



ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION

February 12, 2004

Mr. Tom Seidenstein  
Director of Operations and Secretary  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
(Email: [constitution@iasb.org.uk](mailto:constitution@iasb.org.uk))

Dear Sir:

**Re: IAA comments on *Identifying Issues for the IASC Foundation Constitution Review***

In response to the request for comments to the IASC Foundation's *Identifying Issues for the IASC Foundation Constitution Review*, I am pleased to transmit on behalf of the International Actuarial Association (IAA) a draft of our comments and recommendations.

Overall, we agree that a periodic review of the Constitution of the IASC Foundation is valuable and we are pleased to provide our commentary with respect to the current review. In this changing world of ours, we believe it appropriate that all such international organizations seek external confirmation that their objectives and methods of operation remain vital, relevant and responsive to the needs and interests of both their stakeholders and the general public. We hope that you find our comments to be of value.

These draft comments have been prepared by a committee of the IAA, the members of which are listed by name and association in the Appendix to this submission. In accordance with our internal due process procedures for official statements made by the IAA, we have circulated these comments for a formal vote to our member associations, who are also listed in the Appendix. They have three months to approve a public statement to be made on behalf of the IAA. When these procedures have been completed, we will confirm whether the draft has been approved in its entirety or modified in any way.

Yours sincerely,

Luis Huerta  
President

Attachment: Draft comments

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**IAA (draft) Comments on IASC Foundation's**  
***Identifying Issues for the IASC Foundation Constitution Review***

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**(These are identified as being "draft" as they have not completed  
the required IAA due process as of February 12, 2004)**

**THE INTERNATIONAL ACTUARIAL ASSOCIATION**

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our fifty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism around the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within, or likely to have an impact upon, the areas of expertise of actuaries.

We are not a trade association and do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries will, as a profession, continue to try to provide assistance to those involved in the enhancement of financial reporting standards to make them more useful to the users of financial statements.

The IAA appreciates this opportunity to provide input to the IASC Foundation's self-assessment process and in particular, its review of its Constitution. We commend the continuing efforts of the IASC Foundation in its very worthwhile effort to develop globally accepted international financial reporting standards.

**THE IAA'S DUE PROCESS**

This is a draft version of the IAA's comments regarding the IASC Foundation's *Identifying Issues for the IASC Foundation Constitution Review*, that has been prepared by the Insurance Accounting Committee of the IAA, the members of whom are listed by name and association in the Appendix to this brief. The Full Member associations of the IAA are also listed in the Appendix. The final IAA statement will be transmitted as soon as this draft statement has completed the IAA's due process review process.

**IAA COMMENTS**

Overall, we appreciate the fact that the IASC Foundation's Constitution requires regular reassessment of its method and operations. We particularly encourage the emphasis in this review and in all of the IASC Foundation's deliberations on the first objective of operating "in the public interest."

Nevertheless, we recognize that in certain circumstances it can be difficult to ascertain what this public interest is, or how multiple interests should be balanced. For example, in general the public interest is best served both when the application of financial reporting standards results are consistent with economic reality and when the benefits of new or revised standards outweighs the cost of following them. In cases where these objectives conflict, we suggest that the IASB should seek ways to move towards reflecting economic reality using simplified methods rather than leave known situations in which the financial reports do not reflect economic reality continue to exist without remediation. Our briefs concerning the consequences of inconsistent measurement of assets and liabilities tried to find a practical solution to just such an issue. In fact, the IASB did change the insurance accounting standard to try to effect just

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such a trade off. The Board's choice was a more difficult to implement temporary solution than the IAA recommended. It remains to be seen whether preparers will be able to accommodate the increased cost and complexity of the solution chosen by the Board.

We believe that the Board should be encouraged to take a broad view of what "is in the public interest".

We would like to emphasize the importance of the public nature of the IASB's due process. It is very important that those who are affected by international financial reporting standards, including preparers, auditors, and other stakeholders be given the opportunity to provide meaningful public input to the exposure process of new and revised standards and their interpretation.

Responses to the Foundation's specific invitation for comments:

1. Should there be a specific objective to address the special challenges facing small and medium-sized entities (SMEs)?  
*IAA comments: Although we agree that the special challenges facing SMEs should be considered, we do not believe that these need to be specifically referenced in the Objectives section of the Constitution. The IAA feels that the challenges specific to SME's can already be addressed through a broad interpretation of the term "in the public interest."*
2. Does the potential benefit of expanding the number of Trustees, possibly to accommodate a broader range of views, outweigh the risk that meetings would become more cumbersome and less effective if larger, potentially reducing a strong sense of commitment and participation by individual members?  
*IAA comments: We believe that, as long as the number of Trustees does not grow significantly, a broader range of views and resources associated with a somewhat larger number of Trustees would be worthwhile.*
3. The Trustees have a largely fixed geographical distribution. Is such a fixed distribution appropriate, or does the current distribution need review?  
*IAA comments: Although we believe that a broad distribution should be required, we believe that such a distribution be regarded as a guideline, rather than as an absolute rule. The first priority of the Trustees should be to select the very best qualified individuals. Nevertheless, a broad range of backgrounds remains both important and desirable. Therefore it would be appropriate for such a proportionality to be considered. It may be appropriate to change "Asia/Pacific region" to "Asia/Oceania region," as it is unclear what the current reference to "Pacific" relates to. We believe that it would be desirable, if a sufficiently qualified individual can be identified, to encourage participation from other regions including South America and Africa. We also believe that economic growth may be such that increased representation from outside Europe and North America may be desirable. To that end, a distribution that is fixed in the Constitution may be too rigid to accommodate these trends.*
4. Although a broad distribution of professional backgrounds is clearly necessary, is the distribution enshrined in the Constitution appropriate?  
*IAA comments: Again, we believe that a broad representation should be considered. We do believe that the backgrounds mentioned are representative and are important to*

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consider in selecting new Trustees. We do not believe that specific reference to the numbers currently included is necessary. However, if numbers are included, we believe that the reference in paragraph 7, third sentence, should suggest "obtaining at least one Trustee from each of those backgrounds" rather than "obtaining one Trustee." We particularly believe that there should be an appropriate level of participation from the preparer and user communities. Further, we believe that, by judicious selection of IASB staff, the background experience brought by the Board members can be supplemented to further enhance the Board's effectiveness.

5. The intention of these provisions is to protect the independence of the standard-setting process while ensuring sufficient due process and consultation. Does there need to be a specific requirement for the Trustees to review the strategy and the procedures of the IASB at intervals?

*IAA comments: We believe that it would be appropriate for the Trustees to review and comment on the strategy and plans of the IASB annually. However, we do not believe that there is a need for a formal vote on this strategy.*

6. Should the language of the Constitution be changed to require a review of the Constitution "at least every ten years" rather than every five years?

*IAA comments: We believe that in this changing world, that a five-year period should be retained.*

7. Should the number of IASB members be reduced to make the Board more workable?

*IAA comments: We have not observed, nor do we believe, that the number of IASB members needs to be reduced. The current number is not unreasonable. However, in order to be more effective, it might be desirable to formally delegate part of the issues management process to sub-committees of the Board that meet in open session. This could prove beneficial because of the formidable workload of the Board. Expecting all Board members to follow all issues at all stages in detail does not seem like the best use of valuable human resources.*

8. Should the part-time positions be eliminated in recognition that the workload of IASB members is heavy and requires substantial time for consultation with interested parties?

*IAA comments: Although we believe that the workload is quite heavy, there may be a need for certain individual(s) who could bring significant value to the workings and decision-making of the IASB. Consequently, we would be comfortable with having a maximum of two part-time members included in the Constitution. In order to accomplish this, "may be" could be substituted for "are" in paragraph 19.*

9. Should the requirement for this distribution of particular professional backgrounds be relaxed in light of the desirability of attracting the best qualified individuals?

*IAA comments: We believe that it is most important to obtain the services of the best qualified individuals. Nevertheless, we also believe that it is necessary to include a broad range of professional backgrounds. As a result, rather than being a rule, such distribution might better serve as a guideline that these professional backgrounds be sought. As noted above, the Board should seek to supplement the strengths they bring to the IASB by judicious selection of IASB staff. It is important that a widely representative Board, in the broad sense, be selected that can better represent the public interest.*

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10. The IASC Foundation (like other standard setting organizations) has experienced difficulty in securing the involvement of the analyst and investment community (“users”). Is there any way to encourage that group to increase its involvement?

*IAA comments: Regular dialogue with those associations representing these communities should continue to be pursued. Either staff, a Trustee or a sub-committee of Board members could be given the responsibility for developing and maintaining a pro-active communications effort with this community. In addition, appropriately qualified individuals from this user community might be considered for a part-time Board, staff or IFRIC position.*

11. Does this kind of formal liaison relationship seem important for ensuring convergence of accounting standards? Should special consideration be given to liaison with emerging economies, not currently represented by the existing liaison relationships?

*IAA comments: We believe that this type of liaison role is needed to achieve the objectives of the IASC Foundation. In fact, we encourage the addition of the expression “At least” prior to paragraph 23. It is appropriate for the standard setters selected to remain flexible, e.g., it may be appropriate to have a liaison with the appropriate European standard setter. We agree that a special ongoing effort should be undertaken with respect to emerging economies. Although this could represent quite a large task, we believe that, if targeted, it would be well worth the effort over the long-term. We also believe that Board members should actively present IASB innovations to the other standard setters as possible convergence initiatives. The IAA is concerned that, without such a convergence effort, the potential value that could arise from an optional IASB initiative will be lost while major preparers wait for a final solution.*

12. The Constitution describes the principles and elements of required due process for the IASB. The IASB's procedures are listed in more detail in the *Preface to International Financial Reporting Standards*. If respondents do not believe the procedures laid out in the Constitution are sufficient, what should be added?

*IAA comments: Although we believe that the procedures laid out here are generally sufficient, it may be appropriate to require Preface paragraph 18 (k) to be conducted, that is, that disclosure of the basis of conclusion underlying IASB actions always be required by the Constitution, including its due process procedures followed and disposition of comments made during the period. This could be done by eliminating the word “normally” from paragraph 32(d)(iv) of the current Constitution. This would enhance the transparency of the IASB decision-making process.*

*In addition, although not necessarily appropriate for the Constitution, the IASB should be encouraged to effectively communicate with its stakeholders the due process procedures intended to be followed on a project by project basis so these stakeholders can communicate in an effective and timely manner to the IASB any concerns or suggestions that may arise with respect to the proposals being made.*

13. Are the current procedures and composition, in terms of numbers and professional backgrounds, of the SAC satisfactory? Is the SAC able to accomplish its objectives as defined in Section 38?

*IAA comments: We believe that overall the current number and background mix of the SAC is reasonable. Just as we believe that sub-committees of the Board should be allowed to guide certain issues, we believe that it may also be appropriate to permit subgroups or task forces of the SAC to be formed in order to make the use of the*

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*resources provided to address specific issues of concern to the SAC. We believe that the talents brought to the IASB by the diverse experience of the SAC members might be much better put to use by such a procedure. The SAC members have already shown that they are willing to give generous amounts of their time and ways should be sought to use that resource to best advantage.*

14. Is the manner of selection of the SAC chairman appropriate?

*IAA comments: We do not believe that it is necessary for the Chair of the IASB to also serve as chair of the SAC. In fact, this added burden adds unnecessarily to the duties of the Chair, although the chair of the IASB should serve as an ex officio member of the SAC. In addition, we believe that it might be appropriate for the Chair of the SAC to serve as an ex officio member of the IASB, to assure that the SAC chair remains sufficiently knowledgeable about the basis for IASB decisions.*

15. Other comments.

*IAA comments:*

- a. *Name.* We believe that it is appropriate for the IASC Foundation to consider a change in its name. It is time to move to the IASB Foundation. The "IASC" is not relevant to the rest of its organization. We are not aware of what practical difficulties may be associated with such a change in name. However, in principle, it seems more fitting with the rest of the organization.
- b. *Objective.* We believe that it is very important for the IASB both to respect the need for rigorous due process and to be required to seek out appropriate views relevant to any standard being evaluated. As a result, it would be appropriate for the IASC Foundation to encourage the IASB to continue to reach out for the views of interested stakeholders, particularly to those who feel, for whatever reason, that they are not being listened to. It is appropriate to both give due consideration to a broad range of views, particularly those preparers and auditors so affected, and to effectively communicate the reaction of the IASB to these views.
- c. *Framework.* Since a proper Framework is vital to the development of sound accounting standards, we believe that it would be of value in paragraph 32(a), or in a separate bullet in paragraph 32 of the Constitution, to explicitly refer to the importance of proper maintenance of the Framework.

Along with other responders to this Invitation to Comment, the IAA appreciates the opportunity to express our views in the IASC Foundation's due process procedures and hope our comments add value to the deliberations.

**Members of the IAA's Insurance Accounting Committee**

Sam Gutterman	(Chair)
W. Paul McCrossan	(Vice-chair)
Francis Ruygt	(Vice-chair)
Clive Aaron	Institute of Actuaries of Australia
William Abbott	Institute of Actuaries
Yutaka Amino	Institute of Actuaries of Japan
Félix Arias Bergadà	Col.legi d'Actuaris de Catalunya
Daniel Barron	Israel Association of Actuaries
Ralph Blanchard	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaire
Paolo De Angelis	Istituto Italiano degli Attuari
Mark J. Freedman	Society of Actuaries
Mariano Gongora Roman	Instituto de Actuarios Españoles
Stephen Handler	Actuarial Society of South Africa
William C. Hines	American Academy of Actuaries
Antony John Jeffery	Society of Actuaries in Ireland
Ad A.M. Kok	Het Actuarieel Genootschap
Kurt Lambrechts	Association Royale des Actuaire Belges
Jean-Pierre Lassus	Institut des Actuaire
Kristine Lomanosvka	Latvijas Aktuaru Asociacija
W. Paul McCrossan	Canadian Institute of Actuaries/Institut Canadien des Actuaire
Markku Paakkanen	Suomen Aktuaariyhdistys
Venkatarama Rajagopalan	Actuarial Society of India
Nithiarani Rajasingham	Singapore Actuarial Society
Dieter Silbernagel	Deutsche Aktuarvereinigung e. V. (DAV)
David Stevenson	Faculty of Actuaries
Bjarni Thordarson	Félag Islenskra Tryggingastærðfræðinga
Wilma Torres	Instituto Brasileiro de Atuária (IBA)
Robert E. Wilcox	Conference of Consulting Actuaries
Kevin Yah	Actuarial Society of the Republic of China
Jesús Zúñiga	Colegio Nacional de Actuarios A. C.

**Full Member Associations of the IAA**

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)  
Institute of Actuaries of Australia (Australia)  
Aktuarvereinigung Österreichs (AVÖ) (Austria)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Cyprus Association of Actuaries (Cyprus)  
Česká Společnost Aktuárů (Czech Republic)  
Den Danske Aktuarforening (Denmark)  
Egyptian Society of Actuaries (Egypt)  
Eesti Aktuaaride Liit (Estonia)  
Suomen Aktuaariyhdistys (Finland)  
Institut des Actuaire (France)  
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)  
Hellenic Actuarial Society (Greece)  
Actuarial Society of Hong Kong (Hong Kong)  
Magyar Aktuárius Társaság (Hungary)  
Félag Íslenskra Tryggingastærðfræðinga (Iceland)  
Actuarial Society of India (India)  
Society of Actuaries in Ireland (Ireland)  
Israel Association of Actuaries (Israel)  
Istituto Italiano degli Attuari (Italy)  
Institute of Actuaries of Japan (Japan)  
Japanese Society of Certified Pension Actuaries (Japan)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Persatuan Aktuari Malaysia (Malaysia)  
Colegio Nacional de Actuarios A. C. (Mexico)  
Het Actuarieel Genootschap (Netherlands)  
New Zealand Society of Actuaries (New Zealand)  
Den Norske Aktuarforening (Norway)  
Actuarial Society of the Philippines (Philippines)  
Polskie Stowarzyszenie Aktuaruszy (Poland)  
Instituto dos Actuários Portugueses (Portugal)  
Academia de Actuarios de Puerto Rico (Puerto Rico)  
Singapore Actuarial Society (Singapore)  
Slovensko Aktuarsko Drustvo (Slovenia)  
Actuarial Society of South Africa (South Africa)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaire (Switzerland)  
Actuarial Institute of the Republic of China (Taiwan R.O.C.)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)