MINUTES OF THE IASC INSURANCE ACCOUNTING STANDARDS SUBCOMMITTEE MEETING COVENTRY & BIRMINGHAM (U.K.) - JUNE 5 & 6, 1998

1. **Attendees in either or both of Coventry (5th) and Birmingham (6th)**. Bill Abbott (U.K.), Félix Arias Bergada (Spain), Avi Bar-Or (Israel), Mo Chambers (Canada), Peter Clark (IASC--U.K.), Chris Daykin (U.K.), Yasuhide Fujii (Japan), Masahiko Fujiki (Japan), Sam Gutterman (chair—U.S.), Steve Handler (South Africa), David Hartman (U.S.), Tony Jeffery (Ireland), Jim Kehoe (Ireland), Peter Kuys (the Netherlands), Iain Lumsden (U.K.), Pål Lillevold (Norway), Nigel Masters (U.K.), Bruce Maxwell (Ireland), Reg Munro (South Africa), Bruce Moore (U.S.), Pascal Parant (France), Dick Robertson (U.S.), Michael Ross (Hong Kong), Ed Robinson (New Zealand), Richard Roth (U.S.), Francis Ruygt (the Netherlands), Eike Steinmann (Switzerland), Paul Thornton (U.K.), Paul Truyens (South Africa). By telephone – Clive Aaron (Australia), Paul McCrossan (Canada) and Chris Swanepool (South Africa).

2. **Status of current activities** of the Subcommittee. The current and recent activities since the last meeting of the Subcommittee have included the following:
   a. Development of a preliminary IFAA paper discussing selected key issues relevant to the IASC insurance project. This paper was organized in a manner consistent with a preliminary set of issues distributed by IASC staff in March. Subsequently, the IASC staff refined this set of issues just prior to this meeting; as a result the two sets don't match at the current time. Efforts will be taken to modify them to be consistent in the future, so that discussion between the IFAA and the IASC will be facilitated. A copy of this preliminary issue paper was previously available to Subcommittee members; however, due to its length and the brief time it was available prior to this meeting, few present had an opportunity to review it.
   b. Dialogue has occurred between individual members of the Subcommittee and IASC staff.
   c. Development by Sam Gutterman of a draft version of an actuarial issue paper on the present value of future cash flows (discounting), that is intended to provide an actuarial perspective on the development of discounted values related to a wide range of actuarial applications, including insurance and retirement benefits.
   d. Paul McCrossan will attend the second meeting of the IASC Steering Committee on Insurance Accounting on 22 - 24 June.

3. **Current time frame for the IASC insurance project**

   The current schedule (subject to future change) that the IASC is working under in its insurance obligation project is as follows:
   - June 1998 meeting – Discussion of the staff draft at a meeting of the IASC Steering Committee, at which Paul McCrossan will attend

- Early October 1998 – Next meeting of the IASC Steering Committee, at which time an Issues Paper for distribution outside the Steering Committee will be recommended to IASC Board for its approval. In the fourth quarter it will be distributed, possibly with a three-month exposure period for comments.
- 1999 – Development of a Discussion Draft of a Standard, possibly in the fourth quarter.
- 2000 - An Exposure Draft will be issued, with approval given by the end of the year.
- 2001 – Standard approved.

4. Other IASC - related issues

Peter Clark provided a brief background of the IASC and its current plans. He pointed out the IASs are now being accepted in an increasing number of countries and with the adoption of a complete core set of standards in 1998, international accounting standards will be accepted in even more countries as either an alternative to or instead of national standards. It was noted that a significant movement in accounting standards is toward the use of fair value reporting. After discussion, it was concluded that this provides an increased focus on the balance sheet. Peter pointed out that wherever possible, the IASC applies to insurance the definitions and general concepts that are common to all corporations, for example, what constitutes assets, liabilities and revenue.

Members of the Subcommittee were encouraged to visit the IASC web-site that provides more information regarding the IASC and its activities and includes their exposure drafts.

The IASC is about to distribute E62, the exposure draft for *Financial Instruments: Recognition and Measurement*. There will be a ninety-day exposure period. The IASC plans to approve a standard on this topic by the end of 1998. It is anticipated that our Subcommittee will provide comments on this exposure draft. It is the IASC's current intention that this will serve as an interim standard and that an ultimate standard moving closer to a more complete fair value approach may be in place by 2000. Issues that may be addressed in the ultimate standard not addressed in E62 include the treatment of bank core deposit intangibles and credit risk. These projects will be of considerable interest to actuaries, as for example the IASC is currently studying whether to classify insurance contracts as financial instruments.

The IASC will be voting in July as to whether to adopt E59 covering accounting for general provisions. The standard likely to be adopted regarding when to recognize a provision may be different than what some actuaries are used to, that is, whether an event is more likely than not to occur. In addition, the measurement of the amount of such provisions may reflect discounted values determined on a best estimate basis, reflecting market-type risk measures. The possible inconsistency of this approach with what may be adopted for use in insurance obligations may arise as an issue in the insurance project.

In April, the IASC approved the initiation of a new project on the general topic of discounting, an issue in which there was a considerable amount of disagreement between accountants and actuaries in the development of the IASC's revised pension accounting standard (IAS 19). The IFAA was asked whether it wished to nominate an individual representative to this effort. Membership will be approved in July, with activity beginning later this year.

Peter Clark also mentioned the existence of the Standards Interpretation Committee of the IASC that meets four times a year. Copies of proposed interpretations are available on the IASC's Web site. Several may be expected during the next two months that may be of interest to actuaries.

Peter Clark has asked that in the future, non-publicly available IASC material not be posted on the IAA Web site. However, the IASC does not have a problem with the distribution of such material via e-mail directly to the Subcommittee to be used on an as-needed basis. Subcommittee members and interested parties should respect this IASC policy. Peter was encouraged to bring to our attention any IASC concerns regarding this or any copyright issues that may arise.

5. **National efforts to develop a dialogue between accountants and actuaries**

Every Subcommittee member (as well as each IFAA association, whether or not they have a representative on the Subcommittee) was encouraged to continue or begin a dialogue with their country's representatives on the IASC Insurance Steering Committee or on the IASC Council. This is in addition to what is hoped is or will become a regular relationship with corresponding national accounting association. Get to know your accountants! It was recognized that the methods used to best develop a good relationship with a country's accounting organization(s) might vary depending on each country's situation. Experiences, particularly successes, should be shared at subsequent meetings.

Mo Chambers discussed Canadian activity. They have formed a working group, including representatives of insurance industry associations, the Canadian Institute of Chartered Accountants (CICA), the Canadian Institute of Actuaries (CIA), the IFAA (Mo Chambers), Canadian representatives to IASC and IOSCO, and of certain insurance companies. This group has agreed to meet before each IASC Insurance Steering Committee meeting, possibly to develop positions and to hold further discussions on related topics. Unfortunately their meeting of next week will occur at the same time as the Annual Meeting of the CIA, so that limited actuarial involvement will be possible. There may be joint submissions to the IASC from the CIA and the CICA. In addition, the CICA has just asked the CIA to take the lead in developing a position on discounting.

Actuarial organizations in a number of countries, such as the U.K., U.S., Japan, the Netherlands and Switzerland (so far limited to pension related issues), have developed good relationships with their corresponding accounting organizations, either on an overall basis or specifically addressing specific issues of mutual interest. For example, in South Africa, there has recently been a joint actuarial/accounting effort addressing a new margin in services method of accounting, with current discussions being held on disclosure issues; in the U.K., the Institute of Actuaries has set up liaison with industry, ASB and the IASC, to discuss an achieved profits method; in Israel discussions with a new accounting standards board has begun; and in the U.S., periodic meetings occur between the American Academy of Actuaries and the FASB and the AICPA. This type of dialogue may prove to be valuable for the international insurance project, as well as for many national issues.

The Institute of Actuaries has taken advantage of their close proximity to the offices of the IASC (London) to open a dialogue between themselves (including Bill Abbott) and the IASC. For example, in the week before the IFAA's Cyprus meeting, discussions were held between Sir Bryan Carsberg (Executive Director of the IASC) and certain members of the IASC staff and several members of the Institute, including Bill Abbott and Chris Daykin. This relationship should greatly help our cooperation and coordination in the future.

6. **Key issues**

A large portion of the meeting was spent discussing some of the key issues that are likely to be involved in the determination of appropriate standards for insurance obligations. Although the Subcommittee's May 20 draft version of issues (as noted above, organized around the March draft of issues prepared on behalf of the IASC) was referred to often, its content was not discussed in detail. The meeting participants expressed the opinion that the content of the May 20 draft paper was significant and should be expanded and enhanced in the future, as long as it is organized in a manner consistent with future IASC formulations of issues.

Meeting participants were asked to identify significant issues that were not addressed in the IASC issues document. No major issues were identified during the meeting.

The following issues were identified as being significant, although not all were discussed at the meeting. The following summarizes some of the highlights of the discussion:

a. Scope of project and definition of insurance. A significant issue that has to be resolved early in the project is whether its scope should focus on the accounting for insurance contracts / products or for insurance companies. The current feeling of the IASC Steering Committee is to treat insurance contracts as if they were financial instruments and to determine the value of insurance-related obligations independently from assets held to fund these obligations. This focuses on insurance products, rather than the insurance entity.

Issues surrounding such an approach raised during the discussion include: treatment of asset/liability mismatch risk (possibly dealt with through disclosure of a risk-based capital value that reflects such risk), inconsistent treatment of insurance obligations between those held by an insurer and a self-insurer (with possible resultant accounting arbitrage), and reported results of an insurer that are not entity-specific. One discussant asserted that an insurance company consists of one or more risk pools and that each risk pool should be looked at independently, including its obligations and resources; in such a view, an insurance company might be more appropriately viewed as a whole, rather than as the sum of individual asset and liability pieces.

Assuming that insurance products are to be treated as financial instruments, it may prove valuable to identify what are the unique aspects of insurance that warrant different treatment than other financial instruments. Everyone agreed that embedded options should be treated in a manner consistent with those of other financial instruments.

General-purpose accounting is often used to make business decisions. For this purpose, as well as for the use of financial analysts, transparency should be a fundamental objective of accounting information. The Subcommittee explored possible implications of the various audiences for financial reporting information of an insurance accounting standard. It was noted that in many countries, one often had to be an expert to decipher most insurers' financial statements. Even though one set of information could not be sufficient for all such users, an attempt should be made to make this information as relevant and understandable as possible to avoid a black box approach. Thus, disclosure and the use of such information as performance measurement are particularly important.

Several definitions of insurance have been put forth, including whether a transfer of risk exists or whether an indemnification of risk occurs. It was pointed out that both regulatory and tax definition of insurance varies among countries. In addition, it may be difficult to assess the impact of alternative definitions until accounting treatments are decided upon. It was pointed out that if there was little difference in accounting treatments between insurance accounting and accounting for near-insurance products, it would not matter much what the definition of insurance was. If this ideal were achieved, the definition of insurance would thus become a non-issue.

b. **Valuation methods, implications of treating insurance contracts as financial instruments, and determination of the fair value of insurance obligations**. It was felt that the Subcommittee has to develop criteria or relevant principles that can be used to assess whether a valuation method is appropriate for all situations or a given set of circumstances or products. It was noted that, due to the wide range of products offered worldwide, it may be difficult to agree upon a common approach for all products.

The IFAA has previously indicated to the IASC that the underlying basis of determining the value of assets and liabilities should be consistent, that is, liabilities should not be based on an historical cost method while assets are based on a fair value method. The challenge is to determine a method that should be used to value insurance obligations in a fair value environment.

A significant amount of discussion was held covering the issue of the pros and cons of direct versus indirect valuation methodologies (as defined in Robert Reitano's paper on this subject published in 1997 in the *North American Actuarial Journal*). No consensus was reached. It was determined that further discussion and study would be needed. Several issues were raised, including the following:

- Indirect methods, including embedded value methods, may be more consistent with actuarial appraisal valuation methods and thus may be more relevant to fair valuation methods, and may be more reflective of a price another party would be willing to pay for a set of obligations or company.
- It might not be appropriate to ignore regulatory constraints as to availability to investors of funds generated by an insurer.
- Both methods can generally be characterized as prospective in nature; as a result, such concepts as deferred acquisition costs may not be relevant to either approach.
- It may be possible that the results of the two methods may not be dissimilar in many situations. However, this hypothesis needs to be thoroughly explored. Bill Abbott volunteered to investigate this further.
- It is not certain how to make the valuation methods of assets and obligations consistent in the case of a mixed asset method, for example, one in which the value of some assets are at market value while others are at amortized value. Further thought is needed in such a case.
- The best presentation of financial information may vary depending on the type of user; for example, investors comparing alternative uses of their money, management attempting to optimize the overall financial condition of a company or meeting incentive compensation objectives, or financial analysts who are attempting to add value to their findings about the company. These potentially different audiences and uses should be reflected in the selection of a method. Although several discussants concluded that a maximum amount of transparency should be reflected, more details as to what this transparency would consist of were not thoroughly explored.

Due to the potential fluctuation in financial results of an insurance company, some believe that “smoother” results than would be appropriate in a fair valuation method should be reported. As an example, property/casualty insurance companies in some countries hold equalization reserves. Although such fluctuations may have to be a fact of life in a fair valuation environment, it was decided to review this factor when criteria to judge the appropriateness of a valuation method are developed by the Subcommittee. It was again agreed that possibly an inappropriate level of fluctuations might occur if assets of an insurance company were reported at fair value while liabilities were reported on historical or book values.

It was pointed out that negative liabilities are not necessarily an evil concept. Such liabilities have been accepted in Canada. If they exist, the amounts of such liabilities are disclosed.

It was pointed out that because of the blurring and combination of various financial service products, it was important to report the results of insurance and near-insurance products in a similar manner, whether an insurance company or another type of firm offers them. If inconsistencies occur, not only would reported financial results be inconsistent, but also inappropriate decisions could result.

In the case of an insurance product with cash values, a consensus was reached that, although the value that a policyholder could obtain for such a policy if surrendered is the cash value, a cash value is not an appropriate surrogate for an insurance company's liability, from the perspective of a shareholder, a cash value is not related to either a market value or an expected value of discounted future cash flows. Thus, cash values do not represent an appropriate valuation method.

c. **Impact of insurance company hedging activities**. Several issues relate to these activities. Some insurance products involve significant aspects of hedging, relating to either combinations of positive and negative cash flows, or assets and liabilities. To some extent, asset / liability matching or management represents a hedging approach. Many insurance companies in the financial management of investment-oriented life insurance, annuity and related products commonly use this. In addition, the use of hedging approaches may impact the determination of a discount rate used.

   The Subcommittee needs to attempt to develop a consensus as to how to quantify the impact of a lack of a perfect match of assets and liabilities, as well as to agree upon a proper approach to reflect the mismatch risk.

d. **Revenue, cost (deferred acquisition cost) recognition, and purchase accounting issues**. There was a brief discussion of several implications of the accounting principle of matching revenue and costs in a system of fair valuation. It was pointed out that the emphasis of fair valuation was on the balance sheet and that the basis for earnings would be the change in fair values of assets and liabilities.

   Since the emphasis of fair valuation is future or prospective value, it was concluded that there might be no role for the deferral of acquisition costs. The implications of such an approach needs to be further discussed, particularly with respect to the timing of profit recognition, especially relevant to long-duration contracts.

   The Subcommittee did not discuss to any extent the impact of business combinations. Some believed that few such issues related to combinations were unique to insurance contracts or companies. Issues relating to the extent to which financial reporting values should be affected by the acquisition of the capability to produce additional business (in the U.S., sometimes referred to as the present value of future profit) associated with the purchase of a company were mentioned, although not discussed in much depth.

e. **Type of experience assumptions used** (best-estimate, expected values, provisions for adverse deviations (PADs)). There was a general consensus that it was not appropriate to use best-estimate experience assumptions, although it was noted that this conclusion might be controversial in some circles.

However, no agreement was reached as to the most appropriate basis for PADs. If an efficient market existed for insurance risk, such a risk margin could be derived by reference to a market-based risk margin; however, since such a market does not exist for most insurance products, it is doubtful that such an approach would currently be practical. Paul McCrossan suggested the use of something similar to the current Canadian approach that in general includes a provision of approximately one to one-and-a-half standard deviations for each assumption. It was agreed that prudence for its own sake was not acceptable.

It was generally agreed that assumptions should be developed in a prospective manner. Values based on historical costs and prospective predictions are generally not appropriate in a fair value environment.

A brief discussion of recent enhancements in common actuarial approaches and techniques that reflected stochastic processes was held, although ways to integrate such approaches into a valuation method (as opposed to testing the results of a method) were not discussed in detail. It was concluded that this should be further researched and discussed. It was suggested that this area might be a candidate for a research project.

It was pointed out that in some countries a significant amount of business was based on products whose underlying assets were equities. Other considerations may be appropriate for the accounting for such products.

A significant assumption is the interest and discount rate applied. At least three possible approaches could be used – (1) the expected earned rate for the assets underlying the obligations, (2) the expected rate associated with a notional set of assets that would represent an average expected rate for an average insurance company with a similar set of obligations could earn, or (3) a risk-free rate. Most actuaries are used to the application of the first approach, although in purchase situations, alternative approaches are often applied. Although some advantages of each approach were put forth, no conclusions were reached.

Advantages of using alternative types of assumptions including entity-specific expectations and average market assumptions were discussed. Some expressed the belief that future obligations may be seriously misstated if non-entity specific assumptions are used. An example given was the impact of claim management that may affect claim reserves. It was observed that the impact of a company’s claims management practices would be reflected and not those of an average company. Everyone present did not agree with this approach. However, the group leaned toward reflection of such expected entity-specific management experience. Also, it was agreed that the market is not currently efficient enough to derive appropriate values in all cases. On the other hand, the concept of reflecting the value that a third party would be willing to accept to take over a set of obligations or assets is an alternative methodology that should be considered.

f. **Impact of the development of markets for insurance obligations**. There have been a few recent cases in which certain insurance risks have been securitized (catastrophe bonds). To date, this practice has been quite isolated. However, if its use expands significantly, it may be appropriate to take another approach to determining fair values.

g. **Relationship between GAAP and regulatory values**. It was noted that many, but not all attendees believed that it would be valuable to harmonize GAAP and regulatory financial reporting, possibly with a risk-based capital identified that could be used to determine solvency benchmarks. This issue will be discussed further at a later point in the Subcommittee's deliberations. It was also noted that an International Association of Insurance Supervisors (IAIS) now had an observer attending the IASC Insurance Steering Committee meetings.

h. **Policyholder vs. shareholder vs. inherited estate values**. The issue of properly reflecting policyholder expectations and distinguishing between these and the shareholder's share of an insurance company was discussed and determined to be a topic that needs to be addressed in the development of methodologies used to value insurance obligations. It was agreed that appropriate segmentation of financial reporting values, including those in inherited estates would be addressed later in our discussions.

i. **Property and casualty insurance related issues**. Several P&C insurance related issues were discussed:

- Loss reserves. A consensus was reached that it was appropriate for loss reserves to be discounted to reflect the time value of money. However, it was particularly noted that such an approach would most likely not be acceptable to many if it was not permitted to reflect risk at the same time.

- Catastrophe (or natural disaster) reserves. There was extensive discussion of the appropriateness of reflecting expected values of future catastrophes in a fair valuation environment in the determination of insurance liabilities. However, no consensus was reached. It was noted that if the probability of a catastrophe (or natural disaster) decreased as a function of time, it would be appropriate to reflect the decrease in future expected cash flows in determining fair value; however, it was not as clear if this probability was not affected. It was also noted that recognition might be affected by whether a policy was a single-year versus multi-year contract. In addition, existing legal constraints or rules may affect reserves.

However, if it is desired to match expected costs with revenue, or if it is desired to report sustainable earnings, it may be appropriate to include a catastrophe reserve in certain circumstances. On the other hand, a position could be taken that whether an insured had been previously covered by a particular insurance company should not influence the level of liability if prospective expectations are similar. In any event, disclosure of such a risk would be appropriate. There was a consensus that further discussion on this issue was warranted.

- Equalization reserves. No consensus was reached as to whether equalization reserves should be reported, although some of the same issues exist as were described under the previous topic.

- Unearned premium reserves. Other than the fact that it is appropriate to reflect both (1) the present value of expected costs for a liability of unexpired terms of insurance coverage and (2) the probability of policy termination, no conclusions were reached on this topic.

j. **Disclosures and performance measurement**. It was recognized that to many, insurance company financial statements are non-decipherable (black boxes). As a result, it is important to disclose relevant risks and assumptions in a more understandable manner to minimize this problem. It was also noted that one audience for financial values was management; as a result, it may be desirable to be able to use such values in some fashion as a basis for performance measurement. It was recognized that further discussion on this issue would continue, as only superficial aspects have been covered by the Subcommittee to date.

It is important to many users of financial statements to be able to estimate expected values of sustainable earnings based on reported financial results. This type of information should be available in some way in the financial statements.

k. **Role of the actuary**. This topic was not fully explored at the meeting.

It was recognized that in some cases, actuaries have discretion in setting experience assumptions. The use of subjective professional judgment is necessary in such cases, particularly when a wide range of possible answers exist. It was pointed out that an approach that the IFAA should consider is to develop appropriate guidelines for standards of practice, such standards serving as guidelines for actuarial organizations to adopt if they so choose to.

Another topic that was not explicitly addressed was the type of responsibility that the actuary should have in the development of estimates of insurance liabilities vis-à-vis management.

l. **Taxes**. This topic was not discussed at the meeting.

Specific assignments relating to some of these issues were made to Subcommittee members. These assignments should result in draft documents (in electronic file form) on specific topics. The due date for completion of the first draft of these assignments to be distributed to the Subcommittee listserver was 13 July. It is expected that the entire Subcommittee will address their comments and suggestions through the list-server over the subsequent several weeks so that revised drafts can be developed. The assignment topics are:

1. Direct valuation method - Dick Robertson

2. Indirect valuation method – Bill Abbott

3. Criteria and principles to be used in judging appropriate valuation methods and unique characteristics of insurance – Tony Jeffrey. After looking at these criteria, proposed and current methods of valuation will be reviewed.

4. Type of experience assumptions used (best-estimate, expected values, PADs) – Mo Chambers and Paul McCrossan

5. Disclosure and performance measures – South African actuaries

6. Provisions for catastrophes in a fair value environment – Francis Ruygt and Yasuhide Fujii

7. Impact of regulatory constraints – Bruce Moore.

Everyone was urged to try to identify significant issues that may benefit from research, whether provided for on a paid or volunteer basis. Sources of funds may be available. Any ideas should be directed to Sam.

7. Discussion of current draft of **"Present Value of Future Cash Flows" paper**

The May draft of the Present Value of Future Cash Flows paper, prepared by Sam Gutterman, was discussed. The objective of this paper is to discuss actuarial aspects of discounting. Paul Thornton suggested that this effort be coordinated with the Employee Benefits Subcommittee, as the two subcommittees share similar concerns about this important issue.

As mentioned under (4), the IASC has added a project on this topic. The IFAA will nominate a representative to the IASC Steering Committee on this topic when a call for members is made in the near future. This project will most likely not begin until the last part of 1998. The Insurance Subcommittee will be involved in the discussions of this issue.

The only specific suggestion made at the meeting was to add examples of possible applications; examples were requested. Peter Clark suggested an approach used by the

IASC in exposing its draft papers -- to include a list of questions about the paper, specifically asking opinions concerning significant issues addressed or areas in which questions still remain. Everyone agreed that this approach was a good one and that the Subcommittee should follow it where appropriate. However, the questions have to be carefully developed in order for this method to be effective.

Whether such a paper should be distributed as a personal paper or a product of this Subcommittee was briefly discussed. The consensus on this question at this time was to continue to have it be a paper written by an individual, rather than the Subcommittee or the IFAA (for example, as an IFAA concept or issue paper). No specific suggestions were made as to the most appropriate forum in which it should be published when it is in final form.

Specific suggestions on this paper should be directed to Sam Gutterman no later than 13 July. Discussions of applicable issues can be started at any time through the Subcommittee's list-server and are encouraged on this issue, even after this date. The next draft should be circulated within a month of 13 July.

8. **International Congress of Actuaries (ICA) Birmingham Meeting** on 11 June. Members were encouraged to attend the concurrent session on life insurance accounting. Bill Abbott submitted a paper on the progress of the IASC project on the agenda. The Subcommittee agreed that there would be no formal position expressed at this session, although participation was encouraged.

9. **Formation of IFAA Insurance Regulatory Subcommittee**
The Subcommittee expressed interest in keeping abreast of the activities and positions of the IFAA Insurance Regulatory Subcommittee. One possibility is to jointly meet for a portion of future meetings of the two subcommittees. This will be worked out at a later time; an attempt will be made to hold joint meetings.

10. **Subcommittee operations and future meetings**

    a. **Future meetings**. The next meeting of the Subcommittee is currently scheduled for 2 November in Cape Town (the new IAA Council is scheduled to meet on the 3rd of November); however the time of the meeting is tentative as of now. The next two meetings of the Subcommittee are currently scheduled for Madrid on April 17 and 18 of 1999 and Tokyo in late August of 1999.

    b. **Relationship with IASC**. There was a belief that a good working relationship between the Subcommittee and the IASC staff had been established, so that close cooperation will be possible in the future. Appropriate material from the IASC Steering Committee will either be distributed to the Subcommittee listserver or the Subcommittee will be notified where on the IASC Web site it would be. Peter Clark indicated that if something from the IASC became available only on a limited distribution basis, he would let us know; we will act accordingly. If concerns regarding copyright compliance arose, Peter Clark indicated that he would let Sam know so that we can act accordingly. The IASC Web site is now linked to that of the IFAA – members are encouraged to visit it.

c. **Subcommittee operations**. There was a consensus that the Subcommittee would operate on a task or project basis, rather than through permanent working groups. The assignments made during the meeting will be handled accordingly. In internal discussions in the development of issues, it is acceptable to use other means than the Subcommittee listserver. However, when determined appropriate, the listserver should be used so that all Subcommittee members (and interested parties) can participate in discussion of the issues. At any time, everyone on the listserver is encouraged to initiate or respond to issues, questions, proposals, etc.

   When additional IASC Discussion or Exposure drafts are available that the Subcommittee may be interested in commenting upon, Sam will communicate the existence of the draft and generally will request that Subcommittee members should respond with issues to be addressed by the Subcommittee within two weeks. Sam or a designated individual will then draft a response on these issues, which will be circulated to the Subcommittee for comments; if appropriate, Subcommittee members are encouraged to circulate such a draft to others in their association for review. A final version will then be drafted based on these comments. If time is available, the associations will be polled to determine whether a public statement of the IFAA should be issued; if approved, it will be submitted to the IASC as a public statement. If insufficient time is available for the IFAA's due process to be completed, a draft version of the statement will be submitted to the IASC, reflecting the fact that an approved version will be submitted to the IASC when final approval has been obtained.

   The fax/e-address list of people on the Subcommittee's listserver will be revised to include the country of everyone on the listserver.

   Communication will primarily occur through the Internet. The IFAA staff will investigate the feasibility of using a chatroom to determine further means of communicating between face-to-face meetings of the Subcommittee. If anyone experiences technical problems, such as with attachments, they are encouraged to contact Chris Levac at the IFAA office to determine what fixes to the problem are practical (for example, use of fax facilities through the Internet for those who can't read attachments).

d. **Other items**. It was previously noted that the Life Office Management Association (LOMA, based in the U.S.) was currently sponsoring research on the topic of Market Value of Liabilities, currently being conducted by actuaries from Ernst & Young. It is hoped that this research will be published in the next several months and will include case studies of the impact of alternative approaches to the fair value reporting of insurance obligations. Bruce Moore will keep the Subcommittee apprised of this research. In addition, it was learned subsequent to the meeting that the Society of Actuaries was planning a symposium in New York on this topic in March of 1999.

Respectfully submitted,

Sam Gutterman, chair

Note – Subsequent to the meeting, the IFAA has gone out of existence. The International Actuarial Association (IAA) has taken on its functions. Subsequently, the IFAA Subcommittee on IASC Insurance Accounting Standards will be called the "IAA Committee on IASC Insurance Accounting Standards".

10 July 1998