Sir David Tweedie,
Chairman,
International Accounting Standards Board,
30, Cannon Street,
London, EC4M6XH,
United Kingdom.

31 October 2003

Dear Sir David,

The following are our comments regarding the Exposure Draft of the International Accounting Standard "Insurance Phase I." We hereby show respect for every effort given by the International Accounting Standards Board to formulate the International Accounting Standards, and we are grateful for the opportunity to provide our comments regarding the Draft. Please note that the opinions expressed herein are those of the Actuarial & Accounting Department of Taiyo Life Insurance Company, Japan.

Best regards,

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Responses to Questions

Question 1: Scope

(a)

[Comment]

Under the current IAS 39, we do not think sufficient consideration is given to insurers who hold the assets to cover their long-term liabilities. Regarding (a)-(i), therefore, the assets held to back insurance contracts should not be outside the scope of the IFRS.

[Basis]

Unlike other industries, liabilities in the insurance business are characterized by the long period of insurance coverage and unpredictability of cash flow, to name a couple. Hence, the assets held by insurers are unique in that they are required to cover such insurance-specific liabilities. Applying IAS 39 uniformly to the principal asset holdings of an insurance company could carry a risk that the overall financial condition of the insurer will not be appropriately shown, with some cases generating financial instability. Accordingly, insurance accounting standards should be prepared specifically for the insurance industry for assets as well. (Same as for Phase II.)

[Proposed Modification]

Delete No. 3 of main text.

(b)

[Comment]

(None)

Question 2: Definition of Insurance Contract

[Comment]

An insurance contract should not be defined in Phase I.

[Basis]

The scope (definition) of an insurance contract is inseparable from the applicable insurance accounting. In Phase I, as long as the current accounting standards are being applied in each country, there is no need for a change of these accounting standards with respect to the scope (definition) of an insurance contract. Accordingly, the definition of an insurance contract should not be set forth in Phase I. Existing insurance contracts should remain handled as all insurance contracts.

[Proposed Modification]

Modify Appendix A and delete Appendix B.

Question 3: Embedded Derivatives

[Comment]

All embedded derivatives for contracts that are handled as existing insurance contracts should be excluded from the application of the requirements of IAS 39.

[Basis]

Under normal conditions, the separation of embedded derivatives from insurance contracts (host contracts) is expected to be either impossible or, when not impossible, extremely difficult and costly. As regards embedded derivatives, there are remaining issues, such as definitions and scope for separation, which require further study before Phase II. As such, there is a risk that the separation work at the present point in time will finish in vain. This is believed to run counter to the approach in IN1. (a) of the IFRS.

In addition, since the issue of whether embedded derivatives included in insurance contracts have an effect on the measurement of liabilities depends on the objective of such measurement, it is not something that should be decided in Phase I. Instead, it should be discussed after the standards for recognition and measurement are decided in Phase II. Until then, this should be handled in accordance with GAAP for each country. Accordingly, the embedded derivatives for all contracts handled as existing insurance contracts should be exempted from separation.

[Proposed Modification]

Modify No. 5 and No. 6 of main text, and delete No. 29(e) of main text.

Question 4: Temporary Exclusion from Criteria in IAS 8

(a)

(None)

(b)

[Comment]

The recognition of catastrophe and equalization provisions should not be prohibited in

Phase I. The current practice for the loss recognition test should be maintained.

[Basis]

Catastrophe Provision and Equalization Provision

Retained earnings including catastrophe and equalization provisions are closely related with the accounting standards and accounting system. In Phase I, as long as the current accounting standards of each country are being applied, the current catastrophe and equalization provisions should not be abolished.

Loss Recognition Test

For the loss recognition test, when forecasting future cash flow, the opinion is that there could occur the same problem as the pending issue of how to measure fair value with respect to valuation of options held by policyholders including cancellation rights and renewal rights. At the very least, until these issues are resolved, the loss recognition test should be allowed to continue to be handled as it currently is. In terms of cost effectiveness, it would basically be enough to implement the loss recognition test once a year.

Question 5: Changes in Accounting Policies

[Comment]

(None)

Question 6: Unbundling

(a)-(c)

Unbundling should not be required in Phase I.

[Basis]

For insurance contracts, given the relationships that exist among the various components of a contract, there are many cases where unbundling is not possible. Also, when unbundling has been attempted, one can expect that there will be an appropriate increase in the burden in terms of the work required to do so. Since there are many issues remaining to be studied before Phase II such as what should be unbundled and the scope of unbundling, it cannot be denied that there are likely to be changes when further discussions are made in the future. Therefore, unbundling should not be required in Phase I but should rather be taken up after first determining the standards for recognition and measurement in Phase II.

[Proposed Modification]

Delete No. 7 and No. 8 of main text.

Question 7: Reinsurance Purchased

[Comment]

(None)

Question 8: Insurance Contracts Acquired in a Business Combination or Portfolio Transfer

[Comment]

(None)

Question 9: Discretionary Participation Features

[Comment]

All paragraphs related to discretionary participation features should be deleted.

[Basis]

Up to this point, there have been almost no discussions regarding discretionary participation features and, thus, no agreement. Therefore, no rules should be formulated at such a stage, and all paragraphs related to discretionary participation features should be deleted.

[Proposed Modification]

Delete No. 24 and No. 25 of main text.

Question 10: Disclosure of the Fair Value of Insurance Assets and Insurance Liabilities

[Comment]

The content for disclosure based on the current practice should be done in Phase I.

[Basis]

The issue of disclosure of the fair value of insurance liabilities should be addressed after the standards for recognition and measurement have been finalized in Phase II. Also, since there are still many unresolved problems regarding the computation of fair value, it is unreasonable to determine a schedule until it is likely that these problems are resolved. Accordingly, no mandatory deadline should be established for the disclosure of fair value.

[Proposed Modification]

Delete No. 30 and No. 33 of main text.

Question 11: Other Disclosures

(a)

[Comment]

The disclosure of information on the assumption of the measurement of fair value of insurance assets and liabilities should not be implemented in Phase I. The content for disclosure based on the current practice should be done in Phase I. In addition, generally, since there are cases that an estimated amount for future cash flow is treated as confidential for an enterprise, the disclosure of information in this manner should not be required exclusively of insurance companies. Accordingly, there should be no mandatory disclosure based on estimates of future cash flow. For example, the matters contained in the joint letter of September 17, 2002 submitted to IASB by the Life Insurance Association of Japan (LIAJ), together with the American Council of Life Insurers (ACLI) and German Insurance Association (GDV) should be used as a reference.

[Basis]

Since the model used for recognition and measurement has an impact on the estimate of future cash flow, disclosure of future cash flow without reaching a determination of the model to be used for recognition and measurement makes any comparison impossible and has the possibility of generating meaningless results.

[Proposed Modification]

Matters related to disclosure should be modified in their entirety with reference to the September 2002 joint letter of the Japan-USA-Germany Insurance Associations referred to our comment above.

(b)

[Comment]

Since the specific items and content of any disclosure differ according to the content of insurance contracts, the stipulations for disclosure should be limited only to the basic approach to be used with the specific details left to the judgment of the entity making the disclosure.

[Basis]

Since the requirements for disclosure that have been given are completely new, understanding them without guidance with examples is difficult to understand. Hence, the purpose of the disclosure requirements cannot be fully understood at this moment. Providing disclosure examples that are not overly detailed and at an appropriately meaningful level are appropriate from the standpoint of being able to make comparisons and provide transparency in the financial reporting for the user. For the preparer, preparing the financial statements in accordance with the appropriate examples that are currently in place in each country is both cheaper and also eliminates unnecessary work.

(c)

(None)

Question 12: Financial Guarantees by the Transferor of a Non-Financial Asset or Liability

(None)

Question 13: Other Comments

(None)