Comments on Amendments to IAS 39 Financial Instruments: Recognition and Measurement - The Fair Value Option -

15 July, 2004
The Life Insurance Association of Japan

The Life Insurance Association of Japan (LIAJ) would like to express respect for the efforts that have been made by the International Accounting Standards Board to develop international accounting standards. We appreciate this opportunity to comment on the exposure draft Amendments to IAS 39 Financial Instruments: Recognition and Measurement, The Fair Value Option.

The LIAJ is a trade association composed of 40 life insurance companies, whose purpose is to promote development and public trust in the Japanese life insurance industry.

Question in "Invitation to Comment"	Answers and Comments
	General remarks As we have already commented on the amendment to the Exposure Draft IAS 32, and IAS 39 *Financial Instrument*, (submitted in October, 2002), we consider that introduction of fair value option might impair the comparability of financial statements. At the same time, expanding the scope of what is measured at fair value with those changes reflected in profit or loss could lead to generating the same result as the case of adopting the content of the JWG Draft in 2000. This states that "recognition of virtually all gains and losses resulting from changes in fair value in the income statement in the periods in which they arise under the measurement of virtually all financial instruments at fair value." As a result, it is possible that this would not conform to the fundamental purpose of the income statement, which is to properly indicate business results for a single business year. For the above reasons, we oppose to the introduction of the fair value option itself. However, we wish to make our comment on the Exposure Draft as follows;
Question 1 Do you agree with the proposals in this Exposure Draft? If not, why not? What changes do you propose and why?	We agree on the direction of the proposed amendment placing some restrictions on the use of the fair value option. We are also in favour of seeking verifiability of fair value when using the fair value option. However, <permitting entities to designate arbitrarily on initial recognition any financial assets or financial liabilities other than loans and receivables as one to be measured at fair value with gains and losses recognised in profit or loss> might impair the comparability of financial statements. It might also divert from the underlying purpose of profit and loss statement aiming at adequately displaying the business performance in a given fiscal year. Therefore, we oppose to this clause of the amendment. The conditions in the proposed amendment

Question in "Invitation to Comment"	Answers and Comments
	are not limitative enough, so we hope that more restriction should be placed.
Question 2 Are you aware of any financial instruments to which entities are applying, or are intending to apply, the fair value option that would not be eligible for the option if it were revised as set out in this Exposure Draft? If so: (a) please give details of the instrument(s) and why it (they) would not be eligible. (b) is the fair value of the instrument(s) verifiable (see paragraph 48B) and if not, why not? (c) how would applying the fair value option to the instrument(s) simplify the practical application of IAS 39?	No comments.
Question 3 Do the proposals contained in this Exposure Draft appropriately limit the use of the fair value option so as to address adequately the concerns set out in paragraph BC9? If not, how would you further limit the use of the option and why?	As we already commented on Question 1, this amendment, which is to <permit entities to designate arbitrarily on initial recognition any financial assets or financial liabilities other than loans and receivables as one to be measured at fair value with gains and losses recognised in profit or loss>, might impair the comparability of financial statement and divert from the underlying purpose of profit and loss statement aiming at adequately displaying the business performance of a corresponding fiscal year. It is desirable to delete the forthcondition of *a financial asset or financial liability at fair value through profit or loss* proposed in the draft Amendment, <Paragraph 9 (b) (iv) a financial asset other than one that meets the definition of loans and receivables.> at least.
Question 4 Paragraph 9(b)(i) proposes that the fair value option could be used for a financial asset or financial liability that contains one or more embedded derivatives, whether or not paragraph 11 of IAS 39 requires the embedded derivative to be separated. The Board proposes this category for the reasons set out in paragraphs BC6(a) and BC16-BC18 of the Basis for Conclusions on this Exposure Draft. However, the Board recognises that a substantial number of financial assets and financial liabilities contain embedded derivatives and, accordingly, a substantial number of financial assets and financial liabilities would qualify for the fair value option under this proposal. Is the proposal in paragraph 9(b)(i) appropriate? If not, should this category be limited to a financial asset or financial liability containing one or more embedded derivatives that paragraph 11 of IAS 39 requires to be separated?	It is our remaining concern that permitting to apply the fair value option to "all" financial assets or financial liabilities that contain one or more embedded derivatives, irrespective of the requirements to separate the embedded derivatives or not, might possibly lead to the abuse of the option and the lack of compatibility in a financial statement. For this reason, it is desirable to strengthen the limitations, such as restriction on applying the option to financial assets and liabilities not required to be separated.
Question 5	

Question in "Invitation to Comment"	Answers and Comments
Paragraph 103A proposes that an entity that adopts early the December 2003 version of IAS 39 may change the financial assets and financial liabilities designated as at fair value through profit or loss from the beginning of the first period for which it adopts the amendments in this Exposure Draft. It also proposes that in the case of a financial asset or financial liability that was previously designated as at fair value through profit or loss but is no longer so designated: (a) if the financial asset or financial liability is subsequently measured at cost or amortised cost, its fair value at the beginning of the period for which it ceases to be designated as at fair value through profit or loss is deemed to be its cost or amortised cost. (b) if the financial asset is subsequently classified as available for sale, any amounts previously recognised in profit or loss shall not be reclassified into the separate component of equity in which gains and losses on available-for-sale assets are recognised. However, in the case of a financial asset or financial liability that was not previously designated as at fair value through profit or loss, the entity shall restate the financial asset or financial liability using the new designation in the comparative financial statements. Finally, this paragraph proposes that the entity shall disclose: (a) for financial assets and financial liabilities newly designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the previous financial statements. (b) for financial assets and financial liabilities no longer designated as at fair value through profit or loss, their fair value and the classification and carrying amount in the current financial statements. Are these proposed transitional requirements appropriate? If not, what changes do you propose and why? Specifically, should all changes to the measurement basis of a financial asset or financial liability that result from adopting the amendments proposed in this Exposure Draft be applied retrospectively by restating the comparative financial statements?	No comments.
Question 6 Do you have any other comments on the proposals?	No comments.