting 41 life insurers in Japan.

Yours Sincerely,

Katsutoshi Saito
Chairman of Current Issue Committee
The Life Insurance Association of Japan

November 14, 2003

Comments on Amendments to IAS 39 Financial Instruments

Re: Question 1

We are pleased to learn that the IASB is examining the matter of introducing a portfolio hedge of interest rate risk to enable fair value hedge accounting.

However, we do not support the currently proposed amendments concerning the following three points: method to identify hedging effectiveness, treatment when the expected interest rate repricing dates are revised, and treatment when the time period from which hedged items are derecognised cannot be determined. We believe that the following methods that banks and insurers in Japan are currently permitted to use should be adopted.

(1) Regard of hedging effectiveness, in view of factors such as that the hedged risk is interest rate risk and that there is a large practical burden involved in measuring the fair values of individual assets and liabilities in hedged portfolio, we believe that as long as a reasonable time period is designated, it should be permissible to use methods that identify hedging effectiveness by verifying the state of interest rates (specifically methods that compare interest rate volatilities at both the beginning and end of a time period) that would have an impact upon changes in the fair value of both hedged items and the hedging instruments.

(2) Regarding treatment when the expected interest rate repricing dates are revised, we do not support the amendment that proposes that ineffectiveness arises as a result of increased or reduced prepayments. We believe the following methods should be employed.

- Over-hedging: relevant profits or losses should be recognized by the completion of hedge accounting for the revised portion of the hedged items that is less than initially planned. Regarding the point that at this time over-hedging usually arises from the initial hedged items averagely, our view is the same as the proposed amendment.
- Under-hedging: we believe it should not be necessary to recognize profits or losses for the portion concerned even if prepayment does not proceed as scheduled and there remains a greater unhedged portion than originally foreseen because the relationship between initial hedged items and initial hedging instruments is maintained. Furthermore, the amendment states that if it were unnecessary to recognize profits or losses for under-hedging, it is possible that there would be under-estimation of portions to be hedged in order to prevent over-hedging. However, we believe that when there is under-estimation of portions to be hedged, there is little possibility of excessively arbitrary management because the effect of hedging would be smaller than desired.

(3) Exposure Draft A39 states to the effect that when the time period from which hedged items are derecognised cannot be determined, the derecognised hedged items shall be designated to arise from the shortest time period (and write down assets or liabilities as defined on article 154). However, we can conceive of cases where it would not be appropriate to presume to do this for portfolios composed of diverse assets and liabilities. Consequently, depending on the actual state of a portfolio, when it is logical to use the average arising for the overall portfolio, this should be permitted.

In addition, to facilitate practical handling of fair value hedges, we believe that the deferral hedge accounting should be permitted for hedge method valuation differences (have the accounting of hedging instrument conform to that of hedged item), as Japan's accounting standards stipulate. We believe that it should be permissible not to recognize profits or losses even if there is a portion for which hedging was ineffective at the time, as long as the requirement for hedging effectiveness identification (80% - 125%) is satisfied.

Re: Question 2

(None in particular)