



**ASSOCIATION ACTUARIELLE INTERNATIONALE  
INTERNATIONAL ACTUARIAL ASSOCIATION**

April 2, 2009

Mr. Adam Van Eperen  
Financial Accounting Standards Board  
Norwalk, Connecticut  
United States

Dear Sir

**Re: IAA comments on the *Financial Crisis Advisory Group Consultation***

In response to the request for input on accounting and reporting matters related to the financial crisis, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

These comments have been prepared by the Committee on Insurance Accounting 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 that Committee, Sam Gutterman, or any of the other members of the Committee. The IAA will be glad to develop these ideas further with you.

Yours sincerely

Yves Guérard  
Secretary General

[Attachment](#): IAA comments

**A Commentary on the  
REQUEST FOR INPUT FROM CONSTITUENTS  
ISSUED BY THE FINANCIAL CRISIS ADVISORY GROUP: MARCH 2009**

**International Actuarial Association**

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our sixty-two Full Member actuarial associations represent more than 95% of all actuaries practicing around the world and are listed in an Appendix to these comments. 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.

**IAA Commentary**

The IAA commends the Financial Crisis Advisory Group for addressing substantive financial reporting issues in a timely manner. The following responds to the specific questions raised on the FASB and IASB websites.

**Question 1.** From your perspective, where has general purpose financial reporting helped identify issues of concern during the financial crisis? Where has it not helped, or even possibly created unnecessary concerns? Please be as specific as possible in your answers.

**IAA Comments**

Areas where financial reporting *helped*:

- Amended IFRS 7 and the Dear CFO letters. These sources of guidance represent enhanced disclosure that have benefited users of both IFRS and U.S. GAAP, respectively. Further useful and meaningful (but not necessarily a larger quantity of) risk-related disclosure would have provided additional early warning indicators. In particular, the recently introduced sensitivity tests required by IFRS 7 represent an example of particularly useful disclosure information. The early stages of declining fair values of subprime mortgages and related securities provided an early warning of impending financial danger.
- Changes in fair value and impairments produced values for certain financial assets and financial liabilities that provided key early warning indicators and insight into problem areas. Nevertheless, the usefulness of this information was diminished when formerly active markets suddenly turned illiquid or where there were inconsistent application of impairment rules. It showed that in the absence of clear guidance and established practice transparent accounting suffered.

Areas where financial reporting *did not help*:

- A lack of convergent accounting standards on a worldwide basis. This made it difficult to analyze the relative financial conditions across country and regions. Examples include methodologies for measurement of insurance contracts and different impairment models.

- A lack of clear risk-related disclosure of off-balance sheet risks that ultimately became the responsibility of the reporting entity.
- The mixed attribute approaches used in the measurement of financial assets and financial liabilities by which they are not measured on a consistent basis. In some cases this resulted in financial information that was opaque (see our Q4 response for further discussion). Suddenly illiquid markets and distressed transactions wreaked havoc on the measurement of the fair values of certain instruments where such a condition did not exist before. Some regulators required the use of price information from distressed sales that does not appear to have been appropriate. Enhanced guidance has helped recently, but has pointed to the need for a review of the overall measurement of financial instruments in a comprehensive and accelerated manner. We also note that a euphoric market or market in a bubble can provide prices just as distorted as an illiquid one.
- In the deteriorating credit characteristics of a number of entities' financial instruments, non-performance risk was reflected in the measurement of the entities' own liabilities. This not only generates large income boosts, but has confused and misled the attention of many users of financial reports. In addition, it misdirected attention away from the underlying performance of the entity and, instead, focused it on the accounting methodology applied. At best, this information placed an inordinate emphasis on financial reporting information that could have been better focused on the performance and risks of the reporting entity. If this controversial accounting requirement remains, better education and disclosure is needed.
- The extent and effect of hedge ineffectiveness was not always clearly communicated. In addition, in some cases it was assumed that hedges were effective when subsequently it has been shown that they were not fully effective.
- The financial crisis emphasizes the need for an enhanced measurement standard and appropriate risk-related disclosure for the prospective estimates of the liability for insurance contracts by insurers, major participants in the financial services industry.
- A key problem involving the current financial crisis has been a lack of open debt markets (liquidity). Although we would not expect that changes in financial reporting would necessarily facilitate such markets, effective financial reports that include risk-related disclosures should help moderate such cycles.

**Question 2.** If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.

### **IAA Comments**

We do not currently have an opinion regarding the best method to use to disclose any difference with dynamic loan provisions.

We note that loan loss provisions are quite similar in concept to general (property and casualty) insurance claim liabilities. The analyses and approaches used by casualty actuaries may be helpful in determining appropriate loan loss provisioning methodologies and processes used to develop assumptions.

The requirement for an *event* to trigger recognition of loan impairment can be a barrier to a properly responsive approach to measuring the value of such loans. For entities in the *business* of lending or investing, in particular, loan impairment should be measured on the basis of the risk-adjusted present value of expected defaults, consistent with the measurement basis for the loans themselves. Because amortized values typically include an allowance in the discount rate for the level of expected default risk at inception, care may be needed to avoid double or undercounting.

An alternative approach would be to value loans on a basis that is responsive to the risk of default. This would avoid the need for an offsetting “liability” for loan impairment. One possible method would be to use a modified amortized value, with the discount rate equal to the applicable risk-free rate plus a credit spread appropriate to the current credit rating of the loan. The use of the current risk-free rate that would produce values relatively close to a fair value, would enable the use of the risk-free rate at inception.

**Question 3.** Some FCAG members have indicated that they believe issues surrounding accounting for off-balance items such as securitisations and other structured entities have been far more contributory to the financial crisis than issues surrounding fair value (including mark-to-market) accounting. Do you agree, and how can we best improve IFRS and US GAAP in that area?

### **IAA Comments**

We agree that overall off-balance sheet items were a more important contributor to the financial crisis than issues surrounding fair value accounting. Enhanced disclosure of all potential risks of an entity, including those involving off-balance sheet items and instruments for which fair value methodology was used would have provided at least early-warning information regarding some of the drivers that led to the financial crisis.

We encourage convergence between IFRS and U.S. GAAP approaches in this area, as we do in others.

We believe that the number of securitizations and other structured entities held off-balance sheet should be reduced to a minimum through enforced principles-based standards. Risks to the reporting entity for off-balance sheet entities should be fully disclosed.

If an obligation could ultimately return to the entity on the failure of the securitization or other structure, it should be recognized on the entity's balance sheet, along with any appropriate offsetting asset and effective disclosure regarding this situation. The measurement of this risk should, where appropriate, be developed with appropriate tools, such as stochastic modeling.

**Question 4.** Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?

#### **IAA Comments**

First, the IASB and the FASB, among other accounting standard setters should confirm the overall measurement objective of their financial reports through the Conceptual Framework. This process is well advanced, with a draft of Chapters 1 and 2 of the proposed new Framework. We support the proposal that general purpose financial statements should provide information that is relevant and that faithfully represents the economic phenomena that a wide range of current and prospective capital providers need for sound decisions. This is an essential basis for subsequent discussions by the IASB and the FASB.

Wherever possible, assets and liabilities should be measured on consistent, though not necessarily equal, bases. Inconsistent measurement bases can not only provide misleading information, but they can hide useful information as well. Likewise, where different contracts (e.g., certain financial instruments and insurance contracts) are measured on significantly inconsistent bases, a financial institution has an incentive to sell certain of its contracts just on the side of the boundary line between them that is preferable in an accounting sense to the entity, rather than on the basis of the needs of the clients or the underlying economics underlying the contracts.

Any change should aim to reduce the difference between the economic drivers and economic reality of the business and its financial reporting.

**Question 5.** What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?

#### **IAA Comments**

We agree that an urgent-issues process is needed. In implementing this, a clear description of what may constitute an urgent issue should be developed.

In any event, such a process should follow a set of due process procedures. We do not believe that an IFRS or a significant modification of a standard should be implemented without the benefit of proper input from stakeholders. A critical factor is to indicate to stakeholders that such an issue is arising and should provide an opportunity to deliver input to the decision-making process, even if the period is short, say 15 days.

Once such a change is implemented, it should be evaluated after a specified period, say one or two years, but in any case after it has been initially applied, to ensure that it works as intended.

**Question 6.** Are there financial crisis-related issues that the IASB or the FASB have indicated they will be addressing that you believe are better addressed in combination with, or alternatively by, other organisations? If so, which issues and why, and which organisations?

**IAA Comments**

In general, there is a need to consult as widely as possible with user and other stakeholder groups.

In certain areas that affect financial institutions, the IASB, the FASB and other national standard setters, as applicable, should coordinate efforts with applicable regulators for issues that affect those regulators.

If financial service-related issues are addressed, we believe that accounting standard setters should not only coordinate efforts with the applicable financial service regulators, such as the IAIS for insurance, but with the IAA or other professional organizations as applicable as well.

**Question 7.** Is there any other input that you'd like to convey to the FCAG?

**IAA Comments**

It is important to continue to emphasize the need for convergence of accounting standards on a worldwide basis, given an acceptable and responsive governance structure.

The global financial crisis points to the need for a comprehensive, rather than piecemeal, revision to IAS 39. In this, as well as in other areas, we believe that only through clearly stated principle-based accounting standards can the concerns of preparers and auditors and the needs of users be satisfied.

Recent political discussions have reemphasized the importance of safeguarding the independence of accounting standards setters from political interference. Although this is certainly an issue that directly involves the governance of the both the IASC Foundation/IASB and the FASB, we believe it is worth emphasizing here as well. This is particularly important in a financial crisis period during which overreaction, even panic, may be likely to arise. Clear safeguards regarding the maintenance of such independence are needed.

Although a great deal of financial information is used by both investors and financial regulators, this financial crisis has indicated that differing needs for high quality information may require additional information for one or more stakeholders in an entity. In such cases, it is vital that the information provided to meet those different needs is reconciled in a highly transparent manner.

The IASB's Expert Advisory Panel that was convened in 2008 is an example where an advisory group can produce meaningful advice in a reasonably short period of time. Indeed, such advice, where appropriate, should be considered for adoption by the respective accounting standard setters.

Due to the large and seemingly growing list of high priority projects, it may be appropriate for the IASB to assess whether it needs to take action to expand its resources.

## Appendix A

### Members of the IAA Committee on Insurance Accounting

Sam Gutterman	Chairperson
David Congram	Co-Vice-Chairperson
Francis Ruygt	Co-Vice-Chairperson
Gunn Albertsen	Den Norske Aktuarforening
Yutaka Amino	Institute of Actuaries of Japan
Victor Hugo Cesar Bagnati	Instituto Brasileiro de Atuária (IBA)
Daniel N. Barron	Israel Association of Actuaries
Ralph Sumner Blanchard III	Casualty Actuarial Society
Guy Castagnoli	Association Suisse des Actuaire
Antonella Chiricosta	Istituto Italiano degli Attuari
David Congram	Canadian Institute of Actuaries
Alexander Dollhopf	Svenska Aktuarieföreningen
Guillermo Ezcurra Lopez De La Garma	Instituto de Actuarios Españoles
David John Finnis	Institute of Actuaries of Australia
Mark J Freedman	Society of Actuaries
Kavassery S. Gopalakrishnan	Institute of Actuaries of India
Rokas Gylys	Lietuvos aktuariju draugija
William C. Hines	American Academy of Actuaries
Armand Maurice Ibo	Institut des Actuaire de Côte d'Ivoire
Dragica Jankovic	Udru enje Aktuara Srbije
Burton D Jay	Conference of Consulting Actuaries
Jelica Klucovska	Slovenska Spolocnost Aktuarov
Ad Kok	Het Actuarieel Genootschap
Christoph Krischanitz	Aktuarvereinigung Österreichs (AVÖ)
Kurt Lambrechts	Association Royale des Actuaire Belges
Yin Lawn	Actuarial Institute of Chinese Taipei
Kristine Lomanovska	Latvijas Aktuaru Asociacija
Brian Joseph Morrissey	Society of Actuaries in Ireland
Andreja Radic	Hrvatsko Aktuarsko Drustvo
Nithiarani Rajasingham	Singapore Actuarial Society
Thomas Ringsted	Den Danske Aktuarforening
Matthew Christopher Saker	Faculty of Actuaries
Jaanus Sibul	Eesti Aktuaaride Liit
Dieter Silbernagel	Deutsche Aktuarvereinigung e.V. (DAV)
Pentti Soinen	Suomen Aktuaariyhdistys
Bjarni Thórdarson	Félag Islenskra Tryggingastærðfræðinga
Charles Vincensini	Institut des Actuaire
Peter Andrew Withey	Actuarial Society of South Africa
Derek John Wright	Institute of Actuaries
Jana Zelinkova	Ceská Spolecnost Aktuárù
Jesús Alfonso Zúñiga San Martin	Colegio Nacional de Actuarios A.C.

**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)  
Association Royale des Actuaire Belges (Belgique)  
Instituto Brasileiro de Atuária (IBA) (Brazil)  
Bulgarian Actuarial Society (Bulgaria)  
Canadian Institute of Actuaries/Institut Canadien des Actuaire (Canada)  
Actuarial Institute of Chinese Taipei (Chinese Taipei)  
Institut des Actuaire de Côte d'Ivoire (Côte D'Ivoire)  
Hrvatsko Aktuarsko Društvo (Croatia)  
Cyprus Association of Actuaries (Cyprus)  
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)  
Latvijas Aktuaru Asociācija (Latvia)  
Lebanese Association of Actuaries (Lebanon)  
Lietuvos Aktuariju Draugija (Lithuania)  
Persatuan Aktuari Malaysia (Malaysia)  
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)  
Actuarial Society of South Africa (South Africa)  
Col.legi d'Actuaris de Catalunya (Spain)  
Instituto de Actuarios Españoles (Spain)  
Svenska Aktuarieföreningen (Sweden)  
Association Suisse des Actuaires (Switzerland)  
Society of Actuaries of Thailand (Thailand)  
Faculty of Actuaries (United Kingdom)  
Institute of Actuaries (United Kingdom)  
American Academy of Actuaries (United States)  
American Society of Pension Professionals & Actuaries (United States)  
Casualty Actuarial Society (United States)  
Conference of Consulting Actuaries (United States)  
Society of Actuaries (United States)