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October 31, 2003

Sir David Tweedie
Chairman
International Accounting Standards Board ("IASB")
30 Cannon Street, First Floor
London EC4M 6XH
United Kingdom

Dear Sir David and Members of the Board:

We, Nippon Life Insurance Company ("Nippon Life"), appreciate the opportunity to make comments on ED 5, Insurance Contracts. While Nippon Life supports the comments of The Life Insurance Association of Japan ("LIAJ"), the opinions presented below are Nippon Life's original ones and independent of those of LIAJ.

Executive Summary

First of all, we would like to summarize our major concerns about ED5.

<u>1. Fundamental view : Framework</u>

Nippon Life believes that the "Framework", which is fundamental and essential to discuss ED 5 issues, is inadequate for accounting for the insurance business and needs to change, especially the definitions of assets and liabilities.

<u>2. Three basic issues in common to Phase I and Phase II</u>

The following 3 points are our short-term concerns with respect to ED 5, though Nippon Life believes that those concerns are also fundamental to the phase II discussions.

(1) Fair value measurement and disclosure

Nippon Life is opposed to the measurement or disclosure of fair value for insurance contracts, since fair value has many issues to be resolved. In addition, fair value has not been supported by the interested parties on a global basis.

(2) Mismatch between assets and liabilities

Nippon Life is opposed to the application of the proposed IAS 39 to insurance contracts, since it is likely to cause the mismatch of assets and liabilities valuation. Establishing 'debt securities earmarked for policy reserve,' which is part of current Japanese accounting for life insurance industry assets is a suggested alternative.

(3) Due process

Nippon Life believes that IASB should work as a global accounting standards setter by creating a thorough and robust consensus among the interested parties. Based on this premise, Nippon Life does not consider the sections of ED 5 regarding a "sunset provision" and "fair value disclosure" to be appropriate.

3. Proposition toward the Phase II discussion

In the long term, Nippon Life would like to propose the basic concept of the phase II discussion. The accounting for insurance business should be 'lock-in with loss recognition test.'

Nippon Life would like to ask the Board members to give a serious and thorough consideration to our attached general and specific comments.

Sincerely yours,

Sadao Kato
Managing Director
Chief Representative of Actuarial Department
Nippon Life Insurance Company

? . General comments

1. Fundamental view : Framework

Having reviewed ED5, first of all, we would like to provide comments on IASB Framework, which is fundamental and essential to discuss ED5 issues. We believe that Framework is inadequate for insurance business and needs to change, especially, the definitions of assets and liabilities.

We think that the asset and liability view is a useful method for the valuation of marketable financial instruments. However, that is inadequate for insurance accounting, since insurance contracts are not marketable or held by financial institutions to sell them. Especially, the valuation of insurance contracts on the basis of asset and liability view requires the recognition of future profits at outset or at change of premium rate. That makes financial statements unreliable.

We propose Framework for insurance accounting be discussed thoroughly.

2. Three basic issues in common to Phase I and Phase II

In our analysis of ED5, it includes some points, which should be removed and considered in Phase II. Therefore, we comment on both phase I and phase II issues of the Insurance Contract Project comprehensively as follows.

(1) Fair value measurement and disclosure

Nippon Life is strongly opposed to both the disclosure and the measurement of fair value of the insurance contracts.

In phase I, it is required for insurers to disclose the fair value of their insurance contracts after December 31, 2006 (Para 30,33). Moreover, it is tentatively decided that assets and liabilities arising from the insurance contracts should be measured at their fair value in phase II (BC6(b)). However, Nippon Life considers that there are the following problems about fair value.

- The fair valuation requires the recognition of future profits, and that is not sound as financial statements.

- The objectivity and the verifiability lack because an active secondary market for insurance contracts doesn't exist.
- The understandability and the relevance lack because the fair value of the long-term insurance liability is measured based on the assumptions at a specific date and the assessment is largely influenced by the preconditions such as the interest rate fluctuations.
- There is a doubt in the practicability of the fair value accounting because no country has employed the fair value insurance accounting standards that IASB has assumed. In addition, the feasibility study has not been conducted enough.

Furthermore, strong concerns are expressed by the insurance industry in major countries about fair value of the insurance contracts that IASB proposes. Hence it is considered that the consensus concerning the use of fair value for the insurance contracts has not been formed at all.

Though IASB has already called a specific evaluation method for the insurance contracts as "Fair value" at this stage, this expression "Fair value" obviously points out one direction. Due to this expression, discussion is likely to be deviated from the neutral standpoint. Therefore, the immediate review of the expression "Fair value" is proposed. The procedure of the discussion that uses the expression biased is not appropriate.

(2) Mismatch between assets and liabilities

We are opposed to the application of the proposed IAS39, which is likely to cause the mismatch of assets and liabilities valuation. Establishing 'debt securities earmarked for policy reserve,' which Japanese life insurance industry has been taking advantage of, would be an alternative.

When IAS39 is applied to the insurance company, it has been decided not to have any exemption in discussing phase I (BC110-113).

In the first place, when a set of standard of the marked-to-market accounting of financial instruments were applied to the insurance companies in Japan and the United States, special treatments to adjust the mismatches between the valuation of assets and liabilities were employed as a form of "Debt Securities Earmarked for Policy Reserve" in Japan and "Shadow adjustment" in the United States. On the other hand, if the current proposed IAS 39 improvement draft standard is endorsed, the insurance companies in Europe will become the first case where a marked to market accounting could be applied directly without making any adjustment.

The business result, which appears on the balance sheet, seems inappropriate, when the mismatches of assets and liabilities occur, since the equity part fluctuates unreasonably.

In addition, it is felt that it became difficult to analyze and understand financial statements after the employment of the marked-to-market accounting. In a word, though information regarding the market value of the financial instruments is certainly useful, we think that making the financial statements with historical cost basis and disclosing the market value information in the footnotes is better than making the financial statements with market value basis in order to make everyone it understood.

Therefore, Nippon Life thinks that the following methods are appropriate.

- The valuation method of the financial assets should be "historical cost with loss recognition test" so that this could be in line with the profit loss accounts and the valuation of the liability; or
- In case that the market value is employed at the valuation of the financial assets, a liability reserve fund which moves corresponding to the change of the unrealized gains should be established.

However, we do not mean the immediate change of the current Japanese accounting standards, even though we support the above-mentioned propositions. The change of a set of accounting standards significantly cost not only prepares but also parties concerned. Even if current accounting standards are not best ones, the change of these accounting standards need the reason from the viewpoint of the cost-benefit analysis. We understand that it is necessary to be prudent when we change the accounting standards which have been once employed because it is assumed that the cost related to the changes of accounting standards is likely to be significant eventually, unless the agreement from all the related parties is obtained extensively. Nippon Life has been watching with a keen interest the European financial institutions' reactions to IAS 39 development that might give us insight into the improvement of the Japanese accounting standards. We expect that IASB holds constructive discussions with insurance industries starting with European ones, and then appropriate improvements are made in IAS 39.

(3) Due process

We believe that IASB should work as a global accounting standards setter by making a through and robust consensus among the interested parties.

The related parties to the development of a set of accounting standards widely include prepares, investors and auditors. Especially, in the case of insurance accounting standards, those extend to policyholders and supervisors. Thus, it is needless to say to have to take opinions from such related parties into consideration enough to develop a set of high-quality accounting standards suitable to the needs of related parties. Therefore, an accounting standard setter is expected to take a leadership in making a consensus of these related parties. If the discussions are developed based on only a specific accounting theory such as "IASB Framework" without making a consensus sufficiently and extensively, as a consequence, that procedure would conceive the danger to establish the accounting standards which are not used by anybody but even harmful. That is to say, Nippon Life believes that high-quality accounting standards do not mean the highly consistent ones based on only a specific accounting concept, but mean the harmonized ones among the related parties and the supported ones by a lot of people.

a) Taking advantage of external opinions

Concretely, it must be indispensable to take advantage of the specialist's experience, for instance when establishing accounting standards to reflect the insurance business results appropriately, because an insurance business has a special character of diversification of risks among many people and generations. Therefore, IASB should have enough opportunities to make fruitful discussions with insurance industries by taking advantage of the Advisory Committee more effectively. Though a lot of comment letters about the Insurance Contract Project have been so far submitted, it is not disclosed how they were handled by IASB. With regard to various opinions submitted after being examined seriously, even if they are rejected, IASB's still have an accountability so that the opinion presenters are convinced enough as a step for a making consensus

Moreover, it is necessary to provide SAC with its veto over decisions of the Board so as not to neglect their efforts for making a consensus. In addition, the judgment of the Sunset review, which is a measure to stop discussing the agenda when the conclusion is not reached even if the Board has discussed it for a long term, should be left to a body independent from the Board.

b) Prudent discussion

In the discussion of big changes of the accounting standards like phase II, prudent discussions would be required. As a result, IASB should take enough time in its discussion so as not to sacrifice their quality. Moreover, it seems that the procedures that each country cannot examine sufficiently is inappropriate.

In such respect, "Sunset provision" that limits the period which allows the use of the existing accounting practices to two years means cutting off the discussion about phase II for a short term. That sacrifices the quality of accounting standards by giving priority to schedule and is considered to be an extremely inappropriate decision.
Accordingly we strongly disagree on the "Sunset provision".

From the same reason, we are strongly opposed to the disclosure of the fair value in 2006 not only from the viewpoint of measurement issue, but also from the viewpoint of due process issue.

3. Proposition toward the Phase II discussion

In the long term, we would like to propose the basic concept of the phase II discussion. The accounting for insurance business should be ‘lock-in with loss recognition test.’

"Fair value" that IASB calls is the one obviously including the unrealized gains and losses for the future period. It is necessary to pay the great attention that the estimated gains or losses arising from the change in assumptions are not the adjustment of the realized profits or losses, but the recognition of the future profits or losses. Though the tradable securities are not the case, the recognized future profits arising from the non-tradable insurance contracts at the specific valuation date are not always realizable. In addition, those profits are considered to be a part of "goodwill internally generated intangible assets" that are prohibited to recognize in IAS38.

Certainly, a consideration for not recognizing the future profits at the inception of the contract has been described in BC6.(b) (ii). However, this works only for new contracts acquired. We still have our concerns about the recognition of the future profits stemming from the existing contracts according to the changes in assumptions.

In order not to recognize the future profits arising from the existing contracts, we need to use the "Lock-in method", where the assumptions to evaluate the existing contracts are the same ones used at outset.

However, when the “lock-in method” is applied rigidly, it is possible that even losses that are anticipated to occur in the future with a significant confidence could not be recognized. As a result of that, insurance companies sometimes cannot keep their soundness. Accordingly, it is necessary and appropriate to supplement the "lock-in method" with the loss recognition test.

Furthermore, in phase I, IAS 37 is required to apply when there is no existing practice with regard to the loss recognition test (Para11, 12). Even if the phase I standards are applied to Japan, it is not necessary for the Japanese insurance companies to employ IAS37, because the Japanese insurance companies are required to conduct the loss recognition test by a Japanese supervisor according to the implementation guidance made by The Institute of Actuaries of Japan.

When IAS37 being applied, it leads to the recognition of all the losses over the insurance period based on the current estimate. As a life insurance contract over a couple of decades or a whole life is not rare, applying the present estimate to such a long term contract leads to the recognition of extremely uncertain losses on the financial statements. In addition, it is likely to lower the credibility of the financial statements.

Moreover, it is considered that there is a problem in terms of the understandability because such uncertain losses might be likely to provide misunderstandings as if it occurs certainly. In addition, when IAS 37 being applied, we would face difficult problems such as cancellation and renewal of which solutions have not been found yet in phase II discussions.

Therefore, it is considered that it is necessary to reflect the result of the loss recognition test in the financial statements to the extent which credibility is secured. Therefore, we think that another standard instead of IAS37 is necessary. However, in this case, there is a concern that significant losses, but uncertain, would be kept unrecognized on the financial statements. The solution to cope with this issue should be considered as a problem of the internal management in each insurance company. Nippon Life internally measures the amount of “negative spread," (the negative difference between investment yield and guaranteed rate) which is not always recognized with the loss recognition test or reflected on the financial statements, but is considered to be an insignificant figure by the board, and set reserves as ‘On-balance margin.’ Nippon Life also discloses this internal risk management position. The accounting standards for insurance business in Japan are "Lock-in with loss recognition test" exactly. Thus, we think that the framework itself in the present insurance accounting in Japan is quite appropriate though we do not deny the possibility of improvement of the details.

? . Specific comments

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?

(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?

Nippon Life comment;

(a) We disagree with the proposal of ED5.

As for the insurance contracts accounting, we have a concern that it is highly likely to fail to reflect the actual result of the insurance company on the financial statements, because only a part of financial statements is taken out and the consistency between the accounting of insurance contracts and that of financial instruments is pursued.

It is considered that the most important thing in developing a set of insurance accounting standards is to reflect the business result of the insurance company on financial statements appropriately. Accordingly, it is necessary to discuss an insurance business accounting by taking the characteristics of the insurance business into account enough rather than discussing an insurance contracts accounting.

Therefore, it is also necessary to discuss the accounting of the financial instruments that insurance companies hold in respect of whether exemptions for insurance business are necessary or not. It does not seem appropriate not to allow exceptions for insurance business only.

Moreover, in respect of a reserve fund without backing insurance contracts individually, the one necessary to express the risk pooling function of the insurance business appropriately and to secure moderate prudence should be permitted to use, and it seems that there is no rationality in the prohibition of a reserve fund accumulation of which it comes into effect by the existing accounting policy only because of "IASB Framework".

(b) No comment

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?

Nippon Life comment;

We disagree with the proposal of ED5.

The definition of an insurance contract already exists for the purpose of supervision and regulation in the developed countries, and we propose not to change these existing practices in each country. At the stage of phase ., the decision with the possibility of affecting the existing practices significantly in each country should not be made.

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?

(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?

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

(d) Should any other embedded derivatives be exempted from the requirements in IAS 39? If so, which ones and why?

Nippon Life comment;

(a) We disagree with the proposal of ED5.

Although we agree with the exemption of some types of embedded derivatives from the scope of IAS 39, it should not be required to unbundle the other types of derivatives embedded in insurance contracts or investment contracts that insurance companies provide or evaluate them at the fair value at least at this stage.

In respect to the majority of embedded derivatives included in the insurance contracts or the investment contracts, it is impossible for the policyholder to separate and settle them by netting or selling in the secondary market. As a result, we will face a difficult problem similar to a difficult problem in the fair value evaluation of the host contract, and it must be impracticable.

(b) We agree with the proposal of ED5.

(c) We disagree with the proposal of ED5.

Although the possibility of the fair value disclosure of the embedded derivatives is suggested in IG 58, the fair value disclosure should not be required because it is impracticable to measure it.

(d) We disagree with the proposal of ED5.

Unbundling should not be required except when a policyholder can unbundle a derivative part and settle it by netting or sell it in the secondary market.

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?

(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?

Nippon Life comment;

(a) We disagree with the proposal of ED5.

Although we agree with the exemption from IAS 8 application, we disagree with the proposal to set the expiration date of the exemption in 2007. Thus, an expiration date should not be set in this exemption.

At present there is no guarantee that the discussion of phase . will be finished in a short term though in the ED5 the discussion of phase . is assumed to be finished by 2007. On the contrary, there is a concern that we will not have enough time to discuss phase . by setting the deadline like this.

(b)(i) We disagree with the elimination of the catastrophe and the equalization provisions.

The existing accounting practices in each country should not be changed. Appropriate accounting standards will not be established by modifying current accounting practices in each country slightly. In addition, sufficient reasons are not shown in the ED5 in order to abolish the provisions which regulators in each country require insurance companies to set aside for insurance business.

(b)(ii) We disagree with the application of IAS 37 when there is no loss recognition test in an existing accounting policy of insurers.

IAS 37 is not designed for insurance contracts, and is not appropriate to apply it to the insurance contracts. The losses should be recognized to the extent that the losses are highly likely to occur with confidence.

(b)(iii) We disagree with the prohibition of the offsetting of the reinsurance.

When an inappropriate reinsurance contract is made, we share with IASB the concern that financial statements may mislead their users by showing them on the financial statements with offsetting. However, when an appropriate reinsurance contract is made, it is rather reasonable to show them on the financial statements with offsetting. Therefore, it is necessary to keep the offsetting method with a condition, for example, an authorization by the regulator.

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 recognized in profit or loss (paragraph 35 of the draft IFRS).

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

Nippon Life comment;

(a) We disagree with the proposal of ED5.

IAS 8 is insufficient as the condition to allow the change in the accounting policy for insurance contracts. It is necessary to prohibit the change in the accounting policy in principle, and the allowed conditions to change should be extremely limited for the purpose to exclude the arbitrary selection of the accounting standard by each company. In considering that insurance companies are highly in the interest of public, some requirements to exclude the arbitrary selection of the accounting policy by individual insurance company, such as an authorization from the regulator, are necessary.

(b) We disagree with the proposal of ED5.

There is a possibility that arbitrary selection of the accounting standard by insurance company occurs from the similar reason to (a). Moreover, it is probable that the comparability between financial situation of insurance companies lack remarkably.

Question 6 – Unbundling

The draft IFRS proposes that an insurer should unbundle (i.e. 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?

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

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

Nippon Life comment;

We disagree with the proposal of ED5.

The unbundling should not be required. The unbundling of the deposit component (cash value) embedded in most of insurance contracts is impossible, and the necessity of the unbundling is flimsy as described in BC 37. Although we understand the issues about the example of the financial reinsurance described in BC 35, we think that there is no problem, because reinsurance companies do not undertake significant insurance risks in many financial reinsurance contracts and they are classified as investment contracts according to the ED5. Furthermore, a problem is hardly likely to occur because the recognition of future profits is not allowed according to the accounting rule of the cedants as described in question 7.

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?

Nippon Life comment;

No comment.

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?

Nippon Life comment;

We disagree with the proposal of ED5.

We disagree with the proposal because the use of the fair value for insurance contracts measurement is assumed.

At least, it is necessary to exempt the insurance company from IAS22 until the measurement method at the fair value for insurance contracts is defined.

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?

Nippon Life comment;

We disagree with the proposal of ED5.

There exist some descriptions in BC105 where their conclusions are derived based on "IASB framework." However, the discretion of the surplus allocation that the insurance company holds is based on the retrospective view, and is fundamentally inconsistent with the prospective view which "IASB framework" advocates.

Though the discretionary participation features are planned to discuss in phase ., it is necessary to discuss them in terms of whether application of the present "IASB framework" to the accounting of the insurance is appropriate or not. On the contrary, nothing about the discretionary participation features should be decided at present because it is considered that deriving the conclusion based on the "IASB framework" is inappropriate at the stage of phase . without such a discussion.

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?

Nippon Life comment;

We strongly disagree with the proposal of ED5.

We strongly disagree with the fair value of the insurance contract, because there are following problems.

- Future profits are recognized by the estimation of fair value, and it is not sound as financial statements.
- The objectivity and the verifiability lack because an active secondary market for insurance contracts doesn't exist.
- The understandability and the relevance lack because the fair value of the long-term insurance liability is measured based on the assumptions at a specific date and the assessment is largely influenced by the preconditions such as the interest rate fluctuations.
- There is a doubt in the practicability of the fair value accounting because no country has employed the fair value insurance accounting according standards that IASB has assumed. In addition, the feasibility study has not been conducted enough.

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.

(b) The proposed disclosures are framed as high level requirements, supplemented by Implementation Guidance that explains how an insurer might satisfy the high level requirements.

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

(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?

Nippon Life comment;

We disagree with the proposal of ED5.

In respect of the disclosure items, an individual company's voluntary disclosure, leaving the market competition so that each company can disclose independently, plainly, and meaningfully, seems more appropriate than a uniform one.

When detailed information is disclosed excessively, it should be noted that the person, who has the ability to analyze it, is not a general investor but a competitor usually, and precaution against the disclosure of the business secret is necessary. Therefore, the excess disclosure over the present practice in each country should not be required, and the level of disclosure should leave the free competition of each company.

Question 12 – Financial guarantees by the transferor of a non-financial asset or liability

The Exposure Draft proposes that the transferor of a non-financial asset or liability should apply IAS 39 *Financial Instruments: Recognition and Measurement* to a financial guarantee that it gives to the transferee in connection with the transfer (paragraphs 4(e) of the draft IFRS, C5 of Appendix C of the draft IFRS and BC41-BC46 of the Basis for Conclusions). IAS 39 already applies to a financial guarantee given in connection with the transfer of financial assets or liabilities.

Is it appropriate that IAS 39 should apply to a financial guarantee given in connection with the transfer of non-financial assets or liabilities? If not, what changes should be made and why?

Nippon Life comment;

No comment.

Question 13 – Other comments

Do you have any other comments on the draft IFRS and draft Implementation Guidance?

Nippon Life comment;

When a big change in the accounting standard is made, it must be necessary to have the opportunity to examine the influence given to the economy very carefully.

In observing the recent rapid movement towards the marked-to-market accounting, we feel the concern that there might be a possibility that the accounting standard would negatively affect the global economy.

As the accounting standards are a common platform to the society by which it has a strong influence on the corporate activities, there is a possibility that the accounting standards give a big influence on the economy. Moreover, an original purpose to make high-quality accounting standards is to increase the public benefits. Even if the accounting standards are advanced theoretically enough, when it is anticipated that its application negatively affects economy, we should be very careful in its application.

Therefore, when establishing new accounting standards, it is expected to discuss well by comparing its advantages and disadvantages. However, such a decision is not necessarily a problem of IASB itself, but also a problem to national accounting standard setters, the government, the industries, and the investors in each country. We hope a precaution is taken from the developing stage so that "Standard nobody use" might not be settled by IASB.