

3. Activities related to the IASB

a) Comments on the Discussion Paper – *Fair value Measurements*

The International Accounting Standards Board (IASB) published a discussion paper – *Fair Value Measurements* on 30 November 2006.

In the responses and comments submitted on 2 May 2007, the LIAJ did not focus on insurance contract measurement issues; rather, it intended to respond more generally to the issues which may impact its present and future practices.

Please refer to [<Appendix> 1](#) (page 35) for the LIAJ comments.

b) Comments on the Discussion Paper – *Preliminary Views on Insurance Contracts*

The IASB published a discussion paper – *Preliminary Views on Insurance Contracts* on 3 May 2007.

The LIAJ submitted its comments on 16 November 2007, on the position that an accounting system for insurers should be discussed in consideration of the following requirements.

- (1) The accounting system should be useful from the viewpoints of soundness and policyholder protection as well, which insurance business has to secure.
- (2) The insurance business has a role to underwrite risks over a long period while diversifying such risks into various insurance portfolios. Insurers' financial statements should properly reflect the results of insurance business (e.g. by recognising profits upon an insurer's release from risks, instead of recognising future profits at inception).
- (3) The standard should enable insurers to reliably recognise and measure an insurance liability with sufficient comparability.
- (4) Preparation of financial statements should be possible within reasonable costs and time frame from a cost-benefit perspective.

c) Comments on the Discussion Paper – *Financial Instruments with Characteristics of Equity*

The IASB published a discussion paper – *Financial Instruments with Characteristics of Equity* on 28 February 2008.

The LIAJ submitted its comments on 5 September 2008 in terms of basic stance, evaluation of three approaches, implications on insurance contracts and consistency with other standards.

Please refer to [<Appendix> 2](#) (page 37) for the LIAJ comments.

d) Comments on the Discussion Paper – *Reducing Complexity in Reporting Financial Instruments*

The IASB published a discussion paper – *Reducing Complexity in Reporting Financial Instruments* on 19 March 2008.

The LIAJ submitted its comments on 19 September 2008 along with its answers to questions set out in the discussion paper. The outline is as follows:

General opinions

Since we see recognition and measurement of financial instrument issues as essential items among the projects treated by the IASB, which has a great influence over the direction of developing standards, we believe that the review should be conducted meticulously and take into account comments from respondents, while ensuring consistency with other major accounting standards. At present, as issues about measuring financial instruments at fair value through profit or loss remain undecided, further considerations will be necessary to resolve these issues.

This project, which focuses on reducing complexity, should not only take into account "complexity of accounting standard(s)", but also a position on reducing "complexity in practice". Furthermore, the matter must be considered thoroughly through discussion, with the measurement of financial instruments at fair value through profit or loss striving to achieve "a single measurement method for all types of financial instruments" for reducing "complexity of accounting standard".

Answers to questions on the Discussion Paper(abstract)

- Regarding fair value through profit or loss, many issues remain unresolved at this time. Therefore, as further consideration is necessary, we oppose the requirements with the assumption of the adoption of the fair value through profit or loss.
- Hedge accounting is necessary and should not be eliminated. This is due to its complex statistical methods and assessment models, which are used to judge effectiveness. There are difficulties in the measurement method and/or risks associated with arbitrariness in the designation of derivatives by using derivatives instruments as a means of hedge or to judge hedge effectiveness. However, when recognizing profit or loss on hedging instruments and hedged items at the same time and in the same proportion, hedge accounting has an advantage in reducing fluctuations of profit over a series of periods. Therefore, hedge accounting should remain.
- It would be best if a simplification of hedge accounting included discussions of the elimination of retrospective effectiveness assessment and the mitigation of restriction on portfolio hedge accounting.
- Partial hedges should be accepted because the disadvantage of significantly reduced flexibility of investment technique with hedging by not using partial hedges outweighs the advantage of simplification by not permitting partial hedges.
- There are a number of issues to be resolved for measuring all financial instruments at fair value through profit or loss. Therefore, further considerations are necessary to resolve these issues including:
 - Concern about reliability of fair value based on inputs of unobservable market data (i.e. level 3 inputs of SFAS 157). In response to the sub-prime loan crisis, a technical advisory panel has been established and is discussing fair value assessment for securitized instruments with low liquidity at this time. This discussion should be concluded carefully and in accordance with the direction of panel discussions; and
 - If single measurements are required to measure all financial instruments at fair value, present measurement methods are not unified and a wide range of inputs are unobservable in the current market. Therefore, it is not necessarily possible to state that single measurements would improve comparability.
- As for concerns about fair value measurement of financial instruments, we would like to supplement this as follows:
 - Regarding the relevance of changes in fair value, policyholders, in the case of a life insurance company, are also users of financial information. However, it would not always be relevant for a life insurer to report profit or loss based on temporary changes of fair value at the reporting date to policyholders who hold super long-term contracts; and
 - Reliable fair value assessment of financial instruments with little (or no) observable information is in the process of development. At this time, however, this assessment has difficulty with the reliable fair value measurement within a rational range of cost for financial instruments except marketable securities.
- It is important to ensure consistency with other standards or projects for appropriate definitions of financial instruments or for objectives of accounting standards for financial instruments.
- We have found that, while the IASB is concentrating its efforts to complete major projects by 2011, the content of the Discussion Paper, even intermediate approaches, may bring about big changes and require significant resources to complete it by 2011. This could potentially have a major impact on other projects. Therefore, we believe that improvements to the accounting process for financial instruments should be done in actual and small stages, with a focus on other major projects set for 2011.

e) Comments on the Discussion Paper –*Preliminary Views on Amendments to IAS 19 Employee Benefits*

The IASB published a discussion paper –*Preliminary Views on Amendments to IAS 19 Employee Benefits* on 27 March 2008.

On 26 September 2008, the LIAJ submitted its general opinions along with its responses to the questions set out in the discussion paper. The outline is as follows:

General opinions

It is understandable to tackle complex issues step by step; however we have a deep concern that a limited scope could impair the reliability and comparability of financial statements and may hinder providing financial information which is truly useful to the users.

Regarding immediate recognition in the statement of financial position, we have some understanding of its direction based on post-retirement cost presented in the other comprehensive income, but not presented in profit or loss. However, we think that there are still some outstanding issues to discuss about the measurement method of defined benefit promises before a final decision. We also oppose the classification of defined benefit promises and contribution-based promises as proposed in the Discussion Paper, and we hope that the Board will give careful consideration to this issue.

The Discussion Paper proposes that all changes in the value of liabilities and in the fair value of plan assets arising from a contribution-based plan should be presented in profit or loss, while also proposing three approaches for the presentation of defined benefit promises. Even if the immediate recognition in the statement of financial position is adopted, we propose that actuarial gains or losses and past service costs or credits, which arise during the period but are not recognized as components of net periodic benefit costs under the current IAS 19, be presented in the other comprehensive income separately from profit or loss. As a result, actuarial gains or losses and past service costs or credits can be subsequently recycled as they are recognized as components of net periodic benefit cost.

Responses to Questions in the Discussion Paper(abstract)

- We believe that it is desirable to maintain a clean surplus relation and, therefore, the full amount presented in other comprehensive income should be eventually presented in profit or loss, although they are deferred.
- The Board basically thinks that credit risk should be included in measurement of the liability of contribution-based promises. It should be noted, however, that net assets of an entity will increase as its credit deteriorates, while net assets of the entity will decrease as its credit improves. It is doubtful whether such changes in net assets consistently reflect the entity's overall risk profile. Therefore, we are opposed to the reflection of credit risk in measurement of the post-employment benefit liabilities.
- It is doubtful whether it is appropriate to call the measurement amount proposed for contribution-based promises "fair value" because the term "fair value" is not used for measurement of insurance liabilities in the Insurance Contracts Project, which is also considering a measurement method employing three building blocks. The Board's assumption – to exclude the risk that the terms of the benefit promise change – does not incorporate part of the risks that are possibly included in a current exit value proposed as a measurement attribute of insurance liabilities. As a result, it would be less appropriate to call the proposed measurement of liabilities for a contribution-based promise as fair value than the measurement of insurance liabilities.
- The liability for benefits in the payout and deferment phases is economically the same in both defined benefit promises and contribution-based promises. Therefore, it will be problematic to apply different measurement methods and have different measurements amount to the liability in payout and deferment phases. Thus, we take the view that a separate measurement method should be developed, but only for cash balance plans during the accumulation phase.
- To address the issues on measurement of benefits that depend on future returns on assets, exceptions could be made, such as permitting higher discount rates in hedge accounting where the asset liability management is in place. We think it is possible to disaggregate the changes in liabilities of cash balance plans into components, such as required in defined benefit promises.

f) Comments on the Discussion Document – *Review of the Constitution: Public Accountability and the Composition of the IASB - Proposals for Change*

The IASB published a discussion document –*Review of the Constitution: Public Accountability and the Composition of the IASB – Proposals for Change* on 21 July 2008, as the first part of the Constitution Review.

The LIAJ submitted its comments on 19 September 2008. It also jointly developed with six insurance trade associations in the United States and Europe, the Joint Insurance Trade Letter, which was submitted on the following day, 20 September 2008.

Please refer to **<Appendix> 3** (page 39) for the LIAJ comments. The outline of the trade associations' comments is as follows:

- While we support the formation of the Monitoring Group, we believe the implementation of the Monitoring Group does not go far enough in terms of achieving the overall goals of the Proposal. We agree with the statement of ECOFIN that the Monitoring Board should have sufficient powers to provide the necessary oversight of the IASCF. It should ensure that Trustees effectively discharge their oversight role towards the IASB, play an active role in the selection of Trustees, and approve their final selection. We believe that the MOU describing the interaction between the Trustees and the Monitoring Group should be exposed for public comment and review prior to its final agreement.
- Communications with the IASB illustrate the need for more thorough and responsive formal dialogue mechanisms between the IASB and stakeholders as proposed standards are being developed. While the IASB has improved the transparency of its meetings and made more documents publicly available, there still needs to be a clear statement of presumptive openness for all advisory and working groups. Unless there is a valid reason for closing a session or not making documents public, all IASB board and working group meetings should be open and the documents should be public.
- Five years ago, during the previous Constitutional Review, representatives of insurance trade associations from around the world filed a letter calling for changes in the supermajority requirement. We continue to support the supermajority concept and encourage the Committee to retain the provision. If the decision is made to expand the IASB to 16 members, 11 members should constitute a supermajority. If the Board is expanded to 15 members, 10 members would constitute a supermajority. The requirement should apply to all exposure drafts and final accounting standards. At this level of acceptance, it is highly likely there would be world-wide acceptance from standard setters and the requirements would not be so onerous as to restrict the development of high quality accounting standards.
- We also support the view that an appropriate impact assessment should be part of the due process in the development of high quality robust international accounting standards. The objective of this requirement would be to ensure that proposed standards are practicable and workable in all environments. The Preliminary Views on Insurance Contracts, which contains fundamental, far-reaching, and theoretical changes from existing practice, is an example to illustrate why impact assessment is necessary.