

The LIAJ's Comments on the Request for Information
Third Agenda Consultation

27 September 2021

The Life Insurance Association of Japan (LIAJ)

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I. General comments on the Request for Information

1. We, The Life Insurance Association of Japan (or the “LIAJ”), would like to extend our gratitude to the International Accounting Standards Board (or the “IASB”) for providing us with the opportunity to submit comments on the Request for Information, *Third Agenda Consultation* (hereinafter referred to as the “RFI”), published in March 2021.
2. The LIAJ is a trade association comprised of all 42 life insurance companies operating in Japan. Its goals are to promote the sound development of the life insurance industry in Japan, maintain its trustworthiness, and thereby contribute to improving the quality of life in Japan. The LIAJ would like to respectfully request the IASB to carefully consider the comments submitted from the sole representative body of the life insurance industry in Japan, which accounts for approximately 11%¹ of the world’s life insurance premiums.
3. The life insurance industry would be impacted by, in particular, the accounting standards for insurance contracts and financial instruments, because of its balance sheet structure. The LIAJ comments on the questions 3 and 4 below, focusing on matters considered to be of particularly importance for life insurance industry.

¹ Swiss Re Institute, *sigma* No 3/2021.

II. Responses to the questions

Question 3—Financial reporting issues that could be added to the Board’ s work plan

Paragraphs 24-28 provide an overview of financial reporting issues that could be added to the Board’ s work plan.

(a) What priority would you give each of the potential projects described in Appendix B-high, medium or low-considering the Board’ s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27-28)? If you have no opinion, please say so. Please provide information that explains your prioritisation and whether your prioritisation refers to all or only some aspects of the potential projects. The Board is particularly interested in explanations for potential projects that you rate a high or low priority.

(b) Should the Board add any financial reporting issues not described in Appendix B to its work plan for 2022 to 2026? You can suggest as many issues as you consider necessary taking into consideration the Board’ s capacity to add financial reporting issues to its work plan for 2022 to 2026 (see paragraphs 27-28). To help the Board analyse the feedback, when possible, please explain:

(i) the nature of the issue; and

(ii) why you think the issue is important.

4. The LIAJ believes that “other comprehensive income” project should be given high priority, since the LIAJ has a keen interest in that project. As stated in the paragraph B65 of the RFI, all IFRS Standards should be reviewed for consistency with the principles concerning recycling set out in the revised *Conceptual Framework*.
5. Among others, IFRS 9 *Financial Instruments* prohibits the recycling of equity instruments that use other comprehensive income (OCI) option, unlike fair value through other comprehensive income (FVOCI) measurement category for debt instruments. The LIAJ believes that such an inconsistency among assets measured at fair value through OCI should be eliminated.
6. In addition to the matters mentioned above, the LIAJ understands that there are some issues to be reviewed in IFRS 9 requirements. Therefore, the LIAJ would like the IASB to work on review of the standards by allocating sufficient resource to ongoing Post-implementation Reviews (PIR) of IFRS 9, and giving due consideration to inputs from market participants.
7. One of the issues is that IFRS 9 should be reviewed so that users of financial statements would be provided with useful information which appropriately reflect the business model of life insurance industry. The life insurance business primary underwrite risk over a long period, and then firmly fulfil the obligations to policyholders. If short-term changes in asset value cause volatility in profit or loss, this would not provide relevant information for users of financial statements.

8. The LIAJ is afraid that the class of assets currently allowed to be measured at fair value through OCI is strictly limited, in light of more faithfully representing the nature of life insurance business and providing more relevant information.
9. In the same light as above, the LIAJ would like the IASB to review the treatment of monetary items under IAS 21 *The Effects of Changes in Foreign Exchange Rates* that requires entities to recognise all changes in exchange rates in profit or loss.
10. In particular, the measurement and translation of receivables denominated in a foreign currency contains elements of interest rate risk and exchange risk that are interrelated, leading to significant adverse effects due to inconsistency in the treatment of both elements. Since this will make it difficult for insurers to make diversified investments in an appropriate manner, the LIAJ is concerned that it may inhibit appropriate asset-liability management by life insurers.
11. The first application of IFRS 9 was postponed to allow the first application of IFRS 17 *Insurance Contracts* in the same annual reporting period; namely beginning on or after 1 January 2023. In light of appropriately representing the business model of life insurance industry, although assessing consequence of applying IFRS 9 and IFRS 17 in the same reporting period is not subject to currently planned PIR, the LIAJ would like to expect the IASB to conduct appropriate reassessment on such consequences.

Question 4—Other comments

<p>Do you have any other comments on the Board’ s activities and work plan? Appendix A provides a summary of the Board’ s current work plan.</p>
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12. The LIAJ recognises PIR as significantly important process. Although it is not clearly stated in the Appendix A, the LIAJ understands that IFRS 17 to be effective in 2023 would be subject to PIR.
13. As for proposed amendments to IFRS 17 currently under consultation, the LIAJ appreciate the response of the IASB to promptly consider comments received from market participants and discuss narrow-scope amendment to comparative information. It is very important to continuously review the standards in order to develop appropriate requirements by utilising comments received from market participants even after the finalisation of the standards.
14. The LIAJ would like the IASB to carefully consider the timing and method of conducting PIR of IFRS 17 in the future, in order to appropriately reflect the nature of life insurance business, while resolving important issues promptly, fully analysing the medium- to long-term effects, and allocating sufficient resources.