

The LIAJ's Comments on the "Consultative Report on the Review of the IFRS Foundation's Governance"

1. We, The Life Insurance Association of Japan (LIAJ) would like to extend our greatest respect to the continuing efforts of the International Financial Reporting Standards Foundation (IFRS Foundation) Monitoring Board for reviewing the governance structure supporting International Financial Reporting Standards (IFRSs) . We also would like to extend our gratitude to the IFRS Foundation Monitoring Board for providing us with the opportunity to submit our comments on *Consultative Report on the Review of the IFRS Foundation's Governance*.
2. The LIAJ is a trade association comprised of all 47 life insurance companies currently operating in Japan. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan.
3. Please be noted that our responses to questions set out in the Monitoring Board's consultative report are from the 'perspective of preparers of financial statements' that relate to the deliberation in the IASB's insurance contract project in which each member company currently has a strong interest.

Our responses to questions

Question 1:

- Do you agree with the proposal to urge concrete efforts to deepen the pool of candidates for IASB membership from diverse geographical and professional backgrounds? Please provide reasons for your agreement/disagreement.

(Responses)

4. We agree with the proposal. We think that in order to achieve the development of a set of high quality accounting standards, an unbiased and appropriate process for identifying technically qualified candidates for IASB membership from across the broadest possible geographies and professional backgrounds representing IFRSs' diverse stakeholders is needed.

Question 2:

- Do you agree with the proposal to separate the roles of the IASB Chair and the CEO of the IFRS Foundation, and if so would you have suggestions on how to formalize this? Please provide reasons for your agreement/disagreement.

(Responses)

5. We agree with the proposal as we believe that separating the two roles would enable the IASB to ensure its independence and also enable the IASB Chair to concentrate on activities directly related to standard-setting.

Question 3 through 8:

(No comment)

Question 9:

- Do you believe that the current arrangements for the standard-setting process adequately ensure the appropriate involvement of all relevant stakeholders and that all relevant public policy objectives are taken into account? Please provide reasons for your agreement/disagreement.

(Responses)

6. No, we don't. In the standard-setting process of each accounting standard, we believe that the IASB should provide stakeholders with sufficient time for deliberation and make a thorough and careful assessment of all of their inputs, including their comment letters, the outcomes of field tests and views expressed at roundtables.
7. We have strong interest in the deliberation of the insurance contract project currently under consideration in terms of ensuring sufficient time for deliberation for stakeholders. The work plan presented by the IASB indicates that the new standard on insurance contracts will be finalised by the end of June 2011. Assuming this timeframe, there are 212 days for deliberation from the deadline for comments on the exposure draft to the expected date of finalising the standard.

To date, sufficient deliberation time has been allocated from the comment deadline to the date of finalising standard for the standards requiring substantial amendment to the current accounting practice. For example, the deliberation period allocated from the deadline to the date of finalising standard were 549 days for *Fair Value Measurement*, 365 days for *Amortised Costs and Impairments* and 444 days for IAS 37 (2nd exposure draft).

Although we acknowledge that the IASB has been engaged in the highly detailed discussion in the insurance contract project currently under consideration, we think it is preferable that the stakeholders will be provided with sufficient deliberation time for future projects.

8. We understand that the primary objective of accounting standards is to provide financial information to all users of financial statements including investors. Therefore, we believe that all relevant public policy concerns should be taken into account in the standard-setting process of accounting standards. We also think that there are some cases where the perspectives of financial reporting standards and other public policy concerns could be reconciled.

For example, with regard to the accounting standard for insurance contracts currently under consideration, as many stakeholders have already raised concerns, the proposed accounting standard would lead to the higher level of insurers' performance volatility. Therefore, we are concerned that the proposed standard would impede the efforts to achieve the stability of insurers' financial performance and the financial system, which are important public interests.

We believe that preparers will be able to avoid unexpected adverse effects such as to raise excessive market instability, particularly in an unstable economic environment, by disclosing the market information that tends to fluctuate temporarily and the fair value information, not in the face of the financial statements, but in the notes and reflecting changes in the fair value in other comprehensive income (OCI), without reducing the amount of information needed.

The nature of the life insurance business is to underwrite risks over a long period while

diversifying such risks by making insurance portfolios, and to firmly fulfil the obligations to policyholders. We are aware that the life insurance business does not intend to gain profits through changes in fair value of financial assets and liabilities life insurers hold. We believe that it is essential for IFRS Foundation to provide an accounting system (financial statement) that properly reflects the results of insurers' business in order to provide useful information for users of financial statements. And through this effort, IFRS Foundation can contribute to ensuring the stability of insurers' financial performance and the financial system.

Q10:

(No comment)

Question 11:

- Do you believe that the current arrangements for Monitoring Board involvement in the IASB's agenda-setting are appropriate, or should the Monitoring Board have an explicit ability to place an item on the agenda, or would you consider other alternatives that would enhance the Monitoring Board involvement in the IASB agenda setting? Please provide reasons.

(Responses)

9. We believe that the Monitoring Board should have an explicit ability to place an item on the IASB's agenda. For example, although the accounting for financial instrument is the joint project of the IASB and the FASB, the process and timing for amending the standards significantly differ from each other. Regarding the content, there are also significant differences between the two organisations. Because the FASB tentatively decided in January 2011 to allow an entity for categorising financial assets into FV-OCI, this has led to a situation where the requirement extremely differs from that of IFRS 9 Classification and Measurement. We think that enabling the Monitoring Board to place items on the IASB's agenda would be meaningful in order to bring about convergence between the IASB and the FASB.

Question 12 through 16:

(No comment)

Question 17:

- Do you have any other comments?

(Responses)

10. With respect to retirement of the IASB members and its staff, we think it is essential for the IASB to retain a system that enables successors to be provided with sufficiently detailed information about the discussion to date so that personnel changes would not hinder the progress of each project. This is particularly true when a project requires a longer period for deliberation. Besides, we think it is effective, for example, to leverage Working Groups in order to maintain high degree of expertise in some projects.