

5 February 2016

Mr. Hans Hoogervorst
Chairman
International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Re: Comment on Exposure Draft ED/2015/11 Applying IFRS 9 with IFRS 4

The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcomes the opportunity to provide comments on the IASB’s Exposure Draft, Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* (the “ED”).

Taking into account the current situation, we agree that the IASB should seek to address concerns raised by its stakeholders about the different effective dates of IFRS 9 and the new Insurance Contracts Standard. Of the two options proposed, we agree with the proposal to permit an entity to apply the ‘overlay approach,’ but we are not sure if the ‘temporary exemption from applying IFRS 9’ is really necessary. Due to the limited number of Japanese insurers that have applied IFRSs to date, we do not have sufficient grounds to evaluate whether the incremental costs resulting from the application of the overlay approach are justifiable (this is also the reason why we do not provide comments on Question 4 of the ED in this comment letter). Setting aside the practical burden resulting from the ‘overlay approach,’ we think that the temporary exemption is, at the least, undesirable; and some question if the practical burden is significant enough to justify the cost of providing temporary exemption.

Furthermore, we are of the impression that the ED was issued with the strong premise that the new Insurance Contracts Standard will become effective for annual reporting periods beginning on or after 1 January 2021. Although we agree that the new Insurance Contracts Standard is much needed, given the magnitude of the Standard, we believe that it is paramount that the IASB carefully assess whether a supplementary process would be necessary to ensure the Standard is sufficiently understandable and operational. In this connection, our concern is that the proposal in the ED might hinder the IASB’s careful consideration in its future deliberations.

For our comment on specific questions in the ED, please refer to the Appendix of this letter.

We hope that our comments will be helpful for the IASB's future consideration. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink that reads "Takehiro Arai". The signature is written in a cursive, slightly slanted style.

Takehiro Arai

Vice Chairman of the Accounting Standards Board of Japan

Chairman of the ASBJ's Technical Committee: Insurance Contracts

Comment on Specific Questions in the ED**Question 1—Addressing the concerns raised**

Paragraphs BC9–BC21 describe the following concerns raised by some interested parties about the different effective dates of IFRS 9 and the new insurance contracts Standard:

- (a) Users of financial statements may find it difficult to understand the additional accounting mismatches and temporary volatility that could arise in profit or loss if IFRS 9 is applied before the new insurance contracts Standard (paragraphs BC10–BC16).
- (b) Some entities that issue contracts within the scope of IFRS 4 have expressed concerns about having to apply the classification and measurement requirements in IFRS 9 before the effects of the new insurance contracts Standard can be fully evaluated (paragraph BC17–BC18).
- (c) Two sets of major accounting changes in a short period of time could result in significant cost and effort for both preparers and users of financial statements (paragraphs BC19–BC21).

The proposals in this Exposure Draft are designed to address these concerns.

Do you agree that the IASB should seek to address these concerns? Why or why not?

1. Yes. We agree that the IASB should seek to address concerns raised by its stakeholders about the different effective dates of IFRS 9 and the new Insurance Contracts Standard.
2. In hindsight, it may have been more appropriate if the IASB had provided a transitional arrangement before finalising IFRS 9, although at that time the IASB decided not to do so in light of giving discipline in its standard-setting process in the future. Therefore, as a general comment, we suggest that the IASB consider the transitional arrangement more carefully, especially where there is an interaction between the decision and other standard-setting projects.

Question 2—Proposing both an overlay approach and a temporary exemption from applying IFRS 9

The IASB proposes to address the concerns described in paragraphs BC9–BC21 by amending IFRS 4:

- (a) to permit entities that issue contracts within the scope of IFRS 4 to reclassify from profit or loss to other comprehensive income some of the income or expenses arising from designated financial assets that:
 - (i) are measured at fair value through profit or loss in their entirety applying IFRS 9 but
 - (ii) would not have been so measured applying IAS 39 (the ‘overlay approach’) (see paragraphs BC24–BC25);
- (b) to provide an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the ‘temporary exemption from applying IFRS 9’) (see paragraphs BC26–BC31).

Do you agree that there should be both an overlay approach and a temporary exemption from applying IFRS 9? Why or why not?

If you consider that only one of the proposed amendments is needed, please explain which and why.

- 3. We support the ‘overlay approach’, because we think that the approach would contribute to improving the quality of profit or loss information by seeking to address accounting mismatches resulting from implementation of IFRS 9. However, we are not sure if the temporary exemption from applying IFRS 9 is really necessary.
- 4. Setting aside the practical burden resulting from the ‘overlay approach’, we think that the proposed temporary exemption is, at the least, undesirable for the following reasons:
 - (a) Different from the ‘overlay approach,’ we think that the temporary exemption would significantly reduce the comparability of financial information between entities that issue contracts within the scope of IFRS 4 and other entities, because entities that issue insurance contracts ordinarily hold a large volume of financial assets as part of their investment portfolio. Hence, taking into account the supposed magnitude, this approach would create a ‘cliff effect’ between financial statements of entities engaging in similar business even where they assert compliance with IFRSs in their

financial statements. If the scope of entities entitled to select the temporary exemption is determined at a level below that of a reporting entity, concerns over the comparability of financial statements would be even more significant.

- (b) The ED seems to have been issued with the strong premise that the new Insurance Contracts Standard will become effective for annual reporting periods beginning on or after 1 January 2021. Although we agree that the new Insurance Contracts Standard is much needed, given the magnitude of the Standard we believe that it is paramount for the IASB to carefully assess whether a supplementary process would be necessary to ensure that the Standard is sufficiently understandable and operational. We worry that the proposal in the ED might hinder the IASB's careful consideration in its future deliberation.
5. As for the practical burden resulting from the 'overlay approach,' we have not carried out a thorough analysis as to whether the costs would outweigh the benefit of doing so, because the number of Japanese insurers that have applied IFRSs is very limited. Nevertheless, in our discussions some questioned if the practical burden resulting from the overlay approach is really unjustifiable. They stated that for entities that issue insurance contracts, information system necessary to apply IFRS 9 would nevertheless be required sometime in the future in so far as they continue to use IFRSs as a basis for preparing financial statements, and it is questionable if the burden of parallel implementation of the two Standards (that is, IAS 39 and IFRS 9) is significant enough to warrant providing an approach that permits them not to implement IFRS 9.

Question 3—The overlay approach

Paragraphs 35A–35F and BC32–BC53 describe the proposed overlay approach.

- (a) Paragraphs 35B and BC35–BC43 describe the assets to which the overlay approach can be applied. Do you agree that the assets described (and only those assets) should be eligible for the overlay approach? Why or why not? If not, what do you propose instead and why?
- (b) Paragraphs 35C and BC48–BC50 discuss presentation of amounts reclassified from profit or loss to other comprehensive income applying the overlay approach. Do you agree with the proposed approach to presentation? Why or why not? If not, what do you propose instead and why?

Do you have any further comments on the overlay approach?

- 6. We support paragraph 35B of the ED that proposes to grant an entity discretion in determining the assets to which the overlay approach can be applied. This is because, considering the different investment strategies of entities, it seems almost impossible for the IASB to prescribe every cause of accounting mismatches in the Standard.
- 7. In addition, we agree with paragraph 35C of the ED that proposes to require that reclassification from profit or loss to OCI be presented as a separate line item but permit an entity to decide whether the effect on individual line items should be presented on the face of the financial statements or disclosed in the notes to financial statements. This is because we think that the proposal provides sufficient basis for an entity to decide the presentation, given that paragraph 85 of IAS 1 *Presentation of Financial Statements* already requires an entity to present additional line items (including by disaggregating the line items specified in the Standard) when such presentation is relevant to understanding of the entity's financial performance.

Question 5—Should the overlay approach and the temporary exemption from applying IFRS 9 be optional?

As explained in paragraphs BC78–BC81, the Exposure Draft proposes that both the overlay approach and the temporary exemption from applying IFRS 9 would be optional for entities that qualify. Consistently with this approach, paragraphs BC45 and BC76 explain that an entity would be permitted to stop applying those approaches before the new insurance contracts Standard is applied.

- (a) Do you agree with the proposal that the overlay approach and the temporary exemption from applying IFRS 9 should be optional? Why or why not?
- (b) Do you agree with the proposal to allow entities to stop applying the overlay approach or the temporary exemption from applying IFRS 9 from the beginning of any annual reporting period before the new insurance contracts Standards is applied? Why or why not?

- 8. We agree with the proposal that the overlay approach and temporary exemption should be optional primarily for the reasons explained in paragraphs BC79-81 of the ED, if the IASB decides to set forth the two approaches as transitional arrangements.
- 9. As for the proposal to allow entities to stop applying the overlay approach or the temporary exemption from the beginning of any annual reporting period before the new Insurance Contracts Standards is applied, we are afraid that the proposal may lower the period-to-period comparability of financial statements of an entity by giving choice to an entity in determining when to stop these options.
- 10. We think that it would be more appropriate if the IASB prohibits an entity from ceasing application of the options at their voluntary discretion, while requiring an entity to cease application of these options as soon as the entity starts to implement the new Insurance Contracts Standard. In our view, this way the period-to-period comparability of financial statements of an entity would be better maintained.

Question 6—Expiry date for the temporary exemption from applying IFRS 9

Paragraphs 20A and BC77 propose that the temporary exemption from applying IFRS 9 should expire at the start of annual reporting periods beginning on or after 1 January 2021.

Do you agree that the temporary exemption should have an expiry date? Why or why not?

Do you agree with the proposed expiry date of annual reporting periods beginning on or after 1 January 2021? If not, what expiry date would you propose and why?

11. In principle, we agree that the temporary exemption should be available for a limited period of time, should the IASB decide to provide the option. This is because this option would lower comparability of financial statements between different entities.
12. However, we are afraid that the period-to-period comparability of financial statements of an entity would be lowered where an entity is precluded from applying the temporary exemption from a predetermined expiry date, in the case where there is a delay in the IASB issuing the new Insurance Contract Standard in the future. Hence, although we are not sure if the temporary deferral is really necessary, we do not think it necessary or appropriate to predetermine the expiry date in this amendment. Instead, if the IASB really believes that the temporary exemption is necessary and appropriate, it would seem logical for the IASB to decide the expiry date only after the IASB finalises the new Insurance Contract Standard.