

c) IASB

1) Comments on the Agenda Paper – *Boundaries of a Contract*

Concerning the “boundaries of a contract” stated and discussed in Agenda Paper 9 for the Insurance Working Group meeting of the International Accounting Standards Board (IASB) in April 2008, the LIAJ has agreed to jointly submit a letter prepared by European Insurance CFO Forum, which is a body representing the views of 20 of Europe’s largest insurance company, together with American Council of Life Insurance, Comité Européen des Assurances. The outline of the joint letter, submitted to the IASB on 18 December 2008, is as follows:

- To determine when an existing contract ends and a new contract begins, and the cash flows falling within the contract’s term in order to estimate insurance contract liabilities.
- To propose the timing when an existing contract ends as up until the point which the insurer has the ability both to reassess the risk profile of the individual policyholder and change the price for an individual without contractual constraint.
- Accordingly, as for the renewal policy with the option to re-price a contract based on general market experience without a reassessment of the individual policyholder’s risk profile, the timing of renewal would not be considered at the end of the existing contract, and therefore cash flows falling within the renewal terms would be included in the measurement.

2) Comments on the Discussion Document – *Review of the Constitution: Identifying Issues for Part 2 of the Review*

The Trustee of the International Accounting Standards Committee (IASC) Foundation published a discussion document – *Review of the Constitution: Identifying Issues for Part 2 of the Review* on 8 December 2008. The LIAJ jointly developed with six insurance trade associations in the United States and Europe, the Joint Insurance Trade Letter, which was submitted on 31 March 2009. The outline of the trade associations’ comments is as follows:

- We recommend that the Monitoring Board be expanded to include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.
- 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.
- Standard-setters should generally not have a “fast-track” approach, for implementing new guidance or making changes to existing standards. In case where shorter comment periods are needed, special procedures should be clearly detailed allowing as much time for deliberation as possible.
- We 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.

3) Comments on the Discussion Paper – *Preliminary Views on Financial Statement Presentation*

The International Accounting Standards Board (IASB) published a discussion paper – *Preliminary Views on Financial Statement Presentation* on 16 October 2008. On 14 April 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the discussion paper on “objectives and principles of financial statement presentation”, “implication of the objectives and principles for each financial statement”, and “notes to financial statements.”

- In general, we agree to the proposals presented in the discussion paper. As described below, however, we are concerned about the possible cost increases that some of the proposals in the discussion paper will impose on preparers. We believe it is important to treat the presentation of profit or loss and other comprehensive income (OCI) consistently with other relevant IASB projects, and we would like to ask that due consideration be given to our comments.
- Concern about increasing costs for preparers and possible impact on practice
Although it is likely that the financial statement format proposed in the discussion paper will provide investors with decision-useful information, we believe that it contains certain elements that need careful consideration in terms of costs and benefits, such as “presenting cash flow statement by a direct method” and “disaggregating information by function/nature.” With particular regard to the proposals on “presenting cash flow statement by a direct method” and “reconciling from the statement of direct method cash flows to comprehensive income,” we believe that the use of an indirect method cash flow statement should be allowed in terms of costs and benefits as a direct method would impose excessive costs on preparers.
- Presentation of profit or loss and OCI
We agree with the proposal in the discussion paper for retaining the presentation of profit or loss and recycling. On the other hand, however, the discussion paper states that the boards decided not to consider whether to change existing requirements that describe which items must be presented in OCI outside of profit or loss in the financial statement presentation project. Instead, relative IASB projects, including post-employment benefits, will address these issues. In such cases as when the boards leave such considerations to individual projects, the presentation of profit or loss may be neglected on the grounds that such a conceptual principle does not exist (see Note); this may result in a lack of consistency among the projects. We therefore propose that the common nature of items to be presented as OCI should be considered across all projects.
As the nature of insurance business is to underwrite risks over a long period by diversifying such risks into various insurance portfolios, the financial statements of insurers, properly reflecting the results of the insurance business (e.g. by recognising profit when an insurer is released from risks and by not recognising future profits at inception), should be prepared. Thus, presenting appropriate profit or loss as well as comprehensive income in the financial statement will provide useful accounting information for users. In order to present profit or loss appropriately, we believe it necessary to allow for OCI presentation not only on the asset side, but also on the liability side.
Note: With regard to post-employment benefits costs, the IASB Board's preliminary decision at the 23 January meeting was that all amounts should be presented as profit or loss, not as OCI because ‘there is no conceptual basis for identifying which items should be presented outside of profit or loss.’ We believe that this decision is inconsistent with the conclusion under this project to remain profit or loss, given that users emphasise it.

4) Comments on the Discussion Paper – *Preliminary Views on Revenue Recognition in Contracts with Customers*

The IASB published a discussion paper – *Preliminary Views on Revenue Recognition in Contracts with Customers* on 19 December 2008. On 18 June 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the discussion paper on “contract-based revenue recognition principles”, “performance obligations”, “satisfaction of performance obligations”, and “measurement of performance obligations.”

- Regarding revenue recognition, we generally agree to the notion presented in this discussion paper that states that it is preferable to apply a common basic concept for all types of contracts. However, the measurement approach proposed in the discussion paper appears to have been discussed subject to ‘short-duration’ contracts that may be ‘completed with certainty.’ We believe that further consideration is necessary to determine whether the approach can provide decision-useful information to users for all types of contracts. In particular, it is not clear whether the current proposal leads to certain measurement results when the approach is applied to insurance contracts with ‘long-duration’ and/or ‘high uncertainty’ characteristics.
- In this context and at this time, we believe that it is premature to determine which of the following stand points regarding measurement approaches for insurance contracts will result in a measurement approach that can provide decision-useful information to users:
 - ✓ The inclusion of insurance contracts in the scope of the revenue recognition project, and the development of a second measurement approach that takes into account ongoing discussions in the insurance contract project; or
 - ✓ The exclusion of insurance contracts from the scope of the revenue recognition project, and the development of another measurement approach in the insurance contract project that remains consistent with ongoing discussions in the revenue recognition project.
- Our comments therefore do not state our position on whether the insurance contracts should be included in the scope of the revenue recognition project or not. Our responses to the following questions simply describe the issues that may arise on the assumption that the proposed measurement approach would apply to insurance contracts.
- Regardless of whether the insurance contracts should be included in the revenue recognition project or not, we believe that, in considering a measurement approach for insurance contracts, it is necessary to keep in mind consistency with the approach proposed in the discussion paper. That is, as the nature of insurance business is to underwrite risks over a long period by diversifying risks into group of insurance contracts, we think that insurers should properly reflect the results of the insurance business - i.e. by recognising profit when an insurer is released from risks and not by recognising future profits at one time. We believe that this notion is consistent with the basic concept of the discussion paper in general.

5) Comments on the Exposure Draft – *Derecognition*

The IASB published an exposure draft – *Derecognition* (proposed amendments to IAS 39 and IFRS 7) on 31 March 2009. On 31 July 2009, the LIAJ submitted its comments including the following general opinions and responses to questions set out in the exposure draft.

- The exposure draft infers that if the proposed approach to derecognition was adopted, the sale and repurchase agreements of bonds, or repo transactions, and stock lending transactions would be subject to derecognition, and these transactions would be treated as the sale of an asset. We believe this does not fully represent the economic impact of transactions such as repo transactions.
- In repo transactions and stock lending transactions, bonds or stocks are to be returned from the transferee to transferor on the settlement date of the transaction stated in the contract, even if the transferee is able to sell the bonds or stocks, or re-provide them as collateral for other transactions. That is, in these transactions, the proposed approach would lead entities to recognise gains or losses even when the economic situation has not changed, which might mislead users of financial statements.
- Thus, we do not agree with the Board's proposal to treat repo transactions and stock lending transactions as a sale of an asset.

6) Comments on the Discussion Paper – *Credit Risk in Liability Measurement*

The IASB published a discussion paper – *Credit Risk in Liability Measurement* on 18 June 2009. The LIAJ submitted its comments including the following general remarks on 1 September 2009.

A reporting entity must disclose its profitability and financial soundness to investors through financial statements in order to provide decision-useful information. To this end, we believe liability measurements should not incorporate credit risk except in certain limited situations. These situations, we feel, should only include: at the initial measurement of a liability incurred in exchange for cash, and at the subsequent measurement where the price of the liability in an active market is available for measurement, or in other words, when the changes in the liability value affected by changes in credit risk inherent in the liability are realisable.

7) Comments on *Request for Information on the Feasibility of an Expected Loss Model for the Impairment of Financial Assets*

The IASB published *Request for Information on the Feasibility of an Expected Loss Model for the Impairment of Financial Assets* on 25 June 2009. On 1 September 2009, the LIAJ submitted its comments including the following general remarks and responses to questions set out in the Request.

In implementing the “expected loss model”, objectivity will be required in the estimates of expected cash flows which are based on expected defaults, as any impairment is reflected in the statements of financial position. This estimated information may not necessarily be helpful for users of financial information if it varies significantly depending on the method used to estimate the cash flows. We believe that due consideration should be made before introducing the “expected loss model” as the model would significantly increase the burden on preparers. In addition to the proposed somewhat complicated method for estimating expected cash flows, the model will also require preparers to measure the expected loss of all financial assets subject to impairment in each period, as a result of eliminating a trigger for impairment, which may become a burden.

8) Comments on the Exposure Draft – *Financial Instruments: Classification and Measurement*

The “Declaration on Strengthening the Financial System” which was adopted in the G20 meeting in London in April 2009 requested the IASB to reduce the complexity of accounting standards for financial instruments by the end of 2009. Following the request, the IASB decided to develop comprehensive standard to improve the measurement and reporting of financial instruments, and chose to complete the project in three phases: “classification and measurement”, “impairments”, and “hedge accounting.” The IASB has accelerated especially the discussion of “classification and measurement” phase. Under these circumstances, the LIAJ submitted its comments including the following opinions on 17 July 2009, in time for discussion at the joint meeting of IASB and FASB (Financial Accounting Standards Board).

- To allow presentation of fair value changes in other comprehensive income (OCI) broadly not only for particular equity instruments but also for bonds and similar instruments
- To allow an entity to recycle the unrealised gains and losses presented in OCI to profit or loss when they are realised.
- To present the realised gains and losses on all investment returns including dividends, interest income and amortisation in profit or loss.

The IASB published an exposure draft – *Financial Instruments: Classification and Measurement* on 14 July 2009. The outline of the exposure draft is as follows. The LIAJ submitted its comments including general opinions (refer to Appendix 2, page 43) and responses to questions set out in the exposure draft on 14 September 2009.

Outline of the exposure draft

- Financial instruments would be measured at fair value or amortised cost.
- Financial instruments are measured at amortised cost only if they have basic loan features and are managed on a contractual yield basis. Financial instruments that do not meet both conditions would be measured at fair value.
- To prohibit reclassification of financial assets and financial liabilities between the amortised cost and fair value categories.
- The application of the tainting rule on financial instruments measured at amortised cost should be eliminated. (The realised gains and losses should be separately presented in the statement of comprehensive income.)
- Fair value option should be retained. (Only if the designation eliminates or significantly reduces a measurement or recognition inconsistency.)
- To permit an entity on initial recognition of investments in equity instruments to make irrevocable election to present changes in the fair value of investments that are not held for trading in other comprehensive income (OCI). There would be no transfers from OCI to profit or loss (‘recycling’) and hence no impairment requirements. Dividends on such investment would also be presented in OCI and there would be no recycling.

9) Comments on the Exposure Draft – *Fair Value Measurement*

The IASB published an exposure draft – *Fair Value Measurement* on 28 May 2009. On 28 September 2009, the LIAJ submitted its comments on the draft including opinions such as;

- It is not appropriate to define fair value as an exit price in all circumstances.
- Consistency between the definition of fair value and the scope of its application needs to be properly established.
- We urge the Board to continue permitting the measurement at initial cost as an exemption, instead of requiring fair value measurement, when there is considerable concern for reliability of measurement itself like in fair value measurement of unlisted stocks.

10) Comments on the Discussion Document – *Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability*

The Trustee of the IASC Foundation published a discussion document – *Part 2 of the Constitution Review: Proposals for Enhanced Public Accountability* on 9 September 2009. The LIAJ submitted its comments on 30 November 2009. The outline is as follows:

- The Monitoring Board should also include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.
- As the use of IFRSs for regulating insurance companies' accounting is being considered, the highest-level of consultations between the IASB and the IAIS are necessary.
- Accounting standards need to be developed according to the strict due process.