

**The LIAJ's Comments on the Exposure Draft
Revenue from Contracts with Customers**

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The Life Insurance Association of Japan (LIAJ)

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1. General opinions on the exposure draft

1. We, the Life Insurance Association of Japan (LIAJ), would like to extend our gratitude to the International Accounting Standards Board (IASB) for providing us with the opportunity to submit our comments on the exposure draft, *Revenue from Contracts with Customers* (amendment to the exposure draft published in June 2010, hereinafter referred to as 'the exposure draft'), published in November 2011. We understand that, although the revisions made to the exposure draft published in 2010 (hereinafter referred to as 'the 2010 exposure draft') did not necessitate re-exposure for public comment in accordance with the IASB's due process procedures, the IASB decided to re-consult constituents on revenue recognition because of its desire to avoid unintended consequences. We would like to express our respects to the IASB's efforts to give great weight to its dialogue with constituents.
2. The LIAJ is a trade association comprised of all 43 life insurance companies operating in Japan. Its aim is to promote the sound development of the life insurance industry and maintain its reliability in Japan. We would like to respectfully request that the IASB carefully consider the comments submitted from the sole representative body of the life insurance industry in Japan, which holds the second largest life insurance market in the world.
3. The accounting standards on insurance contracts or financial instruments would have a great impact on life insurance industry due to the characteristics of its balance sheet, and both of them are out of the scope of the exposure draft. The paragraph BC42 states, however, that 'In the boards' view, the proposed requirements would provide them with a framework for considering revenue issues in other standard-setting projects.' Therefore, we respond to questions below considering its materiality as well as the potential impacts the proposals might pose on the IASB's discussions in the insurance contracts project.

2. Responses to the questions

2.1 Question 1

Paragraphs 35 and 36 specify when an entity transfers control of a good or service over time and, hence, when an entity satisfies a performance obligation and recognises revenue over time. Do you agree with that proposal? If not, what alternative do you recommend for determining when a good or service is transferred over time and why?

We agree with this proposal

4. We agree with the proposals in paragraphs 35 and 36 that specify the criteria under what circumstances an entity satisfies a performance obligation and recognises revenue over time. This is because we believe that incorporating proposals in the application guidance in the 2010 exposure draft into the standard and clarifying them would enhance the understandability for constituents.
5. On the other hand, considering that a wide variety of contracts fall within the scope of the exposure draft, there may be various views expressed by other constituents on specific criteria. Therefore, we would like the IASB to have due regard to these views so that unintended consequences would be avoided.

6. In addition, life insurance contracts that are currently under discussion in the insurance contracts project can be characterised as the case similar to the performance obligation satisfied over time which is discussed under the exposure draft. In accordance with the Exposure Draft: *Insurance Contracts*, insurers are required to measure insurance liabilities by reflecting changes in the time value of money. Since we believe that business profile of insurers should be appropriately reflected in the profit or loss, we proposed presenting unrealised changes in insurance liabilities resulting from changes in interest rate in other comprehensive income (OCI), in order to recognise them separately from profits or losses from insurance business. We believe that the use of OCI would mitigate difference between the both standards in their impacts on profits or losses resulting from whether to discount or not.

2.2 Question 2

Paragraphs 68 and 69 state that an entity would apply IFRS 9 (or IAS 39, if the entity has not yet adopted IFRS 9) or ASC Topic 310 to account for amounts of promised consideration that the entity assesses to be uncollectible because of a customer's credit risk. The corresponding amounts in profit or loss would be presented as a separate line item adjacent to the revenue line item. Do you agree with those proposals? If not, what alternative do you recommend to account for the effects of a customer's credit risk and why?

(The proposal not to deduct credit risk directly from the revenue line item)

We agree with this proposal

(The proposal to measure credit risk in accordance with IFRS 9 and present it in a separate line item adjacent to the revenue line item)

We withhold assessment of the proposal at this point

7. We can not assess the appropriateness of the proposed approach of measuring credit risk in accordance with IFRS 9 and presenting it in a separate line item adjacent to the revenue line item at this point. A conclusion may vary depending on further developments of the deliberation of IFRS 9: *Impairment* that is currently under discussion at the IASB. Therefore, this question should be revisited after the IASB finalise the IFRS 9: *Impairment*.

2.3 Question 3

Paragraph 81 states that if the amount of consideration to which an entity will be entitled is variable, the cumulative amount of revenue the entity recognises to date should not exceed the amount to which the entity is reasonably assured to be entitled. An entity is reasonably assured to be entitled to the amount allocated to satisfied performance obligations only if the entity has experience with similar performance obligations and that experience is predictive of the amount of consideration to which the entity will be entitled. Paragraph 82 lists indicators of when an entity's experience may not be predictive of the amount of consideration to which the entity will be entitled in exchange for satisfying those performance obligations. Do you agree with the proposed constraint on the amount of revenue that an entity would recognise for

satisfied performance obligations? If not, what alternative constraint do you recommend and why?

[No comment]

2.4 Question 4

For a performance obligation that an entity satisfies over time and expects at contract inception to satisfy over a period of time greater than one year, paragraph 86 states that the entity should recognise a liability and a corresponding expense if the performance obligation is onerous. Do you agree with the proposed scope of the onerous test? If not, what alternative scope do you recommend and why?

We generally agree with this proposal but we urge the IASB to amend some parts of the proposal.

8. We agree with the proposal in paragraph 86 to limit the scope of onerous test to the performance obligation that an entity satisfies over time.
9. We recognise that there may be a case where a performance obligation of an entity is onerous at initial measurement under the contracts covered by the exposure draft. However, our understanding is that, except for such cases, a performance obligation would be onerous only when significant changes in external environments are observed. Thus, we believe that onerous tests should not be required at each reporting period, as it might impose excessive cost on preparers that outweigh the benefit for users of financial statements. Accordingly, we think the requirement should be amended so as to require an onerous test only when there are signs that the contract is onerous as a result of certain event or changes in the circumstances.

2.5 Question 5

The boards propose to amend IAS 34 and ASC Topic 270 to specify the disclosures about revenue and contracts with customers that an entity should include in its interim financial reports.* The disclosures that would be required (if material) are:

- **The disaggregation of revenue (paragraphs 114 and 115)**
- **A tabular reconciliation of the movements in the aggregate balance of contract assets and contract liabilities for the current reporting period (paragraph 117)**
- **An analysis of the entity's remaining performance obligations (paragraphs 119–121)**
- **Information on onerous performance obligations and a tabular reconciliation of the movements in the corresponding onerous liability for the current reporting period (paragraphs 122 and 123)**
- **A tabular reconciliation of the movements of the assets recognised from the costs to obtain or fulfil a contract with a customer (paragraph 128).**

Do you agree that an entity should be required to provide each of those disclosures in its interim financial reports? In your response, please comment on whether those proposed disclosures achieve an appropriate balance between the benefits to users of having that information and the costs to entities to prepare and audit that information. If you think that the proposed disclosures do not appropriately balance those benefits and costs, please identify the disclosures that an entity should be required to include in its interim financial reports.

We do not agree with this proposal.

10. We do not agree with the proposal to amend IAS 34 : *Interim Financial Reporting* to include disclosure requirements related to revenue recognition in interim financial reports.
11. We understand that the objective of IAS 34 is to establish general accounting principles for disclosure in interim financial reporting. Although we understand the importance of the standard proposed in the exposure draft, we take the view that it would not be appropriate to include in the IAS 34 specific disclosure requirements for an individual standard.
12. At the July 2011 IASB/FASB joint board meeting, members from NZICA and ICAS reported on the need for reduction of the absolute level of disclosures, as well as development of disclosure principles as a whole, in response to the request from the IASB in October 2010, and the IASB decided to discuss in future board meetings how to proceed on them. Our concern is that including specific disclosure requirements for an individual standard in IAS 34 is not consistent with the decision above.
13. In addition, from investors' perspective, we would like to note that due consideration should be given in setting disclosure requirements for annual financial statements, as well as interim financial statements, so that the cost for preparing financial statements borne by preparers would not outweigh the benefit investors could enjoy through enhanced disclosure. It is likely that increased information about investees achieved by enhanced disclosure may ultimately lead to an increase in investment return by the way of, for example, sophisticated investment analysis. On the other hand, the cost borne by investees that will increase as the disclosure information increases would be ultimately borne by investors. Therefore, IASB should give due regard to ensure that highly useful disclosure requirements are developed to the extent that they don't end up with an increase in cost as a whole.

2.6 Question 6

For the transfer of a non-financial asset that is not an output of an entity's ordinary activities (for example, property, plant and equipment within the scope of IAS 16 or IAS 40, or ASC Topic 360), the boards propose amending other standards to require that an entity apply (a) the proposed requirements on control to determine when to derecognise the asset, and (b) the proposed measurement requirements to determine the amount of gain or loss to recognise upon derecognition of the asset.* Do you agree that an entity should apply the proposed control and measurement requirements to account for the transfer of non-financial assets that are not an output of an entity's ordinary activities? If not, what alternative do you recommend and why?

[No comment]