

The LIAJ's Comments on Paper for Public Consultation "Status of Trustees' Strategy Review"

1. With our greatest respect to the continuing efforts of the International Financial Reporting Standards Foundation (IFRS Foundation) to develop a single set of high-quality globally accepted accounting standards, The Life Insurance Association of Japan (LIAJ) would like to extend our gratitude to the IFRS Foundation Trustees for providing us with the opportunity to submit our comments on Paper for Public Consultation, *Status of Trustees' Strategy Review*.
2. The LIAJ is a trade association comprised of all 47 life insurance companies currently operating in Japan. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan.

Our responses to questions

Mission: How should the organisation best define the public interest to which it is committed?

Question 1:

The current Constitution states, "These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world's capital markets and other users of financial information make economic decisions" Should this objective be subject to revision?

【Response】

(No comment)

Question 2:

The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?

【Responses】

3. We believe that all relevant public policy concerns should be taken into account in the standard-setting process of accounting standards. We also think that there are some cases where the perspectives of financial reporting standards and other public policy concerns could be reconciled.
4. For example, we think that due consideration should be given to pro-cyclicality issues. We believe that fair value information should be disclosed not in the face of the financial statements but in the notes, and changes in the fair value should be reflected in other comprehensive income (OCI) rather than in profit or loss, so that we can address the issues of pro-cyclicality without reducing

the amount of information needed.

5. We would like to state our views through the example of individual accounting standard. With regard to the accounting standard for insurance contracts currently under review by the IASB, as many stakeholders have already raised concerns, the proposed accounting standard would lead to the higher level of insurers' performance volatility. Therefore, we are concerned that the proposed standard would impede the efforts to achieve the stability of insurers' financial performance and the financial system, which are important public interests. The nature of the life insurance business is to underwrite risks over a long period while diversifying such risks by making insurance portfolios, and to firmly fulfil the obligations to policyholders. We are aware that the life insurance business does not intend to gain profits through changes in fair value of financial assets and liabilities life insurers hold. We believe that it is essential for IFRSs to provide an accounting system (financial statements) that properly reflects the results of such insurers' business in order to provide useful information for users of financial statements. And through this effort, IFRSs can contribute to ensuring the stability of insurers' financial performance and the financial system.

Governance: How should the organisation best balance independence with accountability?

Question 3:

The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?

【Response】

(No comment)

Question 4:

Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?

【Response】

(No comment)

Process: How should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?

Question 5:

Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?

【Responses】

6. In respect of the standard-setting process of each accounting standard, we believe that sufficient time should be provided in order to set a standard through the process that could be acceptable to stakeholders around the world.
7. We believe that the IASB should provide stakeholders with sufficient time for deliberation and make a thorough and careful assessment of all inputs from stakeholders, including their comment letters, the outcomes of field tests and views expressed at roundtables.

Question 6:

Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?

【Responses】

8. Yes, we think the IASB will need to do so. To this end, in the standard-setting process of each accounting standard, we believe that the IASB should provide stakeholders with sufficient time for deliberation and make a thorough and careful assessment of all of their inputs, including their comment letters, the outcomes of field tests and views expressed at roundtables.
9. In addition, in considering issues related to the consistent application and implementation issues, we think that the background of and the deliberation process on the issues need to be more open.
10. Although we are aware that IFRSs have been developed on a principle basis, in order to facilitate the adoption and implementation of its standards on a global basis, we think that the IASB should provide the broader interpretation to avoid the disruption in practice.

Financing: How should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?

Questions 7:

Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?

【Response】

(No comment)

Other issues

Question 8:

Are there any other issues that the Trustees should consider?

【Responses】

11. We expect that the Asia-Oceania region will increase its presence in developing IFRSs in the future. We greatly appreciate the IFRS Foundation Trustees' decision to establish the regional liaison office in Tokyo, Japan.
12. We firmly believe that the establishment of the regional liaison office in Tokyo will significantly improve the Foundation's utilisation of personnel, financial and intellectual contributions of Japan. We think that outcomes achieved by active participation of Japan should be utilised in the future standard-setting of IFRSs. Specifically, some authority should be delegated to the regional liaison office in Tokyo so that it could draft IFRSs and conduct field research and so on.
13. In addition, we expect that AOSSG (Asian-Oceanian Standard-Setters Group), which was formed in 2009, will make important contributions. At the second meeting of the AOSSG held in September 2010, Sir David Tweedie, the chairman of the IASB commented that "the inputs from the Asian-Oceanian region should be given more weight, considering the strong economic growth and developments throughout the region" (Reference: http://www.aossg.org/docs/AOSSG_Communique_04-Oct-2010.pdf). We agree with the comment from Sir David Tweedie. We hope that outcomes resulting from the future activities of AOSSG will be utilised for the IASB deliberations.