



The Life Insurance Association of Japan

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October 28, 2005

Mr. Alan Teixeira
Senior Project Manager
International Accounting Standards Board
30 Cannon Street, London EC4M 6XH,
United Kingdom

Letter of Comment No: 159
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Dear Mr. Teixeira,

The Life Insurance Association of Japan (LIAJ) feels great respect for the efforts made by the International Accounting Standards Board to establish international accounting standards, and sincerely appreciates the opportunity to express our comments in response to the Exposure Draft of Proposed Amendments to IFRS 3, *Business Combinations*.

The attached represents the comments of LIAJ, consisting of 38 life insurers, whose purpose is to promote development and public trust in the Japanese life insurance industry.

Yours sincerely,

Koji Hanaoka
Chairman of the Current Issue Committee
The Life Insurance Association of Japan

Attachment

Comments on the Exposure Draft of Proposed Amendments to IFRS 3 Business Combinations

28 October 2005

The Life Insurance Association of Japan

1. General Remarks

While the Board's direction toward the development of a uniform set of accounting standards for business combinations is understandable, we do not agree with the application of the acquisition method to business combinations involving two or more mutual entities due to the following reasons:

- Business combinations between mutual entities are different from those between stock companies as the policyholders' equity of the mutual entities involved may continue to exist. In such business combinations, it should be taken into consideration that the application of the acquisition method may not faithfully represent their economic realities.
- Because business combinations between mutual entities may not involve the payment of reliably measurable considerations, the acquisition method is practically difficult to apply to such business combinations.
- In the case of insurance contracts, there are no active markets and thus future cash flows from such contracts are highly uncertain. Therefore, it should be considered that the discussion of measuring an acquired company at fair value has not reached to the conclusion, including whether such measurement is possible or not, in the discussion of the Insurance Contracts Phase II.

2. Individual Questions

Questions	Comments
<p><i>Question 1—Are the objective and the definition of a business combination appropriate for accounting for all business combinations? If not, for which business combinations are they not appropriate, why would you make an exception, and what alternative do you suggest?</i></p>	<ul style="list-style-type: none"> • We do not agree with the application of acquisition method to the business combinations between mutual entities. • Our association (LIAJ) pointed out that there are cases that the equities of insurance policyholders, who are the owner of the equities of either of the companies, are retained in business combinations between mutual entities in our comments submitted July 2004. • In "Basis for Conclusions," it is stated that the acquisition method is superior to the pooling of interests method, and it is concluded that a single method of accounting for all business combinations is superior in the light of neutrality. However, this statement does not correctly reflect the actual economic conditions of mutual entities.

Questions	Comments
	<ul style="list-style-type: none"> • In the case of mutual entities, equities held by policyholders of either of the companies may be maintained unlike the case of the stock companies. In the accounting of such business combinations, it should be taken into consideration that the application of the acquisition method will not faithfully represent the economic conditions of the business combinations at the time. • Although the exposure draft states the application of a single standard is superior in the light of neutrality, such application, i.e. uniform application of the acquisition method, prevents faithful representation of the economic conditions for mutual life insurance entities. Mutual life insurance entities fundamentally differ from non-mutual life insurance entities in economic characteristics and purposes of entity structure as provided by insurance related legislation. Such application therefore results in oversimplification of their economic conditions. • Further, it is practically difficult to apply the acquisition method to all business combinations because the business combinations between mutual entities do not involve the payments of reliably measurable considerations. • Therefore, we request your review in careful consideration of the economic characteristics and the system of the mutual life insurance entities.
<p><i>Question 4—Do paragraphs A8-A26 in conjunction with Appendix E provide sufficient guidance for measuring the fair value of an acquiree? If not, what additional guidance is needed?</i></p>	<ul style="list-style-type: none"> • We do not think this exposure draft provides enough guidance. • Future cash flows from contracts such as insurance policies are highly uncertain because there is no active market for such contracts. In discussions of the Insurance Contracts Phase II, such aspects in which the conclusion has not been arrived at yet should be considered, including whether or not the measurement at the fair value is possible.
<p><i>Question 15—Do you agree with the disclosure objectives and the minimum disclosure requirements? If not, how would you propose amending the objectives or what disclosure requirements would you propose adding or deleting, and why?</i></p>	<ul style="list-style-type: none"> • We agree with the objectives of providing adequate information to enable the users of financial statements to evaluate the nature and financial effects of business combinations. However, we would like this point to be fully considered again in the light of cost-effectiveness as the items to be

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	<p>disclosed are wide-ranging while they are described as the minimum disclosure.</p> <ul style="list-style-type: none"><li data-bbox="1373 548 2573 755">• In addition, although the exposure draft requires the measurement of an acquiree at the fair value, we would like you to take into consideration the fact that discussions of such measurement of liabilities for insurance companies are still underway in the project of the Insurance Contracts Phase II.