

**IAA Subcommittee on Education and Practice  
Zagreb, Croatia – September 30 and October 1, 2011  
Minutes**

**Attendees morning September 30, 2011** were: David Congram (Co-Chair, Canada), Gunn Albertson (Norway), Félix Arias Bergadà (Spain), Tsai-Ling Chao (Chinese Taipei), Simon Curtis (Canada), Micheline Dionne (Canada), Alexander Dollhopf (Sweden), Stefan Engeländer (Germany), Maximilian Happacher (Germany), Jozef Hancar (Slovenia), Eiji Hashimoto (Japan), William Hines (U.S.), Burt Jay (U.S.), Ad Kok (the Netherlands), Kurt Lambrechts (Belgium), Mike Lombardi (Canada), Jim Milholland (U.S.), Yoshio Nakamura (Japan), Marc Oberholtzer (U.S.), Gabor Prasctor (Hungary), Pentti Soinenen (Finland), Shigeru Taguchi (Japan), Arseny Timakov (Russia), Derek Wright (UK), Hideyuki Yoshida (Japan), Harriet Yuan (Chinese Taipei), Jesús Zúñiga (Mexico).

**Attendees morning October 1, 2011** were: David Congram (Co-Chair, Canada), Gunn Albertson (Norway), Félix Arias Bergadà (Spain), Thomas Béhar (France), Ralph Blanchard (U.S.), Micheline Dionne (Canada), Alexander Dollhopf (Sweden), Stefan Engeländer (Germany), Maximilian Happacher (Germany), Jozef Hancar (Slovenia), Eiji Hashimoto (Japan), William Hines (U.S.), Burt Jay (U.S.), Maria Kamenarova (Slovenia), Kurt Lambrechts (Belgium), Barbara Lautzenheiser (U.S.), Mike Lombardi (Canada), Bob Miccolis (U.S.), Jim Milholland (U.S.), Yoshio Nakamura (Japan), Marc Oberholtzer (U.S.), Pentti Soinenen (Finland), Shigeru Taguchi (Japan), Arseny Timakov (Russia), Derek Wright (UK), Jesús Zúñiga (Mexico).

**Regrets**

Sam Gutterman (U.S.)  
Francis Ruygt (Co-Chair, The Netherlands)

**Invited Guests October 1, 2011**

Jim Stoltzfus, Andrew Dalton and Jeffrey Courchene of Milliman

**Part 1 – September 30**

1. Co-Chair David Congram presided over the meeting. After a welcome and call to order attendees introduced themselves.
2. The Subcommittee on Education and Practice (SEP) approved the [minutes of the meeting in Sydney](#).
3. David Congram announced the planned changes in leadership of the subcommittee and the committee. His and Sam Gutterman's terms will expire at the end of this year. Subject to Council approval at their upcoming meeting on Sunday (which was subsequently approved) the Insurance Accounting Committee will be chaired by Francis Ruygt (Netherlands) with Co-Vice-Chairs William Hines (U.S.), Micheline Dionne (Canada) and David Finnis (Australia).

4. A session was held *in camera* to discuss the selection of a firm to prepare the planned monograph on risk adjustment. During this session a number of attendees left the room as they had a conflict of interest. The report on the selection process (attached to the agenda) and the APOG – Risk Report (distributed separately) were reviewed and a consensus reached. This consensus endorsed the recommendations in the APOG report and was subsequently forwarded to the parent Insurance Accounting Committee for approval and ratification.
5. David Congram reported that there is continuing demand for the stochastic modeling book and it is selling well, with about 1,000 hard copies and 300 additional electronic copies already sold. A second printing is underway. The Secretariat is considering various methods of distribution including through associations. There was discussion as to the best ways the committee can continue its support for this initiative.
6. The SEP discussed the exposure draft of a General Actuarial Practice Standard that came from the Interim Actuarial Standards Subcommittee (IASSC). Jacqueline Friedland is the SEP representative on the IASSC group that has produced the General Actuarial Practice Standard and provided some comments on the process (attached as Appendix A). The SEP members generally favoured having a General Standard but felt that the draft could be improved in some respect, especially as related to model calibration, reliance, data quality, and responsibility for assumptions. The SEP agreed to comment on the exposure draft. The comment period ends December 1, 2011. Derek Wright volunteered to lead the drafting of some comments and will be assisted by Jim Milholland and Alexander Dollhopf, with a draft to be circulated to the SEP members by November 7.

## **7. Approach to IFRS Insurance Accounting Standard**

- a. Micheline Dionne provided an overview of the proposed Interim Due Process. It was agreed that the new process was quite extensive but some felt the additional requirements of the process were warranted. The SEP was in support of the compromise achieved.
- b. The SEP discussed its planned activities in connection with the balance of the IASB Insurance Accounting Standard as well as the IAN's currently planned in conjunction with a new insurance standard. The Statement of Intent that the Council approved was intended to cover both a General Standard and a possible separate ISAP to capture the balance of IASP 2. A team has been identified to address this work from the insurance perspective but it has been on hold while the General Standard has been in development. The IASSC wants to consider if it is appropriate to develop an ISAP for all IASB standards that would include insurance and pensions similar to the IASP 2 structure and has identified an initial leadership group. The pension group already has conducted some analysis of IAS 19. Further discussion expanded to cover more broadly SEP activities related to the insurance project.

William Hines reported on the IASB progress with respect to the accounting standard for insurance products. It has been delayed further and is slated now for re-exposure or partial re-exposure sometime in the first half of 2012. It was noted that the IASB has asked for comments on its planned agenda, so there is a

potential for further delay. In preparation of the adoption of a revision to IFRS 4 we continue to look for volunteers to staff the IAN development work.

The SEP discussed the concept of an ISAP on accounting. It was noted that we already have an IAN structure that tends to address technical areas and cuts across various IFRSs. The discussion indicated a general preference for a standard on accounting that covered general topics such as accounting hierarchy, disclosures, constructive obligations and changes in accounting policies but these may be better positioned as IANs. There would then be either separate standards or separate sections addressing insurance and/or pensions. The group agreed to develop the material first and then decide whether it would be better to put it in the form of a standard or an IAN. The idea that there should be a standard on accounting generally (not just IFRS) was broached but not well received.

- c. The SEP identified two individuals who we would recommend participating in the IASSC new group to consider this matter. No further decisions were made, as we intend to consider the possibilities together with the Pensions & Employee Benefits Committee. The development of a draft standard is expected to be a collaborative effort.

## **Part 2 – October 1**

### **8. Discount rate monograph**

- a. David welcomed the Milliman team to provide a status of the project.
- b. Jim Stoltzfus, Andrew Dalton and Jeffrey Courchene of Milliman, the firm commissioned to write the monograph on discounting, presented a series of slides to the attendees describing the goals of the monograph, the drafting process, an overview of completed sections, the work in progress, plans to enhance the material on non-life and participating-life business, new material on the application of IAS 19 to Dutch pension plans and a new case study on Jamaican pension plans. (Slides are attached as Appendix B.)
- c. It was agreed that the areas of planned enhancement reflected the APOG views.
- d. In the discussion a number of items were mentioned:
  - i. The lack of non-life material was confirmed and in addition it was pointed out that the monograph provides a non-life case study that determines discount rates reflecting cash flow uncertainties together with retained asset earnings rate risks, whereas the models proposed by the IASB and FASB do not include uncertainties captured in the risk adjustment in determining discount rates. This needs to be addressed.
  - ii. It was emphasized that negative nominal interest rates do exist in the real world as reflected in a reduction of assets and are not well addressed.
  - iii. Current financial reporting rules for self-insured workers compensation differ from the guidance given in the monograph.
  - iv. The treatment of illiquidity of liabilities needs to be more fully addressed.
  - v. Discounting for reinsurance can be very complex but is handled well.

- vi. The material on par-life business fails to describe the subjective nature of dividend cash flows where management has discretion or where policyholder dividends are linked to asset earnings rates.

The Milliman representatives acknowledged that non-life had not been properly addressed yet. They indicated that they have added people with non-life backgrounds to rewrite the non-life case study and general material on non-life. They will also enhance the material on illiquidity and the case study and general report material on participating business.

The Jamaican pension case study was further discussed in regard to potential overlap with insurance. In this case study, risk free discount rates are based on Jamaican short term government bond rates and an average of all Caribbean long term government bond rates. The discount rate is the average of these long and short term rates. Other Caribbean countries do not use this method, although it is conservative for Jamaica because their rates are higher due to their stressed economic situation. This method has been generally accepted by actuaries in Jamaica.

It was discussed that Jamaica case study was toward the end of the spectrum of possible applications and that an intermediate example from a country with a “deepish” market would be a useful addition.

- e. There was a great deal of discussion on the title of the monograph. A paper linked to the agenda listed a number of potential names. Some of the comments were: “Discount Rates” should be in the title; the title should not stress actuaries or actuarial views; the view on discount rates was different ten years ago and will be different five years from now. Arguments were given both for and against having “actuary” as well as “international” in the title. Many expressed a preference for including something like “time value of money reflected in financial reporting.”

David Congram asked those present to send in comments on the discount rate monograph to him or to Katy Martin of the IAA Secretariat by October 7. The plan is that this would be the last round of comments that will be captured before public exposure. The next version, which will include new case studies and general section material to reflect other comments received, should be available by mid-October. It was suggested that an informal copy might be provided to the IASB Insurance Working Group for their meeting on October 24. Public exposure would then be expected to follow.

SEP Members suggested that the schedule described above may be overly ambitious. The P&C actuaries in the room would like to review the new non-life material before a draft document is given to the IASB WG.

#### **9. Planning for future IASP/IAN/educational material in anticipation of IFRS 4 revisions**

The Committee/Subcommittee reviewed the current list of volunteers and asked others in attendance to add their names or others in their association to topics that they would like to work on.

Respectfully submitted

Burt Jay and Jim Milholland