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International Accounting Standards Board
30 Cannon Street
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Comments on the discussion paper, "Preliminary Views on Insurance Contracts"

To the Board Members:

The Japanese Institute of Certified Public Accountants is pleased to comment on the discussion paper entitled, "Preliminary Views on Insurance Contracts."

QUESTION 1

We believe the recognition and derecognition requirements for insurance contracts should be fundamentally consistent with those of IAS 39 for financial instruments. However, since there may be cases that the requirements of IAS 39 hold true for insurance contracts, thorough consideration is necessary regarding the characteristics of insurance contracts due to differences in their economic characteristics with financial instruments.

QUESTION 2

We agree that the proposed three building blocks are the basic factors in measuring insurance liabilities. However, given that such measurements in many cases result in hypothetical results not directly based on market data, we believe that careful deliberation is necessary regarding how such measurements are to be reflected in profit or loss.

QUESTION 3

If these appendices are to become a part of the final standard, we have concerns in light of comparability, because the range of alternative methods is too wide, especially with regard to estimating methods of risk margins. Furthermore, in conjunction with the determination of the three building blocks, we believe that it is necessary to make clear what is included in service margins and what interest rate should be used as the current market discount rate. Although it seems that the discount rate is supposed to be a risk-free rate adjusted for credit characteristics, there would be room for various interpretations, given that there are no financial instruments that match completely with insurance liabilities, and the descriptions in paragraphs 69 and 70 are too abstract.

QUESTION 4

We consider that alternative (c) is conceptually adequate, because there are cases that insurance premiums are not flexibly adjusted, and also, there are cases that margins included in premiums do not follow the norm. However, since there is almost no exit market for insurance contracts, it is difficult to ensure objectivity in estimating margins without referring to actual premiums. In addition, insurance contracts are expected to provide margins consistent with the requirements of market participants. Consequently, we consider that practical implementation would be nearer to alternative (b) in many cases.

QUESTION 5

(a) We consider that the proposed measurement attribute is adequate for the same reasons we support alternative (c) in response to Question 4.

(b) We consider that the label “current exit value” is appropriate as a representation of the concept of the proposed measurement, based on the three building blocks.

QUESTION 6

We support alternative (b). Expected future cash flows resulting from beneficial policyholder behaviour should be incorporated as a reduction in the current exit value of insurance liabilities. We believe that the source of such cash flow involves nothing other than the insurance contract, and a better reflection of economic substance is to view the insurance contracts that automatically continue due to the payment of premiums by policyholders as long-term contracts, as noted in paragraph 136 (c). Therefore, we believe that it is unnecessary to distinguish the expected future cash flows resulting from beneficial policyholder behaviour from those of unfavourable policyholder behaviour.

We disagree with the Board’s preliminary view that an asset arising from beneficial policyholder behaviour is part of a customer relationship, because it would lead to a significant change in criteria for recognition of assets. This would result in recognition of intangibles that do not meet the criteria of IAS 38 and is inconsistent with treatment of long-term contracts in other areas.

QUESTION 7

As mentioned in our response to Question 6, we believe the scope of cash flows that an insurer should recognise need not be changed by whether the cash flows result from beneficial policyholder behaviour or unfavourable policyholder behaviour.

With regard to the alternatives presented in the question, we withhold our opinion about which is appropriate, because the differences between alternatives (a) through (d) are not clear.

QUESTION 8

Given the condition that insurance liabilities are measured at current exit value, acquisition costs should be recognised as an expense when incurred. Since the effects of expenditures for acquisition costs are considered to be reflected in the measurement of insurance liabilities through estimates of future premium cash flows, acquisition costs should not be recognised as a separate asset.

QUESTION 9

Measurement of insurance contracts acquired in a business combination or portfolio transfer should be the entry value, considering that those transactions are purchase transactions.

QUESTION 10

In our understanding, the application of the fair value option of IAS 39 is intended for financial assets held to back insurance liabilities. Since the application of the fair value option requires specific designation upon initial recognition, application to existing financial assets would require a special provision regarding designation.

QUESTION 11

(a) We agree that risk margins should be determined for a portfolio of insurance contracts. In the management of insurance companies, margins are considered to be determined by portfolio. When one assumes a transfer of insurance contracts, it would be reasonable to assume that the minimum unit of transfer is a portfolio, rather than an individual contract.

We generally agree with the definition of a portfolio, but we consider that analyses or field tests are necessary to determine whether this definition could result in significantly different accounting results between insurers in similar situations.

(b) We consider that it would be consistent that risk margins do not reflect the benefits of diversification between (or negative correlation between) portfolios, when one assumes that a portfolio is the minimum unit of transfer, as mentioned above.

QUESTION 12

(a) Reinsurance assets should be measured at current exit value, because it is obvious that unreasonable consequences due to mismatching with the measurement of insurance liabilities would arise otherwise.

(b) We agree with the consequences noted in the question, because they are reasonable.

QUESTION 13

Deposits and service components should be unbundled under certain conditions. Sources of income attributable to insurers vary with the content of contracts. Recognition as revenue, neglecting such differences, would result in an unfaithful representation of the operating results of insurers.

QUESTION 14

(a) We consider that the Board's preliminary view that current exit value is a transfer price that neither improves nor impairs credit characteristics is consistent with the definition of current exit value.

(b) We disagree that measurement of an insurance liability should reflect its credit characteristics at inception and their effect due to subsequent changes. Such a view is not consistent with the objectives of users of financial statements from the viewpoint of an assessment of the financial soundness of insurers. In addition, to decrease insurance liabilities when credit characteristics worsen (or vice versa) would not provide useful information to users of financial statements. The reasons for our opposition are fundamentally the same as the arguments noted in paragraph 230. Furthermore, we have concerns about the inclusion of credit characteristics from the viewpoint of reliability of measurement.

QUESTION 15

We believe that changes to IAS 39 are unnecessary with respect to the differences arising from a consideration of factors specific to insurance contracts. We believe that changes to IAS 39 relating to fair value measurement should be considered pending the conclusions of the Fair Value Measurements Project. In addition, we consider further explanation is necessary regarding the basis for not applying a deposit floor to insurance liabilities.

QUESTION 16

We believe that estimated policyholder dividends payable for participating contracts should be included in the measurement of insurance liabilities.

QUESTION 17

We believe that priority should be placed on avoidance of accounting mismatches with the measurement of unit-linked liability, and exceptional treatment should be provided for cases (a), (b) and (c), unless there is some legal problem with holding such assets to back a unit-linked liability. We consider that the reduction of a liability suggested in (d) is inappropriate.

QUESTION 18

We believe that the issue of presentation of premiums should be discussed while taking into consideration its consistency with the unbundling issue.

QUESTION 19

We believe that separate presentation of components of the changes in the carrying amount of insurance liabilities is necessary, because presentation of the changes as a single line item would be insufficient for users of financial statements to understand the operating results of an insurer. In addition, we believe that the basis and methods of assumptions used in preparing estimates need to be fully disclosed.

QUESTION 20

We believe that the income statement presentation of insurers should be determined consistent with the IASB/FASB Financial Statement Presentation Project. As mentioned in the response to Question 2, the issue of how changes in the carrying amounts of insurance liabilities should be recognised in the income statement should be carefully deliberated.

Yours faithfully,

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Executive Board Member—Accounting Standards
The Japanese Institute of Certified Public Accountants