

Group of North American Insurance Enterprises
Nippon Life Insurance Company
Dai-ichi Life Insurance Company
Sumitomo Life Insurance Company
Meiji Yasuda Life Insurance Company

February 4th, 2009

Mr. Peter Clark, Director of Research
Mr. Hans van der Veen, Practice Fellow
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Other Comprehensive Income (OCI) for Life Insurance Liabilities

Dear Messrs. Peter Clark and Hans van der Veen

In July 2008, the Group of North American Insurance Enterprises (GNAIE) and the four Japanese Life Insurance Companies identified in this letterhead submitted to Mr. Peter Clark a comment letter regarding other comprehensive income (OCI) for life insurance liabilities. This comment letter is drafted, taking into account subsequent matters after the submission of our previous comment letter, including the discussions at the last Insurance Working Group meeting in November 2008 and the publication of the Discussion Paper: Preliminary Views on Financial Statement Presentation among others.

We hope the Board finds our comments helpful in developing its preliminary views on OCI for life insurance liabilities, and would be delighted to provide any further information you may require on any of the points raised in this letter. Representatives of each signing body in this letter would be willing to participate in any future discussions on the topic.

Introduction

Since many insurance companies underwrite risks over a long period while diversifying those risks into various portfolios, insurers' financial statements should properly reflect the results of the insurance business (e.g. by recognising profits upon an insurer's

release from risks, instead of recognising future profits at inception). Presenting appropriate profit or loss (in IFRS) or net income (in US GAAP) in addition to comprehensive income leads to providing meaningful accounting information for users. In order to present appropriate profit or loss or net income, we believe that OCI, which among other items is currently permitted to be used for presenting changes in assets, should be permitted to be used for presenting changes in liabilities as well.

Broad Support for the Use of OCI for Remeasurements of Insurance Liabilities

As mentioned also in the previous comment letter in July 2008, the use of OCI for remeasurements of insurance liabilities has been clearly supported by the majority of insurance industries in the world including GNAIE, the European Insurance CFO Forum (CFO Forum), the Comité Européen des Assurances (CEA), the International Actuarial Association (IAA) and the Life Insurance Association of Japan (LIAJ). We strongly urge the Board to seriously consider the use of OCI for the changes in insurance liabilities that parallel the asset changes included in OCI.

Premise of discussion about OCI: Mixed Measurement Attributes in Financial Assets

At the last Insurance Working Group meeting in November 2008, there was a remark that OCI would not be needed for unrealized gains on assets anymore because the difficulties in measuring fair value of insurance liabilities, which was the justification for the FASB to approve mixed measurement attributes in financial assets, would be resolved.

However, we would like to stress the following comments from the DP - Reducing Complexity in Reporting Financial Instruments, published in March 2008: “the majority of preparers and auditors do not support requiring fair value for all financial instruments. Those constituents stated that it is not appropriate for financial instruments not held for trading purposes or not managed on a fair-value basis to be measured at fair value.¹”

Therefore, the discussions on insurance contracts should not dismiss the possibility that mixed measurement attributes for financial assets will be used. If the use of OCI for remeasurements of insurance liabilities is not permitted, insurers would be virtually precluded from using the asset category of available for sale since to do so would

¹ AP 8 (paragraph 9 in summary comment analysis) for the IASB/FASB joint meeting in October 2008.

introduce significant non-economic volatility to earnings. The Board should be aware that this would produce a significant inconsistency with the treatment for other IFRS preparers including banks.

Recycling is practically feasible

Paragraph 14 of AP 7 for the last Insurance Working Group meeting stated that “Advocates of using OCI did not generally discuss whether and how changes in insurance liabilities recognised in OCI would subsequently be reclassified to profit or loss (‘recycled’) when the liabilities are discharged by paying benefits, mature, lapse or (in rare cases) are transferred.”

However, our previous comment letter stated specifically that changes in insurance liabilities recognised in OCI would subsequently be reclassified to profit or loss (‘recycled’) when the liabilities are discharged by paying benefits, mature or lapse. We have already illustrated that recycling is practically feasible and is widely used under Generally Accepted Accounting Principles in the United States. Therefore, we believe that any practical difficulties for recycling can be simply addressed. We would be pleased to explain in more detail how the recycling would work, should the Board require.

Financial Statement Presentation Project

IASB and FASB published the DP – Preliminary Views on Financial Statement Presentation in October 2008. The both Boards emphasise the importance of profit or loss or net income in evaluating a company. In our view, permitting the use of OCI is indispensable to present the appropriate profit or loss or net income.

Preliminary Views on Financial Statement Presentation

Par.3.35 The boards acknowledge that many of their constituents view profit or loss or net income as useful performance measures and that profit or loss or net income as a subtotal or a phrase is deeply ingrained in the economy, business and investors’ minds. Users from all sectors incorporate profit or loss or net income in their analyses, either as a starting point for analysis or as the main indicator of an entity’s performance. The boards reasoned that their proposed format for the statement of comprehensive income would allow users to become familiar with the notion of comprehensive income, while still retaining the touchstone of profit or loss or net income.

The DP does not consider which component should be presented in OCI and defers the issues to individual projects. We urge, therefore, that the board should carry out a complete discussion of how changes in liability can be recognized in OCI as part of the Insurance Project.

The IASB should not make a decision on this issue without a complete discussion of the benefits of using OCI for remeasurements of insurance liabilities that most constituents believe would be needed.

Sincerely

Jerry M. de St. Paer
Executive Chairman
Group of North American Insurance Enterprises

Yoshinobu Tsutsui, Managing Director
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Kazuma Ishii, Director, Managing Executive Officer
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Yutaka Amino, Managing Director
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Hiroaki Tonooka, Senior Managing Executive Officer
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CC: IASB Board Members
FASB Board Members
Jeff Cropsey, FASB Insurance Contract Project Manager

Attachment: The comment letter regarding OCI for insurance liabilities in July 2008