



The Life Insurance Association of Japan

3-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-0005 JAPAN Phone:+81-3-3286-2651 Fax:+81-3-3201-6713

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CL 24

Sir David Tweedie
Chairman
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH,
United Kingdom

Dear Sir David

The Life Insurance Association of Japan (LIAJ) feels great respect for the effort made by IASB to establish international accounting standards, and sincerely appreciates the opportunity to express our opinion in response to the Exposure Draft of Proposal for Limited Amendment to IAS 39 Financial Instrument and IFRS 4 Insurance Contract (Financial Guarantee Contracts and Credit Insurance). The following represents the comments of LIAJ, consisting of 40 life insurers, which was established to promote sound development of life insurance business and maintain its reliability.

Yours sincerely,

Sadao Kato
Chairman of the Current Issue Committee
The Life Insurance Association of Japan

**Comments on Exposure Draft of Proposal for Limited Amendment to
IAS 39 Financial Instrument:
Recognition and Measurement
and
IFRS 4 Insurance Contracts
(Financial Guarantee Contracts and Credit Insurance)**

(General Remarks)

IASB requires entities to use the same accounting for similar financial instruments. While credit insurance is an insurance product which possesses insurance risk, a financial guarantee contract is simply a credit transaction, hence the nature of each differs widely. Therefore, it is not appropriate to comprehensively apply the same accounting to them within the scope of IAS 39.

IASB ensured that we would defer detailed reviews of general issues to discussion on Phase II and restrict the provisional change in the process of developing IFRS 4 in order to avoid causing unnecessary paperwork, change of system, and accompanying expense for insurers. In fact, the discussion on Phase . has already started. Therefore, the accounting treatment for credit insurance should remain intact at this point and be the same as the one used for insurance contract.

(Individual issues)

Question 1-Form of contract

No comment

Question 2-Scope

The proposed scope is not appropriate.

We consider that there is a fundamental difference between credit insurance and financial guarantee contracts. While credit insurance is the insurance product with the function of diversifying risk, financial guarantee contract is a simple credit transaction. Specifically, the former rests on the premise that it protects the debtors as a group against risk, and the latter basically protects individual or particular debtors.

Credit insurers manage credit risk by using theory of probability or pooling individual risk within a portfolio. This risk diversification method is a characteristic of insurance business, which should be appropriately reflected in financial statements, is also one of the key issues to be discussed in Insurance Contract Phase II. Therefore, we should not determine how the credit insurance is treated in IFRS at this point.

Question 3-Subsequent measurement

The proposal is not appropriate.

Credit insurance should be measured in the same way as other insurance contracts.

Question 4-Effective date and transition

The proposed effective date and transition are not appropriate.

In principle, any new proposals should not be applied retrospectively. Issues of credit insurance should be discussed in Insurance Contract Phase II.

Question 5-Other comment

No comment