



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

July 25, 2002

International Accounting Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Exposure Draft of a Proposed Preface to International Financial Reporting Standards

Further to my letter to you of February 19, 2002 forwarding the International Actuarial Association's (IAA) draft comments on the on the Exposure Draft of a proposed *Preface to International Financial Reporting Standards*, I am pleased to confirm that the IAA's due process is now complete. The draft comments were approved by the member associations for release as an IAA public statement and are enclosed for your files.

Yours sincerely,

Edward J. Levay, FIA
President, IAA

attachment

International Actuarial Association
Comments on the Exposure Draft of a proposed
Preface to International Financial Reporting Standards

THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our forty-four full member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across 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.

The IAA appreciates this and other opportunities to provide input to and assistance in the development of accounting standards. We commend the continuing efforts of the IASB to enhance international accounting standards.

DUE PROCESS

These comments have been prepared by a committee of the IAA, the members of which are listed below by name and association. These comments, which were circulated for approval to the Full Member associations of the IAA as part of our due process procedures, have been approved as a public statement of the IAA.

**MEMBERS OF THE
INSURANCE ACCOUNTING COMMITTEE OF THE IAA**

Sam Gutterman	(Chairperson)
Francis Ruygt	(Vice-chairperson)
Paul McCrossan	(Vice-chairperson)
Clive Aaron	Institute of Actuaries of Australia
William Abbott	Institute of Actuaries
Yutaka Amino	Institute of Actuaries of Japan
Félix Arias Bergadá	Col.legi d'Actuaris de Catalunya
Dan Barron	Israel Association of Actuaries
Ralph Blanchard	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaire
Morris W Chambers	Canadian Institute of Actuaries
Paolo de Angelis	Istituto Italiano degli Attuari
Mariano Gongora Roman	Instituto de Actuarios Españoles
Eva Gustafson	Svenska Aktuarietföreningen
Steve Handler	Actuarial Society of South Africa
Eckhard Hütter	Deutsche Aktuarvereinigung e.V.
Tony Jeffery	Society of Actuaries in Ireland
Liyaquat Khan	Actuarial Society of India
Ad Kok	Het Actuarieel Genootschap
Jean-Pierre Lassus	Institut des Actuaire Français
Won How Lo	Actuarial Institute of the Republic of China

Jose Mendez	Colegio Nacional de Actuarios
Bruce D Moore	American Academy of Actuaries
Craig Murison	Faculty of Actuaries
Markku Paakkanen	Suomen Aktuaariyhdistys
Richard S Robertson	Society of Actuaries
Bjarni Thordarson	Félag Islenskra Triggastærðfræðinga
Gérard Vandenbosch	Association Royale des Actuaire Belges
Robert Wilcox	Conference of Consulting Actuaries

Overall, we believe that the Exposure Draft of a proposed Preface to International Financial Reporting Standards (“Exposure Draft”) prepared by the IASB provides an excellent introduction to the evolving and improving International Financial Reporting Standards. The following corresponds to the questions asked in the Exposure Draft.

Scope and Authority

Question 1.

The Board states in paragraph 9 of the proposed Preface that IFRS are designed to apply to the general purpose financial statements of all profit-oriented entities, as defined. The Board also says that although IFRS are not designed to apply to not-for-profit activities in the private sector, public sector or government entities with such activities may find them appropriate. It notes that the Public Sector Committee of the International Federation of Accountants (PSC) is preparing accounting standards for governments and other public sector entities, other than government business enterprises, based on IFRS. Is the Board’s proposed scope clearly defined and appropriate?

IAA Response: The IAA agrees that IFRS are designed to apply to the general purpose financial statements of all profit-oriented entities, as defined in paragraph 9. Although we agree that IFRS have not been explicitly designed to apply to not-for-profit activities in the private sector, public sector or government entities, we believe that in many countries the activities of these entities do not differ materially from those activities that are undertaken by profit-oriented entities. This is, for example, apparent in the European Union, where there has been a recent trend to privatize institutions previously in the public sector. Consequently, we believe financial reporting standards for other than profit-oriented entities should be similar, if not identical, to IFRS. Any deviations that arise should only be adopted after serious deliberations. We believe that it is important that the IASB develop its standards in a manner coordinated with the Public Sector Committee of IFAC. It may be that any differences should more appropriately be reflected in auditing standards than financial reporting standards.

Additionally, we would like to offer some observations regarding the application of IFRS for general-purpose financial statements to regulated industries such as banking and insurance. The IASB’s objective should be to develop, in the public interest, a consistent set of high quality, understandable and enforceable global accounting standards that generate high quality, transparent and comparable financial reporting information to help economic decision-making by participants in the various capital markets of the world as well as by other users. We consider supervisory authorities, whose aim is to safeguard the interests of the policyholders

or deposit holders, to be important users of financial statements for these industries. While the interests of different user groups may not be identical, these groups all share a need for understandable, relevant, reliable, and comparable information. In many jurisdictions, even today, these diverse interests are met by generating different versions of what really should be a similar basis for reporting the same information. The result is that many members of the public are confused by the diverse and sometimes contradictory information generated and consequently tend to doubt the validity of any of these various versions. To reduce this confusion, we would support efforts of the IASB to work with supervisors to develop a consistent approach to financial reporting of these entities.

Question 2.

The Standards issued by the IASC include paragraphs in bold italic type and paragraphs in plain type. The Board is concerned that some constituents may have interpreted the bold italic paragraphs as having more authority, although IASC commentary has suggested otherwise. Paragraph 14 of this proposed Preface states that paragraphs in bold italic type and plain type have equal authority and sets out the Board's intention to discontinue the use of different type styles. The Board intends to provide, in IFRS, robust and useful guidance to illustrate the basic principles in each Standard, including a detailed Basis for Conclusions. Do you agree with these proposals? Why or why not?

IAA Response: We believe that a visual distinction between the key principles and the explanation of or additional guidance for these principles enhances not only the readability of the standards (it will indicate clearly indicate to the reader that does not have time to read all of a standard what these key principles are), but also forces the Board to identify the key principles. The continued use of emphasis between areas should be considered. Nevertheless, we agree that the entire IFRS should be treated as having equal authority and this fact should be emphasized in paragraph 14. Each individual standard should be read in the context of its stated objective and the Preface. We support the IASB in presenting a discussion of the basis for conclusions as this assists the understanding and implementation of the standards. This is particularly appropriate in a principles-based accounting system. However, as a result, the need for differences in type-style of text may be less than was the case for standards issued by the IASC. Nevertheless, we believe that in some cases there may still, though to a lesser extent, be a reason to distinguish information that is meant more for education, explanation or elaboration. We encourage the IASB to explore other means to provide such information, such as the use of an appendix, question and answer responses similar to what was used in conjunction with IAS 39 or separate publications, rather than the previous practice of having various parts of an IFRS appear to be of different importance.

Due Process

Question 3.

In paragraphs 19 and 20 of this proposed Preface, the Board sets out the due process normally expected to be followed in issuing Standards and Interpretations. Are the Board's proposals appropriate? Are any proposed steps unnecessary? Are there additional steps that should be incorporated?

IAA Response: We believe the Board's proposals are appropriate, particularly with respect to the involvement of various groups and organizations around the world. Also, we agree with the open dialogue with the public envisaged in the proposed approach. We encourage the IASB to seek input into its process in a proactive manner and to offer open dialogue and fora to hear the concerns and issues of affected groups. It may be a propos to address appropriate due process procedures for IFRIC.

We note that in the first sentence of paragraph 19, two groups may not have been given sufficient mention – the business units for which the standards apply and professional groups, including actuaries, who will participate significantly in the application of IFRS.

General

Question 4.

Are there any other matters that should be addressed in the Preface to IFRS?

IAA Response: The following is a list of several minor suggestions, primarily of an editorial nature, that the IASB might consider:

- 1. Scope and Authority. It may be appropriate to emphasize in the Preface that IFRS should emphasize principles, rather than prescriptive detailed rules. This emphasis has been pointed out numerous times in conjunction with the Enron affair.*
- 2. Paragraph 9, line 7. We do not understand why the phrase “directly and proportionately” is included. This phrase is certainly more applicable to dividends to shareholders than to dividends to policyholders in mutual insurance companies. Moreover, this phrase does not appear to add meaning to the text.*
- 3. Paragraph 9, third to last line. The phrase “is preparing” will not meet the test of time. Rather, a phrase such as “prepares” or “is responsible for developing and maintaining” would be more consistent with the PSC's future activities.*
- 4. Paragraph 11, line five. The addition of a word such as “followed” appears to be needed after “policies”.*
- 5. Paragraph 15. We encourage the Board to be more specific with respect to the standing of the interpretations prepared by the IFRIC.*
- 6. Paragraph 19, line six. We suggest adding the phrase “or delete from” after “to”. During the course of providing advice with respect to the priority of IASB's projects, it might prove appropriate for the SAC to recommend dropping an existing or planned project.*
- 7. Paragraph 19, line seven, “a project” would be more consistent grammatically with the rest of the paragraph than “projects”.*
- 8. Paragraphs 19 (e) and (f). The use of “publication” would constitute parallel construction rather than “publishing”.*

9. *Due Process period. We encourage the IASB to provide an adequate time for exposure periods. Although it may not be appropriate to provide specific guidance for due process periods in the Preface, especially because of the need to obtain appropriate responses from interested groups whose first language is not English, the IASB should provide due consideration of these groups in determining exposure periods.*

In addition, for each exposure draft and interpretation, we encourage the IASB to provide for adequate lead-time for proper implementation of any changes or new requirements.

We would be pleased to provide the IASB with elaboration or clarification of any of the comments we have presented. We are eager to provide continued objective assistance to the IASB.

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 (Belgium)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries (Canada)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Estonian Actuarial Society (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)
Hungarian Actuarial Society (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)
Lebanese Association of Actuaries (Lebanon)
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)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
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)