

**COMMITTEE ON INSURANCE ACCOUNTING
and its SUBCOMMITTEE ON ACTUARIAL STANDARDS
REPORT FOR THE PERIOD NOVEMBER 2006 – MARCH 2007**

UPDATE FROM MEXICO MEETING

- (1) Selected issues associated with the upcoming phase 2 of the International Accounting Standards Board's (IASB) Insurance Contracts project (expected to become available in May 2007).
- (2) Proposed IAA comments on the IASB discussion paper of the Financial Accounting Standards Board's (FASB, U.S.) Statement No. 157, *Fair Value Measurements* and on the IAASB exposure draft on *Auditing of Estimates and Fair Values*, both of which are due by early May.

Actuarial Standards Subcommittee of the Committee on Insurance Accounting

The significant items addressed by the Actuarial Standards Subcommittee included:

- (1) Approval of the technical corrections to two International Actuarial Standards of Practice (IASP) addressing the effect of the new IFRS 7 that were approved by Council vote, *Embedded Derivatives and Derivatives* and *Accounting for Reinsurance*, which were later in the meeting deemed acceptable to the Professionalism Committee; they will be posted on the IAA website shortly.
- (2) Discussion of current drafts of IASPs on *Business Combinations* and *Disclosures* that will be further refined for subsequent subcommittee discussions.
- (3) Discussion of a preliminary version of an IASP that will be developed in response to phase 2 of the IASB's insurance contracts project; further discussion will continue over the next two years, but there was a consensus that more than one IASP would be developed and in some cases will replace or be combined with existing IASPs.
- (4) Discussion of progress on a request for proposal for a monograph on applications of stochastic modelling to financial reporting and capital assessment, including funding for this purpose, scheduled to be distributed by the end of May.
- (5) Discussion of proposals for a potential change in the due process for IASPs that was also discussed by the Professionalism Committee.
- (6) Discussion of the upcoming enhancement to the IAA website with a specific area focusing on all of the IAA's IASPs.

Risk Margin Working Group

During its full day meeting, the Risk Margin Working Group discussed the Exposure Draft of its paper entitled: *Measurement of Liabilities for Insurance Contracts: Current Estimates and Risk Margins*. Public comments have been requested by May 25. Comments were encouraged from IAA member associations and individuals. After the comments have been received, the Working Group will determine how to proceed to completion.

International Accounting Standards Board (the IASB)

The Committee continues to actively participate in the development of the IASB's project on accounting for insurance contracts (phase 2) and related financial reporting projects, with regular

communication with the IASB staff and Board members. In relation to phase 1 of the project, the Committee has continued to develop International Actuarial Standards of Practice (IASPs) that relate to the use of IFRS 4 (*Insurance Contracts*) that were not previously completed. Related to phase 2 of the project, most of the Committee's activities during last six months have focused on the efforts of the IAA's ad hoc Risk Margin Working Group plus working with the International Association of Insurance Supervisors (the IAIS) on phase 2 related topics, including fair value measurements. It is anticipated that the Committee will co-ordinate its work with the IAIS Insurance Contracts Subcommittee regarding the Phase 2 Discussion Paper.

The Committee has been very active in providing actuarial advice to the IASB, particularly by Francis Ruygt and Sam Gutterman, although other members of the Committee have also been active in this area, especially Stefan Engländer. It is anticipated that a significant amount of effort, including at least one Committee meeting in the summer, will focus on the IASB discussion paper.

In addition, the Committee responded to the IASB's request for comments, both formal and informal, including written submissions addressing the IASB's Discussion Paper on *Preliminary Views on an improved Conceptual Framework for Financial Reporting: The Objective of financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information*. It is currently preparing comments on the IASB's Discussion Paper on *Fair Value Measurements*. It is anticipated that the Committee will continue this activity on relevant issues.

Sam Gutterman attended two IASB Roundtable discussions: on IAS 37 on November 30, 2006 and on Measurement Aspects of the IASB's Framework on January 31, 2007.

IAA International Actuarial Standards of Practice

The Committee's Subcommittee on Actuarial Standards and its small drafting team has focused its attention on the third proposed set of IASPs originally distributed in November 2005 – these addressed *Embedded Derivatives and Derivatives*, *Reinsurance*, *Business Combinations*, and *Disclosure*. The Council approved the revised version of the first two in January; however, the Subcommittee is in the process of including some technical updates to both of them in response to IFRS 7 implementation. IFRS 7 addresses the disclosure aspects of these two IASPs. It is anticipated that they be given final approval by our Subcommittee at the Mexico City meeting. Revised drafts of the latter two will be discussed at Mexico City, as a step toward possible re-exposure.

The Subcommittee (in cooperation with the Professionalism Committee) will be turning its attention to the management and maintenance of its IASPs at its Mexico City and the early stages of planning for development of phase 2 IASPs.

The staffs of the Actuarial Standards Board (U.S.) and the IAA have continued to provide significant editorial support for this activity.

International Association of Insurance Supervisors (IAIS)

Although the IAA Insurance Regulation Committee is the primary IAA committee charged with maintaining relations with the IAIS, the Committee on Insurance Accounting has also been

involved with the IAIS's efforts associated with the development of IASB standards. In particular, Francis Ruygt has played the lead in this effort, with support by Sam Gutterman, actively participating in several IAIS subcommittee meetings. The current IAIS position is that international regulatory accounts will IASB standards, wherever possible, including those relating to liabilities for insurance contracts.

In addition, the Committee has several members on the IAA's joint ad hoc Risk Margin Working Group (together with the Insurance Regulations and Solvency Subcommittee), for which there have been four face-to-face meetings and many conference calls. It has addressed the development and assessment of current estimates and risk margins incorporated in insurance liabilities and assets in the context of regulatory and general purpose financial reporting. The co-chairs of that working group were originally Paul McCrossan representing the Insurance Accounting Committee and Henk van Broekhoven of the Solvency Subcommittee of the Insurance Regulation Committee. Paul McCrossan retired at the end of 2006 – as a result Henk is currently serving as chair. An Exposure Draft of the Working Group's paper was exposed for public comment on February 25, 2007, with a three-month comment period. It will be discussed at a day-long meeting in Mexico City. The goal is the finalization of the paper in the summer.

International Auditing and Attestation Standards Board (IAASB)

The IAA is a member of the Consultative Advisory Group (CAG) of the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants (IFAC). This international organization is responsible for the development and management of international standards of auditing (ISAs). Sam Gutterman is the IAA representative to the CAG. He attended its September 2006 meeting, but not its April 2007 meeting. The Committee is following two of the IAASB's projects in particular, addressing auditing of estimates including fair values and the use of experts in auditing. Sam Gutterman is a member of the CAG's working parties providing oversight to these two IAASB projects. Jim Milholland is a working member of the IAASB's Task Force on the use of experts in auditing. The Committee expects to respond to the Exposure Draft of the former within the next month.

Committee on Insurance Accounting

Sam Gutterman, Chairperson

David Congram and Francis Ruygt, Vice-Chairpersons

Actuarial Standards Subcommittee

David Congram and Francis Ruygt, Co-Chairpersons