

## Accounting Standards Board of Japan (ASBJ)

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Mr. Hans Hoogervorst

Chair

International Accounting Standards Board

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### **Comments on the Exposure Draft *Amendments to IFRS 17***

1. The Accounting Standards Board of Japan (the “ASBJ” or “we”) welcome the opportunity to provide our comments on the International Accounting Standards Board (“IASB”)’s Exposure Draft *Amendments to IFRS 17* (the “ED”), issued in June 2019.
2. Generally speaking, we do not think it is desirable to amend a standard before its effective date, once it is issued after following extensive due process. This is because it may affect the credibility of IFRS standards and of the IASB, which develops the IFRS standards.

On the other hand, when factors that could not be foreseen during the deliberations leading to the issuance of the standard emerge unexpectedly, we can understand the view that corrective action should be taken in a timely manner when it is highly likely that the implementation of the standard without any amendments would result in providing inappropriate information or would cause significant implementation challenges.

3. The proposed amendments in the ED are limited in scope to the minimum. Most of the proposed amendments are related to those that would otherwise result in providing inappropriate information or those that are necessary to alleviate the implementation challenges. Considering the reasons described in the Basis for

Conclusions accompanying the ED, we think we can appreciate the needs for making the proposed amendments.

4. Regarding the deferral of the effective date, while we acknowledge the need to carefully consider the effects on those who have already begun the implementation process, we think that the deferral of the effective date for one year is understandable, given that the proposed amendments in the ED are limited in scope.
5. In order to facilitate your deliberations, for your reference, we have included in the Appendix the implementation challenges and concerns that we have heard from Japanese constituents.
6. We hope that our comments are helpful for the IASB's consideration in the future. If you have any questions, please feel free to contact us.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'A. Kogasaka', written in a cursive style.

Atsushi Kogasaka

Chair

Accounting Standards Board of Japan

(Appendix) Implementation challenges and concerns that we have heard from Japanese constituents

#### **Question 4: Reinsurance contracts held**

1. A new concept called “loss-recovery component” is introduced in the ED. Paragraph B119E of the ED states that “the loss-recovery component determines the amounts that are presented in profit or loss as reversals of recoveries of losses from reinsurance contracts held and are consequently excluded from the allocation of premiums paid to the reinsurer”. Considering the purpose of introducing this concept, Japanese constituents are suggesting that, in addition to the initial recognition (as proposed in the ED), the loss-recovery component also be applied in the subsequent measurement (when the change in the fulfilment cash flows of reinsurance contracts held are recognised in profit or loss).
2. The IASB proposes defining “reinsurance contract held that provides proportionate coverage” in Appendix A - Defined terms in the ED. According to the proposed definition, it is “a reinsurance contract held that provides an entity with the right to recover from the issuer a percentage of all claims incurred on groups of underlying insurance contracts”. Under this proposed definition, the scope of the amendment may be interpreted as being limited to so called Quota share type reinsurance contracts for which all the contracts covered are ceded at a certain percentage. However, proportionate reinsurance contracts are generally considered to provide proportional cover and to be directly linked to the underlying insurance contracts (i.e., reinsurance contracts for which the percentage of risk born by the cedent and the reinsurer is pre-fixed in case an insurance event takes place). Therefore, proportionate reinsurance contracts should include so called Surplus type reinsurance contracts for which the contracts are ceded at various percentages. Japanese constituents are concerned that the Surplus type reinsurance contracts might fall outside the scope of the amendment under the proposed definition.

#### **Question 10: Terminology**

3. Japanese constituents suggest that IFRS 17 clarify that the similar accounting treatment may be applied in certain cases, regardless of whether the component of the contract is treated as investment component (i.e. the amounts that an insurance contract requires the entity to repay to a policyholder in all circumstances,

regardless of whether an insured event occurs) or as a repayment of the premium. Items with cash value used to be viewed as having an investment component. However, under the new definition, a 50-year contract which provides only insurance cover may not be determined to have an investment component, although it may have cash value. Japanese constituents are concerned that, when that contract is cancelled, they can no longer treat the payment of the cash value as the difference between investment component expected to become payable in the period and the actual investment component that becomes payable in the period. On the other hand, the Transition Resource Group meeting noted that the payment of the cash value can be treated as a repayment of the premium. Japanese constituents are suggesting that this be clarified in IFRS 17.

4. The definition of liabilities for incurred claims and the definition of liabilities for remaining coverage are proposed to be changed, because insurance contracts may provide both insurance cover and investment related services or investment return services. However, when insurance cover does not exist because the insurance event has taken place, and only the investment return service remains, Japanese constituents are concerned that, under the proposed definition, a specific cash flow may be determined as both a liability for incurred claims (related to insurance cover) and a liability for remaining cover (related to investment return service) at the same time. Therefore, Japanese constituents suggest that the specific cash flow be treated only as a liability for remaining cover, when either insurance cover or investment return service exists, and only as a liability for incurred claims in all other cases. The classification specified in IFRS 17 is based on whether the insured event had taken place or not, and preparers have been developing IT systems based on this criteria. Japanese constituents are concerned that the change in the classification based on the proposals in the ED (including the proposed change noted above) will affect the implementation work undertaken by preparers so far.

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