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REPORTS ON TOPICS OF CURRENT INTEREST

JOINT ACTUARIAL COMMITTEE ON FINANCIAL REPORTING

This morning's *Wall Street Journal* carries a lead article on the rebound of the stock values of conglomerates. One of the reasons given for the recovery is that the "formerly widespread distrust of conglomerate earnings figures has been partly dispelled by stiffer new accounting practices."

An actuary reading that statement a year ago would probably have felt, if he had any reaction at all, a detached sense of approval. But the situation has changed. The American Institute of Certified Public Accountants is currently working on what some would call "stiffer new accounting practices" for life insurance companies. They are not attacking statutory accounting, but they are looking at the convention statement in the light of generally accepted accounting principles.

Generally accepted accounting principles are the body of concepts which bring meaning to the financial reports—particularly the earnings reports—of public corporations. Accountants have long felt, with considerable justice, that statutory accounting in the life insurance business does not satisfy generally accepted accounting principles. Our practice of charging off acquisition costs in the year of incurral provides an easy example, but there are many other differences between statutory and generally accepted accounting principles.

The AICPA has been studying these differences for about five years. They have now tentatively proposed a method of accounting for life insurance company operations in accordance with generally accepted accounting principles. This proposal takes the form of a draft audit guide, some 150 pages in length, which they released for commentary the end of last year. In preparing the guide they had the benefit of actuarial assistance, but there is a fairly widespread feeling that they did not rely on it as heavily as they might have.

In view of the obvious actuarial concern with this activity of the

AICPA, a Joint Actuarial Committee was created last December. This committee draws its membership from the Society, the American Academy of Actuaries, the Canadian Institute of Actuaries, the Conference of Actuaries in Public Practice, and the Casualty Actuarial Society. The basic responsibility of the committee is to bring to bear in a coherent form the expertise of the actuarial profession on this project of the accountants. We have been working with the AICPA Committee and with a Joint Industry Committee on Financial Reporting Principles. We are preparing a response to the draft audit guide which we will submit to the AICPA before their May 15 deadline for comments.

We have also been working toward the identification and maintenance of the proper role of the actuary in reporting on the financial operations of life insurance companies. It is our view that the draft audit guide fails to recognize adequately the importance of the actuary in the financial reporting process.

We all know the significance of the actuarial items in a life company's statement. The committee believes that accountants as a professional group are not qualified to determine these items without the participation of actuaries. While the accountants acknowledge the desirability of actuarial advice, they feel that they and they alone should be ultimately responsible for the financial statements.

The Joint Actuarial Committee believes that the public interest requires the participation of a qualified actuary in the determination of the actuarial elements of any published financial statement of a life insurance company. Further, we believe that this same public interest requires that the actuary be identified and that his certification be a part of the statements. We are trying to convince the AICPA of the soundness of this position, but we are also looking to other authorities. Last week Tom Bowles appeared before a subcommittee of the National Committee of Insurance Commissioners to urge the need for actuarial certification, and we expect to make similar appearances before other groups.

We regard this issue of the proper role of the actuary as central to our profession. It is, of course, at the heart of the reason that the Academy of Actuaries came into being. As might be expected, the Academy has been the principal vehicle for forwarding our cause, and Tom Bowles's appearance was on their behalf as well as on behalf of the Joint Actuarial Committee.

It is too early to predict how successful our campaign for the proper recognition of the role of the actuary will be. We believe, however, that the outcome will be significant for all actuaries.

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