The following are comments from the General Insurance Association of Japan with respect to the Exposure Draft ED5 Insurance Contracts published by the International Accounting Standards Board (IASB) on July 31, 2003.

Overall Comments

IASB's project on insurance contracts is trying to introduce the concept of fair value accounting for insurance liabilities. It is said that it would enhance the faithfulness and comparability of financial statements and usefulness for their users. We recognize, however, that there are still many practical issues to be resolved to achieve the enhancement of them.

This draft IFRS for phase1 is an interim standard as a stepping stone to the completed standard in phase2. The objective of phase1 is:

(a) to permit insurers to continue to use existing practice in principle, and to make limited improvements to accounting practices for insurance contracts, without requiring major changes that may need to be reversed when phase2 is completed.

(b) to require insurers to disclose information about insurance without imposing costs that exceed the benefits and at reasonable level of aggregation.

We believe that to complete accounting standard for insurance contracts in two phases is appropriate to resolve various practical issues step by step. However, we found that some paragraphs in the draft IFRS don't match the objectives of phase1 well. In addition, we need some exclusions from other IFRSs in response to the treatment in phase1 that insurance liabilities are measured in accordance with existing practice, ie measured at costs. We believe following amendments are necessary.

(a) amendments to paragraphs that don't match the objectives of phase1

- Paragraphs that require insurers major changes in phase1 followed by other changes when phase2 is complete or which will not be needed in phase2, ie "appendix A: definition of insurance contracts", "paragraph 5: embedded derivatives", "paragraph 7: unbundling of deposit components"
- Paragraph that makes inconsistency in requiring major changes in accounting practice under the principle that allow insurers to keep existing practices by and large, ie "paragraph 10(a): not to recognise catastrophe provisions"

(b) issues that need exclusion from other IFRSs

- IAS39: The draft IFRS should be amended to respond to the mismatch of measurement in assets held to back insurance contracts and liabilities.
- IAS22: The draft IFRS should exempt insurance liabilities from IAS22 to respond to the absence of detailed guidance for fair value measurement of insurance liabilities.

Question 1 – Scope

(a) The Exposure Draft proposes that the IFRS would apply to insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs. The IFRS would not apply to accounting by policyholders (paragraphs 2-4 of the draft IFRS and paragraphs BC40-BC51 of the Basis for Conclusions).

The Exposure Draft proposes that the IFRS would not apply to other assets and liabilities of an entity that issues insurance contracts. In particular, it would not apply to:

(i) assets held to back insurance contracts (paragraphs BC9 and BC109-BC114). These assets are covered by existing IFRSs, for example, IAS 39 Financial Instruments: Recognition and Measurement and IAS 40 Investment Property.

(ii) financial instruments that are not insurance contracts but are issued by an entity that also issues insurance contracts (paragraphs BC115-BC117).

Is this scope appropriate? If not, what changes would you suggest, and why?

We disagree with the Board's proposal that the IFRS would not apply to assets held to back insurance contracts. The Board should amend IAS39 to create a new category for insurer's assets held to back insurance contracts in IAS39, or relax the IAS39 criteria with regard to the category of financial assets as held-to-maturity.

We believe that, in principle, the basis of accounting for an insurer's assets held to back insurance contracts should be consistent with that for insurance liabilities. As stated in BC110, if insurance liabilities are measured based on deferral and matching approach while financial assets held to back insurance contracts are measured at fair value under IAS39, there would be mismatches between assets and liabilities in measurement, which produce the volatility of income and equity ~~might be produced~~ as a result of value fluctuation of the financial assets. The Board concluded that the difficulties in implementing some solutions outweighed the effects of the mismatch on an insurer's equity. We disagree with this view. We believe that the effects of the mismatch far outweigh the difficulties of establishing some alternatives.

We agree with the Board's view that the draft IFRS does not apply to accounting by policyholders for direct insurance contracts. According to BC51, the Board is supposed to address accounting by policyholders in phase2. The Board agreed on some issues concerning the accounting by policyholders, such as that policyholders would measure prepaid insurance premiums at amortized cost, at IASB meeting in February 2002. We support this conclusion in principle, and request that it is maintained in phase2.

(b) The Exposure Draft proposes that weather derivatives should be brought within the scope of IAS 39 unless they meet the proposed definition of an insurance contract (paragraph C3 of Appendix C of the draft IFRS). Would this be appropriate? If not, why not?

We agree with the Board's proposal.

Question 2 - Definition of insurance contract

The draft IFRS defines an insurance contract as a 'contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary' (Appendices A and B of the draft IFRS, paragraphs BC10-BC39 of the Basis for Conclusions and IG Example 1 in the draft Implementation Guidance).
Is this definition, with the related guidance in Appendix B of the draft IFRS and IG Example 1, appropriate? If not, what changes would you suggest, and why?

We request that the words "significant insurance risk" in the definition of insurance contract should be amended to "any insurance risk".
The definition of "significant insurance risk" suggested in B21 is vague, and does not provide an insurer with any clear criteria, which result in different accounting for similar contracts between insurers. As a result, comparability of financial statements between different entities would be damaged. The Board does not propose quantitative guidance, concluding that it would create an arbitrary dividing line that permits different treatments for similar transactions that fall around the

line. However, the same problem could arise if there are no defined criteria, regardless of whether or not quantitative guidance is provided. The risk of arbitrary treatment might increase even more by the lack of it. The definition of insurance contract is central concept of the draft IFRS, and we believe it should be clearer than anything else.

Question 3 - Embedded derivatives

(a) IAS 39 Financial Instruments: Recognition and Measurement requires an entity to separate some embedded derivatives from their host contract, measure them at fair value and include changes in their fair value in profit or loss. This requirement would continue to apply to a derivative embedded in an insurance contract, unless the embedded derivative:

(i) meets the definition of an insurance contract within the scope of the draft IFRS; or

(ii) is an option to surrender an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate).

However, an insurer would still be required to separate, and measure at fair value:

(i) a put option or cash surrender option embedded in an insurance contract if the surrender value varies in response to the change in an equity or commodity price or index; and

(ii) an option to surrender a financial instrument that is not an insurance contract.

(paragraphs 5 and 6 of the draft IFRS, paragraphs BC37 and BC118-BC123 of the Basis for Conclusions and IG Example 2 in the draft Implementation Guidance)

Are the proposed exemptions from the requirements in IAS 39 for some Embedded derivatives appropriate? If not, what changes should be made, and why?

The Board should define the embedded derivatives to be separated and measured at fair value, instead of providing the embedded derivatives exempted from IAS39. That is, the Board should require an entity to account for an embedded derivative separately from its host contract only when the derivative component, which is independent of its host contract in terms of condition, status, and cash flow, ~~and~~ would need to be measured at fair value if it were a separate instrument.
As stated in BC118, an entity may not need to account separately for embedded derivatives in phase 2. Therefore, we understand that the system changes to separate those derivatives in phase1 might not be needed in phase2. If the Board nonetheless dares to require separate accounting treatment for some embedded derivatives, it should state exactly what kind of embedded derivative should be separated, instead of what kind of embedded derivatives are exempted.

We further assume that, under the condition we stated above, an embedded derivative which is itself an insurance contract or a policyholder's option to surrender an insurance contract for a fixed amount, as a matter of course, need not be separated and measured at fair value.

(b) Among the embedded derivatives excluded by this approach from the scope of IAS 39 are items that transfer significant insurance risk but that many regard as predominantly financial (such as the guaranteed life-contingent annuity options and guaranteed minimum death benefits described in paragraph BC123 of the Basis for Conclusions). Is it appropriate to exempt these embedded derivatives from fair value measurement in phase I of this project? If not, why not? How would you define the embedded derivatives that should be subject to fair value measurement in phase I?

We agree with the Board's proposal.

(c) The draft IFRS proposes specific disclosures about the embedded derivatives described in question 3(b) (paragraph 29(e) of the draft IFRS and paragraphs IG54-IG58 of the draft Implementation Guidance)
Are these proposed disclosures adequate? If not, what changes would you suggest, and why?

We believe that the draft IFRS should not require disclosing the information about material exposures to interest risk or market risk under embedded derivatives contained in a host insurance contract that is not measured at fair value.
As stated in paragraph 1, one of the objectives of the draft IFRS is to require insurers to disclose information about insurance contracts without imposing costs that exceed the benefits. However, it requires large-scale system changes for insurers to disclose the information about the sensitivity analysis, the fair value, and other information about the embedded derivatives. We are concerned that it might result in another system changes in phase2 and be against the objective of the draft IFRS to require those disclosures under the circumstances in which the treatment of embedded derivatives in phase2 is uncertain yet.

Question 4 - Temporary exclusion from criteria in IAS 8

(a) Paragraphs 5 and 6 of [the May 2002 Exposure Draft of improvements to] IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors specify criteria for an entity to use in developing an accounting policy for an item if no IFRS applies specifically to that item. However, for accounting periods beginning before 1 January 2007, the proposals in the draft IFRS on insurance contracts would exempt an insurer from applying those criteria to most aspects of its existing accounting policies for:

(i) insurance contracts (including reinsurance contracts) that it issues; and

(ii) reinsurance contracts that it holds.

(paragraph 9 of the draft IFRS and paragraphs BC52-BC58 of the Basis for Conclusions). Is it appropriate to grant this exemption from the criteria in paragraphs 5 And 6 of [draft] IAS 8? If not, what changes would you suggest and why?

We agree with the Board's proposal that exempts an insurer from applying the criteria specified in IAS8 to its existing accounting policies. However, we disagree on the time limit for the exemption. We claim the deadline should not be specified.

In our understanding, the Board, on the premise that phase2 begins on January 1, 2007, proposes that the exemption should apply only for accounting periods beginning before January 1, 2007, and thereafter all the entities that apply the draft IFRS at least would be prohibited to use accounting policies which include accounting practices enumerated in paragraph16, such as measuring insurance liabilities on an undiscounted basis. Therefore, they are forced to change their accounting policies about the financial statements for the periods beginning after January 1, 2007, regardless of whether phase2 starts or not.

As stated in BC53, the purpose of the exemption from IAS8 is to avoid unnecessary disruption caused by the following facts:

(1) In the absence of additional guidance in phase1, there might be some uncertainty about what is acceptable

(2) Establishing what is acceptable may involve costs and some insurers make major changes in 2005 followed by further significant changes when phase2 is in place.

However, if the proposal were accepted, those purposes would be impaired in case the transition to phase2 is delayed. In addition, some insurers have to change their accounting policies one more time other than when they adopt phase1 for the first time and when they transit to phase2, three times in total, which results in further costs for them.

We show our respects for the commitment of the Board that it would start phase2 on January 1, 2007. However, the issues handled in phase2 are more important than those in phase1, and should be considered carefully. We are concerned that strict time limit might ruin the standards in phase2 in light of due process to set them and their quality,

(b) Despite the temporary exemption from the criteria in [draft] IAS 8, the proposals in paragraphs 10-13 of the draft IFRS would:

(i) eliminate catastrophe and equalisation provisions.

(ii) require a loss recognition test if no such test exists under an insurer's existing accounting policies.

(iii) require an insurer to keep insurance liabilities in its balance sheet until they are discharged or cancelled, or expire, and to report insurance liabilities without offsetting them against related reinsurance assets (paragraphs 10-13 of the draft IFRS and paragraphs BC58-BC75 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you propose, and why?

Considering the objectives of this IFRS, we disagree with the Board's proposal that the IFRS would eliminate catastrophe provisions.

The Board's proposal lacks consistency because it prohibits catastrophe provisions while it admits entities' existing accounting policies based on deferral and matching approach, such as unearned premiums or deferred acquisition costs. Catastrophe premiums included in insurance premiums should not be recognized as profit of current period under the deferral and matching approach.

The Board claims in BC62 that catastrophe provisions can be deleted without undermining other components of existing approaches. We disagree with this view. The catastrophe provisions in our country include both portions relating to possible future claims under future insurance contracts and those relating to possible future claims under existing contracts. The draft IFRS requires the elimination of the former. In order to do so, an entity has to separate and delete only the former, or eliminate the whole provisions without separation.

If an insurer tries to separate and delete the former, it has to calculate the amounts which should be recognized as liabilities in order to conform to the existing accounting policies, on the assumption that it is possible for it to do so. However, we cannot find any meaning for calculating them in the circumstances where the amounts recognized and measured as insurance liabilities might be changed significantly in phase2. As stated in paragraph1, one of the objectives of phase1 is to make limited improvements without requiring major changes that may need to be reversed when the Board completes phase2. However, it would require extensive changes in accounting practice together with large-scale system changes to separate the existing catastrophe provisions, followed by further changes certainly foreseen in case that phase2 is introduced. Such requirement impairs the objective of the draft IFRS.

Question 5 - Changes in accounting policies

The draft IFRS:

(a) proposes requirements that an insurer must satisfy if it changes its accounting policies for insurance contracts (paragraphs 14-17 of the draft IFRS and paragraphs BC76-BC88 of the Basis for Conclusions).

(b) proposes that, when an insurer changes its accounting policies for insurance liabilities, it can reclassify some or all financial assets into the category of financial assets that are measured at fair value, with changes in fair value recognised in profit or loss (paragraph 35 of the draft IFRS).

Are these proposals appropriate? If not, what changes would you propose and why?

We agree with the Board's proposal in principle. However, paragraph 16(a) should be changed as follows:

(a) measuring insurance liabilities on an undiscounted basis where the effect of the time value of money is material.

Paragraph 16(a) requires discounting all the insurance liabilities when an entity changes its accounting policies for insurance contracts. However, for contracts in which almost all the cash flows are supposed to arise within one year, time value is relatively small. If the Board requires discounting even for such a contract, it would impose costs that exceed the benefits on an insurer, particularly a general insurer.

We request the same treatment on the measurement of insurance liabilities in phase2 as well.

Question 6 Unbundling

The draft IFRS proposes that an insurer should unbundle (ie account separately for) deposit components of some insurance contracts, to avoid the omission of assets and liabilities from its balance sheet (paragraphs 7 and 8 of the draft IFRS, paragraphs BC30-BC37 of the Basis for Conclusions and paragraphs IG5 and IG6 of the proposed Implementation Guidance).

(a) Is unbundling appropriate and feasible in these cases? If not, what changes would you propose and why?

To clarify the purpose of unbundling, we request the case in which unbundling specified in paragraph7 is required should be changed to "if the cash flows from the insurance component do not affect the cash flows from the deposit component at all".

Unbundling requirement should be limited to deposit components which can be distinguished from insurance components clearly. That is, the contract where the cash flows from the insurance component affect the cash flows from the deposit component even only slightly should be accounted as a whole. Otherwise, the decision about the need for unbundling might be arbitrary.

(b) Should unbundling be required in any other cases? If so, when and why?

We believe there is no other cases to require unbundling.

(c) Is it clear when unbundling would be required? If not, what changes should be made to the description of the criteria?

We believe that the Board should make it clear when unbundling would be required.

We believe that unbundling would not be necessary under paragraph 7 in IG example3, because in this example cash flows from the insurance component can affect those from deposit component depending on actual investment income.

If the Board cares about latent loss in insurance liabilities, it would be resolved by loss recognition test. If the Board cares about the measurement of insurance liabilities with excessive prudence, the existing accounting policies should be permitted under paragraph 16(b).

We believe that deposit type insurance in Japan, which includes a saving feature in addition to insurance coverage, should not be unbundled. It terminates without any maturity refund when a full payment is made for insurance component, ie the cash flows from its insurance component affect~~s~~ those from its saving component.

Question 7 - Reinsurance purchased

The proposals in the draft IFRS would limit reporting anomalies when an insurer buys reinsurance (paragraphs 18 and 19 of the draft IFRS and paragraphs BC89-BC92 of the Basis

for Conclusions).

Are these proposals appropriate? Should any changes be made to these proposals? If so, what changes and why?

First, as for paragraph 18(d), we would like to make sure that the cedant does not have to measure the carrying amount of the related portion of its liability under the direct insurance contract if its existing accounting policy state that, when the net amounts paid by the cedant are less than the carrying amount of the related portion of its liability under the direct insurance contract, the difference is recognized as income on a consistent basis over the period of the underlying risk exposure.

Under the accounting standard in Japan, based on ~~referral~~ deferral and matching approach, the same number of unearned ratio is applied between the reinsurance assets and the related direct insurance liabilities. Therefore, the difference, if any, would be recognized as income, in the course of nature, on the same basis as the related direct insurance liabilities. Under such standard, we can hardly find the meaning in measuring the carrying amount of the related portion of the direct insurance liabilities.

If paragraph 18(d) proposed by the Board requires the cedant to measure the carrying amount of the related portion of its liability under the direct insurance contract regardless of its existing accounting policy, it should be changed as follows.

(d) if the net amounts paid by the cedant are apparently less than the carrying amount of the related portion of its liability under the direct insurance contract (for example, because that liability is measured on an undiscounted basis), the cedant shall recognise that difference as income on a systematic and rational basis over the period of the underlying risk exposure.

In practice, reinsurance contracts have various conditions against related direct insurance contracts. If paragraph 18(d) is adopted, an entity has to measure the amount of the portion of insurance liabilities of direct insurance related to reinsurance. However, in case of excess of loss reinsurance for example, it is practically difficult to measure it because reinsurance is not proportional to related direct insurance. The measurement might be biased in some cases, which would impair the reliability of financial statements. We understand that accounting treatments that are required in paragraph 18(d) assume some particular reinsurance contracts, not common ones. We request that those treatments should be required only in case that the measurement of the carrying amount of the directly related portion of liability under the direct insurance contract is feasible and the comparison of it against the net amount paid by the cedant is easy.

Also, for the same reason as stated above, paragraph 18(e) should be changed as follows.

(e) if the net amounts paid by the cedant apparently exceed the carrying amount of the related portion of its liability under the direct insurance contract, that is evidence that the liability may be understated. The cedant shall consider that evidence in carrying out the loss recognition test under paragraphs 11-13.

Question 8 - Insurance contracts acquired in a business combination or portfolio transfer

IAS 22 Business Combinations requires an entity to measure at fair value assets acquired and liabilities assumed in a business combination and ED 3 Business Combinations proposes to continue that long-standing requirement. The proposals in this draft IFRS would not exclude insurance liabilities and insurance assets (and related reinsurance) from that requirement. However, they would permit, but not require, an expanded presentation that splits the fair value of acquired insurance contracts into two components:

(a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and

(b) an intangible asset, representing the fair value of the contractual rights and obligations acquired, to the extent that the liability does not reflect that fair value. This intangible asset would be excluded from the scope of IAS 36 Impairment of Assets and IAS 38 Intangible Assets. Its subsequent measurement would need to be consistent with the measurement of the related insurance liability. However, IAS 36 and IAS 38 would apply to customer lists and customer relationships reflecting the expectation of renewals and repeat business that are not part of the contractual rights and obligations acquired.

The expanded presentation would also be available for a block of insurance contracts acquired in a portfolio transfer (paragraphs 20-23 of the draft IFRS and paragraphs BC93-BC101 of the Basis for Conclusions).

Are these proposals appropriate? If not, what changes would you suggest and why?

We request that the IFRS would exclude insurance liabilities and insurance assets from IAS22 and ED3 requirements. The reasons are twofold:

First, paragraph 20 requires the measurement of insurance assets and liabilities at fair value, while the draft IFRS does not provide any guidance on how to determine the fair value of the insurance liabilities. If the fair value measurement is required in such circumstances, we believe that the measurement might be arbitrary, and financial statement based on such measurement might be far from comparable, relevant, or reliable. Second, the Board states, in BC93 and 94, that it would permit existing accounting practice in many countries. If the objective of the proposal is that it follows entities' existing accounting policies, the Board should permit it by simply granting an exemption from IAS22 or ED3.

Question 9 - Discretionary participation features

The proposals address limited aspects of discretionary participation features contained in insurance contracts or financial instruments (paragraphs 24 and 25 of the draft IFRS and paragraphs BC102-BC108 of the Basis for Conclusions). The Board intends to address these features in more depth in phase II of this project.
Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?

We agree with the Board's proposal.

Question 10 - Disclosure of the fair value of insurance assets and insurance liabilities

The proposals would require an insurer to disclose the fair value of its insurance assets and insurance liabilities from 31 December 2006 (paragraphs 30 and 33 of the draft IFRS, paragraphs BC138-BC140 of the Basis for Conclusions and paragraphs IG60 and IG61 of the draft Implementation Guidance).
Is it appropriate to require this disclosure? If so, when should it be required for the first time? If not, what changes would you suggest and why?

We disagree with the Board's proposal unless following conditions are satisfied:
(1) the Board resolve critical issues about measurement of fair value, and reach a conclusion that it would adopt fair value model in phase2,
(2) based on the conclusion in phase2, the Board provides detailed guidance on determining fair

values that will be effective also in phase2, and

(3) the disclosure requirement will be in effect after enough period of time for insurers to collect necessary data and change systems.

As stated in overall comments, we recognize that there are still many practical issues to be resolved to introduce the fair value measurement into the accounting for insurance contract. The Board argues that disclosure of the fair value will be helpful for the enhancement of the reliability of financial statements even if the Board will not eventually adopt fair value measurement model for phase2. However, we believe that the disclosure of the fair value will not provide relevant and reliable information for users under the circumstance in which various issues still remain unresolved. Also, we are concerned that the requirement to disclose fair value is predetermined at this moment when the detailed guidance for the measurement of fair value does not exist. Because we intend to determine our attitude based on the detail of discussion about some practical issues, we cannot help but object to the disclosure as long as the guidance is not presented. The Board states that insurers can begin preparing for a fair value measurement before the Board answers all the questions about it. However, we are of the opinion that insurers cannot make adequate preparation until the guidance is provided.

Moreover, the disclosure of fair value requires extensive system changes. If the practical guidance changes in phase2, insurers are forced to change their system again, which is against the objective of the draft IFRS.

Question 11 - Other disclosures

(a) The Exposure Draft proposes requirements for disclosures about the amounts in the insurer's financial statements that arise from insurance contracts and the estimated amount, timing and uncertainty of future cash flows from insurance contracts (paragraphs 26-29 of the draft IFRS, paragraphs BC124-BC137 and BC141 of the Basis for Conclusions and paragraphs IG7-IG59 of the draft Implementation Guidance).

Should any of these proposals be amended or deleted? Should any further disclosures be required? Please give reasons for any changes you suggest.

To a large extent, the proposed disclosures are applications of existing requirements in IFRSs, or relatively straightforward analogies with existing IFRS requirements. If you propose changes to the disclosures proposed for insurance contracts, please explain what specific attributes of insurance contracts justify differences from similar disclosures that IFRSs already require for other items.

We request the Board to take into consideration the following points of view in deciding the content and scope of the disclosure.

(a) The Board should require the disclosure without imposing costs that exceed the benefit and at a reasonable and moderate level to carry out the objective in paragraph 1. We further note that the Board should refer to the extent that the information for each requirement should be aggregated, ie on the basis of each line of insurance or on the aggregate basis of all lines, because the amount of costs for the disclosure depends largely on how much in detail the information need to be disclosed.

(b) The Board should not require disclosing the information related to trade secret, because the entity is put in better position by keeping it, while the entity suffers loss if it is made public.

(c) Requirements of qualitative and quantitative information without clear guidance would impair comparability of financial statements and lead to users' misunderstanding.

(d) The disclosure requirements on insurance contracts in insurers' financial statements should not be too excessive compared with those of banks.

The following comments relate to specific sections of the draft IFRS.

Significant assumptions and other sources of measurement uncertainty

IG20(c)(d)(e)(f)(h) should be deleted.

It is difficult to disclose these assumptions at the level of aggregation specified in IG22. Also, IG20(c) includes highly technical information which is too difficult for some users to understand or partial information which is hard to comprehend in terms of its materiality or impact on the whole, and might result in the misunderstanding and confusion of the users. Moreover, IG20(d)(e)(f) includes information related to trade secret, disclosure of which hampers fair competition. Also, IG20(c)(f)(h) is vague and we are suspicious about their usefulness.

Changes in assumptions

Paragraph 27 and IG24 should be deleted. If the Board requires disclosing the effect of some changes related assumptions, it should be limited to that of changes in assumption process of which is disclosed, or that of changes in the process used to determine the assumptions that are disclosed. The costs for the disclosure is so high for its benefit that requirement does not meet economic rationality. Also, IG24 requires the disclosure of the effect of changes in assumption that has "a material effect" on the financial statements, while IG19 requires the disclosure of the process used to determine the assumptions that have "the greatest effect" on the measurement of assets etc. As a result, insurers might have to describe the effect of changes in assumptions the process of which is not required to disclose, which we believe is not appropriate. The Board should require disclosing only the effect of changes in assumption process of which is disclosed, or the effect of changes in the process used to determine the assumptions that are disclosed.

IG25 should be deleted.
The costs for the disclosure is so high for its benefit that requirement does not meet economic rationality. Also, it includes information related to trade secret, disclosure of which hampers fair competition. Furthermore, the judgement about whether there is interdependency or not includes more arbitrariness than the recognition of the effect of changes in each assumption.

IG26 should be deleted.
The costs for the disclosure is so high for its benefit that requirement does not meet economic rationality.

Risk management objectives and policies for mitigating insurance risks
IG37 should be deleted.
The disclosure of sensitivity analyses, scenario analyses, and stress testing is premature. The results of them depend on assumptions, and might not be so reliable. Even if those analyses are to be carried out, they should be sensitivity analyses based on relatively moderate stress. Also, IG37(a)(b) includes information related to trade secret, disclosure of which hampers fair competition.

Terms and conditions of insurance contracts
IG38(b) should be deleted.
The costs for the disclosure is so high for its benefit that requirement does not meet economic rationality.

IG39 should be deleted.
IG39(a) requires disclosing each year's cash flows. However, the cash flows related to insurance liabilities are very uncertain. Besides, they are meaningless under a situation in which the cash flows arising from future insurance contracts are not reflected under the closed book approach. Also, the costs for the disclosure by IG39(a)(b)(c)(d)(e) is so high for its benefit that the requirement does not meet economic rationality. Moreover, IG39(b) includes highly technical information which is too difficult for some users to understand or partial information which is hard to comprehend in terms of its materiality or impact on the whole, and might result in the misunderstanding and confusion of the users.

Sensitivity

Paragraph29(c)(i) and IG41 to 43 should be deleted.

The cost for the disclosure is so high for its benefit that the requirement does not meet economic rationality. Also, they include highly technical information which is too difficult for some users to understand or partial information which is hard to comprehend in terms of its materiality or impact on the whole, and might result in the misunderstanding and confusion of the users.

Concentrations

Paragraph29(c)(ii) and IG44 to 47 should be deleted.

The cost for the disclosure is so high for its benefit that the requirement does not meet economic rationality. Even if insurers were mandated to disclose the information specified in them, detailed guidance would be necessary as with respect to IG47. Without detailed guidance, it might result in that insurers have to describe all the losses with a certain scale or more.

Claim development

As for IG48, the Board should approve insurers to disclose claims development information on an incurred year basis. In addition, the disclosure of the information should be that of aggregate of all lines or only major lines of insurance.

We believe that incurred year basis is in accordance with the purpose of its disclosure. Also, if the Board required disclosing by each line of insurance, the volume of the information disclosed would be so huge that the usefulness for users might be impaired.

Paragrap29(c)(iii) provides that the information for "claims that are typically settled within one year" need not be disclosed. We request that it should be changed to "claims the amount of which is generally fixed within one year".

Embedded derivative

Paragraph29(e) and IG54 to 58 should be deleted.

The draft IFRS should not require disclosing the information about material exposures to interest risk or market risk under embedded derivatives contained in a host insurance contract that is not measured at fair value.

As stated in paragraph 1, one of the objectives of the draft IFRS is to require insurers to disclose information about insurance contracts without imposing costs that exceed the benefits. However, it requires large-scale system changes for insurers to disclose the information about the sensitivity analysis, the fair value, and other information about the embedded derivatives. We are concerned that it might result in another system changes in phase2 and be against the objective of the draft IFRS to require those disclosures under the circumstances in which the treatment of embedded derivatives in phase2 is uncertain yet.

(c) As a transitional relief, an insurer would not need to disclose information about claims development that occurred earlier than five years before the end of the first financial year in which it applies the proposed IFRS (paragraphs 34, BC134 and BC135).
Should any changes be made to this transitional relief? If so, what changes and why?

As for transition relief, we request the Board to shorten the period to be disclosed from five years to three years, because insurers begin to make preparations from now.