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October 31, 2003

Comments on Exposure Draft 5 "Insurance Contracts"

Meiji Life Insurance Company

Meiji Life Insurance Company ("Meiji Life") sincerely appreciates the opportunity to express an opinion in response to the Exposure Draft 5 "Insurance Contracts" ("ED5").

Meiji Life, having great respect for the efforts of the International Accounting Standards Board ("IASB") to seek better financial accounting standards, is itself striving to accomplish further improvement in the accounting system to promote the transparency, reliability and comparability of the financial statements.

Meiji Life supports the comment letter of the Life Insurance Association of Japan ("LIAJ"*). Meiji Life's view is typically consistent with LIAJ's letter, even though the view shown in this letter stands on the original standpoint as Meiji Life.

Meiji Life was founded in 1881 as Japan's first modern life insurance company and now runs insurance services mainly in Japan. At the end of fiscal 2002, Meiji Life had ¥167 trillion (US$1,391 billion) of life insurance in force and ¥16,243 billion (US$135 billion) of total assets.

* LIAJ is the industry organization composed of 41 member life insurance companies in Japan.

I. General Remarks

In preparing these comments, Meiji Life has taken the fundamental position that the accounting system for insurance companies should satisfy the following requirements even if it is applied for general purposes:

1. Financial statements must properly reflect the process of insurance business that underwrites risk during long-term contract period, and recognizes profits when an insurance company is released from the risk underwritten;

2. Financial statements must sufficiently take into consideration the characteristic of insurance business such as risk diversification through grouping insurance contracts;

3. The system must actually make it possible to recognize and measure insurance liabilities with reliability and comparability;

4. The system must be the one that enables to prepare financial statements with reasonable amount of time and expense from the perspective of cost effectiveness; and

5. The accounting system must be the one that is useful for not only investors but also policyholders.

From viewpoints mentioned above, there are a lot of problems concerning the contents of the IASB's previous study of the insurance project and the ED5. Meiji Life proposes the followings to improve them to an appropriate accounting standards proposal.

In addition, ***IASB may take the approach in the following proposals as a roundabout and worry about delay of the deliberation. However, there is a proverb in Japan that "Make haste slowly", and Meiji Life believes that these proposals will create the IFRS suitable for the insurance business (or insurance company) within shortest period of time as a result.***

[1] Preparation of accounting standards which reflect the characteristic of insurance business (Proposals for Phase II)

(a) Review of the tentative conclusions for Phase II

- In January 2003, the Board reached the tentative conclusions for Phase II that assets and liabilities arising from insurance contracts should be measured at fair value. (Paragraph 6 of Basis for Conclusions) However, it should be noted that from the perspectives of the understandability, relevance, reliability and comparability, the problems listed below exist concerning fair value measurement of insurance liabilities as pointed out in the comment letters from various organizations as well as in the Insurance Project so far.

  Fair Value Measurement Problems:
  - It does not properly reflect the process of insurance business that underwrites risk during long-term contract period, and recognizes profits when an insurance company is released from the risk underwritten.
  - It would result in the recognition of unrealized uncertain profits and make the financial statements unsound.
  - Since there is no active secondary market for insurance contracts, it is difficult to measure them with sufficient objectivity and verifiability.
  - If long-term insurance liabilities are evaluated based on assumptions at a specific point in time, it would be greatly influenced by conditions such as fluctuations in interest rates and therefore lack in understandability and relevance.
  - Since there is no country where insurance accounting in accordance with fair value as supposed by the Board is adopted and no verification study is being conducted, its feasibility is doubtful.

- What should be first performed in deliberations on Phase II is ***to discuss and verify sufficiently the accounting models other than fair value model for recognition and measurement of insurance liabilities from the perspectives of the understandability, relevance, reliability and comparability, as financial statements of the insurance business (insurance company).***

(b) Meiji Life's proposals at IASB Field Visit held in Japan

- At the field visit session carried out by some of the IASB board members and its staff in February 2002, ***Meiji Life proposed the "Released from risk and implicit margin approach" as an accounting model which properly reflects the process of insurance business.***

- A life insurance company engages in the business of providing insurance coverage to policyholders by reducing risk and uncertainty through underwriting numerous insurance contracts, thereby pooling the same type of risks quantitatively over time. And an insurance contract under which an insurer provides service to the policyholder in the form of coverage over the entire period of the contract in return for value paid as premium has aspects as service contracts rather than financial instruments.

- Meiji Life proposed the "Released from risk and implicit margin approach" as an accounting model which properly reflects the characteristic of insurance business. This model satisfies the four principal qualitative characteristics (understandability, relevance, reliability and comparability) that the

Conceptual Framework states financial statements must satisfy, and shows that it is more appropriate accounting model than fair value model at least for recognition and measurement of insurance liabilities.

- The outline of the Meiji Life's proposals at the field visit is as follows.

[Meiji Life's proposals at the field visit]

Meiji Life proposed the "Released from risk and implicit margin approach" as an accounting model that properly reflects the process of insurance business. At the same time, it showed provisional estimates using simple models, and submitted proposals from a viewpoint of practitioner.

(1) Concept (concept of recognition and measurement)

- A method whereby the future risk and uncertainty (conceptually this includes the profit margin) that insurance company underwrites is recognized as liabilities at the issue of insurance contract, and thereafter, risk is released together with the exposure of the risk as time goes by.

(2) Concept of future cash flows

- Since the expected present value of future payment and risk and uncertainty are not separated in the actual risk management in life insurance business, the amount of combined cash flows and timing of its release should be grasped.
- It is practically impossible at present to apply probability distribution to all cash flows and obtain weighted arithmetic averages by using a stochastic scenario.

(3) Setting of assumptions

- Setting assumptions from the perspectives of releasing the risk and uncertainty which insurance companies underwrite as time goes by (for example, using the assumptions for premium calculation).
- Risk management of long-term life insurance contracts by life insurance companies is being conducted with the extraordinarily long viewpoint. Assumptions should be also set with the long-term point of view in order to appropriately present the condition of actual company and the managements' intention.
- It is inappropriate to use discount rates at one point in time at the end of the term, and it is difficult to set the standard of very long-term interest rates for which there is no observable market data. Therefore, discount rates should be set based on past experience or based on market data for only periods of time in which we can access reliable and observable market data (and interest rate for premium calculation should be used for remaining period). If the financial market is temporarily in an abnormal condition because of policy-related reasons, discount rates should be set by excluding such abnormal factors (in such cases reasonable estimate by insurers is reflected).

[2] Improvement of the insurance IFRS preparation process

(a) Recommendation of open-minded discussion

- ***There are some parts in the ED5 that describe pending items as if they were widely agreed to and decided. Meiji Life proposes that IASB should deliberate Phase II with open stance while making appropriate revisions not to be misunderstood.***

- When Sir David Tweedie, Chairman of the IASB, visited Japan in June 2003, he stated as follows at an open meeting sponsored by Japan Business Federation (Keidanren):
  - No final decision have been made in Phase II;

- Problems concerning fair value, renewal options and participation features of insurance, have not been studied at present, but will be deliberated in Phase II; and
- At the various types of sessions held, I have instructed the staff to study fair value approach. However, most of the staff members are actually involved in Phase I, therefore, study of the Phase II will be conducted in or after October.

- Recognition and measurement methods for insurance are in fact pending items in the deliberation of the Board. However, Meiji Life is concerned that the following parts of the ED5 appear as though "measurement method for insurance is based on fair value" were a widely agreed and decided matter. Especially, Meiji Life believes that ***revision or deletion of the following parts is necessary since they may lead to misunderstanding and its influence is significant.***
  - "In the Board's view, fair value is the only relevant measurement basis for derivatives, because it is the only method that provides sufficient transparency in the financial statements." (Paragraph 119 of Basis for Conclusions)
  - "This proposal is intended not only to give useful information to users of an insurer's financial statements, but also to encourage insurers to begin work on fair value systems to avoid the need to provide a long transition period for Phase II." (Paragraph 138 of Basis for Conclusions)
  - "Disclosure of fair value of insurance liabilities and insurance assets will provide relevant and reliable information for users, and this would still be the case even if Phase II does not result in a fair value model." (Paragraph 139 of Basis for Conclusions)

- In addition, although Meiji Life fully understands the Conceptual Framework as an important guideline when the Board deliberates Phase II with open stance, accounting standards created through strict interpretation and its application of the Conceptual Framework do not necessarily turn into appropriate accounting standards for the insurance business. ***Meiji Life strongly demands that the Board deliberate on Phase II, considering wide range of interpretation of the Conceptual Framework, and making adjustment and revision required.***

(b) Securing sufficient time for deliberation

- Insertion of "Sunset clause" and "Fair value disclosure clause" has the risk of sacrificing the quality of accounting standards by giving priority to deliberation schedule. Priority should be given to ensuring suitable timeframe for deliberation and examining fully the merit, demerit and influence by introduction of the new standard of the completely new concept.

- "Sunset clause" and "Fair value disclosure clause" assumes that complete examination of fair value measurement technique or discussion of Phase II will be completed by each effective date. Considering the current situation that no consensus has been obtained regarding the direction of Phase II, ***Meiji Life believes it is inappropriate to incorporate such clauses that restrict an examination period (the basis for this period also being unclear). Meiji Life is concerned that those clauses would lead to sacrificing the quality of IFRS for insurance.***

(c) Reflection of opinions of insurance practitioners and professionals

- Insurance business is to a great degree a public service by nature and has unique characteristic of providing a scheme to diversify risk through spreading both amount and timing of such risk. Since insurance business is also technical by nature, it is essential that insurance experts fully participate in preparation of insurance accounting standards. Under current situation where the Board members do not have sufficient specialized knowledge concerning insurance, it is necessary to adequately reflect opinions of regulators, industry people and other insurance experts in the deliberations. Unfortunately, to us, the Board does not seem to be performing such efforts.

- For example, Meiji Life once prepared more than 100-page report, in which it proposed an accounting model which properly represents the process of insurance business at the field visit in February 2002. It also has submitted various written comments to the IASB through the LIAJ. It is not known, however, how the Board members have treated these inputs. Meiji Life believes that the goal of preparing the best accounting standards possible can be better achieved if the Board considers the comments and reports that the practitioners of respective countries have labored to prepare, instead of just relying on proposals prepared by a few IASB staff members.

- Considering the situation that the direction of Phase II standard has not been settled yet and still the heated discussion is going on, despite the considerable amount of time invested for discussion of insurance IFRS in global scale, it is considered that the current procedure of deliberations has its own limit. In addition, ***it is necessary for the Board to establish a system that will reflect useful outside opinion appropriately in the deliberations more than ever before. Therefore, Meiji Life proposes that:***
  - IASB grant a certain level of drafting authority to the Insurance Advisory Committee, like the former Insurance Steering Committee. (The Advisory Committee for financial activities seems to be managed in such manner.);
  - The Insurance Advisory Committee discuss not only technical issues but also conceptual issues concerning recognition and measurement. It also performs a role of consensus building; and
  - Public hearings (round table meetings) be held regarding important topics to which there are many objections, and opinions of the global insurance experts be heard.

[3] Disclosure of insurance contracts required by ED5

- ED5 requires disclosure of fair value of insurance contracts, and disclosure of very detailed and enormous quantity of information about future cash flows and risk management.

- ***Meiji Life has been making efforts to disclose financial statement that is transparent to the general public including policyholders, and will continue these efforts. However, it strongly opposes the disclosure requested in ED5 due to the following reasons:***
  - As is mentioned above, fair value disclosure of insurance contracts does not bring about beneficial information for users of financial statements including policyholders. It is more likely that such disclosure is inappropriate for the users (at least at present), from the perspectives of the understandability, relevance, reliability and comparability.
  - Disclosure requirements other than fair value are also inappropriate due to:
    (i) The disclosure requirements include entity specific confidential information. When such information is disclosed, there is concern that it may be abused by competitors, which result in deterioration in condition of competition;
    (ii) Some disclosure requirements assume the disclosure of fair value measurement as premise; and
    (iii) The level of the disclosure required is remarkably in detail and enormous amount of information is required, compared with those required for other business entities in general. The preparers of financial statements will face excessive burden, while the balance of disclosure is lost remarkably.

II. Reply to Questions Presented in the ED5

Please refer to the attachment.

ANNEX: Reply to Questions Presented in the ED5

The followings are the reply of Meiji Life to the questions in "Invitation to Comment" in the ED5.

Questions in "Invitation to Comment"	Reply and Opinion
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?	A1 (a). The contents of the proposal are not appropriate. .Since standards of respective countries are applied for measurement objectives in Phase I, it is necessary to ensure that validity of insurance accounting as a whole is not diminished when this exposure draft is applied. This should be the norm that stipulates the scope. .In Phase I, existing practices (accounting for insurance business) in respective countries should be respected and not be negated.
(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?	(None in particular)

Questions in “Invitation to Comment”	Reply and Opinion
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?	A2. The contents of the proposal are not appropriate. . It is desirable not to change the current practices of respective countries in Phase I, which is premised on maintaining the present accounting system of each country in principle.

Questions in "Invitation to Comment"	Reply and Opinion
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 paragraphs 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?	A3. The contents of the proposal are not appropriate. . An insurance contract (host contract) and its embedded derivatives usually cannot be separated or are difficult to separate. If they were to be separated in some way, the separation of embedded derivatives would cause major changes to existing accounting standards, accompanied by major system changes, and incur the consumption of tremendous labor and cost. In addition, there are some other issues, such as the definition of a derivative and the scope of separation, that require further deliberation until Phase II. For these issues, it is probable that changes will be made in Phase II. . Therefore, not only exempting some embedded derivatives from the separation requirements in IAS 39, but also all embedded derivatives of contracts currently treated as insurance contracts should be exempt from such requirements in IAS 39.

Questions in "Invitation to Comment"	Reply and Opinion
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?	A4 (a). The contents of the proposal are not appropriate as a whole. .It is appropriate to grant the exemption from some of the requirements in IAS 8, however, Meiji Life opposes the establishment of a deadline for it. .Meiji Life understands the intent of Phase I separation to be seeking realistic treatments including practicability. Since it is being assumed that the application of the hierarchy of IAS 8 will have an enormous effect on practical issues, the exemption should continue at least while Phase I is being applied.
(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?	A4 (b). The contents of the proposal are not appropriate. . Accounting standards should be considered with their entire consistency in mind. Therefore, the proposal of eliminating only catastrophe and equalisation provisions from an accounting standard would destroy the overall consistency, and therefore, inappropriate. .In applying IAS 37, it is necessary to estimate future cash flows. However, in estimating the value of policyholder options such as cancellation/renewal rights, problems similar to those unresolved issues concerning the measurement of fair value will arise. At present it is difficult to apply IAS 37 to insurance contracts, and the existing loss recognition test practices should be maintained in Phase I.

Questions in “Invitation to Comment”	Reply and Opinion
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?	A5. There is concern that contents of the proposal become less appropriate as a result. .Even though the changes in the accounting policies to improve the relevance and reliability of financial statements should be welcomed, it is inappropriate to set the provision of "changes in the accounting policies", since there is concern that management can change accounting policy arbitrarily. .Since the definitions of the relevance and reliability are ambiguous and there is the possibility of arbitrary judgment in their sufficiency and propriety evaluation, there is risk to provoke arbitrary changes in accounting policies according to the situation. Therefore, in Phase I, it is considered to be better not to accept the "changes in the accounting policies" in order to maintain the quality of accounting standards as a whole. .In addition, if changes are tolerated, comparability will be possibly lost as a result of respective companies adopting various accounting policies.
Question 6 – Unbundling The draft IFRS proposes that an insurer should unbundled (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? (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?	A6. The contents of the proposal are not appropriate. .Unbundling should not be required in Phase I. .In the first place, the entire insurance contract as a whole underwrites a single risk and therefore cannot be unbundled. Even if it were unbundled, estimated value of the overall contract would not be same as the sum of the estimated values of its components after unbundling. .There are some other issues, such as the definition of what requires unbundling and scope of separation, that remain unsolved and require further deliberation until Phase II. There is possibility that changes will be made in Phase II. Consequently, unbundling contradicts the intent of Phase I. Unbundling should be deliberated after the establishment of recognition and measurement standards in Phase II.

Questions in "Invitation to Comment"	Reply and Opinion
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?	(None in particular)
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?	A8. The contents of the proposal are not appropriate. .It is inappropriate to make such proposal, as no method has been established for fair value measurement of insurance contracts so far. .IAS 22 "Business Combinations" presupposes the use of purchase method based on fair value; however, there is no established method for fair value measurement of insurance liabilities. Therefore, it is inappropriate at present to apply IAS 22 to insurance contracts.

Questions in "Invitation to Comment"	Reply and Opinion
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 the project. Are these proposals appropriate? If not, what changes would you suggest for phase I of this project and why?	A9. The contents of the proposal are not appropriate. .It is inappropriate to prematurely establish any standards in Phase I on a matter that has not been fully discussed and for which no consensus has been reached in either former Insurance Steering Committee or in the IASB.
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 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?	A10. The contents of the proposal are not appropriate. .Meiji Life is strongly opposed to disclose the "fair value", whose concept is still under discussion for insurance contracts. .The fair value of insurance contracts is not a concrete concept in Phase I, since no provisions are made for recognition and measurement. In practice, it is impossible to calculate fair values when there are no rules for recognition and measurement. Even if there is an entity that discloses fair value in a certain form, such information considerably lacks reliability and comparability, and it might mislead investors and policyholders. All proposals in Phase I should be based on the current accounting practice. Thus, scope of disclosure should be limited to the extent that is feasible within the framework of the current practice. .Disclosure of fair value should be discussed only after the standards for recognition and measurement are established in Phase II. As indicated in paragraphs BC139 and BC140, the IASB must first resolve several issues regarding fair value in Phase II. It is out of sequence to require disclosure of fair value before many problems about measurement are resolved in Phase II. . Disclosure of fair value should be considered only after further guidance, as provided for in paragraph IG60, has been developed. Disclosure of fair value will be impossible unless such guidance is provided.

Questions in "Invitation to Comment"	Reply and Opinion
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.	A11 (a). The contents of the proposal are not appropriate. .Meiji Life strongly opposes to disclose details on future cash flows required by the second disclosure principle (paragraph 28 of the draft IFRS), since such information would effectively disclose business secret of insurance companies and might be misappropriated by competitors, which result in deterioration in condition of competition. . Many parts of the disclosures proposed would provide virtually worthless information to financial statement users. The proposal should be revised as follows: (a) Requirements for disclosures of entity specific confidential information should be deleted; (b) Disclosure requirements for risk management should be revised so as to reflect various risk management techniques used by insurers; and (c) Disclosure requirements proposed on the assumption of the disclosure of fair value information and measurement of fair values should be deleted. .While proposed disclosure provisions assume that fair value is extensively utilized as a measurement approach in Phase II, it is inappropriate to require a detailed disclosure on basis of what is not determined formally. Taking into consideration the fact that Phase I disclosure assumes current recognition and measurement practices of respective countries, the contents of disclosure in Phase II cannot exceed or deviate from the current practices wildly. .The Board's conclusion on PML (paragraph BC136: "… given the lack of widely agreed definition of PML, the Board concluded that it is not feasible to require disclosure of PML or similar measures") can be applied to other disclosure requirements including those of future cash flows. The disclosure requirements are not appropriate because of the lack of widely agreed definition. .As a whole, the proposed items are excessive and do not justify its costs from a viewpoint of cost-effectiveness. It is inappropriate to burden only insurance

Questions in "Invitation to Comment"	Reply and Opinion
	companies with an excessive disclosure. . Detailed disclosure of future cash flows, required by the second disclosure principle, is inappropriate. Such information effectively contains business secret for insurance companies and should not be disclosed from reason of competition. One special feature of financial statement disclosure of insurance companies is that financial information contains extensive amount of product information, including product design and risk management techniques. Disclosure of such confidential product information may enable competitors to duplicate the products or mimic the risk management techniques. Moreover, fair and balanced treatment regarding disclosure in comparison with other types of industries is to be considered. Without a sound reason for requiring disclosure of cash flow information, which is not required to other business entities, to insurance companies excessively, such accounting standard cannot be fair or appropriate. Similar argument can be applied to the contents required by the paragraph 27 (d), in which items equivalent to business secret are proposed. . Information such as "Key performance indicators" described in the paragraph IG59 of the draft Implementation Guidance seems to be appropriate as contents of disclosure required by the second disclosure principle. Most insurers have already disclosed important business indicators such as the amount of businesses in force, which are very useful for financial statement users. In developing the contents of disclosure, consideration should be given to current accounting practices in each respective country and refer to inputs from practitioners around the world. .Paragraphs 27(c), 29 (a), (b), (c), IG7 (b), (c), (e), (f), (g), IG8, IG16, IG20, IG40 (c) and (d) are inappropriate and should be deleted or revised extensively.

Questions in "Invitation to Comment"	Reply and Opinion
(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?	A11 (b). The contents of the proposal are not appropriate. . Although there is no problem in supplementing the disclosure standard with Implementation Guidance, the guideline should only present examples of the minimum requirement and leave the decision on further disclosures to preparers. . In order to ensure the comparability and transparency of financial statements, it is appropriate to present a level of disclosure examples that is not too much detailed but useful for users. . As the disclosures proposed are all brand-new, it is difficult to understand them without illustrative guidance. It is more beneficial for preparers to prepare financial statements in accordance with relevant examples of the exposure practice currently prevailing in each country, than to bear unnecessary burden through trial and error. By giving examples, the objectives of disclosure requirements may be understood more easily.
(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?	(None in particular)

Questions in "Invitation to Comment"	Reply and Opinion
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 BC41-46 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?	(None in particular)
Question 13 – Other comments Do you have any other comments on the draft IFRS and draft Implementation Guidance?	A13. As is described in the "General Remarks".