

THE MARINE & FIRE INSURANCE ASSOCIATION OF JAPAN, INC.

Non-life Insurance Building, 9, Kanda Awajicho 2-chome, Chiyoda-Ku, Tokyo 101-8335, Japan

Tel: 81-3-3255-1221 Fax: 81-3-3255-4250

E-mail: keiri@sonpo.or.jp

October 11, 2002

Sir David Tweedie  
Chairman  
International Accounting Standards Board

Dear Sir,

We are pleased to have an opportunity to comment on the exposure draft of proposed *Amendments to IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement*.

The association, the Marine and Fire Insurance Association of Japan, Inc., was originally established in 1917 and reestablished in 1946 by non-life insurance companies consisting of thirty insurance companies in Japan. Despite the name of the association, it is in substance the non-life insurance association. The objective of the association is to promote the sound development of the non-life insurance industry in Japan.

Net premiums written by the members of the association for the year ended March 31, 2002 were ¥6.8 trillion, and total assets at March 31, 2002 were ¥33.1 trillion. Each member company is listed at the end of this letter.

The association has set up a special working group on IAS related issues in its Accounting Committee. The association believes that the comments attached reflect viewpoints of the non-life insurance industry in Japan. We would much appreciate it if you would take our views into consideration in preparing standards.

Yours sincerely,

Hiroshi Endo  
Chairman  
Accounting Committee  
The Marine and Fire Insurance Association of Japan, Inc.

Following are comments of the Marine and Fire Insurance Association of Japan, Inc. with respect to the exposure draft of proposed *Amendments to IAS 39, Financial Instruments: Recognition and Measurement* issued for comments by the International Accounting Standards Board in June 2002. We have no comment on *Amendments to IAS 32, Financial Instruments: Disclosure and Presentation*.

## **1. Scope (paragraph 1 and paragraph 2)**

We would like to make three comments on this issue as below.

First, 1- (d) states that this standard applies when a financial instrument takes the form of an insurance contract as described .., but principally involves the transfer of financial risks .. In order to implement this principle into practice, reasonable and clear guidance for distinction between financial instruments and insurance contracts should be prepared.

Second, paragraph 1- (h) and paragraph 2 state contracts that require a payment on climatic, geological, or other physical variables are excluded from the scope of IAS 39. On the other hand, DSOP for insurance contracts concludes contracts that require a payment based on climatic, geological or other physical variables regardless of any adverse affect on the holder of the contract (weather derivatives) are not insurance contracts (Insurance DSOP paragraph 1.39-(f)). Accordingly, it is necessary to clarify by which standard the accounting for such contracts, for example weather derivatives, should be treated.

Finally, regarding paragraph 1-(f), we would like to see the reason why the board has added the words of “with respect to measurement after initial recognition”. If this means that any financial guarantees will first be measured under IAS 39, it obviously is not consistent with IAS 37. We understand that financial guarantees are first determined to which standard they follow according to the nature and terms of the contracts. For example, those contracts that provide for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment due will be treated under IAS 37 for measurement of both initial and after recognition.

## **2. Measurement (paragraph 10)**

We would like to make three comments on this issue as below.

First, we note that the project on Performance Reporting is under discussion. If the project decides to employ the single statement of comprehensive income, reporting all the changes in the equity in the statement, the designation of financial instruments into different categories will not be relevant and consistent with IAS 39. It is crucial to report the financial instruments in a manner that reflects both the nature and the purpose of the possession. Accordingly, we urge that IASB proceed the Performance Reporting project so that it would be consistent with the purpose and substance of IAS 39.

Second, we suggest IAS 39 permit insurance companies to reclassify the financial

instruments when Insurance IFRS is in effect, provided it requires the insurance liabilities measured at entity specific value. If Insurance IFRS requires insurance liabilities measured at entity specific value, it will result in a totally different measurement than those currently employed by many insurance companies. Accordingly, insurance companies will also need to reclassify the financial instruments held to support these liabilities so that the financial statements reflect more accurately the intent of holding the instruments and their financial position.

Finally, it might be useful to require the disclosure of principles used by an entity as to how the financial instruments have been designated into each category, provided an entity is permitted to designate any financial instruments irrevocably at initial recognition as an instrument that is measured at fair value with changes in fair value recognized in profit or loss. Such requirement would help sustain comparability of financial statements among different entities who designate financial instruments by various principles.

### **3. Embedded Derivatives (paragraph 22 – 26)**

It is extremely difficult and impractical to separate and measure the value of the derivatives inherent to some insurance contracts sold in Japan. As proposed in paragraph 1.72 of Insurance DSOP, embedded derivatives should be accounted for under the Insurance IFRS. Such derivatives will be measured at fair value within the insurance contracts as soon as the Insurance IFRS is in effect. It is not worth the cost and effort to establish the way to measure such values just until the insurance IFRS is implemented.

Member Companies of the Marine and Fire Insurance Association of Japan, Inc. (As of October 7, 2002)

Aioi Insurance Co., Ltd.

28-1, Ebisu 1-Chome, Shibuya-Ku, Tokyo 150-8488.

Tel : 03-5424-0101.

Fax : 03-5789-6685.

URL : <http://www.ioi-sonpo.co.jp/>

The Asahi Fire & Marine Insurance Co., Ltd.

6-2, Kajicho 2-Chome, Chiyoda-Ku, Tokyo 101-8655.

Tel : 03-3254-2211.

Fax : 03-3254-2296.

URL : <http://www.asahikasai.co.jp/>

The AXA Non-Life Insurance Co., Ltd.

Ariake Frontier Bldg. Tower A, 3-1-25 Ariake

Koto-Ku, Tokyo 135-8611.

Tel : 03-3570-8989.

Fax : 03-3570-8981.

URL : <http://www.axa-direct.co.jp/>

The Daido Fire & Marine Insurance Co., Ltd.

Okinawa head office :

12-1, Kumoji 1-Chome, Naha, Okinawa 900-8586.

Tel : 098-867-1161.

Fax : 098-862-8362.

Tokyo branch office :

2-7, Kanda Sudacho 1-Chome, Chiyoda-Ku, Tokyo 101-0041.

Tel : 03-3254-7517.

Fax : 03-3254-4174.

URL : <http://www.daidokasai.co.jp/>

The Fuji Fire & Marine Insurance Co., Ltd.

Osaka head office :

18-11, Minamisenba 1-Chome, Chuo-Ku, Osaka 542-8567.

Tel : 06-6271-2741.

Fax : 06-6266-7115.

Tokyo head office :

12-1, Kanda Tsukasamachi 2-Chome, Chiyoda-Ku, Tokyo 101-0048.

Tel : 03-5295-7634.

Fax : 03-5295-7649.

URL : <http://www.fujikasai.co.jp/>

The Japan Earthquake Reinsurance Co., Ltd.

The Kobuna-cho Fuji Plaza 4F, 8-1, Nihonbashi Kobuna-cho,  
Chuo-Ku, Tokyo 103-0024.

Tel : 03-3664-6107.

Fax : 03-3664-6169.

URL : <http://www.nihonjishin.co.jp/>

Jl Accident & Fire Insurance Co., Ltd.

Al Bldg., 20-5, Ichibancho, Chiyoda-Ku, Tokyo 102-0082.

Tel : 03-3237-2111.

Fax : 03-3237-2250.

URL : <http://www.jihoken.co.jp>

The Kyoei Mutual Fire & Marine Insurance Co.

18-6, Shimbashi 1-Chome, Minato-Ku, Tokyo 105-8604.

Tel : 03-3504-2335.

Fax : 03-3508-7680.

URL : <http://www.kyoeikasai.co.jp>

Meiji General Insurance Co., Ltd.

11-1, Kanda Tsukasamachi 2-Chome, Chiyoda-Ku, Tokyo 101-0048.

Tel : 03-3257-3149.

Fax : 03-3257-3299.

URL : <http://meiji-general.aaapc.co.jp/>

Mitsui Direct General Insurance Co., Ltd.

1-4-27, Koraku Bunkyou-Ku, Tokyo, 112-0004

Tel : 03-5804-7711.

Fax : 03-5804-7748.

URL : <http://www.mitsui-direct.co.jp/>

Mitsui Seimei General Insurance Co., Ltd.

1-1, Toranomom 2-Chome, Minato-Ku, Tokyo 105-0001.

Tel : 03-3224-2830.

Fax : 03-3224-2677.

URL : <http://www.mitsui-seimei.co.jp/sonpo/>

Mitsui Sumitomo Insurance Co., Ltd.

27-2, Shinkawa 2-Chome, Chuo-Ku, Tokyo 104-8252.

Tel : 03-3297-1111.

URL : <http://www.ms-ins.com/>

The Nichido Fire & Marine Insurance Co., Ltd.

3-16, Ginza 5-Chome, Chuo-Ku, Tokyo 104-0061.

Tel : 03-3289-1066.

Fax : 03-3574-0646.

URL : <http://www.nichido.co.jp/>

NIPPONKOA Insurance Co., Ltd.

7-3, 3-Chome, Kasumigaseki, Chiyoda-Ku, Tokyo 100-0013.

Tel : 03-3593-5154.

Fax : 03-3593-5159.

URL : <http://www.nipponkoa.co.jp/>

Nissay Dowa General Insurance Co., Ltd.

15-10, Nishi-Tenma 4-Chome, Kita-Ku, Osaka 530-8555.

Tel : 06-6363-1121.

Fax : 06-6363-7519.

URL : <http://www.nissaydowa.co.jp/>

The Nisshin Fire & Marine Insurance Co., Ltd.

3, Kanda-Surugadai 2-Chome, Chiyoda-Ku, Tokyo 101-8329.

Tel : 03-5282-5534.

Fax : 03-5282-5582.

URL : <http://www.nisshinfire.co.jp/>

SAISON Automobile & Fire Insurance Co., Ltd.

Sunshine 60 Bldg., 1-1, Higashi-Ikebukuro 3-Chome,

Toshima-Ku, Tokyo 170-6068.

Tel : 03-3988-2572.

Fax : 03-3980-7367.

URL : <http://www.ins-saison.co.jp>

SECOM General Insurance Co., Ltd.

6-2, Hirakawa-cho 2-Chome, Chiyoda-Ku, Tokyo 102-8645.

Tel : 03-5216-6129.

Fax : 03-5216-6147.

URL : <http://www.secom-sonpo.co.jp/>

Sompo Japan Insurance Inc.

26-1, Nishi-Shinjuku 1-Chome, Shinjuku-Ku, Tokyo 160-8338.

Tel : 03-3349-3111.

Fax : 03-5381-7406.

URL : <http://www.sompo-japan.co.jp/>

Sony Assurance Inc.

Aroma Square 11F, 5-37-1 Kamata Ota-Ku, Tokyo 144-8721.

Tel : 03-5744-0300.

Fax : 03-5744-0480.

URL : <http://www.sonysonpo.co.jp/>

The Sumi-Sei General Insurance Co., Ltd.

Sumitomo Life Yotsuya Bldg., 8-2 Honshio-Cho,  
Shinjuku-Ku, Tokyo 160-0003.

Tel : 03-5360-6229.

Fax : 03-5360-6695.

The Taisei Fire & Marine Insurance Co., Ltd.

2-1, Kudan-Kita 4-Chome, Chiyoda-Ku, Tokyo 102-0073.

Tel : 03-3222-3072.

Fax : 03-3234-4073.

URL : <http://www.taiseikasai.co.jp>

The Toa Reinsurance Co., Ltd.

6, Kanda-Surugadai 3-Chome, Chiyoda-Ku, Tokyo 101-8703.

Tel : 03-3253-3171.

Fax : 03-3253-1208.

Telex : 24384 TOARE J.

URL : <http://www.toare.co.jp/>

The Tokio Marine & Fire Insurance Co., Ltd.

2-1, Marunouchi 1-Chome, Chiyoda-Ku, Tokyo 100-8050.

Tel : 03-3212-6211.

Fax : 03-5223-3100.

Telex : 3722170 STILWA J.

URL : <http://www.tokiomarine.co.jp/>

Yasuda Direct General Insurance Co., Ltd.

Sunshine 60 Bldg. 44F, 1-1, Higashi-Ikebukuro 3-Chome,  
Toshima-Ku, Tokyo 170-6044.

Tel : 03-5957-0111.

Fax : 03-5952-1960.

URL : <http://www.directline.co.jp/>

The Yasuda General Insurance Co., Ltd.

29th Floor, Shinjuku MAYNDS Tower, 1-1, Yoyogi, 2-Chome,  
Shibuya-Ku, Tokyo 151-0053.

Tel : 03-5352-8129.

Fax : 03-5352-8948.