

IASB/FASB Round-Table on Global Financial Crisis
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Ensuring due process

The IASB issued amendments to IAS39 to permit entities to retrospectively reclassify financial instruments, without comment period, in response to the interest of specific regions. This may negatively affect the credibility of the IFRS, although there was significant time constraint. The due process should be reconsidered taking into account the necessity to address urgent matters such as global financial crisis.

Guidance on fair value measurement in markets with poor liquidity

There is need to examine if the existing guidance on fair value measurement in markets with poor liquidity, including “educational guidance on the application of fair value measurement when markets become inactive” issued by the IASB on October 31, is appropriate valuation method for financial instruments in such markets, through dialogue with market participants, and consider the issuance of additional guidance if necessary.

Learning from this experience

The issues re-recognized during this financial turmoil, or the difficulty of fair value measurement in markets with poor liquidity gave us valuable suggestions for accounting standard setting in the future. We should note seriously that the measurements of “fair” values are not absolute in nature and may produce unintended impact on entities’ business activities through performance evaluation based on such unreliable valuation.

Relationship with the insurance contracts project

Insurance contracts are those financial products which have even lower liquidity than those financial instruments, for which special treatment was needed, and provide services for a long term. We may encounter potentially similar problems to those we have just experienced for financial instruments, once fair value-type measurements are introduced for insurance contracts. It should be avoided to force most of insurance companies in the market, which have no problem in the long run, to exit from the market, simply due to accounting constraints.

This problem is not merely for financial instruments

Both the IASB and the FASB should consider these measurements problems in the context of all accounting standards which would contain fair value-type measurements and should not limit the scope to the financial instruments.

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