

COMMITTEE ON INSURANCE ACCOUNTING REPORT FOR THE PERIOD JUNE 2004 – OCTOBER 2004

IASB Insurance Project

The Committee continues to actively participate 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 was split into two phases, the first responding to the immediate requirements 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. The insurance contract standard, dated March 31, 2004, is IFRS No. 4, while another relevant standard, IAS 39 addresses financial instruments, revised in December 2003 along with several amendments since then and in progress.

The Committee has been very active in providing actuarial advice to the IASB, particularly through Paul McCrossan, Francis Ruygt and Sam Gutterman. They have attended several meetings of the IASB Board, IASB Standards Advisory Committee, and the IAIS which is closely following developments in this area. Members of the Committee have been active in making presentations on this topic to meetings of many member organizations and outside bodies.

The IASB established an Insurance Working Group and a Financial Instrument Working Group. Both groups will play a critical role in helping the Board to improve financial reporting for insurance contracts (phase 2 of its modified joint project with the FASB) and financial instruments, respectively. Upon nomination from the IAA, Sam Gutterman was accepted by the IASB as member of the Insurance Working Group and Francis Ruygt as a member of the Financial Instruments Working Group.

The Committee has been actively involved in a series of joint research projects 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, but has as yet not been taken up on this offer) aiming at phase 2 of the IASB's project. The first stage explored the effect of different measurement bases of assets and liabilities. The second stage, provided to the IASB in August, explored the effect of renewals, unbundling and non-guaranteed elements on a U.S.-style universal life contract. Much of the case study development work was conducted by William Hines, with peer review provided by the Committee leadership, who have attempted to assure that it consists of objective research as opposed to lobbying aspects of this project. No further effort is planned in the immediate future.

In addition, the Committee responded to several IASB requests for comments, including those covering Exposure Drafts on Financial Guarantees/Credit Insurance, Combination of Mutual Entities, and its Deliberative Procedures. It is anticipated that the Committee will continue this effort in the future on relevant issues. In addition, the Committee responded to the Financial Accounting Standards Board (FASB, of the U.S.) regarding its Exposure Draft on Fair Values, upon the request of the American Academy of Actuaries to support its comments.

IAA Actuarial Standards

The Committee's Actuarial Subcommittee on Actuarial Standards, particularly through its small working party, has been very actively involved in the development of actuarial standards and guidelines to be used by actuaries in implementing IFRS 4 and related IASB standards. A significant amount of effort has been spent drafting Subcommittee working drafts of ten potential International Actuarial Standards of Practice. In September the Subcommittee distributed three preliminary Exposure Drafts (EDs) for a four-month exposure period. In October the Subcommittee distributed another four preliminary EDs for a similar period. The Subcommittee intends to discuss four additional ones at its Washington meeting.

This has taken far longer than the Subcommittee had intended, resulting from the fact that the small working party consists of volunteers. In accordance with Council motions, they have all been issued as Practice Guidelines, class 4 International Actuarial Standards of Practice, although accompanying one, *Actuarial Practice*, the Subcommittee indicated that it was its intention to propose to re-release it as a class 3 standard after sufficient experience with it has been had.

The Actuarial Standards Board (U.S.) has provided editorial staff support for this project, particularly useful as it looks increasingly likely that U.S. GAAP will converge with IASB standards in the future.

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, also due for implementation in Europe in 2005. Sam Gutterman is the IAA representative to the CAG. He attended its June meeting in Washington and hopes to attend its November meeting in London. Currently there are three IAASB projects of relevance to the IAA: auditing estimates under conditions of uncertainty, audit materiality and the role of experts in the audit, all of which the Committee will be following closely.

Sam Gutterman, Chair

Paul McCrossan and Francis Ruygt, Vice-Chairs

Paul McCrossan and Francis Ruygt, Co-Chairs of the Actuarial Standards Subcommittee submitted