



ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

30 April 1999

Sir Bryan Carsberg
Secretary-General
International Accounting Standards Committee
166 Fleet Street
London EC4A 2DY
United Kingdom

Dear Sir Bryan:

On behalf of the International Actuarial Association (IAA), I am pleased to transmit a draft of the attached comments on the Discussion Paper: *Shaping IASC for the Future*, prepared in response to your request for comments.

The International Actuarial Association (IAA) represents professional actuarial associations internationally. We are not a trade association and we do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries hope, as a profession, to assist the IASC in enhancing the standards of accounting on an international level, through the development of objective and meaningful standards which will command respect from users of financial statements. We stand willing to provide assistance deemed appropriate in the furtherance of this objective.

These draft comments have been prepared by a committee of the IAA, the members of which are listed in the submission by name and association, and are being circulated for approval to the member associations of the IAA listed in Appendix 1, as part of our due process. Member associations are given two months to approve a public statement made on behalf of the IAA. I will let you know when these procedures have been completed and whether the draft has been approved in its entirety, or modified in any way.

Yours sincerely,

Jean Berthon
IAA President

(Draft Comments of the IAA, not having completed the required due process as of the date of submission)

**International Actuarial Association Comments on
the IASC Discussion Paper:
*Shaping IASC for the Future***

THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our member actuarial associations exceed forty in number, and 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’s interest in the IASC Discussion Paper: *Shaping IASC for the Future* is to assist the IASC in its efforts to enhance accounting standards around the world. The IAA appreciates the opportunity to provide comments on this Position Paper. We must note that the time provided for comments was short in view of its international scope and the need in our case to communicate with the various actuarial organizations in the world. After some introductory comments, our response has been organized in a manner consistent with the questions raised by the Strategy Working Party of the IASC in its Position Paper.

DUE PROCESS

This is a draft version of a statement of the IAA that has been prepared by the IASC Insurance Accounting Standards Committee of the IAA, the members of which are listed below by name and association. It reflects comments from the leadership of the IAA with respect to the issues raised. The member associations of the IAA are also listed below (in an Appendix to this statement). The final copy of this draft statement will be transmitted to the IASC as soon as it has passed through the IAA’s due process review procedures.

MEMBERS OF THE IASC INSURANCE ACCOUNTING STANDARDS COMMITTEE

Sam Gutterman (Chair)

Clive Aaron	The Institute of Actuaries of Australia
William Abbott	Institute of Actuaries
Avi Bar-Or	Israel Association of Actuaries
Félix Arias Bergadá	Col.legi d'Actuaris de Catalunya
Morris W Chambers	Canadian Institute of Actuaries
Eva Gustafson	Svenska Aktuarietföreningen
Eckhard Hütter	Deutsche Aktuarvereinigung e.V.
Tony Jeffery	The Society of Actuaries in Ireland
Won How Lo	The Actuarial Institute of the Republic of China
Iain Lumsden	Faculty of Actuaries
Bruce D Moore	American Academy of Actuaries
Toshiyuki Okita	Institute of Actuaries of Japan
Markku Paakkanen	The Actuarial Society of Finland
Pascal Parant	Institut des Actuaire Français
Richard S Robertson	Society of Actuaries
Francis Ruygt	Het Actuarieel Genootschap
Eike Steinmann	Association Suisse des Actuaire
Chris Swanepoel	Actuarial Society of South Africa
Bjarni Thordarson	Félig Islenskra Triggingastærdfærðinga

INTRODUCTORY COMMENTS

The IAA applauds the efforts of the IASC to re-examine its objectives and its infrastructure in order to enhance its ability to assure the development and maintenance of high quality accounting standards around the world. We believe, as does the IASC, that the globalization of the world's business and capital markets will result in the need for convergence in world-wide accounting standards and practice. We hope that this effort will lead to increasing convergence (and hopefully harmonization wherever possible) among IASs and national accounting standards and practice. It would be highly desirable to implement an approach that emphasizes consensus, transparency and the best possible use of resources to develop and maintain the type of high quality accounting standards that would benefit the users of financial reporting information.

RESPONSE TO SPECIFIC QUESTIONS RAISED

Question 1. Do you agree that it is important to focus IASC's objectives more precisely as follows:

- (a) to develop International Accounting Standards that require high-quality, transparent and comparable information which will help participants in capital markets and others to make economic decisions; and
- (b) to promote the use of International Accounting Standards by working with national standard setters to:
 - (i) bring about convergence, for listed enterprises (i.e. enterprises with publicly traded equity or debt securities) and other economically significant enterprises, between national accounting standards and International Accounting Standards; and
 - (ii) encourage national, regional and international authorities to permit or require unlisted enterprises that, individually, are not economically significant to use those International Accounting Standards if those Standards, together with associated interpretations, meet the needs of the users of the financial statements of such enterprises.

Do you have any comments on the focus of IASC's work? (see **paragraphs 28-70**)

Response. We agree that it is appropriate for the IASC to adopt a clearly stated, focused set of objectives from which to operate. We suggest that an additional objective of the IASC could be to provide education regarding its Standards to appropriate organizations.

Question 2. The Working Party has identified the following key issues that must be addressed to give IASC a structure that will enable it to continue meeting its objectives:

- (a) partnership with national standard setters - IASC should enter into a partnership with national standard setters so that IASC can work together with them to accelerate convergence between national standards and International Accounting Standards around solutions requiring high-quality, transparent and comparable information that will help participants in capital markets and others to make economic decisions;
- (b) wider participation in the IASC Board - a wider group of countries and organisations should take part in the IASC Board, without diluting the quality of the Board's work; and
- (c) appointment - the process for appointments to the IASC Board and key IASC committees should be the responsibility of a variety of constituencies, while ensuring that those appointed are competent, independent and objective.

Do you agree that these are the key issues to be addressed in developing an effective structure for IASC? (see **paragraphs 112-123**) The Working Party's proposals for improving IASC's due process are discussed separately below (see **Question 6**).

Response. We agree that these are key issues for effective development of standards. We believe that the assurance of a truly open process, incorporating objectivity and independence of standard setters and an appearance of avoidance of potential conflicts of interest are important attributes of the management of future international accounting standards.

Question 3. The Working Party's proposals address these key issues by the following changes:

- (a) a partnership with national standard setters:
 - (i) Steering Committees would be replaced by a Standards Development Committee, on which national standard setters would play a major role in developing International Accounting Standards. The Standards Development Committee would also be responsible for approving the publication of final SIC Interpretations prepared by the Standing Interpretations Committee; and
 - (ii) the Standards Development Committee would be supported by a Standards Development Advisory Committee, which would act as a channel of communication with those national standard setters who are unable to participate directly in the Standards Development Committee because of its limited size;
- (b) wider participation in the IASC Board - the Board would have a wider membership than at present. The Board would still be responsible for the final approval of International Accounting Standards and Exposure Drafts; and
- (c) appointment - the Advisory Council would be replaced by Trustees. Among other things, the Trustees would appoint members of the Standards Development Committee, the Board and the Standing Interpretations Committee. The Trustees would also have responsibility for monitoring IASC's effectiveness and for finance.

These proposals are set out in paragraphs 124-200 summarised in Tables 1 and 2 in the Executive Summary and in Figures 1 and 2 in the Executive Summary.

Do you support the Working Party's proposals? Should any changes be made to these proposals? Should the Working Party consider any other ways of meeting the needs identified above?

Response. We do not believe that the approach described in the Position Paper is sufficient to address specialized accounting topics. Many specialized issues or needs for standards are bound to arise. In order to develop background material, it will be necessary to make use of specialized panels of experts to serve as developers and / or consultants to the process of the development of standards. For such specialized areas, it would be appropriate for the Standards Development Committee to consider the appointment of such specialized panels for a limited period of time, in some ways similar to the current Steering Committees. In addition, such an approach would have

the advantage of an even broader involvement of interested parties with particular expertise on a particular area. Although the Standards Development Committee will have broad geographic representation, it is not assured that this committee will possess sufficient specialized expertise to appreciate the nuances and needs of specialized areas.

It is also important to avoid undue concentration of power among a small number of individuals or organizations. As a result, we agree that an objective to broaden participation in the IASC Board is appropriate, possibly by increasing the size of the Board. We do not believe that membership on the Board should be conditioned on payment of assessments; such a requirement creates at best an appearance of a conflict of interest. We believe that a number of organizations interested in the development and maintenance of quality international accounting standards, such as the IAA, possibly on a rotating basis, should be represented on the Board.

To develop enhanced accountability, the Trustees need to report to the members of IASC more frequently than every two and a half years. A variety of approaches to enhancing such communication should be investigated.

We believe that open meetings are desirable wherever possible. We recommend working toward the goal of open meetings. In general, the only topic areas that have to be held in camera are those relating to specific personnel and personnel-related matters

Question 4. The Working Party considered a range of different ways of specifying the respective powers of the Standards Development Committee and the Board. Among these were:

- (a) positive approval required by a majority or super-majority of the Board for all International Accounting Standards and Exposure Drafts;
- (b) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to reject proposed International Accounting Standards and Exposure Drafts;
- (c) the Board (or perhaps a specified majority or a specified minority of the Board) has the power to return proposed International Accounting Standards and Exposure Drafts to the Standards Development Committee for re-consideration, but not to reject them indefinitely; and
- (d) the Standards Development Committee must consult the Board, but the Board has no power to delay or reject International Accounting Standards or Exposure Drafts.

Individual members of the Working Party have preferences for different points in this range. Some members of the Working Party prefer option (a) above. Other members of the Working Party prefer option (d) above. However, the Working Party believes that the precise voting arrangements are less important than the need for the Standards Development Committee and the Board to work together constructively.

The Working Party believes that a constructive attitude of close and effective co-operation is a striking feature of the current Board and of IASC's Committees. Consequently, the Working Party is confident that the Standards Development Committee and the Board will achieve the close and effective relationship that will be needed.

The Working Party proposes that the publication of a Standard or Exposure Draft should require approval by 60% of the Board (15 votes out of 25). At present, an Exposure Draft requires a positive vote by two thirds of the Board; a final Standard requires a positive vote by three-quarters of the Board. The Working Party further concluded that the Chairman of the Board should be required to ensure that the Board considers and votes on proposed Exposure Drafts and Standards submitted by the Standards Development Committee within three months of receipt or, if later, at its next meeting.

If the Board rejects a proposed Exposure Draft or Standard, the Board should send the document back to the Standards Development Committee for further consideration, giving public reasons for its rejection. After considering the reasons given by the Board, the Standards Development Committee may decide to:

- (a) prepare a revised proposal and submit it to the Board for approval in the normal way;
or
- (b) resubmit its original proposal to the Board:
 - (i) if nine or more members of the Standards Development Committee have voted to resubmit the same proposal, Board approval should require a simple majority (13 votes out of 25); and
 - (ii) if seven or eight members of the Standards Development Committee have voted to resubmit the proposal, the proposal should be treated in the same way as a new proposal. In other words, Board approval should require the normal 60% majority (i.e. 15 votes out of 25).

At present, each delegation has one vote. This means that Board delegations are sometimes forced to abstain where the members of the delegation are unable to agree among themselves. Given the current requirement for a positive vote by three-quarters of the Board, an abstention is effectively the same as a vote against a Standard. This might suggest that each member of the delegation should be given an individual vote, to reduce the risk of deadlock. However, discussions among, say, 50 voting individuals would be much more cumbersome than discussions among 50 individuals representing 25 voting delegations. The Working Party recommends that IASC should retain the current practice that each delegation has one vote.

The Working Party believes that the Board should not have the power to amend proposed Exposure Drafts and Standards submitted by the Standards Development Committee. The Working Party believes that these proposals will ensure reasonably widespread acceptance

for IASC's work, without undue risk of paralysing the work of the Standards Development Committee. This will also give genuine decision-making power to both bodies.

Do you support this proposal (see **paragraphs 164-178**)?

Under the Working Party's proposal, positive approval by the Board would still be required for all International Accounting Standards and Exposure Drafts. Do you agree that such Board approval should be required? Or do you believe that the Board should have no power to delay or reject Standards or Drafts?

If you do not support the proposal set out in **paragraphs 164-178**, please indicate what changes should be made and explain how your proposal will address the following three crucial considerations:

- (a) the need to convince users, preparers and IASC's other constituents that IASC's standards will meet their needs;
- (b) the need to attract suitably qualified individuals to serve on the Standards Development Committee and the Board; and
- (c) the need for the Standards Development Committee and the Board to work together closely and effectively for the public interest.

Response. In general, we believe that the decision-making rules as set forth in the Position Paper will strengthen and enhance the ability of the IASC to meet its strategic objectives. We do, however, wish to highlight the following aspects of the proposed method of operation.

An overriding objective should be to achieve consensus regarding accounting approaches and their applications. However, due to the differing interests, needs and experience of various participants that are bound to arise, some level of disagreement is inevitable. It is worth the extra effort for the ultimate decision-makers to recognize and understand the reasons underlying any such disagreements. Recognizing the nature of such disagreements represent essential steps in convincing the various audiences that the standards will meet their needs.

It is imperative that effective communication links be established between the Board and the Standards Development Committee (SDC). Although we do not have a strong opinion regarding the best approach for decisions (e.g., veto or delaying power of the Board) to be made with regard to proposed Standards, it is important that the Board effectively manages and oversees the operations of the SDC.

As is pointed out, it is particularly important to focus on what the ultimate objective of the IASC should be, that is, serving the public interest, as opposed to serving special interests. As we have mentioned several times in our comments, openness, honest dialogue and teamwork on the part of the Board, the Standards Development

Committee and the users and preparers of the results of the deliberations are necessary to assure quality financial reporting.

Question 5. At present, Board approval is required for a final Interpretation. Do you agree that:

- (a) a SIC final Interpretation should require approval by the Standards Development Committee, and that approval by the Board should no longer be required; and
- (b) the approval of a final Interpretation should require the same majority in the Standards Development Committee as a decision to submit an Exposure Draft or Standard to the Board for approval (seven votes out of 11)? Should any other changes be made to the structure or operations of the SIC (see **paragraphs 96-99** and **paragraphs 184-199**)?

Response. We do not have a strong opinion on the issues raised in this question. We do note that it may be important periodically to validate that the interpretations provided are in fact interpretations and do not become unintentional de facto standards. Therefore, appropriate general oversight should be established for to assure that the overall direction taken by the SIC is maintained.

We also note that it is very important to develop appropriate guidance for the application of an effective set of accounting standards. As a result, we believe it would be appropriate to develop a mechanism by which regularly to identify areas in which further guidance is needed and develop appropriate literature for reference in this area.

Question 6. Should any changes be made to IASC's due process (see **paragraphs 108-110** and **paragraphs 201-214**)? In particular, should IASC:

- (a) open all discussions of the proposed Standards Development Committee, Standing Interpretations Committee and Board on technical issues to the public;
- (b) open portions of Trustees' meetings to the public, at the discretion of the Trustees;
- (c) make more use of new technology, such as the Internet, the web site, and electronic observation of open meetings;
- (d) publish in advance the agendas for each meeting of the Standards Development Committee, Standing Interpretations Committee, Board and Trustees and publish promptly the decisions made at those meetings (IASC currently publishes the agenda for Board meetings in its quarterly newsletter, Insight, and on its web site. IASC also publishes Board decisions immediately after each Board meeting in Update and SIC decisions in News from the SIC);
- (e) publish a Basis for Conclusions with its Standards;

- (f) publish with its Standards any dissentient opinions (i.e. statements explaining why one or more Board Members or members of the Standards Development Committee voted against the Standards);
- (g) hold public hearings for some or all projects (without a requirement to do so in every case);
- (h) carry out field tests of some or all of its proposals (without a requirement to do so in every case);
- (i) publish translations of International Accounting Standards (as well as other documents, such as Exposure Drafts);
- (j) ask Members of IASC, or others, to control the quality of those translations that IASC does not publish itself;
- (k) lengthen comment periods for Exposure Drafts and other documents;
- (l) distribute Exposure Drafts (and other documents issued for comment) without charge, if it is financially feasible to do so; or
- (m) make other changes to its due process (please specify these changes)?

Response. An open process of development of standards is very important. To that end, a move to open meetings, with exceptions being portions of meetings specifically addressing such issues as personnel performance. Such an open process should improve the final standards, as well as improve the confidence of the users of the standards in their objectivity. We agree that all of the above techniques are appropriate. In the future, Discussion Papers, Issue Papers or Exposure Drafts should be made available free-of charge electronically; it should not be necessary to make these available in paper form, unless the full cost of printing and distribution is recoverable.

It should be recognized that the audiences affected by international accounting standards are diverse and sometimes significantly dispersed. As a result, we recommend that for all proposed standards, as long a period of time as is practical be provided for comment. During that period, opinions of interested and expert parties should be actively solicited.

Question 7. Should IASC:

- (a) be more pro-active in reviewing national standards in order to assess whether those national standards result in compliance with International Accounting Standards;

- (b) give advice to national regulators and other enforcement agencies in their efforts to enforce national standards that comply with International Accounting Standards, but only if the regulator in question both:
 - (i) pays for the advice on a fully self-financing basis; and
 - (ii) gives IASC satisfactory indemnities against legal action by those who dispute alleged departures;
- (c) be more pro-active in identifying departures from International Accounting Standards and reporting those departures to national enforcement agencies, supranational bodies such as IOSCO or the Basle Committee, IFAC or IASC's own Member bodies;
- (d) publish training material, illustrative examples and other implementation guidance, such as staff bulletins;
- (e) introduce a technical enquiry service;
- (f) hold training courses (if you think that IASC should provide training, please specify whether such courses should be self-financing); or
- (g) do anything else to improve the implementation, enforcement and training of International Accounting Standards?

These issues are discussed in **paragraphs 215-220**.

Response. It is important for the IASC to maintain awareness of emerging issues; as a result, therefore, it will be important to keep in regular touch with the issues being addressed by the national standard setting bodies, either through a structured scanning or other approach. In general, it is important for the IASC to become more pro-active; however, it may be more efficient to work through the national accounting setting bodies in certain areas.

We do not have an opinion as to whether the IASC should be directly involved in training potential users or providing an enquiry system. It may be more appropriate (and possibly serve, at best, as a source of funding and, at worst, as saving staff time) to outsource such functions, possibly relying on joint ventures (using a competitive bidding approach if deemed appropriate). Although such services should not be provided simply to develop additional revenue, they should not be loss generating either.

Guidance for standards implementation will be needed from some source, whether from the IASC or national organizations. Obviously, clear and unambiguous standards and interpretations, with a minimum of options provided, will help minimize the need for such guidance. However, due to the scope of current and future IASs and the evolving business environment, such guidance will inevitably be needed in order to

render international standards effective. Although we do not propose a game plan for implementation of communication programs, it would be appropriate to study the implications and needs carefully before beginning such programs.

We are not sure that enforcement is an appropriate role for the IASC to undertake. However, observation and awareness of compliance issues as they arise will be valuable to determine the need for enhanced or amended standards.

Question 8. Should IASC make any changes to the way in which it is funded?
(paragraphs 221-235)

Do you support a funding model that relies more or less equally on funding from a number of reasonably well-defined groups? If you support such a model, which groups should participate in the funding and on what basis? An example would be a model that looks to the accountancy profession, government and the business community to provide roughly equal proportions of IASC's funding.

Do you have any other suggestions for funding IASC?

Response. Although we do not have any specific suggestions regarding potential funding approaches that should be used, we believe that the fundamental functions of the IASC should not be performed with the sole purpose of making a profit. For example, translations of IASs should not be undertaken solely for its profit potential, although such activities should not be loss-leaders either; new electronic translating software may make such activities practical, with sufficient funding cooperation from others who would use such products.

Question 9. Do you have any other comments on the structure of IASC?

Response. None.

IAA MEMBER ASSOCIATIONS

Full Members

Comisión de Actuación Profesional – Actuarios —
Consejo Profesional de Ciencias Económicas de la Capital Federal (Argentina)
Institute of Actuaries of Australia (Australia)
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Actuarial Society of India (India)
Society of Actuaries in Ireland (Ireland)
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Japanese Society of Certified Pension Actuaries (Japan)
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Actuarial Society of the Philippines (Philippines)
Instituto dos Actuários Portugueses (Portugal)
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Persatuan Aktuaris Indonesia (Indonesia)
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Association Luxembourgeoise des Actuaire (Luxemburg)
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