



International Actuarial Association

Association Actuarielle Internationale

**List of Definitions used in
International Actuarial Notes 3-12 (IANs* 3-12)
in relation to
International Financial Reporting Standards
(IFRS)**

**Prepared by the
Subcommittee on Education and Practice of the
Committee on Insurance Accounting**

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**International Actuarial Notes (IANs) are promulgated under the authority of the International Actuarial Association. They are educational documents on actuarial subjects that have been adopted by the IAA in order to advance the understanding of the subject by readers of the IAN, including actuaries and others, who use or rely upon the work of actuaries. They are not International Standards of Actuarial Practice (“ISAPs”) and are not intended to convey in any manner that they are authoritative guidance.*



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1. SCOPE, RATIONALE and PUBLICATION DATE

This list of definitions accompanies the various INTERNATIONAL ACTUARIAL NOTES REGARDING INTERNATIONAL FINANCIAL REPORTING STANDARDS.

The IAA has decided to issue this list of definitions because some of the “terms of art” used by accountants can have somewhat different meanings than the same words when commonly used by actuaries. Therefore, the IAA believes that it is important that actuaries be aware of the precise definitions given to these terms of art and their origin and certain other definitions of terms that may be useful. The convention used in IANs 3 – 12 has been to put each defined term in small capital letters the first time it is used in each IAN. In addition, the final Appendix of each IAN contains a list of all defined terms used in the IAN that are found in this list of definitions.

This list of definitions was initially published on 16 June 2005, the date approved by the Council of the INTERNATIONAL ACTUARIAL ASSOCIATION (IAA), and updated on 28 March 2014

2. DEFINITIONS

Accepted Actuarial Practice

A practice or practices that are generally recognized within the actuarial profession as appropriate to use in performing ACTUARIAL SERVICES within the scope of the applicable professional standards of practice.

Accounting policy

The specific principles, bases, conventions, rules, and practices applied by a REPORTING ENTITY in preparing and presenting its FINANCIAL STATEMENTS. [*IAS 8.5*]

Acquisition cost

The costs that an INSURER incurs to sell, underwrite, and initiate new INSURANCE CONTRACTS. [*IFRS 4, Basis for Conclusion, BC116*] (also see “transaction cost”)

Actuarial Services

Services based upon actuarial considerations provided to INTENDED USERS that may include the rendering of advice, recommendations, findings, or opinions.

Actuary

An individual member of one of the member associations of the IAA.

Alternative investment

A comparison contract according to part (b) of the definition of a DERIVATIVE in IAS 39.9.

Amortised cost

The amount at which the FINANCIAL ASSET or FINANCIAL LIABILITY is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability. *[IAS 39.9]*

Benefit

Any economic advantage granted by one party to another party under a CONTRACT, especially any cash flow and service provided, or any reduction of cash flows otherwise due to be received, regardless of whether there is a requirement of a prior equivalent payment.

Cedant

The POLICYHOLDER under a REINSURANCE CONTRACT. *[IFRS 4, Appendix A]*

Component

The smallest element of a CONTRACT containing a specific identifiable and separable feature that contains all of the economic features of a stand-alone CONTRACT.

Constructive obligation

An obligation that derives from an enterprise's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. *[IAS 37.10]*

Contract

An agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts may take a variety of forms and need not be in writing *[IAS 32.13]*

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs. *[IAS 38.8]*

Current estimate

The expected value based on current knowledge

Deposit Component

A contractual COMPONENT that is not accounted for as a DERIVATIVE under IAS 39 and would be within the scope of IAS 39 if it were a separate instrument. *[IFRS 4, Appendix A]*

Derivative

A FINANCIAL INSTRUMENT or other CONTRACT within the scope of IAS 39 (in IAS 39.2–7) with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the CONTRACT (sometimes called the ‘underlying’);
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of CONTRACTS that would be expected to have a similar response to changes in MARKET FACTORS; and
- (c) it is settled at a future date. *[IAS 39.9]*

Discretionary participation feature

A contractual right to receive, as a supplement to GUARANTEED BENEFITS, additional BENEFITS:

- (a) that are likely to be a significant portion of the total contractual BENEFITS;
- (b) whose amount or timing is contractually at the discretion of the ISSUER; and
- (c) that are contractually based on:
 - (i) the performance of a specified pool of CONTRACTS or a specified type of CONTRACT;
 - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the ISSUER; or
 - (iii) the profit or loss of the company, fund or other entity that issues the CONTRACT. *[IFRS 4, Appendix A]*

Effective interest method

A method of calculating the amortised cost of a FINANCIAL ASSET or a FINANCIAL LIABILITY (or group of FINANCIAL ASSETS or FINANCIAL LIABILITIES) and of allocating the interest income or interest expense over the relevant period. *[IAS 39.9]*

Effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the FINANCIAL INSTRUMENT or, when appropriate, a shorter period to the net carrying amount of the FINANCIAL ASSET or FINANCIAL LIABILITY. *[IAS 39.9]*

Embedded derivative

A COMPONENT of a hybrid (combined) instrument that also includes a non-DERIVATIVE host CONTRACT – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone DERIVATIVE. It causes some or all of the cash flows that otherwise would be required by the CONTRACT to be modified according to a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates or other variable. A derivative that is attached to a FINANCIAL INSTRUMENT but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an EMBEDDED DERIVATIVE, but a separate FINANCIAL INSTRUMENT. *[IAS 39.10]*

Embedded derivative cash flow

An embedded cash flow of a CONTRACT that varies in a similar way to a cash flow of a DERIVATIVE. It does not need to consist of the cash flow of the whole contract but could be only part of it.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. *[IAS 32.11]*

Financial asset

An asset that is:

- (a) cash;
 - (b) an equity instrument of another entity;
 - (c) a contractual right:
 - (i) to receive cash or another FINANCIAL ASSET from another entity; or
 - (ii) to exchange FINANCIAL ASSETS or FINANCIAL LIABILITIES with another entity under conditions that are potentially favourable to the entity; or
 - (d) a CONTRACT that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-DERIVATIVE for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
 - (ii) a DERIVATIVE that will or may be settled other than by the exchange of a fixed amount of cash or another FINANCIAL ASSET for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves CONTRACTS for the future receipt or delivery of the REPORTING ENTITY's own equity instruments.
- [IAS 32.11]*

Financial instrument

A CONTRACT that gives rise to both a FINANCIAL ASSET of one entity and a FINANCIAL LIABILITY or equity instrument of another entity *[IAS 32.11]*

Financial liability

A liability that is:

(a) a contractual obligation:

- (i) to deliver cash or another FINANCIAL ASSET to another entity; or
- (ii) to exchange FINANCIAL ASSETS or FINANCIAL LIABILITIES with another entity under conditions that are potentially unfavourable to the entity; or

(b) a CONTRACT that will or may be settled in the entity's own equity instruments and is:

- (i) a non-DERIVATIVE for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
- (ii) a DERIVATIVE that will or may be settled other than by the exchange of a fixed amount of cash or another FINANCIAL ASSET for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves CONTRACTS for the future receipt or delivery of the entity's own equity instruments. *[IAS 32.11]*

Financial reporting

The preparation and reporting of a REPORTING ENTITY's financial position, financial performance, and cash flows, regarding, but not limited to, the preparation of the FINANCIAL STATEMENTS under IFRSs.

Financial risk

The risk of a possible future change in one or more of a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to the party to the CONTRACT. *[IFRS 4, Appendix A]*

Financial statements

A structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. Financial statements also show the results of management's stewardship of the resources entrusted to it. To meet this objective, financial statements provide information about an entity's:

- (a) assets;
- (b) liabilities;
- (c) equity;
- (d) income and expenses, including gains and losses;

- (e) other changes in equity; and
- (f) cash flows.

This information, along with other information in the notes, assists users of financial statements in predicting the entity's future cash flows and, in particular, their timing and certainty. *[IAS 1.7]*

For the purpose of IANs, financial statements are general purpose financial statements prepared and presented in accordance with IFRSs. *[IAS 1.2]*

Guaranteed benefits

Payments or other BENEFITS to which a particular POLICYHOLDER or investor has an unconditional right that is not subject to the contractual discretion of the ISSUER. *[IFRS 4, Appendix A]*

Guaranteed element

An obligation to pay GUARANTEED BENEFITS, included in a CONTRACT that contains a DISCRETIONARY PARTICIPATION FEATURE. *[IFRS 4, Appendix A]*

Guaranteed insurability

A right to take insurance for a specific risk at a later time, without a reassessment of the status of that risk.

Guarantee

A CONTRACT feature that contractually constrains the REPORTING ENTITY's ability to modify the net cash flows under the CONTRACT.

IAA

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Impracticable

When an entity cannot apply a requirement after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and

- (ii) would have been available when the FINANCIAL STATEMENTS for that prior period were authorized for issue from other information. *[IAS 8.5]*

Insurance asset

An INSURER's net contractual rights under an INSURANCE CONTRACT. *[IFRS 4, Appendix A]*

Insurance component

A contractual COMPONENT that would be within the scope of IFRS 4 if it were a separate instrument.

Insurance contract

A CONTRACT under which one party (the insurer) accepts significant risk from another party (the POLICYHOLDER) by agreeing to compensate the POLICYHOLDER if a specified uncertain future event (the INSURED EVENT) adversely affects the policyholder. *[IFRS 4, Appendix A]*

Insurance liability

An INSURER's net contractual obligations under an INSURANCE CONTRACT. *[IFRS 4, Appendix A]*

Insurance risk

Risk, other than FINANCIAL RISK, transferred from the holder of a CONTRACT to the ISSUER. *[IFRS 4, Appendix A]*

Insured event

An uncertain future event that is covered by an INSURANCE CONTRACT and creates INSURANCE RISK. *[IFRS 4, Appendix A]*

Insurer

The party that has an obligation under an INSURANCE CONTRACT to compensate a POLICYHOLDER if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Intangible asset

An identifiable non-monetary asset without physical substance. *[IAS 38.8]* Most such assets addressed in IANs consist of deferred ACQUISITION COSTS and contractual rights acquired in a business combination or a portfolio transfer.

Intended user

Any legal or natural person (usually including the PRINCIPAL) whom the ACTUARY intends at the time the ACTUARY performs ACTUARIAL SERVICES to use the REPORT.

International Accounting Standard (IAS)

A standard or its interpretation regarding financial reporting, as approved by the International Accounting Standards Committee, the predecessor organization to the IASB, or as updated by the IASB. IASs can refer to all of these standards and interpretations.

International Accounting Standards Board (IASB)

The accounting standard setter that adopts IFRSs.

International Financial Reporting Standard (IFRS)

A standard or its interpretation regarding financial reporting, as adopted by the IASB. (A reference to IFRS can sometimes also be used to include an IAS or be used interchangeably with “IAS.”)

International Financial Reporting Standards (IFRSs)

Standards and Interpretations regarding financial reporting as adopted by the IASB. They comprised: (1) IFRS; (2) IAS; and (3) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). *[IAS 8.5]*

Investment contract

A FINANCIAL INSTRUMENT that may or may not include a SERVICE COMPONENT but is not an INSURANCE CONTRACT or a stand-alone DERIVATIVE where the REPORTING ENTITY is the ISSUER. The unbundled DEPOSIT COMPONENT of an INSURANCE CONTRACT under IFRS 4 would be included. It is an informal term used for convenience. *[This definition is compatible with the informal term used in IFRS 4 Implementation Guidance (example 1.8 in IG1) and has been expanded to exclude DERIVATIVES and include the unbundled DEPOSIT COMPONENT of an INSURANCE CONTRACT for completeness.]*

Issuer

A party of:

- 1) an INSURANCE CONTRACT obliging that party to compensate a POLICYHOLDER if an INSURED EVENT occurs;
- 2) a FINANCIAL INSTRUMENT that is an INVESTMENT CONTRACT obliging that party to provide specified BENEFITS; or
- 3) a SERVICE CONTRACT, obliging that party to perform an agreed task.

Legal obligation

An obligation that derives from:

- (a) a CONTRACT (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law. *[IAS 37.10]*

Legal unit

A contract as determined according to the legal definition in the jurisdiction of the CONTRACT, in contrast with the term CONTRACT as used in these IANs.

Liability adequacy test

An assessment of whether the carrying amount of an INSURANCE LIABILITY needs to be increased (or the carrying amount of related deferred ACQUISITION COSTS or related INTANGIBLE ASSETS decreased), based on a review of future cash flows. *[IFRS 4, Appendix A]*

Margin for risk and uncertainty

The margin that is included in the assumptions used in a MODEL to provide for risks and uncertainty inherent in the issue about which assumptions are made.

Market factor

A specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index, or other variable, provided that in the case of a non-financial variable the variable is not specific to a party to the CONTRACT. *[taken from but not defined in IFRS 4, Appendix A, in the definition of FINANCIAL RISK]*

Market value margin

A monetary amount that represents the market's assessment of risk and uncertainty incorporated in relevant transaction prices.

Model

A framework for analysis that provides a reasonable basis for the valuation of the financial effects of future events consistent with the purpose intended, adjusted where necessary or appropriate to recognise the inherent uncertainty associated with projections involving future events. The term "model," as used by ACTUARIES, typically refers to mathematical forms, terms, or computational procedures designed to be consistent with RECOGNISED ACTUARIAL PRACTICE and may also refer to methods, techniques, procedures, or approaches used by ACTUARIES.

Net carrying amount [of insurance liabilities]

The carrying amount of INSURANCE LIABILITIES less related deferred ACQUISITION COSTS or related INTANGIBLE ASSETS.

Onerous contract

A CONTRACT for which the unavoidable costs of meeting the obligations under the CONTRACT exceed the economic benefits expected to be received under it. *[IAS 37]*

Opinion

An opinion expressed by an ACTUARY and intended by that ACTUARY to be relied upon by the INTENDED USERS.

Option

A CONTRACT feature that gives a party of a CONTRACT the right (or potential right) to affect the net cash flows under the CONTRACT. In addition, an INSURER OPTION is a CONTRACT feature that gives the INSURER the right (or potential right) to affect the net cash flows under the CONTRACT.

Policyholder

A party that has a right to compensation under an INSURANCE CONTRACT if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Practitioner

A person who makes use of an IAN.

Principal

The party who engages the provider of ACTUARIAL SERVICES. The PRINCIPAL will usually be the client or the employer of the ACTUARY.

Provision

A liability of uncertain timing or amount. *[IAS 37.10]*

Provision for risk and uncertainty

The increase in liability created by the inclusion of MARGINS FOR RISK AND UNCERTAINTY.

Reinsurance contract

An INSURANCE CONTRACT issued by one INSURER (the REINSURER) to compensate another INSURER (the CEDANT) for losses on one or more contracts issued by the cedant. *[IFRS 4, Appendix A]*

Reinsurer

The party that has an obligation under a REINSURANCE CONTRACT to compensate a CEDANT if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Report

The ACTUARY'S COMMUNICATION(S) presenting some or all results of ACTUARIAL SERVICES to an INTENDED USER in any recorded form, including but not limited to paper, word processing or spreadsheet files, e-mail, website, slide presentations, or audio or video recordings.

Reporting entity

An enterprise for which there are users who rely on the FINANCIAL STATEMENTS as their major source of financial information about the enterprise. *[IASB Framework, paragraph 8]* The entity for whose FINANCIAL STATEMENTS the PROFESSIONAL SERVICE is provided.

Reporting jurisdiction

The jurisdiction, if any, whose laws and regulations are applicable to the preparation of the FINANCIAL STATEMENTS of the applicable REPORTING ENTITY.

Service contract

The contractual agreement governing the performance by a REPORTING ENTITY of an agreed task over an agreed period of time. *[IAS 18.4]*

Service component

A contractual COMPONENT that would be a SERVICE CONTRACT if it were a separate CONTRACT.

Transaction cost

Incremental costs directly attributable to the acquisition or disposal of a FINANCIAL ASSET or FINANCIAL LIABILITY. An incremental cost is one that would not have been incurred if the entity had not been incurred if the entity had not acquired, issued or disposed of the financial instrument. *[IAS 39.9]* They include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. They do not include debt premiums or discounts, financing costs or internal administrative or holding costs. *[IAS 39, AG13] (also see “acquisition cost”)*

Unbundle

Account for the COMPONENTS of a CONTRACT as if they were separate CONTRACTS. *[IFRS 4, Appendix A]*

Underlying

A MARKET FACTOR that affects the value of a CONTRACT or COMPONENT of a CONTRACT and causes it to be a DERIVATIVE or an EMBEDDED DERIVATIVE, respectively.

Unit of account

The economic item to which recognition and measurement rules of IFRSs are to be applied.

Value in use

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. *[IAS 36.5]*

Work

All actuarial activities performed by an ACTUARY related to ACTUARIAL SERVICES. It usually includes acquisition of knowledge of the circumstances of the assignment, obtaining sufficient and reliable data, selection of assumptions and methodology, calculations and examination of the reasonableness of their result, use of other persons' work, formulation of opinion and advice, documentation, reporting, and all other COMMUNICATION.

3. IFRSs referred to in IANs

- IAS 1 (2001 April) Presentation of Financial Statements
- IAS 8 (2004 March) Accounting Policies, Changes in Accounting Estimates and Errors
- IAS 18 (2004 March) Revenue
- IAS 32 (2003 December) Financial Instruments: Disclosure and Presentation
- IAS 36 (2004 March) Impairment of Assets
- IAS 37 (1999 July) Provisions, Contingent Liabilities and Contingent Assets
- IAS 38 (2004 March) Intangible Assets
- IAS 39 (2004 March) Financial Instruments: Recognition and Measurement
- IFRS 1 (2003 December) First-Time Adoption of International Financial Reporting Standards
- IFRS 3 (2004 March) Business Combinations
- IFRS 4 (2004 March) Insurance Contracts

In addition, the IASB *Conceptual Framework* is referred to.