

REPORT OF THE COMMITTEE ON INSURANCE ACCOUNTING

May 2003

IASB Insurance Project

The Committee has been actively participating in the development of the International Accounting Standards Board's (IASB) project on accounting for insurance contracts and related financial reporting projects, with regular communication with the IASB staff and Board members. This project has been split into two phases, the first responding to the immediate needs of several countries, affecting Australian, European and South African insurers among others that will implement International Financial Reporting Standards (IFRSs, also referred to as IASs) in 2005. This phase that will result in an exposure draft most likely in July will deal with insurers' non-participating investment contracts and certain embedded derivatives reported in 2005 and disclosure of the fair value of liabilities for insurance contracts at the end of 2006. Phase two will subsequently cover insurance contracts, currently expected to be effective in 2007.

The Committee has been very active in providing advice to the IASB, particularly through its representative Paul McCrossan. He has attended several meetings of the IASB Board, IASB Standards Advisory Committee and the IAIS that is closely following developments in this area.

The Committee has been actively involved over the last four months on a joint research project with the American Council of Life Insurance of the U.S. (the Committee has offered its assistance to other organizations on other research projects as well). This research project has explored the implications of the inter-relation of various asset and liability accounting models for life insurers. Much of the case study development work has been conducted by William Hines and Milliman staff, with peer review provided by Committee leadership. A preliminary report was provided to attendees at the March IASB Roundtable discussions and to the Committee's listserver and IAA website. A final report including subsequent refinements is currently being worked on. Further case studies are also being developed. The involvement of the Committee leadership has emphasized the research as opposed to lobbying aspects of this project.

In addition, the IASB is the process of developing several important exposure drafts over the coming year. The Committee has provided comments regarding IFRS 32/39 (subsequently approved by IAA members) and Phase 1 of its project on Business Combinations and will respond to others as they are exposed that are relevant to actuarial practice.

IAA Actuarial Standards

The Committee's Actuarial Subcommittee on Actuarial Standards, through its small working party has been actively involved in the development of issue papers. There are about twenty of these papers, the most important and potentially controversial of which will be discussed at its meetings in Sydney, drafted by the Subcommittee's small (five person) hard working working party, that are intended to be used in the development of IAA actuarial standards and educational material useful to actuaries in implementing insurance-related IFRSs. The Actuarial Standards Board (U.S.) has agreed to provide staff support to support the editorial work necessary for implementation, particularly useful as it looks increasingly likely that U.S. GAAP may converge with IASB standards in the future. The co-chairs of this subcommittee are Paul McCrossan and Francis Ruygt, also vice-chairs of the parent Committee. Since Phase 1 of the IASB Insurance project is expected to be exposed in July, adopted in 2004 and implemented in 2005 and as a result of the length of the IAA due process requirements, it is necessary that work on these standards / educational material be developed on a high priority basis.

IFAC

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 group is responsible for developing international auditing standards due for implementation in Europe in 2005. Another portion of the IFAC is responsible for the development of accounting standards for public sector entities. Sam Gutterman is the IAA representative to the CAG. He was unable to attend the November meeting because of its conflict with the IAA Barcelona meeting, but will attend its May meeting in New York City. Current relevant IAASB projects include one on auditing estimates under conditions of uncertainty.

Sam Gutterman, chair

Paul McCrossan and Francis Ruygt, vice-chairs

Paul McCrossan and Francis Ruygt, co-chairs of the Actuarial Standards Subcommittee