

**COMMITTEE ON INSURANCE ACCOUNTING
and its SUBCOMMITTEE ON ACTUARIAL STANDARDS
REPORT FOR THE PERIOD JUNE 2005 – OCTOBER 2005**

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. Their 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 are implementing International Financial Reporting Standards (IFRSs, also referred to as IASs) in 2005. In response to phase 1, most of the Committee's activities have focused on the development of International Actuarial Standards of Practice (IASPs) that relate to the use of IFRS 4 (*Insurance Contracts*), while in response to phase 2, most of the Committee's activities have focused on the initial discussion of the IASB's Insurance Working Group plus development of internal papers relating to the many issues associated with the development of a replacement for IFRS 4 (and related standards).

The Committee has been very active in providing actuarial advice to the IASB, particularly through Paul McCrossan, Francis Ruygt and Sam Gutterman. Since the June Rome meeting they have attended a meeting of the IASB's Standards Advisory Committee, Financial Instruments Working Group and Insurance Working Group, respectively. In addition, they have attended several meetings of committees of the International Association of Insurance Supervisors (IAIS) addressing the implications of phase 2. 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 has attended the first four meetings held in London of the IASB's Insurance Working Group as the IAA representative over the year. It is serving in an advisory capacity to the IASB Board in conjunction with the development of phase 2. Francis Ruygt has attended the first three meetings of the IASB's Financial Instrument Working Group that is advising the Board on IAS 39 related issues. Both groups will play a critical role in helping the Board to enhance financial reporting for insurance contracts and financial instruments, respectively.

In addition, the Committee responded to several of the IASB's request for comments, both formal and informal, including written submissions addressing the IASB's exposure drafts on its Due Process Handbook, the role of the IASB and other Accounting Standard Setters, IFRIC Operations, IAS 37 (*Provisions, contingent liabilities and contingent assets*), and IFRS 3 (*Business Combinations*). It is anticipated that the Committee will continue this activity on relevant issues.

Sam Gutterman and Tony Coleman lead a discussion of a draft IAA paper on risk adjustments in the financial reporting of insurance contracts at the September meeting of the IASB's Insurance Working Group.

IAA International Actuarial Standards of Practice

The Committee's Subcommittee on Actuarial Standards and its small working party has focused its attention on (1) finalization of its first seven IASPs (approved by the IAA Council in June in Rome and distributed in final form in the summer) and (2) the development of potentially four draft IASPs. As of the date of this report, two drafts for distribution have been finalized, addressing *Embedded Derivatives and Derivatives*, and *Business Combinations*. Two others remain in preparation, addressing *Reinsurance* and *Disclosure*, both of which are quite behind schedule. The Subcommittee hopes to complete these in the near future for possible exposure.

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 committee meetings.

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 meeting in London in September. It will address the development and regulatory review of risk margins and expected values incorporated in insurance liabilities and assets in the context of regulatory and general purpose financial reporting. The co-chair of that working group is Paul McCrossan.

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 June 2005 meeting in Washington and will attend its late November meeting in London. The Committee is particularly following three of the IAASB's projects, covering auditing of estimates (other than fair values), audit materiality and the use of experts in auditing. Sam Gutterman is on the CAG's working parties providing oversight to the first and third projects.

Committee on Insurance Accounting

Sam Gutterman, Chairperson
Paul McCrossan and Francis Ruygt, Vice-Chairpersons

Actuarial Standards Subcommittee

Paul McCrossan and Francis Ruygt, Co-Chairpersons