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Mitsui Mutual Life Insurance Company
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October 31, 2003

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

Re: Comments on ED5 Insurance Contracts

Dear Sir David,

Mitsui Mutual Life Insurance Company ("Mitsui") is pleased to have this opportunity of presenting our comments on ED5 published by IASB.

We deeply appreciate all the efforts of IASB to develop understandable and enforceable global accounting standards.

Mitsui was founded in 1927. It is currently one of the largest life insurers in Japan, with assets in excess of ¥7 trillion. Mitsui offers primarily participating policies to individuals, which are designed to cover life insurance and medical needs, as well as savings products. Mitsui also offers group term life products, both general account (GA) and separate account (SA) group pension products and variable life and annuity products.

The following are our comments on the specific questions set out in the exposure draft.

Question 1 – Scope
We understand insurance contracts will be reported under local accounting standards in Phase I, while IAS 39 is applied to assets supporting insurance contracts. We are concerned this should result in a mismatch of assets and liabilities measurement. We believe IFRS covering insurance should address insurance business as a whole, and not just insurance policies.

Question 2 – Definition of insurance contract

We understand the intent of Phase I is to leave most existing practices in place and cause only minimal disruption to the existing accounting systems. However, the definition set out in ED5 may cause a significant change in the way of valuation of contracts issued by insures. For example, traditional annuity contracts may not fall under the proposed definition of insurance contracts and may possibly be valued under IAS 39. We suggest the existing local definitions of insurance contracts should be maintained in Phase I.

Question 3 – Embedded derivatives

Practically, it is difficult, or even impossible, to separate embedded derivatives from their host insurance contract. Even if possible, it would take a significant amount of time and resources just to comply with this requirement. Since we anticipate an insurance contract along with its embedded derivatives will be measured at fair value as a whole and unbundling may not be necessary, we think it is reasonable not to require embedded derivatives to be separated in Phase I.

Question 4 – Temporary exclusion from criteria in IAS 8

(i) We agree to the exemption from the criteria of IAS 8, but oppose the setting of the deadline for this exemption. If it is anticipated that applying the "IAS hierarchy" specified in IAS 8 will cause a great impact on existing practices, the exemption should be maintained at least in the period Phase I is applied and it is not appropriate to predetermine the deadline.

(ii) Generally speaking, changing only a part of the existing accounting system might cause a loss of consistency and total balance of the system. We think the impact of the elimination of catastrophe and equalization provisions should be carefully examined farther.

(iii) Applying IAS 37 loss recognition test requires the valuation of future cash flows arising from insurance contracts, which means performing the loss recognition test may cause the same unresolved issues that measuring fair value of insurance contracts may cause. It is not practical to apply IAS 37 to insurance contracts. In Phase I, existing local practices regarding loss recognition should be maintained.

Question 5 – Changes in accounting policies

When an insurer changes its accounting policies, relevance and reliability judged by the criteria in IAS 8 are required, but their definitions are a little ambiguous and an insurer may take liberties of changing its policies. Also, if each insurer adopts different accounting policies, comparability will be lost. Therefore, we think changes in accounting policies should not be permitted in Phase I.

Question 6 – Unbundling

We do not think unbundling should be required in Phase I, because an insurance contract undertakes one set of risks as one whole policy, not on a component by component basis. Therefore, unbundling of an insurance contract cannot be done in any sensible manner and if it is unbundled, the sum of value of each component should be different from the value of the whole contract.

Question 7 – Reinsurance purchased

We do not have any particular comments on this matter.

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

It is not appropriate to apply IAS 22 to insurance contracts acquired, because it involves fair value measurement of the contracts, while its methodology is not well established yet. When acquiring insurance contracts, an acquirer should be exempted from the requirement under IAS 22.

Question 9 – Discretionary participation features

We understand issues regarding discretionary participation features have not undergone any material discussions yet and should be examined thoroughly in the Phase II discussions. Any mention of this matter should be eliminated from ED5.

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

The disclosure of the fair value of insurance liabilities should be discussed after the recognition and measurement criteria are established in Phase II. We understand that there are still many issues to be resolved on the fair value measurement of insurance liabilities and it is practically impossible to calculate fair value reliably. Although some estimates of fair value might be possibly calculated by insures, such values should lack comparability and the disclosure of the values will only cause confusion among users of financial statements. We believe this requirement is not appropriate.

Question 11 – Other disclosures

We appreciate the importance of enhanced disclosure, but we find requirements under ED5 are far extensive compared with those required for other industries. Besides, some of disclosure items required under ED5, such as details of future cash flows, are very likely to contain business secrets and are not appropriate for disclosure. We believe disclosures based on the actual results, not on the estimated future cash flows, should be more emphasized. Most insures do disclose such items in practice (e.g. insurance exposure amounts in force, core business profit[*], etc.) and we believe they

are more useful information for users than some of the items proposed under ED5.
(* Core business profit is a profit measure used in the Japanese life insurance industry, which demonstrates fundamental earnings power of insurers. It is a profit arising from core insurance business and disclosed by life insurers periodically.)

Question 12 – Financial guarantees by the transferor of a non-financial asset or liability
We do not have any particular comments on this matter.

Question 13 – Other comments
We find that, in the current process of developing IFRS for insurance, comments from insurers have not been paid full regard so far. We do hope IASB will hear wider views and place higher value on input from the industry.

Finally, a mismatch of insurance assets and liabilities measurement arising from applying IAS 39 to insurers is one of more important issues to be resolved in Phase I. Even if IAS 39 is applied, some of assets supporting insurance contracts, e.g. domestic bonds, should be allowed to be categorized into "designated securities for reserves" and valued on an amortized cost basis.

We cordially hope IASB will find our comments here are of value, and again, we would like to express our appreciation of the opportunity to comment on the exposure draft and thank IASB for its efforts.

Sincerely yours,

Katsumi Hikasa
Executive Managing Director and Chief Actuary
Mitsui Mutual Life Insurance Company