



The Life Insurance Association of Japan



NAMIC®



March 31, 2009

Gerrit Zalm
Chairman
IASCF Trustees

By email to: constitutionreview@iasb.org

Dear Chairman Zalm:

The following undersigned seven insurance trade associations are pleased to offer comments on the second phase of the IASCF Constitutional Review.

The following summation reflects the key points of our response. It is followed by specific comments to the questions contained in the *Review of the Constitution: Identifying Issues for Part 2 of the Review*.

- The IASCF needs to work closely with those regulators who have responsibility for financial stability and systemic risk. That is why we suggested that in addition to securities regulators, the Monitoring Board should include representatives of the other regulators. We recommend that the Monitoring Board be expanded to include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.
- Communications with the IASB illustrate the need for formal dialogue mechanisms between the IASB and stakeholders as proposed standards are being developed.

While the IASB has improved the transparency of its meetings and has made more documents publicly available, there remains a need for a clear statement of presumptive openness for all advisory and working groups. Unless there is a valid reason for closing a session or not making documents public, all IASB board and working group meetings should be open and the documents should be public.

- Standard-setters should generally not have a “fast-track” approach, for implementing new guidance or making changes to existing standards. Making decisions quickly rather than a comprehensive and thoughtful approach rarely produces a better outcome. We do understand that under extreme conditions there may need to be shorter comment periods, but these should be rare. In such cases, special procedures should be clearly detailed allowing as much time for deliberation as possible.
- We support the view that an appropriate impact assessment should be part of the due process in the development of high quality robust international accounting standards. The objective of this requirement would be to ensure that proposed standards are practicable and workable in all environments. The Preliminary Views on Insurance Contracts, which contains fundamental, far-reaching, and theoretical changes from existing practice, is an example to illustrate why impact assessment is necessary.

We thank you for the opportunity to comment on the *Review of the Constitution* and welcome the chance to discuss our views in detail at your convenience.

Our specific answers to the questions posed by the Trustees follow.

Sincerely,

American Council of Life Insurers
American Insurance Association
Group of North American Insurance Enterprises
The Life Insurance Association of Japan
Property Casualty Insurers Association of America
National Association of Mutual Insurance Companies
Reinsurance Association of America

Questions for consideration

Responses from:

American Council of Life Insurers
American Insurance Association
Group of North American Insurance Enterprises
The Life Insurance Association of Japan
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Objectives of the organisation

2. In the opinion of the Trustees, the commitment to drafting standards based upon clear principles remains vitally important and should be enshrined in the Constitution. Should the Constitution make specific reference to the emphasis on a principle-based approach?

We support changes to the Constitution making specific reference to a principle-based approach to setting accounting standards. To achieve global acceptance and consistent application of accounting standards, a principle-based approach is essential and thus, should be enshrined in the Constitution.

4. There are other organisations that establish standards that are either based upon or have a close relationship with IFRSs. The IASC Foundation already recognises the need to have close collaboration with accounting standard-setting bodies. Should the Constitution be amended to allow for the possibility of closer collaboration with a wider range of organisations, whose objectives are compatible with the IASC Foundation's objectives? If so, should there be any defined limitations?

As we recommended in our response to part I of the constitutional review, the IASCF needs to work closely with those regulators who have responsibility for financial stability and systemic risk. That is why we suggested that in addition to securities regulators, the Monitoring Board should include representatives of the other regulators. This is particularly true when the use of IFRS as the accounting basis for the regulatory oversight of the insurance industry is being considered. The unique issues related to insurance accounting and regulation need discussion at the highest level of interaction with the IASCF. We recommend that the Monitoring Board be expanded to include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.

Governance of the organisation

5. The first part of the review of the Constitution proposed the establishment a formal link to a Monitoring Group (Board). Under this arrangement, the governance of the

organisation would still primarily rest with the Trustees. Although the first part of the review has not yet been completed, the Trustees would welcome views on whether the language of Section 3 should be modified to reflect more accurately the creation of the Monitoring Group (Board) and its proposed role.

We supported the establishment of a Monitoring Board comprised representatives of public authorities and international organizations with a link to public authorities. We believe that the composition should reflect not only the authority to adopt or recognize financial reporting standards in the major capital markets, but also the interests of developing and emerging economies.

As we recommended in response to question 4, in addition to securities regulators, the Monitoring Group should include representatives of the other regulators tasked with maintaining overall financial stability in the markets and economy. This is particularly true when the use of IFRS for regulatory accounting is being considered for insurance. The highly specific issues related to insurance accounting and regulation need discussion at the highest level of interaction with the IASCF. We recommend the Monitoring Group include the Chair of the Executive Committee of the International Association of Insurance Supervisors (IAIS) as a formal observer.

The changes adopted in January to IASCF Constitution remain rather vague as to the responsibility of the IASCF to the Monitoring Board. We agree with the statement of ECOFIN that the Monitoring Board should have sufficient powers to provide the necessary oversight of the IASCF and to actively resolve the issues inherent in the need for public accountability. The Monitoring Board should be charged with actively reducing or eliminating divergence in international accounting standards. Without coordination and cooperation regarding adoption, endorsement and enforcement, the Monitoring Board does not create effective public accountability, merely dialogue with public authorities.

We also believe that the activities of the Monitoring Board should have the presumption of transparency, including open meetings whenever possible, public availability of reports and communications between the Board and the IASCF, and a formal process of comment and input from the public. The Memorandum of Understanding itself should be exposed for public comment and review prior to its final agreement.

Trustees

6. The Trustees are appointed according to a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?

We have no specific recommendation about a fixed geographical distribution. The need for overall balance in the composition of the Trustees, including geography, developing and emerging market representation, size of capital markets, and technical perspective (preparer, auditor, user) is important as well as a fixed requirement for geographical representation. However, overall balance should be attainable within the suggested proposal.

International Accounting Standards Board

10. The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are set out in more detail in the IASB Due Process Handbook. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added? If respondents believe that the procedures require too much time, what part of the existing procedures should be shortened or eliminated? The Trustees would also welcome comments on recent enhancements in the IASB's due process (such as post-implementation reviews, feedback statements, and effect analyses) and on the IASB Due Process Handbook.

Transparency: While the IASB has improved the transparency of its meetings and made more documents available, there needs to be a clear statement of presumptive openness for the Board and all advisory and working groups. Unless there is a valid reason for closing a session or not making documents public, all meeting of the Board and its advisory and working groups should be open and the documents should be public. The Trustees should seek input from organizations that specialize in monitoring the openness of governmental and quasi-governmental activities to consider different approaches.

We recommend the following amendments to section 28 of the Constitution: *The IASB shall meet at such times and locations as it determines: meetings of the IASB and all IASB advisory and working groups shall be open to the public, but certain discussions (normally only about selection, appointment, and other personnel issues) may be held in private at the discretion of the IASB.*

Field Testing: The IASB needs to recognize that in setting standards, those standards do have an impact on global markets. For this reason, we continue to urge the IASB to fully assess the impact of the standards prior to adoption through field testing and other quantitative and qualitative methods.

11. Should a separate 'fast track' procedure be created for changes in IFRSs in cases of great urgency? What elements should be part of a 'fast track' procedure?

We believe the Board should establish and maintain minimum due process procedures to allow for full review of the standards.

- Standard-setters should only rarely use a separate "fast-track" approach for changes to existing IFRSs or implementing new guidance in cases of great urgency. It is at times of crisis where a deliberate and thoughtful approach is most needed. Hasty decisions are likely to exacerbate the problem-not fix it. We believe the Board should establish and maintain due process procedures to allow for full review and discussion before adopting new or changes to accounting standards. We do understand that under extreme conditions there may need to be shorter comment periods, but these should be rare. In such cases, special procedures should be clearly detailed allowing as much time for deliberation as possible.

Standards Advisory Council

12. Are the current procedures and composition, in terms of numbers and professional backgrounds, of the Standards Advisory Council (SAC) satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

We support the recent changes to the Standards Advisory Council to include representatives of organizations. Agendas and other materials should be announced sufficiently in advance to allow the SAC members to consult with their organizations in order to allow for a robust discussion of the proposals.

Other issues

14. Should the Trustees consider any other issues as part of this stage of their review of the Constitution?

In addition to the specific responses to the questions, we offer the following comments with respect to, field testing, accessibility, and regional offices.

Field testing: As we encourage both the Trustees and the Monitoring Board to review the use of field-testing in standard development as part of their oversight of the governance of the IASB. The Constitution states that the IASB should “consider undertaking field tests (both in developed countries and in emerging markets) to ensure that proposed standards are practical and workable in all environments, although there is no requirement to undertake field tests for every project”.

Many of the joint projects currently under development, including Conceptual Framework, Revenue Recognition, Financial Statement Presentation and Insurance Contracts, are so important and likely to result in such significant changes for preparers that field testing must be a critical part of the project scope. While the IASB has, from time-to-time, argued that staff resources to work on field-testing of projects are very limited, it is not a compelling reason to avoid testing. We agree that the priorities, objectives, cost/benefits, and effectiveness of field-testing must be assessed. However the process of setting high quality standards should not be compromised by shortcutting the project scope.

We strongly support the presumptive requirement of appropriate impact assessment as an integral and important part of the work stream and due process attendant to the development of high quality robust international accounting standards.

- We recommend the following language be substituted for existing section 31 (f) of the Constitution: Undertake impact assessments, both qualitative and quantitative, (in both developed countries and emerging markets) to ensure that proposed standards are practicable and workable in all environments.

Accessibility: Since all IASB meetings are held at the London office, it is often inconvenient and impracticable to attend meetings and interact with Board members and staff. While live webcast is an effective use of technology, it's not helpful to those located on the other side of the globe-12 time zones removed. Requiring all public IASB meetings to be recorded and archived would improve communication.

Regional Offices: As more countries move to IFRS as the basis of accounting and reporting, often eliminating the need for local standard setters, it may be time to consider establishing regional IASB offices, e.g., North America and Asia, housing some of the Board members and staff. Their physical presence would facilitate discussions on critical projects and initiatives.