The LIAJ's Comments on the Exposure Draft

Amendments to the Classification and Measurement of Financial Instruments

Proposed amendments to IFRS 9 and IFRS 7

19 July 2023

The Life Insurance Association of Japan (LIAJ)

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 "Board") for providing us with the opportunity to submit comments on the *Exposure Draft, Amendments to the Classification and Measurement of Financial Instruments, Proposed amendments to IFRS 9 and IFRS 7* (hereinafter referred to as the "ED"), published in March 2023.

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 Board to carefully consider the comments submitted from the sole representative body of the life insurance industry in Japan, which accounts for approximately 10%[1] of the world's life insurance premiums.

3. From the abovementioned standpoint, the LIAJ would like to provide comments on Question 5 of the ED as follows.

Question 5 — Disclosures — investments in equity instruments designated at fair value through other comprehensive income
For investments in equity instruments for which subsequent changes in fair value are presented in other comprehensive income, the Exposure Draft proposes amendments to: (a) paragraph 11A(c) of IFRS 7 to require disclosure of an aggregate fair value of equity instruments rather than the fair value of each instrument at the end of the reporting period; and (b) paragraph 11A(f) of IFRS 7 to require an entity to disclose the changes in fair value presented in other comprehensive income during the reporting period. Paragraphs BC94–BC97 of the Basis for Conclusions explain the IASB's rationale for these proposals. Do you agree with these proposals? Why or why not? If you disagree, please explain what aspect of the proposals you disagree with. What would you suggest instead and why?

4. The LIAJ believes that the profit and loss of all assets should be recognised upon realisation without exception since the net profit is an important benchmark that shows the profitability of an entity for users. In this context, the LIAJ is disappointed at the IASB's decision to continue to reject the recycling of unrealised gains and losses upon equity instrument disposal.

5. In addition, the LIAJ does not agree with the additional disclosure proposal in the ED because the LIAJ does not believe that it can reinforce the importance of recognising the realized gains and losses. In particular, the LIAJ would like the Board to reconsider the proposed new paragraph 11A(f) of IFRS 7 that requires the disclosure of the amount of change in fair value in OCI during the reporting period for the following reasons.

[1] Swiss Re Institute, *sigma* No 4/2022.

6. First, as for the important disclosure information for users regarding the disposal and realized gains and losses of equity instruments in FVOCI, paragraph 11B of IFRS 7 already requires the fair value and cumulative gains and losses of disposed investments during the reporting period.

7. While the proposed ED introduces additional disclosure requirements that ask for transactional information during the reporting period, this merely is the breakdown of each transaction during the reporting period, which means it does not provide users with any important indicative information that helps with evaluating entities.

8. Second, the preparer's burden of the proposed disclosure requirements would be high.

9. The ED's proposed disclosure requirement for paragraph 11A(f) of IFRS 7 would require changes to the existing system, as the figures required cannot be acquired directly from the existing transaction data. For example, when calculating changes in fair value for equities during the reporting period, as required in the ED, preparers would need to distinguish:

   (1) between equities held at the beginning of the reporting period and equities acquired during the reporting period on a transaction-by-transaction basis in terms of equities disposed during the period; and

   (2) between equities acquired during the reporting period on a transaction-by-transaction basis and equities held throughout the reporting period in terms of equities held until the end of the reporting period.

10. Furthermore, it is unlikely that the preparers will use this information for purposes other than providing the required disclosure, which means that the cost of establishing a data compilation system to prepare these figures would be too high.

11. Therefore, the LIAJ believes that the proposed requirements in paragraph 7 should be reviewed since the value of providing additional information is not high for users, and the task of preparing such information does not fully balance the cost-benefit factors.