



25th October, 2013

## CRUFJ's Comments on IASB's ED on Insurance Contracts

The Corporate Reporting Users Forum Japan ("CRUFJ") welcomes the opportunity to comment on International Accounting Standards Board's ("IASB") Exposure Draft on Insurance Contracts.

The CRUFJ was organized in Tokyo in December 2009, and has been holding monthly meetings since then. Currently, there are 19 members including buy-side and sell-side equity analysts, credit analysts and portfolio managers. The comment letter reflects the discussions at the October meeting. Followings are our opinions.

### **General Comments**

Our opinions are focused on the following three areas. We do not answer all questions but we selected questions which are important for us.

- (a) Differences between the current and previous estimates of the present value of future cash flows should not be recognized immediately in profit or loss.
- (b) Revaluation of insurance contracts should be consistent with the business models adopted by the insurers.
- (c) We would like to see the summary disclosure, which would enable us to see clearly the causes of the changes in insurance contract liabilities. We would like to confirm that paragraphs 74-78 would meet our needs in this aspect.

In light of the above (a) we agree to the following amendments made in Exposure Draft ED/2013/7:

- (i) differences between the current and previous estimates of the



present value of future cash flows related to future coverage and other future services are added to, or deducted from, the contractual service margin in case the margin should not be negative.

- (ii) Differences between the carrying amount of the insurance contract measured using the current discount rates and that using the initial discount rates, should be recognized in other comprehensive income.

In light of the above (b), there is room for further improvement. We think amendments to IFRS 4 and IFRS 9 should be jointly proposed. Being separately proposed they lack consistency in some parts. For example, the entity may have exposure to derivatives which economically offset the effects of discount rate change on the insurance contract. In that case the requirement to record the impact of changes in discount rate in OCI could result in accounting mismatches.

#### <Question 1 >

We agree to the proposal. Future cash flows would be realized through as long as 10 to 20 years when whole life insurance contracts are involved. Estimated changes in such long time horizon should not be recognized immediately in profit and loss.

#### <Question 2 >

Regarding Japanese variable insurance contracts, we agree that the proposed amendments would provide relevant information that faithfully represents the entity's financial position and performance.

#### <Question3>

We agree that presenting volume information is relevant and we understand that the earned premium approach is consistent with the revenue recognition approach. However, for the long-term insurance contracts, earned premium approach presentation may make it difficult for users to grasp the business activities associated with newly written contracts. Therefore, presenting the received premiums would be relevant to users, possibly in the form of footnotes. In that case, we believe that deposit



component should be separated and that the disaggregation of the deposit component should be limited to contracts with maturity refunds and annuity insurance contracts, contracts which are assumed that receiving cash surrender value is an economically rational for the policyholder at the inception of that insurance contract.

<Question 4>

We support the use of OCI with modification. Insurers should be allowed to recognize the impact from changes in interest rates for both the assets and liabilities in profit or loss, if an insurer can demonstrate that it consistently adopts a business model of managing assets and liabilities to minimize interest rate risks associated with in insurance contracts.

The requirement to record the impact of changes in discount rate in OCI could result in accounting mismatches, depending on how the insurer manages interest rate risks, for example, in the case that insurers are holding derivative so as to offset those interest rate risk economically.

<Question6>

We feel that the accounting has become complex. For example, changes in insurance contract liabilities are presented in three forms, that is, the contractual service margin, profit or loss and OCI. We would like to see the disclosure, which would enable us to see clearly the causes of the changes in insurance contract liabilities. We would like to confirm that paragraphs 74-78 would meet our needs in this aspect.

(Signatures)

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