

<Appendix>-I Statements submitted to IAIS

< Appendix > I-a

Comments on the Draft Paper
Issues arising as a result of the IASB's Insurance Contracts Project
- Phase II: Second Set of IAIS Observation (Second Liabilities Paper)

Paragraph Reference	Comments
all	<p>We would like to express to the IAIS our appreciation for giving us an opportunity to suggest the description of the Discretionary Participation Features, and also incorporating it into the second 'Liabilities Paper' with due consideration to the recent deliberation held in this context at the IASB board meeting last March.</p> <p>We hope that we will continue to have the opportunity to cooperate with the IAIS on making a positive input to the IASB.</p> <p>Papers of the IAIS would make significant implications for the IASB. We believe a dialogue between the IAIS and interested parties is essential at every phase of our work progress.</p> <p>Although we are aware of the imposed time constraints, the three-week deadline was too tight to meet, in particular for those who are not native English speakers. To draw out useful inputs more effectively, we therefore would appreciate it if you could hereafter provide a longer period for preparation of at least one month.</p>
41	<p>Current exit value could lead to the recognition of a profit at inception. This treatment differs from that of other accounting standards, namely for other financial instruments, and might induce accounting cherry-picking among financial instruments. In the case of an insurance contract, which carries no inventory, this approach may give rise to the possibility that performance results could be temporarily inflated as a result of underwriting a great number of contracts with possibly high lapse rate.</p> <p>We believe the description of paragraph 41 and 42 which says the recognition of profit at inception should be limited is absolutely consistent with a sound supervisory approach. However, while the Executive Summary refers clearly to the point mentioned in paragraph 42, it makes no explicit reference to the point in paragraph 41.</p> <p>Therefore, we would suggest adding the following sentence in the Executive Summary referring to paragraph 41 and in the (unnumbered) highlighted paragraph between paragraphs 39 and 40 as well.</p> <p style="padding-left: 2em;">"no profit at inception should be recognised in the absence of reliable evidence of its existence"</p>
58	<p>The Quantile approach and Cost of Capital approach are taken up among possible approaches for calculating the MOCE.</p> <p>We think each has its advantages and disadvantages and we can't readily decide which would be better. Therefore we support the IAIS's view that: "it is probably not desirable to impose a single method of calculation."</p>
65	<p>We understand that paragraphs from 50 through 54 suggest not reflecting entity-specific risks in the measurement of liabilities.</p> <p>We agree to this basic notion of the IAIS, and understand that it also applies to the Cost of Capital approach. However, because the word "Cost of Capital" generally implies that entity-specific factors are taken into account, we would suggest the following sentence be added in the end of paragraph 65.</p> <p style="padding-left: 2em;">Application of the Cost of Capital approach to the measurement of liabilities does not seek to reflect entity-specific risks in liabilities.</p>
74	<p>We agree, for the purpose of prudence, with the sentence, "it remains the case that some form of surrender value minimum is appropriate, to provide protection..."</p>
90-98	<p>As was expressed in our previous presentations, we fully support the view of the IAIS in which discretionary participation features should be treated as liabilities based upon the expected future cash flows.</p>

96	<p>To be more convincing in our argument that “the amount expected to be distributed in future to policyholders as dividend should be treated as liabilities,” we would suggest the following sentence be added in paragraph 96.</p> <p>Even in the case where participating insurance contracts are to be transferred to another insurer, the participation feature of those contracts remains. Therefore this transferee insurer would request that the resources for future dividends are included in the transfer price .In other words, exit value, which is supposed to be based on a transfer price, would include the amount to be distributed to policyholders as dividends.</p>
97	<p>The IASB decided that future dividends expected to be distributed to policyholders would not necessarily be treated as liabilities at the March meeting. We believe that the IAIS would urge the decision to be changed.</p> <p>We agree on the agreement that was made in the Insurance Contract Subcommittee in February, which states that: “From a supervisory perspective, to the extent that a liability were not allowed for general-purpose financial reporting, future policyholder distributions should be addressed through the requirement for a separate technical provision”.</p> <p>Therefore, we would suggest that the above notion be clearly expressed in paragraph 97.</p>

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**Comments on the IAIS Common Structure for
the Assessment of Insurer Solvency (Draft)**

Paragraph reference	Comments
10	<ul style="list-style-type: none"> - In terms of the solvency assessment, we believe that attention should be paid to financial and risk diversity exposed to insurers, which arises from differences in social conditions and economic environments of each jurisdiction and that consideration should be given to the assessment methods so as to make them capable of reflecting any future possible development. - Therefore, we believe that it is appropriate to emphasise that 'the papers will not prescribe a specific solvency regime to be applied compulsorily by the jurisdictions of the IAIS members.'
34	<ul style="list-style-type: none"> - In order to achieve an efficient governance function, we agree that an effective internal control structure, such as the Board, should be crucial. In making such attempt, there are various options to establish the effective internal control structure, and we understand that the details for such standards are described in the company law of each jurisdiction. - Paragraph 34 particularly describes the number of external directors and meetings with executive and non-executive directors. This can be one measure to be taken to enhance the quality of the internal control structure; however, we do not believe that it must be the unconditional requirement. Therefore, we would like to suggest that 'Because a Board must be prepared to question and scrutinise ... with executive directors with appropriate frequency' should be amended as follows: 'A Board must be prepared to question and scrutinise management's activities, present alternative views and have the courage to act in the fact of obvious wrongdoing.'
58	<ul style="list-style-type: none"> - We support the perspective that 'Requirements for public disclosure should take into account whether the information is commercially sensitive, and the potential for its publication to have adverse effects on insurers or to distort competition or give some insurers an unfair advantage.' - In addition, we would like to suggest adding the following description: 'Solvency information produced by an insurer should be fit for the purpose and not be unduly burdensome or costly for the insurer.' - In order to keep consistency, we would also like to suggest that the same description should be added to the paper, <i>Standard on Disclosure Concerning Technical Risk And Performance For Life Insurers</i>.
98-101	<p>The Structure paper and other papers such as the ALM paper are closely related.</p> <p>However, terms used in those papers are not always defined consistently: while the 'Asset-liability mismatch risk' in the Structure paper does not encompass the 'Underwriting risk' (see paragraph 91-97), the 'ALM risk' in the ALM paper appears to encompass the Underwriting risk. This certainly could cause confusion.</p> <p>We therefore would suggest ensuring consistency between the Structure paper and other papers.</p>

102-108	<p>As described in paragraph 102, we support the view that 'A more detailed analysis of these main criteria (<i>for capital and liability requirements</i>) and the possible dependence structure between these two groups and their components will be the subject of further work.'</p> <p>In terms of determining the specific criteria for solvency assessment in each jurisdiction, setting individual requirements for capital and technical provisions per each risk factor might not be always necessary, due to the following reasons.</p> <ul style="list-style-type: none">- Depending on which approach is taken, the results might differ one which takes into consideration the diversifiability of each risk factor and the other which sees all insurance risks comprehensively.- Diversifiability may not always be clearly separable. <p style="padding-left: 40px;">In order to ensure the flexibility in the setting of requirements, we would suggest adding the following note to paragraph 102:</p> <p>'Each requirement for technical provisions and capital would not necessarily restrict the scope of its coverage, and do not deny the concept of total balance sheet approach, in which risks are covered by both capital and technical provisions.'</p>
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Comments on IAIS Draft Papers
Supervisory Standard on Asset Liability Management and
Issues Paper Asset Liability Management

Paragraph reference	Comments
	1) Supervisory Standard on Asset Liability Management
Paragraph 2	What is described in this standard is closely related with <i>the IAIS Common Structure for the Assessment of Insurer Solvency</i> (hereinafter referred to as “the structure paper”). Therefore, it should be noted that the meaning of terminology adopted here, such as “ALM risk”, will be consistent with that described in the structure paper.
Requirement II	The current economic value is not always the one realised for a range of plausible scenarios. Consequently, the term “therefore” should be deleted from Requirement II.
Requirement III, etc.	In order to ensure the consistency with such paper as <i>Guidance Paper on Investment Risk Management (October 2004)</i> , the term “interest rate risk (including variations in credit spreads)” should be amended to “interest rate risk and/or credit risk.”
Requirement VI	Asset structure to meet obligations is put into practice based upon each insurer’s strategic ALM policy which has taken into account such factor as asset management environment. Therefore, a technique ensuring liquidity should not be used in a limited way, so that the term “either by” should be amended to “by such means as” accordingly. Furthermore, it has to bear in mind that conflict will arise with regard to ALM, in cases where supervisory authorities require ensuring liquidity strictly.
Requirement VIII	Requirement VIII does not appropriately reflect the intent of paragraph 25. In putting a strategic ALM policy into practice, the segmentation of ALM into business blocks is nothing more than one of the techniques to be taken as needed, and this is suboptimal in some cases. Therefore, it should not be forced to control them by each block of business.
Requirement IX	The status quo of asset management and characteristics of products determine on which risk the importance should be placed and which ALM technique should be recommended. Therefore, we support Requirement IX which requires “the ALM measurement tools used should be appropriate for the circumstances of the insurer.”
	2) Issues Paper- Asset Liability Management
Paragraph 1	In order to deepen the understandings of readers towards “the various trade-offs”, it should be described as “the various trade-offs (for example, cost-effectiveness and return on risk)” instead.

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**Comments on the Draft
Standard on Disclosure Concerning
Technical Risks and Performance for Life Insurers**

Question No. /Paragraph No.	Comments / Proposed edits
Question 4	<p>We do not agree that 'the standard should require quantitative disclosure of regulatory capital requirement including company specific capital requirement,' due to the following reasons:</p> <ul style="list-style-type: none"> - As mentioned in the Consultation Note on the Standard on Disclosure, there are concerns that 'conveying misleading information to the markets' or 'forcing insurers to disclose proprietary/confidential information' could cause reputation risk that would adversely affect insurers and policyholders. - In particular, there is another concern that forcing the disclosure of company specific capital requirements would lead to a simple quantitative comparison across entities, of which data are in fact not really comparable.
Section 2	<p>We believe paragraph 58 of the Structure paper is highly beneficial, in that it provides a clear-cut explanation of what should be kept in mind in public disclosure.</p> <p>Therefore, the full descriptions of paragraph 58 should be also included in section 2 of this standard, for example.</p>
Paragraph 12/ Appendix	<p>This standard often includes descriptions based on accounting regimes and/or market environments specific to some jurisdictions. We therefore suggest inserting the following sentence between the first and the second sentences of the paragraph.</p> <p style="padding-left: 40px;">'When exercising their discretion, supervisors should select appropriate requirements provided in this standard, taking into consideration the accounting regimes and/or market environments in their jurisdictions.'</p> <p>In the Appendix as well, as some descriptions seem to have been written based on regimes and/or market environments in some specific jurisdictions, it should be emphasised that these descriptions are just some of examples.</p>
Paragraph 36-72	<p>Many requirements based on accounting regimes in some specific jurisdictions are described as minimum disclosure requirements. We believe the following phrase of paragraph 58 should be provided in a way that is entirely applicable to any statements of section 3.3 Technical Provisions.</p> <p style="padding-left: 40px;">'where this is relevant to the determination of the technical provisions'</p>
Paragraph 81, 88, 89	<ul style="list-style-type: none"> * The following sentence needs to be included in section 3.5 as a general remark regarding segmentation, for the benefits of market participants. <ul style="list-style-type: none"> - An effective method of segmentation should be chosen according to the characteristics of items to be disclosed. - * Paragraph 89 provides some concrete examples of segmentations in the disclosure of financial statements. Meanwhile, for further explanations about segmentation, paragraph 88 makes a reference to section 3.5, where specific examples are shown in paragraph 81. However, paragraph 81 does not actually cite the examples in paragraph 89. Therefore, to prevent possible misunderstanding and confusion, it should be clearly mentioned in paragraph 81 that the examples in paragraph 89 can also be part of the examples in paragraph 81 as well.

Paragraph 98	<p>We believe that paragraph 98 should be fully deleted due to the following reasons:</p> <ul style="list-style-type: none">* Descriptions in the paragraph should rather be provided in the ALM paper. Furthermore, they are partly inconsistent with what the ALM paper requires.* Based on the characteristics of the financial market and insurer's financial position, it may be appropriate to hold assets that do not closely match the duration of liabilities. This intentional "accounting mismatch" should be an option available to an insurer and should not be ruled out entirely.* Even in banking or other financial sectors, this type of disclosure is not required.* In cases where insurers hold assets such as equities and real estates, the duration measurement will reflect only a fixed income (or duration measurable) portion of an entire asset portfolio and this could rather be confusing.
Paragraph 102, 103	<p>As requirements based upon accounting regimes specific to some jurisdictions are provided as minimum disclosure requirements, the following expression should be included in these paragraphs:</p> <ul style="list-style-type: none">- where there is relevance of sensitive analysis in the context of accounting regime adopted in each jurisdiction, -