

Financial Instruments and Fair Value Accounting —From the viewpoint of “Principles-based” approach vs. “Rule-based” approach—

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This study is to discuss the convergence of accounting standards for financial instruments from the viewpoint of “Principles-based” approach vs. “Rule-based” approach. The current discussion focuses on fair value accounting—accounting standards for the measurement of financial instruments.

Whether accounting standards are set based on “principles” or “rules” greatly influence the process of international convergence of the accounting standards. The high-level principles based on which the accounting standards for financial instruments are set are relatively easy to converge since a common view on the principles has been reached by various countries. In contrast, the low-level detailed rules are not easy at all to be harmonized with diverse accounting treatments of financial instruments co-existing especially for the example of fair value accounting. The concept of “fair value” varies with specific situations, while what is at the core of the concept keeps the same— fair value as the “pres-

ent value of future cash flows”. Besides, the exceptions for the principle of measuring financial instruments at fair value are : 1) accounting for securities by the holding - purpose ; 2) measurement of financial liabilities ; and 3) hedge accounting, for example. All these should be examined from perspective of the integration of principles and rules and dealt with from the convergence of detailed rules.

Based on the above consideration, it is argued that the principle of comprehensive fair value accounting is supported theoretically, while simple treatments and alternative methods are admitted from the viewpoint of practical applicability and uniqueness of accounting standards of each country. Therefore, in order to improve the convergence of financial instruments accounting, the problems of “theoretical consistency” vs. “practical applicability”, “uniqueness” vs. “comparability”, and “cost” vs. “market value” should be solved.