



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

July 25, 2011

Mr. Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
London EC4M 6XH
United Kingdom

Dear Mr. Seidenstein

Re: IAA comments on the IFRS Foundation Trustees' Strategy Review

In response to the request for comments on the Report of the IFRS Foundation Trustees' Strategy Review, *IFRSs as the global standard: Setting a strategy for the Foundation's second decade* ("the Report"), I am pleased to transmit, on behalf of the International Actuarial Association, our comments and recommendations.

These comments have been prepared by the Insurance Accounting Committee of the IAA. If, upon reading these comments, you identify any points that you wish to pursue, please do not hesitate to contact the chairperson of the Insurance Accounting Committee, Sam Gutterman, care of the IAA Secretariat. The IAA will be pleased to develop these ideas further with you.

Yours sincerely

Jean-Louis Massé
Secretary General

[Attachment](#): IAA comments

**A Commentary on the
Report of the IFRS Foundation Trustees' Strategy Review
IFRS AS THE GLOBAL STANDARD: SETTING A STRATEGY FOR THE FOUNDATION'S SECOND DECADE
Released by the IFRS Foundation: April 2011**

International Actuarial Association and its Due Process

The International Actuarial Association (the "IAA") represents the international actuarial profession. Our sixty-three Full Member actuarial associations, listed in an Appendix to this statement, 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 on the areas of expertise of actuaries.

The IAA is pleased to be given the opportunity to provide input to the IFRS Foundation on its strategy review. These comments have been prepared by its Insurance Accounting Committee, the members of which are listed in an Appendix to this statement. It has also been subject to the due process required for it to constitute a formal view of the IAA, and will be posted to the IAA's official web site.

Comments

We thank the IFRS Foundation for continuing to seek input from its stakeholders regarding its strategy. We believe that reaching out to obtain views of the stakeholders of international financial reporting standards on a regular basis is very important and in the public interest. The following are specific comments regarding various aspects of the Report.

Mission

AI. In carrying out the IFRS Foundation's mission as the standard-setting body, the IASB should develop financial reporting standards that provide a faithful presentation of an entity's financial position and performance. Those standards should serve investors and other market participants in their economic and resource allocation decisions. The confidence of all users of financial statements in the transparency and integrity of financial reporting is critically important to the effective functioning of capital markets, efficient capital allocation, global financial stability and sound economic growth.

The IAA agrees that financial reporting standards should enable financial statements to faithfully represent entities' financial performance and position and serve an important role in the effective operation of capital markets. Its principle aim should be to provide transparent and relevant financial information to the users of financial statements.

To further this aim, the IASB must listen effectively to the users of financial statements. Nevertheless, given the tendency of people to be satisfied with what they are used to, a forward looking board needs to challenge the users to ensure that the underlying objectives of financial reporting remain achieved. To validate such an approach, an effective and open method of communicating its approach and basis of conclusions is necessary.

A2. *As the body tasked with achieving a single set of improved high quality global accounting standards, the IFRS Foundation must remain committed to the long-term goal of the global adoption, in their entirety and without modification, of IFRSs as developed by the IASB. Convergence may facilitate adoption over a transitional period. Convergence, however, is not a substitute for adoption. Adoption mechanisms may differ among countries and may require an appropriate period of time to implement but, whatever the mechanism, they should enable relevant entities to have an audit opinion stating full compliance with IFRSs as issued by the IASB.*

A3. *With co-operation from national and international market and audit regulators, the IFRS Foundation should seek full disclosure where adoption of IFRSs is incomplete or there is divergence from the full set of IFRSs as issued by the IASB. The Foundation should seek a mechanism to highlight instances where jurisdictions are asserting compliance with IFRSs without adopting IFRSs fully.*

The IAA has often expressed its desire for high quality financial reporting standards. This objective should normally trump the desire for convergence. Nevertheless, the more consistent such standards are around the world, the less standards arbitrage will result. In consequence we believe that a long-term objective should be to achieve such congruence. The best ideas from multiple sources will be needed to move this objective forward.

The best type of “mechanism to highlight instances where jurisdictions are asserting compliance” is unclear. Nevertheless, it would be useful to users to have available differences in standards. Other institutions or firms, such as international accounting firms, national accounting standard setters or academics may do this without the need for formal Foundation or IASB management of such a process; nevertheless it would be worthwhile to identify where this information is available publically. We also suggest that when the Foundation and IASB indicate the extent of worldwide adoption of IFRS, it would be useful to indicate the extent of complete and incomplete adoption.

Legal/regulatory differences by jurisdiction or industry practice can also contribute to inconsistent application; some of these will be outside the control of the Foundation. Nevertheless, these differences may be important to identify and determine whether any action (e.g., required disclosure or interpretation) may provide assistance to users in interpreting information included in financial statements. Some form of feedback loop or intelligence gathering may benefit standard setters in moving toward enhanced clarity in standards-writing and application.

A4. *In the near term, the primary focus of the IFRS Foundation and the IASB should remain on developing standards for private sector entities (i.e. both publicly traded entities and SMEs). Taking into account the necessary resource requirements, the Foundation and the IASB will consider developing standards for other entities and for other purposes at a later date.*

We agree that, at least for the short-term, the primary focus of the IFRS Foundation and the IASB should remain on developing financial reporting standards for application to the private sector. Nevertheless, at some point in time or for particular projects, efforts across standard setters (e.g., measurement of employee benefits or for government entities) may be worthwhile.

A5. In pursuing its mission, the IFRS Foundation has a vested interest in helping to ensure the consistent application of IFRSs internationally. The Foundation should pursue that objective in the following ways:

- The IASB, as the standard-setter, should issue standards that are clear, understandable and enforceable.*
- The IASB will provide guidance on its standards that is consistent with a principle-based approach to standard-setting. All application guidance and examples must be necessary to understand the principles.*
- The IASB will work with a network of securities regulators, audit regulators, standard setters and other stakeholders to identify divergence in practice. Where divergence in practice could be resolved through an improvement in the standard or an interpretation, the IASB or the IFRS Interpretations Committee will act accordingly.*
- The IFRS Foundation, through its education and content services, should undertake activities aimed at promoting consistent application.*
- The IASB, in partnership with relevant authorities, will identify jurisdictions where IFRSs are being modified and encourage transparent reporting of such divergence.*
- The IFRS Foundation will seek the assistance of the relevant public authorities to achieve this objective.*

Although we agree with a principle-based approach to standard-setting, useful examples are necessary in many cases to ensure enhanced consistency in practice. Nevertheless, we oppose restricting the use of methodologies or approaches that are consistent with the principles and objectives included in a standard.

An effective post-implementation review of the effectiveness and consistency in interpretation and application of any new or significantly revised standard is needed. This could involve interviews, requests for feedback from stakeholders, including reporting entities, audit firms, experts applying the standards, audit regulators and users, as well as working with the International Auditing and Assurance Standards Board (IAASB). We believe that this is very important, as not only should the IASB focus on the current round of improvements to its standards, but it also needs to confirm that what is relatively new is working as expected and that no significant consequential unanticipated effects have arisen.

Governance: independent and publicly accountable

B1 The independence of the IASB in its standard-setting decision-making process, within a framework of public accountability, must be maintained.

We believe that the IASB needs to remain independent and publicly accountable in its decision-making. This can be furthered by use of a sound and transparent governance structure. This includes enhancing the transparency in its project prioritization and its articulation of its basis for conclusions. It needs to continue to enhance its listening abilities and to explain why its decisions differ from the views of its major stakeholders, if applicable. This does not imply that it has to bend with the wind, to meet all of the objectives of each lobbying organization or other stakeholder that submits its opinions, as long as the IASB's decisions are well reasoned and coherent.

B2 The current three-tier structure (Monitoring Board, Trustees, IASB) is appropriate for the organisation's mission. Within that governance structure, the Monitoring Board, the IFRS Foundation and the IASB should enhance their interaction and procedures where appropriate to reinforce the principles of transparency, public accountability and independence. In doing so, the roles and responsibilities of each element of the organisation's governance should be clearly defined.

B3 Consistently with point B2, the Trustees should further clarify how they discharge their oversight responsibilities.

The IAA supports the development of clarification of the roles and responsibilities of the Trustees.

We also believe that the role of the Due Process Oversight Committee should be clarified, for example in the steps to be considered or taken in a case in which minor or major breaches of due process are identified.

B4 Elements of the governance structure should provide regular public reports to demonstrate their effectiveness.

We agree.

Process: ensuring that its standards are of high quality, meet the requirements of a well-functioning capital market and are implemented consistently across the world

C1 A thorough and transparent due process is essential to developing high quality, globally accepted accounting standards. The IASB's due process is and should continue to be reviewed and further enhanced regularly, benefiting from regular benchmarking against other organisations and from stakeholder advice.

We agree that the IASB's due process should continue to be reviewed on a regular basis and may benefit from benchmarking performance against other standard setters, as well as against the IASB's objectives.

C2 The framework for the Trustees in their oversight of the IASB's due process should be clarified. The Trustees' Due Process Oversight Committee should review and discuss due process compliance regularly throughout the standard-setting process and at the end of the process before a standard is finalised. The Committee should report regularly on these activities to the Trustees and in its annual report.

We agree that the framework for the Trustees should be enhanced and clarified (as should the Framework of the IASB as well).

C3 Building on the existing due process framework and in an effort to improve the usability of financial information, the IASB should undertake the following:

- *Clear demonstration of how priorities on its agenda are set: In the agenda-setting process and after the required public consultation, the IASB should provide full feedback. This will assist in demonstrating how the IASB's priorities are set.*
- *Agreed methodology for field visits/tests and effect analyses: The IASB should work with relevant parties to develop an agreed methodology for field visits/tests and effect analyses (more often referred to as cost-benefit analyses or impact assessments).*
- *Integration of XBRL into the standard-setting process and the development of relevant XBRL taxonomy extensions: In order to take into account the impact of technology, the development of the IFRS XBRL taxonomy should be integrated into the IASB's due process. In addition, the IFRS XBRL taxonomy should be expanded to include a relevant number of extensions to the existing base taxonomy.*

We believe that the IASB should publicly expose its agenda for public comments on a regular basis. This should be done every two or three years.

Although conceptually it would be useful to have an agreed upon methodology for field visits/ tests and effect analyses, in practice the standards, circumstances and preparers may be so diverse that a one-size fits all set of assessment criteria will not likely be practical. They should differ depending upon the proposed change, circumstances and the needs being addressed.

C4 To support the IFRS Foundation's interest in consistent application of IFRSs and within the IASB's standard-setting mandate, the Foundation and the IASB should undertake the following actions:

- *using an agreed methodology, undertake post-implementation reviews to help identify implementation issues.*
- *establish formal co-operation arrangements with securities regulators, audit regulators and national standard-setters to receive feedback on how IFRSs are being implemented and to encourage actions aimed at addressing divergence.*
- *refine the scope of the IFRS Interpretations Committee's activities to ensure consistency of interpretation, without undermining the commitment to a principle-based approach to standard-setting.*

Post-implementation reviews are desirable. All new standards and substantive changes in existing standards should be reviewed, either one or two years after their effective dates. Public comments may be valuable and reports from users, the IAASB and audit regulators may also be useful.

C5 The IFRS Foundation and the IASB should encourage the maintenance of a network of national and other accounting standard-setting bodies as an integral part of the global standard-setting process. In addition to performing functions within their mandates, national and other accounting standard-setting bodies should continue to undertake research, provide guidance on the IASB's priorities, encourage stakeholder input from their own jurisdiction into the IASB's due process and identify emerging issues.

We agree.

C6 To provide thought leadership in the field of financial reporting, the IASB should establish, or facilitate the establishment of, a dedicated research capacity.

Although we believe that research is needed, we are not convinced that an internal dedicated research capacity is needed. Rather, it may be more effective to identify at their initiation for each project what type of research is needed. A wide range of sources and types of research should be considered - this could include a request for proposals for external research from accounting firms, professional associations, academics, or users. Examples of research topics might relate to the IASB's Conceptual Framework and the usefulness of a range of post-implementation reviews.

Financing: ensuring the organization is financed in a manner that permits it to operate effectively, efficiently and independently

D1 The funding system must maintain the independence of the standard-setting process, while providing organisational accountability.

In general, the IAA supports the principle that the funding system must maintain the independence of the standard-setting process. In addition, as suggested in the Report, the funding system should also enhance organizational accountability.

D2 The existing base of financing should be expanded to enable the IFRS Foundation to serve the global community better and to fulfil the strategy described above. Specifically, funding should be proposed by the Trustees to be on a long-term basis (at least three to five years), be publicly sponsored, be flexible to permit the use of differing mechanisms and to adjust to budgetary needs, be shared among jurisdictions on the basis of an agreed formula (consistent with the principle of proportionality) and provide sufficient organisational accountability.

No comment.

Members of the IAA Committee on Insurance Accounting

Sam Gutterman	Chairperson
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Full Member Associations of the IAA

Caribbean Actuarial Association
Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Institut des Actuaire en Belgique (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Bulgarian Actuarial Society (Bulgaria)
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)
China Association of Actuaries (China)
Actuarial Institute of Chinese Taipei (Chinese Taipei)
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Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (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)
Magyar Aktuárius Társaság (Hungary)
Félag Íslenskra Tryggingastærðfræðinga (Iceland)
Institute of Actuaries of India (India)
Persatuan Aktuaris Indonesia (Indonesia)
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)
The Actuarial Society of Kenya (Kenya)
Latvijas Aktuaru Asociācija (Latvia)
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Colegio Nacional de Actuarios A.C. (Mexico)
Association Marocaine des Actuaire (Morocco)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Pakistan Society of Actuaries (Pakistan)
Actuarial Society of the Philippines (Philippines)

Polskie Stowarzyszenie Aktuariuszy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Russian Guild of Actuaries (Russia)
Udruženje Aktuara Srbije (Serbia)
Singapore Actuarial Society (Singapore)
Slovenska Spolocnost Aktuarov (Slovakia)
Slovensko Aktuarsko Drustvo (Slovenia)
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