

# **COMMITTEE ON INSURANCE ACCOUNTING and its SUBCOMMITTEE ON ACTUARIAL STANDARDS REPORT FOR THE PERIOD NOVEMBER 2005 TO APRIL 2006**

## **Committee leadership**

Paul McCrossan is retiring from the Committee and Subcommittee effective after the Paris meetings. He has served as the IAA representative to the IASB Steering Committee on Insurance from its initiation in 1997 through 2002, the IASB Standards Advisory Committee from 2000 until 2005, liaison to the IAIS Insurance Contract Subcommittee, and as vice-chair of the Committee and co-chair of the Subcommittee for several years. He has served this important IAA effort in a devoted and effective manner, representing our profession well. He will be missed. He will be replaced by David Congram.

## **International Accounting Standards Board (IASB)**

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. The IASB's Insurance Contracts project was split into two phases, the first responding to the immediate financial reporting requirements of several jurisdictions, including those affecting Australian, European and South African insurers that implemented International Financial Reporting Standards (IFRS) in 2005. In response to phase 1, most of the Committee's activities focused on the development of International Actuarial Standards of Practice (IASPs) that relate to the use of IFRS 4 (*Insurance Contracts*) that were distributed since the Rio meeting, while in response to phase 2, most of the Committee's activities have focused on the ongoing discussion of the IASB's Insurance Working Group plus working with the IAIS on their project on liabilities of insurance contracts, focusing on the measurement of risk margins.

The Committee has been very active in providing actuarial advice to the IASB, particularly through Paul McCrossan, Francis Ruygt and Sam Gutterman. Since the Rio meeting Francis has attended a meeting of the IASB's Financial Instruments Working Group and Insurance Working Group, respectively, while Sam also attended the latter. In addition, Paul and Francis have attended four meetings in 2006 meetings of the committees of the International Association of Insurance Supervisors (IAIS) addressing the implications of phase 2. In addition, individual members of the Committee have been active in making presentations and writing articles on this topic to meetings of IAA member and other organizations.

Sam Gutterman attended a meeting held in London of the IASB's Insurance Working Group as the IAA representative in January. It is serving in an advisory capacity to the IASB Board in conjunction with the development of phase 2. A further meeting will be held in June. Francis Ruygt has attended the first four meetings of the IASB's Financial Instrument Working Group that is advising the Board on IAS 39 (financial instrument) related issues. In addition, Francis attended the January meeting of the Insurance Working Group, making a presentation on risk margins. Both groups will play a critical role in helping the Board enhance financial reporting for insurance contracts and financial instruments.

In addition, the Committee responded to the IASB's request for comments, both formal and informal, including a written submission addressing the IASB's discussion paper on initial measurement. It is anticipated that the Committee will continue this activity on relevant issues.

## **IAA International Actuarial Standards of Practice**

The Committee's Subcommittee on Actuarial Standards and its small drafting team has focused its attention on (1) distribution of its third set of IASPs (four of them approved by the IAA President for distribution in November 2005) – these covered *Embedded Derivatives and Derivatives, Business Combinations, Reinsurance, and Disclosure*. The Subcommittee hopes to make appropriate revisions to these draft IASPs shortly for subsequent approval by IAA Council.

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The Subcommittee (in cooperation with the Professionalism Committee) will be turning its attention to the management and maintenance of its IASPs in the future.

The staffs of the Actuarial Standards Board (U.S.) and the IAA have continued to provide significant editorial support for this activity, the former particularly useful as it looks increasingly likely that U.S. GAAP will converge with IASB standards in the future.

### **International Association of Insurance Supervisors (IAIS)**

Although the IAA Insurance Regulation Committee is the primary IAA committee charged with maintaining relations with the IAIS, the Committee on Insurance Accounting has also been involved with the IAIS's efforts associated with the development of IASB standards. In particular, Paul McCrossan and Francis Ruygt have attended several IAIS subcommittee meetings. These meetings have particularly dealt with the development of the IAIS's Second Liability paper that the IAIS intends to submit to the IASB. In addition, the Committee and the Working Group is currently developing a response to a draft version of the IAIS Second Liability paper.

In addition, the Committee nominated several members to the IAA's joint working group (together with the Insurance Regulations and Solvency Subcommittee) on Risk Margins, for which there was a working group meeting in Paris in March and several conference calls. It is addressing the development and review of current estimates and risk margins incorporated in insurance liabilities and assets in the context of regulatory and general purpose financial reporting. The co-chairs of that working group are Paul McCrossan of the Accounting Committee and Henk van Broekhoven of the Solvency Subcommittee of the Regulations Committee. The goal is the preparation of a paper on these subjects, particularly in response to a request from the IAIS.

### **International Auditing and Attestation Standards Board (IAASB)**

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 organization is responsible for developing international auditing standards, due for implementation in Europe and for which it hopes to converge with other jurisdiction's auditing standards in the future. Sam Gutterman is the IAA representative to the CAG. He attended its November 2005 meeting in London and will attend its May meeting (prior to the IAA Paris meeting). The Committee is particularly following three of the IAASB's projects, addressing auditing of estimates, the use of experts in auditing, and audit materiality. Sam Gutterman is on the CAG's working parties providing oversight to the first two of these IAASB projects.

### **Committee on Insurance Accounting**

Sam Gutterman, chair

Paul McCrossan and Francis Ruygt, vice-chairs

### **Actuarial Standards Subcommittee**

Paul McCrossan and Francis Ruygt, co-chairs