



**The Life Insurance Association of Japan**



**NAMIC<sup>®</sup>**



September 20, 2008

Gerrit Zalm  
Chairman  
IACSF Trustees

By email to: [constitutionreview@iasb.org](mailto:constitutionreview@iasb.org)

Dear Chairman Zalm:

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

We understand that this part of the Constitutional Review process is to address concerns regarding public accountability, governance and the composition of the IASB. Accordingly, we commend the Trustees for seeking structures and methods to improve accountability and due process. We generally support the suggestions to create a Monitoring Group and to geographically expand and change the composition of the IASB membership. They are all steps firmly in the right direction. We have made additional comments regarding the public accountability of the IACSF and IASB.

The following summation reflects the key points of our response. It is followed by specific comments to the questions contained in the Proposals for Change.

- While we support the formation of the Monitoring Group, we believe the implementation of the Monitoring Group does not go far enough in terms of achieving the overall goals of the

Proposal. We agree with the statement of ECOFIN that the Monitoring Board should have sufficient powers to provide the necessary oversight of the IASCF. It should ensure that Trustees effectively discharge their oversight role towards the IASB, play an active role in the selection of Trustees, and approve their final selection. We believe that the MOU describing the interaction between the Trustees and the Monitoring Group should be exposed for public comment and review prior to its final agreement.

- Communications with the IASB illustrate the need for more thorough and responsive 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 made more documents publicly available, there still needs to be 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.
- Five years ago, during the previous Constitutional Review, representatives of insurance trade associations from around the world filed a letter calling for changes in the supermajority requirement. We continue to support the supermajority concept and encourage the Committee to retain the provision. If the decision is made to expand the IASB to 16 members, 11 members should constitute a supermajority. If the Board is expanded to 15 members, 10 members would constitute a supermajority. The requirement should apply to all exposure drafts and final accounting standards. At this level of acceptance, it is highly likely there would be world-wide acceptance from standard setters and the requirements would not be so onerous as to restrict the development of high quality accounting standards.
- We also 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 Proposals for Change 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, Inc.  
The Life Insurance Association of Japan  
Property Casualty Insurers Association of America  
National Association of Mutual Insurance Companies  
Reinsurance Association of America

## **Questions related to the Monitoring Group**

### **Q1. Do you support the creation of a link to a Monitoring Group in order to create a direct link of public accountability to official institutions?**

We have long advocated an increase in the openness and accountability of the IASCF and we commend the Trustees for seeking structures and methods to improve the public accountability of the IASCF and IASB. We believe the Monitoring Group would be a further step in the right direction.

### **Q2 .The proposal contemplates a Monitoring Group comprising representatives of seven public authorities and international organisations with a link to public authorities. While recognising the Monitoring Group is an autonomous body, the Trustees would welcome comments regarding the Monitoring Group's membership and whether other organisations accountable to public authorities and with an interest in the functioning of capital and other financial markets should be considered for membership.**

We support the proposal that contemplates a Monitoring Group initially comprising representatives of seven public authorities and international organizations with a link to public authorities. We believe that this composition reflects 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.

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).

### **Q3. The Trustees will remain the body primarily responsible for the governance of the organisation and the oversight of the IASB. Their responsibility to a Monitoring Group will enable regulatory and other authorities responsible for the adoption of IFRSs to review the Trustees' fulfilment of their constitutional duties. Does the formulation of the Monitoring Group's mandate and the Trustees' reporting responsibilities, as described in the proposed Section 19, appropriately provide that link, while maintaining the operational independence of the IASC Foundation and the IASB?**

The proposed changes to IASCF Constitution are rather vague as to the responsibility of the IASCF to the Monitoring Group. We agree with the statement of ECOFIN that the Monitoring Board should have sufficient powers to provide the necessary oversight of the IASCF.

There are two certain elements described in the proposals for change:

- The responsibility of the Monitoring Group to approve appointments to the Trustees (which could be clearer as to the consequences if that approval is withheld) (Section 19 a); and,
- The requirement that the Trustees meet with the Monitoring Group and provide a written report annually (Sections 19 b and c).

The balance of the interactions described is at the discretion of the Trustees and the IASB or left to the terms of the Memorandum of Understanding (MOU). For example, permitting the Monitoring Group to “recommend candidates and provide other input” (Section 5); “review and provide advice” as to the Trustees fulfilment of their responsibilities (Section 19b); the “authority to *request* meetings” (emphasis added) (Section 19c). These rights described differ little from the commitments the IASCF has already made to receive input from the general public.

The right to “approve” the appointments to the Trustees and receive a report is unlikely to have a measurable effect on the direction of the IASCF within a reasonable time horizon. If the IASCF is to claim it has accountability to public institutions, more is necessary. For example, the right to require consultation and reports to the Monitoring Group and consequences such as removal of the Chairman of the Trustees, if the Monitoring Group decides the Trustees have failed to fulfil the requirements in Section 13 and 15.

Some additional elements of the relationship may be described in the MOU, but a clearer and stronger responsibility of the IASCF to the Monitoring Group is necessary in the Constitution. We believe that the MOU itself should be exposed for public comment and review prior to its final agreement.

**Q4. Given the proposed creation of a Monitoring Group, would there be a continued need for the Trustee Appointments Advisory Group<sup>1</sup> in the selection of Trustees? If so, what should be the role and composition of the Trustees Appointment Advisory Group?**

Yes, we still feel it would a matter of good due process for the Monitoring Group to receive input from constituencies not represented on the Monitoring Group. Since the Monitoring Group will be comprised of regulators, we suggest that the Trustees Appointment Advisory Group be comprised of representatives of the private sector.

**The Trustees would welcome any additional comments related to a Monitoring Group proposal.**

The idea of a Monitoring Group, as we have stated, is a step in the right direction, but does not resolve all issues of public accountability.

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

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<sup>1</sup> The Appointment Advisory Group is a high level and broadly representative advisory group to help the Trustees in discharging their responsibility for nominating and appointing highly qualified and interested individuals as Trustees. The creation of the Advisory Group is aimed at increasing consultation between the Trustees and official international and regional organisations with an interest in accounting standard-setting.

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.*

### **Questions related to the IASB's composition**

**Q5. Do you support the principle behind expanding the IASB's membership to 16 members in order to ensure its diversity, its ability to consult, liaise and communicate properly across the world, and its legitimacy?**

The addition of new members to the IASB would provide for a greater ability to liaise and interact with stakeholders as is suggested. However, increasing the size of the Board requires resources for additional staff and research facilities. While adding Board members is costly, not having sufficient staff would likely delay implementation and hamper the Board's ability to be effective in its work.

For example, the insurance industry has said that field testing is critical to the development of the accounting standards for insurance contracts. We believe it is necessary to test and analyse all the Board's proposals to objectively demonstrate that they meet the goals the Board sets out for high-quality standards during their development and before they are implemented. We raise this issue in this section because members of the IASB have stated the Board lacks sufficient resources to conduct such testing. We will expand on these comments at the end of the letter under other issues.

**Q6. Do you agree with the geographical formulation suggested by the Trustees?**

We have no specific recommendation about a fixed geographical distribution. The need for overall balance in the composition of the board, 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.

**Q7. The Trustees are suggesting that the Constitution provide flexibility on the matter of part-time membership. Do you support that recommendation?**

Yes. While, on one hand, one could argue for full time members only because of the current workload, we understand the Board has difficulty consistently attracting qualified members from the user and preparer communities. Part-time positions on the Board offer an alternate member profile that may be attractive to members of these communities. The Trustees should consider increasing the number of available part-time positions.

## **The Trustees would welcome additional comments on the proposals.**

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

**Supermajority:** Five years ago, during the previous Constitutional Review, the insurance trade associations from around the world filed a letter calling for changes in the supermajority requirement. We supported a requirement that a supermajority be established before a standard is adopted. This should also apply to all preliminary views of the IASB during the various stages of discussion. We recommend that this requirement be consistent with the current standard. At this level of acceptance it is highly likely there would be world-wide acceptance from standard setters who now adopt IFRS with country exceptions. This will lead to meeting the goals of IASC Foundation as laid out in paragraph 30 of the Constitution (paragraph 14 of the Proposal).

- We recommend the following language to section 30 (proposed section 36) of the Constitution: “The publication of an Exposure Draft, International Accounting Standard, of final interpretation of the International Financial Reporting Interpretations Committee shall require approval of at least nine of the fourteen members of the IASB, ten of the fifteen members, and eleven of the sixteen members.”

**Field testing:** As we referenced in our answer to question 5, we encourage both the Trustees and the Monitoring Group 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.