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### PUBLIC ISSUES INVOLVING ACTUARIES AND ACCOUNTANTS

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Several public issues involve both actuaries and accountants, such as pension plan funding and reporting, GAAP for mutual life companies and independence in auditing. For many years representatives of both professions have met to foster mutual understanding and reconcile differences. This panel will discuss these activities and the results which have been achieved. In addition, issues which the two professions have both agreed and disagreed on as well as current hot topics will also be discussed.

MR. JARVIS FARLEY: Formal relationships between the accounting profession and the actuarial profession in this country are largely a product of the last two decades. For years before that there had been professional contacts between individuals, and occasional skirmishes at legislative and regulatory hearings, but there had been no perceived need for anything like the structure of communication from which the professions and their clients now benefit.

It was about 20 years ago that insurance companies felt pressure to provide additional financial information to meet the needs of shareholders and security analysts, and the past decade has brought important legislation on employee benefits, dealing primarily but not solely with pensions. Those developments involved matters of fundamental concern to both accountants and actuaries, and it became absolutely essential that the principles and standards of each profession recognize the needs of the other, avoiding irreconcilable conflicts between the two.

The process of consultation started with the development of the Audit Guide for Stock Life Insurance Companies. The life insurance company trade association of that time appointed a joint committee composed of actuaries

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and insurance company accountants to work with the Insurance Companies Committee of the American Institute of Certified Public Accountants (AICPA), and the various actuarial bodies appointed a joint committee to consult with the AICPA's committee on the development of the audit guide. When publication of the guide was imminent, the Academy appointed a committee on financial reporting principles to advise actuaries how best to meet their responsibilities in light of the new conditions. That committee, working with the Joint Committee on Professional Conduct, developed our profession's present structure for publishing such advice, in the form of Recommendations and Interpretations of the specialized committee backed up by an Opinion of the Professional Conduct Committee; and the Boards of Directors of the actuarial bodies developed the exposure process by which the profession tries to make sure that the published statements reflect principles and practices which are generally accepted within the profession.

The process of working and arguing together created a bond of mutual respect, and leaders in both professions agreed that there was need to create a program of continuous communications. The AICPA formed its Committee on Relations with Actuaries and the Academy formed its Committee on Relations with Accountants. Those committees have met together at least three times each year to identify subjects of mutual interest and concern to the two professions. Those liaison committees don't try to solve problems. They do try to identify problems, through discussion, to understand the nature and scope of the problems and to contribute to the resolution of the problems by conveying their understanding to the working committees in each profession.

That set of structures, for examining new challenges to the actuarial profession and for sharing the examination in appropriate ways with the accounting profession, were in place and ready for use when the difficult pension questions were presented, and are ready now for use when new challenges arise.

The experience of those new frontiers, in financial reporting and in pension matters, broadened our profession's awareness of its responsibilities to remote users of its services, such as shareholders, policyholders, and pension plan participants. In meeting those responsibilities, the profession has reexamined and restated its policies in such important related matters as independence and advertising, and the experience of the accounting profession has provided helpful precedents. As a very important by-product, the growth of communications between the professions has led to actuarial representation on the Financial Accounting Standards Advisory Committee, which serves as a resource for the Financial Accounting Standards Board in its considerations of generally accepted accounting principles. Our profession and the accounting profession have benefited by this process of cooperation. The American members of this panel are all present or former members of the liaison committees.

We are going to conduct this panel as though it were sort of a mini-meeting of the liaison committees. Our agenda is a list of current issues involving actuaries and accountants. On each subject a member of one profession will lead off and a member of the other profession will add

supplementary comments. Any member of the panel may make any additional comments. The first subject on the agenda is the independence of actuaries.

MR. STANLEY HUGHEY: One of the more troublesome problems that actuaries have had to wrestle with in recent years is a clear and generally acceptable definition of the degree of independence required for various levels of communication.

In the Year Book, there is an Opinion A-3 which deals with the transmittal of actuarial reports. This was originally written in 1970 and attempted, in light of the then knowledge, to talk about the kinds of reports and the kind of position that the actuaries ought to take. However, at that time it was presumed that we were a professional expert making an independent actuarial report. Since that time, it has become quite clear that there are a whole range of actuarial reports, from the very formal - or public consumption report, clear down to the quite informal report - intended for use within a Company, for example. And depending on the audience, perhaps different degrees of independence were required. This is still being debated.

The latest on that, from the internal actuarial standpoint, is the recently released exposure draft of Opinion A-3 which I suspect you are all familiar with. From the standpoint of actuaries and accountants, the much discussed and unresolved issue is the independence of the actuarial and the audit functions, where the actuarial function or some actuarial work has been done by an individual who is an employee of an accounting firm. We start with the assumption that this work is material. Where the actuary has made such a determination, and then the CPA firm is in the position of doing the audit, the question is whether, in fact, there are any elements of self review involved. Some of the accounting firms have maintained that there is some self-review if that sequence takes place, and therefore have felt that such an arrangement was inappropriate. Other accounting firms - and here we're talking about all kinds of accounting firms, but primarily the big 8 - have taken the position that the actuarial work is understood by, and accepted by, management to the point where it becomes management's knowledge and that, therefore, it is appropriate for the audit arm of the firm to step in and do the auditing work. The actuarial profession has some **similar** divided opinions, although the preponderance of actuaries tend to take the view that this is a form of self-review and, therefore, inappropriate. This has received a lot of discussion and it is clearly unresolved at the moment.

From the actuarial point of view, the latest bid is contained in this exposure draft, and the question of independence is dealt with. Certain new material has been added to the old opinion A-3 and, for those of you who are interested and concerned, I certainly commend this draft to you. You should take it upon yourself to read it, understand it, and comment, if you so wish. The new material includes a range of reports. It acknowledges a number of different kinds of actuarial communications. It rather clearly spells out the requirements of financial and organizational independence when an actuary signs a statement of actuarial review for

public use or reliance. It incorporates the requirement that pertinent organizational and financial relationships be disclosed. It discusses the reliance upon the work of another person; the general responsibility to users; and makes the distinction between "direct" and "indirect" users. All of this helps to sharpen the definition of independence but leaves, as perhaps is appropriate, some openings and range for individual judgment on the part of actuaries.

MR. RANDOLPH H. WATERFIELD: This is an area in which both professions have ultimately agreed to disagree. The AICPA's position, which was established by the ethics committee of the profession regarding actuarial services, ruled that an actuary employee of a public accounting firm could provide actuarial services to an audit client and the auditor would still be able to maintain his independence, provided that management was in a position to make an informed judgment about the results of the work performed by the actuary and, in fact, was able to assume the end result as if it was its own. This stems from other rules in our practice relating to other areas of consultation. For example, we provide other accounting services to audit clients and, in many cases, assist them in determining the proper accounting for an individual transaction, a merger or an acquisition. We may assist in the preparation of their income tax liability and provision for income taxes for the year. But in each of these cases it's an understanding that management agrees with the end result, understands it, and does accept it as their own. As an accommodation we may prepare the financial statements. But, again, they are management's financial statements and it is required that they adopt them. There has been some modification to the original ruling by the public oversight board. The public oversight board is an appointed group of men from outside the accounting profession - generally businessmen and lawyers - who have been appointed to oversee the practice of the AICPA. That's part of our self-regulatory program. And they have ruled that the consultation that I've talked about on the accounting services would be inappropriate if an actuary were to make the life insurance valuation calculation for the life insurance company's reserves and then report on the financial statements which included those reserves. There is some permissiveness in that area. However, the actuary of the accounting firm could consult if there was another primary actuary who was the principle or primary consultant of the insurance company. The public oversight board, however, did not preclude the actuary employee of the public accounting firm from providing services in the employee benefit area. So there is that distinction.

MR. FARLEY: It may be pertinent to add that, purely from the viewpoint of the actuarial profession, the various actuarial bodies in this country a few years ago appointed a joint committee on independence of the actuary. The key result of that report, as interpreted and adopted by the various governing bodies, was that an actuary who signed a formal review, for public use and reliance, must be free of financial and organizational relationships with the client or any other person associated with the work. And the Board of Directors of the Academy instructed the Committee on Guides to Professional Conduct of the Academy to see that they got incorporated in the actuarial literature of the Academy. And that is a part of the proposed Opinion 3 which Stan referred to, which is now in

exposure form before the members of the profession. That states the viewpoint of the actuarial profession. It doesn't resolve the areas on which, as Stan and Randy said, there's an agreement to disagree.

MR. FRANK A. BRUNI: As Randy stated, we have rulings in the American Institute on the work of an actuary related to firms of accountants. I'd like to add that different firms have different internal rulings that may be more strenuous than those which have been promulgated by the American Institute. There are certain firms that have actuaries, that will not allow those actuaries to perform what we call original work, where those firms are also the auditor of that entity. There are others that follow more closely with the rulings promulgated by the American Institute, and there is a spectrum of different views within the accounting profession itself - if we should have actuarial employees, at all, in an accounting firm and, if we do, how much should those actuaries be allowed to do for clients where we have audit responsibilities.

MR. FARLEY: The next item on our agenda is employee pension and welfare matters.

MR EDWIN F. BOYNTON: There are three major areas of particular mutual interest to actuaries and accountants (in different stages of development). First there is the Financial Accounting Standards Board (FASB) statement numbers 35 and 36, which are rulings of the financial accounting standards board, dealing with the financial statement of a pension plan itself, as well as the disclosure of certain pension liabilities on the financial statements of the sponsoring organizations. Next there is the so-called employee benefit audit guide which is in the final stages of approval by the AICPA. Finally, and probably the most important, is the discussion memorandum which was issued in February by FASB, dealing with basic pension expense and pension liabilities and their positions on the financial statement.

First, in connection with FASB 35 and 36, the principle area of concern deals with the value of the rate of interest to be used in calculating the value of accumulated benefits that appears in the footnotes of financial statements. In this statement FASB implies, rather strongly, that this would not necessarily be the rate of interest used in the regular valuation of the pension plan - that being a very long term obligation. And FASB defined the interest rate to be used in terms of the shorter term or the yield expected to be earned related to the specific liabilities that are recorded in the financial statement in the footnote. The interpretations of this have been quite varied. We've been interested in following what has been developing here. We've been summarizing - from financial statements of the Fortune 800 List - what the various companies are doing. If you will look at the following chart, you will see quite a wide variation in the interest rate being used.

INTEREST RATES - FASB #36  
362 ANNUAL REPORTS

<u>INTEREST RATE</u>	<u>% OF COMPANIES</u>	<u>INDEX</u>
4.0 - 4.99%	1%	175%
5.0 - 5.99	6%	145%
6.0 - 6.99	26%	120%
7.0 - 7.99	28%	100%
8.0 - 8.99	25%	84%
9.0 - 9.99	4%	70%
10.0 - 12.40	3%	58%
Varying	<u>8%</u>	
	100%	

The bulk of the companies are using a rate in the range of 6-9% which, itself, is a fairly wide-range. There are some in the outer fringes. Some are as low as 4% and the highest we've seen so far is 12.4%. This includes almost 400 of the 800 on the Fortune list. Incidentally only about 5% of the companies have reported using PBGC assumptions which is somewhat of a surprise. Although it is possible some of the companies are using PBGC rates and not specifically indicating that. They may just be reporting an equivalent yield. Of particular interest here is what the impact might be on the accounting and actuarial professions in the future. On the right-hand side the column labeled "index" is just a rough guide as to the cost impact of the variations in interest rates and this would vary widely, as you would all recognize, depending particularly on the relative proportion of retired persons. That index, which I worked out very roughly, is probably fair in regard to the active employees but would be diluted somewhat as you add more and more retired employees. What I am trying to demonstrate here is that, in the statement that FASB prepared, they were trying to counter the criticism which has been expressed very often in recent years, in Fortune, Business Week, and the New York Times, where everybody is beating a drum about these unfunded pension liabilities and the wide variations in reporting practices. FASB, in defining a single cost method, was trying to achieve greater comparability and uniformity in reporting practices among these companies. It indicates that, even though the single-cost method may have reduced the variations and led to some more comparability, there is still quite a distance to go in terms of being able to look at unfunded pension liabilities in various corporations, and relying upon that number alone, without an interpretation as to what interest rate was used in determining it. And I think the message is that if this practice continues, we are likely to see greater continued interest by FASB, and the SEC probably, in further limiting, and further and more closely defining, the rate of interest that can be used for this purpose. It is still early in the game to know what will happen but this whole area is going to be reviewed again and could likely lead to further restriction on the flexibility that companies now have in the rates of interest for this purpose. One area that comes up quite frequently is the contention between actuaries and accountants in selection of actuarial assumptions. It's a natural kind of

an area that leads to some interesting discussions. Because the accountant is in the position of auditing, he's got to give his opinion on the financial statement and he may not fully agree with the actuarial assumptions. Let me give you a couple of examples of what we do run into in the real world and quote a couple of comments from letters that we have received. One is written to our clients by an audit firm stating:

We recommend that you work with your actuaries to mollify the actuarial assumptions which appear too conservative based on past actuarial gains. A change in assumptions would result in lower contributions under the same funding method, and change normal costs which you have been using, and reduce the accrued liability.

That incidentally was prepared by the national offices of one of the big 8 accounting firms. Another letter is from an employer who was writing to an actuary to request the statement of the value of accumulated benefits:

We have consulted with our independent CPAs, and determined a reasonable assumed rate of return to be 8%. Please contact me if this rate does not appear proper from your point of view.

This does appear to be pushing things a bit in terms of influencing original determinations.

Let me move on to discuss briefly the FASB discussion memorandum which is probably the most important document in a long time, from the standpoint of actuaries in the employee benefit or pension field. This is the Discussion Memorandum on Employers Accounting for Pensions and Other Post-Employment Benefits, issued in February with a comment period running until the middle of June. It is a very long detailed involved document. It is an extremely well written document. It's very theoretical and I'll get into that a little bit more. There are two major issues that come forth loud and clear here. One involves the nature of the actuarial liability. Is it an accounting liability? Where does it appear in the company's financial statement? Should it be in the balance sheet directly - on the liability side, or should it appear in the footnotes - as it presently does, or should it not appear at all? This is an extremely critical issue, obviously, for most corporations. The other issue which is of great significance to actuaries is whether or not the pension expense - not pension funding, but the pension expense - should be determined by a single cost method, or perhaps a family of cost methods. There is a long discussion on this issue.

A few other issues that are addressed are the handling of actuarial gains and losses. Should FASB 36 be modified further to require additional disclosure? What kind of disclosure, etc.? For other post-employment benefits - should other benefits for retired persons, (medical benefits and life insurance benefits) be expensed in advance? Should they not be pre-funded but pre-expensed? Should the rights accrue over the working lifetime or should they wait until the expense is incurred? This discussion memorandum, large and comprehensive as it is, does not cover the whole area. Several areas that are specifically excluded are multi-employer plans which are a problem unto themselves with perhaps

quite different accounting treatments; foreign subsidiaries; insured plans; defined contribution plans; and plans where there is some likelihood of termination in the relatively near future, which could obviously call for different treatment on the company's balance sheet.

I am going to touch on some of the areas where actuaries and accountants do need to communicate because this document is quite different from what we are used to dealing with in the way we attack certain problems. And they raise questions as to the nature of the pension arrangement and sub-divide it. They come up with two alternatives. One is that it is deferred compensation, and they reached the conclusion in the discussion memorandum that if it is deferred compensation - if a worker is foregoing current income in order to accrue these rights to pension at retirement - then the conclusion is that the expense should be accrued during this period of active service. On the other hand, if it is simply a transfer of payment which could come from active employees, or shareholders, or even customers ultimately, then it could be treated as current expense when paid.

The other item which follows throughout this discussion memorandum is conceptual framework. Basically, conceptual framework was undertaken by FASB to write a philosophical background for accounting policy in general, for all purposes, and make all accounting principles fit into this conceptual framework. There are sections of this statement where actuaries might get a little lost because they get into conceptual framework ideas that are somewhat foreign to us.

The question of whether the accrued pension liability should appear on the balance sheet, or be in the footnote, is critical. If so, how is it measured? Judging from conceptual framework, the accounting definition of a liability - liability in general, not a pension liability - into which they are trying to fit the pension liability is: probable future sacrifices of economic benefits arising from present obligations of a particular entity. Now actuaries are often accused of having trouble communicating with the world, and I guess we are not the only profession that has that problem. Two of the key attributes of the liability are that it must be sufficiently probable and sufficiently measureable to be a recorded liability of the company. Actuaries will be interested in reviewing the five alternatives that are expressed in the discussion memorandum under the sufficiently measureable test. That is, what methods of measurement are available and what methods should be used for this liability. Most of them are related to conventional actuarial measurements, such as the liability determined by the actuarial cost method, termination liability, vested liability or even retired liability.

Another searching question in this document is - and this relates not to legal obligations but rather to accounting concepts - how does an employer plan sponsor discharge his obligation to the plan? Is it by making payments to the plan, or is it by making payments to pensioners? Where is his **ultimate** liability, in the accounting sense? And from that follows the question: should plan assets really be treated as employer assets? Again, not a legal ownership but, from an accounting standpoint, should the plan assets be viewed as part of the corporate assets - as a partial



offset to the plan obligation? If the employer's final obligation is the payment of pensions - not just the payment to the plan - then it could follow that the plan assets should be considered a part of the employer assets.

The other major item is the measurement of pension expense, and here I think one of the critical issues is: should there be a single measurement method? One of the issues that is very important in this document is the distinction between expensing and funding. Here I think the FASB is copping a plea, in a way. They take the position that we don't really care how you fund the plan. We are only concerned with the pension expense. This is generally what the accounting profession is saying. I think they are copping a plea because, in the real world, that's an improbable position. You cannot ignore funding if you are studying expense policies because, for most employers, their funding policy will follow the expense policy, assuming that it would meet ERISA standards. For the most part, the overwhelming number of employers are going to be funding the same way they expense. To duck the responsibility and ignore the arguments dealing with the funding of the plan, of the flexibility needed with different cost methods, and the choice of assumptions, and to brush that aside and say "that is a funding question - we are not going to address it", is avoiding a basic responsibility which is that funding policy will generally follow expense policy. Five different methods are defined. Actually, they are more families of methods than they are specific methods.

The timetable for this discussion memorandum is a critically important item. It was published in February. The comment deadline is in the middle of June. A hearing is scheduled in New York in the middle of July. Tentative conclusions on the basic issues are supposed to be presented in the fall of 1981. The so-called Phase II is the other issue that I mentioned, which is due for a discussion memorandum in 1982, an exposure draft on the whole package in 1982, hearings in 1982, and the final package in 1983. When you look at the schedule, keep in mind that the easy issue which produced FASB 35 was started in 1975 and finalized in 1980. And that involved a fairly simple problem to deal with. If they make the 1983 deadline I will be quite surprised.

MR. BRUNI: I get somewhat concerned the more I deal with actuaries. Ed, for instance, claims that he doesn't know a great deal and he is going to have me explain conceptual framework. I am getting somewhat concerned because he understands it better than I. And whereas many times accounting firms are looked at askance as infringing on the actuarial profession, I'm afraid that with Ed's understanding, he is liable to go the other way on me, because he certainly seems to understand the accounting issues quite well.

The discussion memorandum that Ed talked about is terribly important. It will form the cornerstone for all of the pronouncements that will come out of the FASB concerning pension benefits, pension plans and post-employment benefits. So I encourage you all to certainly submit whatever comments you think might be pertinent to the FASB. The reason why the project has been undertaken is that the pension environment has changed dramatically

since APB Opinion No. 8 came out in 1966 and, therefore, this is going to be APB 8, revisited. The FASB is concerned about the adequacy of existing rules for financial reporting concerning pension obligations and that the current flexibility results in a lack of comparable reporting. I think that tells us a little bit about what they are trying to do: that the different actuarial cost methods may produce varying results in similar situations; and that the existing pronouncements do not specifically address accounting for most post-employment benefits, other than pensions. I think this tells us a great deal about what the FASB is about, and certainly that's a great deal to bite off. We look forward to the hearings, and to what comes out of the FASB as a result of this discussion memorandum.

Most of our committee meetings are spent trying to update each other on what the most current events are that are taking place, so that each profession may respond to these situations. As Ed pointed out, one of the very current developments is the audit guide that's been drafted on audits of employee benefit plans by the American Institute Committee on Employment Benefit Plans and ERISA. I'd like to address just a few remarks to that audit guide. That audit guide was exposed for comment around September and the comment period was over in December. Chapters 3 and 4 in that audit guide were not exposed because they weren't ready for exposure. Chapter 3 will deal with accounting and reporting by defined contribution plans. Chapter 4 will deal with accounting and reporting by health and welfare benefit plans. Therefore, they are sort of the same kinds of projects as FASB 35 which dealt with accounting and reporting for defined benefit plans. On both of these matters, issues papers have been prepared by the American Institute Committee and those issues papers have been submitted to the FASB - the thought being that possibly the FASB would either put this on the agenda and make a FASB statement; but more likely, the FASB would authorize the AICPA to expose these issues papers as statements of position, and then after an exposure period those statements of position will become Chapters 3 and 4 of the audit guide for employee benefit plans. I'd like to share with you the issues that are involved in accounting and reporting by defined contribution plans so that you might know what advisory conclusions the AICPA is submitting to the FASB. Obviously the entire matter has been framed in terms of FASB 35, because FASB 35 has given us an idea of what the FASB is interested in and how they feel about pensions.

The first issue that is dealt with in the accounting and reporting by defined contribution plans is an issue that relates to the primary objective of a plan's financial statements. The advisory conclusions that have been submitted is that the financial statements should provide information about plan resources and how the stewardship responsibility for those resources has been discharged, that the results of transactions and events that affect information about those resources should be shown, and that other factors necessary for users to understand the information provided should be shown.

The second issue that is developed in the issues paper is: what type of financial statements should be presented to accomplish this primary objective? The advisory conclusion is that the financial statements should be presented on the accrual basis of accounting, and should include a statement that includes information, in reasonable detail, regarding net assets available for benefits of the plan as of the end of the plan year, and a statement that includes information regarding the changes during the year in the net assets available for benefits.

The third issue that is developed in this issues paper is: what principles should be followed in presenting net assets available for benefits. The advisory conclusion, to no surprise, states that the principles in FASB 35 should apply. Very briefly, the principles on presenting net assets available for benefits in FASB 35 is that the net asset should be presented at fair values. And they make a differentiation between fair value and market value. Market value was not accepted by the FASB because they thought that too narrow a definition for valuation purposes - that some assets may not have a market and, therefore, may prove difficult to value. So fair value is used. Under FASB 35, insurance contracts should be presented pursuant to ERISA.

The fourth issue that is developed in the issues paper is: how should changes in net assets available for benefits for defined contribution plans be presented. The advisory conclusion is that the same kinds of presentations and changes that are indicated in FASB 35 should also be used. There, the changes in the fair value and net assets are shown. Contributions received are shown. Expenses in administering the plan are shown. And so forth.

The last issue that is developed in that issues paper is: what types of financial disclosures should be made in reporting by defined contribution plans? Just a few that are included in that paper are: disclosure of the plan's accounting policy, description of the plan agreement, the basis for determining contributions, federal income tax status, and so forth.

The issues paper that is being presented to the FASB on accounting and reporting by health and welfare benefit plans is presenting certain amendments to the accounting and recording principles that are specified in a 1972 audit guide that was put out by the AICPA on audits of employee health and welfare benefit funds. The issues relate to how the plan investments should be presented, and the advisory conclusion is that the provisions of FASB 35 are also relevant to health and welfare plans. The significance of this is that the 1972 audit guide calls for investments in health and welfare benefit plans to be shown at cost. Therefore, the advisory conclusion is stating that FASB 35 thinking should be applied, and that would be at fair values, as differentiated from cost. The guidance that the issues paper might give you on how the plan obligations might be computed, or any guidance at all on plan obligations is not given. The finite kinds of guidance that FASB gave us in Statement 35 for defined benefit plans is conspicuously absent in the proposal for accounting and reporting by health and welfare benefit plans.

Probably the area of the audit guide that raised the most comments, when it was exposed, was in the following area, and I'd like to read it to you and then give you my thoughts on it. I'm sure that, as I read this area of the audit guide, you will recognize the problem. It comes in Chapter 10 of the proposed audit guide that deals with plan obligations. It says:

The auditor uses the work of an actuary as an audit procedure to obtain competent evidential matter. The auditor does not simply rely on the report of an actuary. Although the appropriateness and the reasonableness of the methods and assumptions used and their applications are within the expertise of the actuary, the auditor does not divide the responsibility with the actuary for his opinion on financial statements, taken as a whole. Thus the auditor should satisfy himself as to the professional qualifications and reputation of the actuary, obtain an understanding of the actuary's methods and assumptions, test accounting data provided to the actuary, consider whether the actuary's findings support the related representations in the financial statements, and whether determinations made by the plan actuaries are not unreasonable.

And it goes on to say that sometimes it may be necessary for the auditor to obtain the services of an actuary other than the one who prepared the **plan's actuarial valuation**. This might occur when the plan actuary is related to the plan, or when the auditor believes that determinations made by the plan actuary are unreasonable. That, obviously, raised a great many comments. The proposed audit guide received about 60 letters of comment. I had the opportunity to read every one of them. At least 40 of them commented on that subject and you will be surprised by some of the positions that the accountants took, as well as the actuaries. It was a whole spectrum from the view that maybe amounts determined by the actuaries should not be included in statements that accountants render an opinion on, all the way to the old problem of reliance, and maybe accountants should express reliance on actuaries. The relationship between the auditor and the actuary is not well understood. The auditor considers the actuary to be a specialist with certain skills beyond his own. Although the auditor normally is responsible for making an examination of all of the information in a plan's financial statements, and must perform certain tasks to satisfy those audit responsibilities, he recognizes the special skills of the actuary, and therefore does not duplicate the actuary's work. And I want to stress that. We don't duplicate the actuary's work. However, the auditor must familiarize himself sufficiently with the methods and assumptions used in determining the benefit information to determine whether the requirements of Statement 35, for instance - in defined benefit plans - have been met. He must also satisfy himself - as it states in the guide - that the actuary is professionally qualified and reputable.

MR FARLEY: The next item on our agenda is insurance company matters.

MR HUGHEY: The first item of a public issue nature, from a Property Casualty Company standpoint, at least, is an extremely important one. It is the recognition of the time value of money and loss reserves. This is a rather hot issue, unresolved, with even the actuaries unable to

completely agree on what the proper procedure is. The reason why this is evolving into kind of a hot issue is that the AICPA Insurance Committee is struggling to bring out an update of the present property casualty audit guide which is close to being presented. There are several draft forms that it has gone through. The prior audit guide was actually silent on the issue of discounting of loss reserves. We don't like to use that term because it means different things to different people. But that's kind of a catch word. We much prefer the phrasing: the recognition of the time value of money in setting loss reserves.

The AICPA Insurance Committee has come to the actuaries. The actuarial group at the American Academy has appointed a task force which, under Jim Berquist, has had a couple of sessions and has written a couple of reports.

One of the contributions that has been made in the evolving discussion of this question is the definition and the categorization of four types of claims. First there are the very short term claims that are settled within a year or so. Here, investment income is relatively modest in comparison with other variables. So this is not too important a consideration here. Then there are long term uncertain amount claims. These are, for example, general liability claims which may run many years before they're resolved. But whether it's \$1,000 or \$100,000, it is really uncertain until you get down to making settlements. The point here is that while there may be sizeable dollars of investment income involved, the uncertainty of the amount of settlement is perhaps more important than the investment income. The third category is long-term reasonably certain amount claims. A primary example here is an unlimited medical claim either under **Worker's** Compensation or under some of the PIP claims in Michigan, New Jersey, and Pennsylvania where the amount of payment is unlimited. It could run over a 40 or a 50-year period. The amount of payment is reasonably determined although it can go up - escalate with inflation - but there is a feeling that it's a reasonably determined amount payable annually. The fourth category is fixed amount - **Worker's** Compensation primarily. You also get these in Accident and Health where X dollars per week or Y dollars per month are payable as long as the individual continues in a total disability situation. The theoretical arguments all tend to suggest that you should use the time value of money in establishing these loss reserves. The practical problem - and many actuaries are arguing the practical problems - suggests that maybe you shouldn't do this. Interestingly enough, the state regulatory authorities tend to ask for undiscounted reserves in varying forms. There is a little bit of it present in compensation but, for the most part, the NAIC statement and other reports tend to require undiscounted reserves. Just how this is going to be resolved remains to be seen. The tendency at the moment is to work a compromise which says that the first two categories of the claim should not be discounted, whereas the third and fourth category of claims perhaps will be discounted.

MR WATERFIELD: The present position of the AICPA Committee is essentially the compromise you suggested, and it's essentially to provide for discounting or the recognition of the time value of money in connection with those kinds of reserves or liabilities which are payable over fixed

periods of time. The classical example is something like **Worker's Compensation**, where you have a disability claim that will be payable over some reasonably predictable period of time, and not to suggest that practice be changed in the area of recognizing the time value of money in connection with other types of claims, even though they may be paid over some long period of time or at some distant time in the future. Interestingly, however, a related issue arises in connection with medical malpractice loss **contingencies** of hospitals. There is another committee of the AICPA - the Health Care Committee - who has been dealing with this subject and as premiums went out of sight on medical malpractice, many hospitals, doctors and others began to become self-insurers, or formed their own pools. That committee was dealing with how a hospital or other health care provider would establish liabilities for their medical malpractice if they were, in fact, self-insured. That Committee was working with the Task Force of the AICPA Insurance Companies Committee. The latest is that those two groups have agreed to disagree. The Insurance Companies Committee has already taken the position that medical malpractice reserves not be discounted. The Health Care Committee believes that they should be discounted. So that matter will proceed on an even keel.

There's another related matter in the loss reserve area. This is in connection with premium deficiencies. For those of you who may not be familiar with the term, a premium deficiency results in a case where one would look at the unearned premium of a property and casualty insurance company to determine whether it was sufficient to recover the acquisition costs that have been deferred under generally accepted accounting principals, and to pay the claims that are expected during the remaining life of the policies in force. In the event that one determines that the combined deferred acquisition costs and expected claims will exceed the unearned premium, it would be indicated that there is a premium deficiency which should be recognized by a charge to income in the current period. The discussion in this area relates to whether, in making that determination, any consideration should be given to the investment income that is going to be earned as a result of having invested those premiums. The AICPA Committee chose to separate this issue from the reserve discounting issue, but some felt that the two issues were completely related, and that one should not be resolved without the other and that, to some extent, giving recognition to investment income in making the premium deficiency determination was the equivalent of discounting the reserves, and that you shouldn't do one without the other. Nevertheless, those people did not prevail and the Committee has opted, at least presently, to suggest that investment income be given consideration in determining premium deficiencies.

MR. HUGHEY: Before getting into reinsurance, I would just like to emphasize the fact that one of the problems that arises in connection with this is that accountants love to talk about materiality. And that's understandable. This is a really material question because the manner in which this issue is resolved could involve many millions of dollars of reserves. And that gets translated, almost directly, into a tax liability. So we are talking about large sums of money that are vitally important to the property and casualty business. This is not a small subject.

On the reinsurance question, let me give you a very brief statement of background. The AICPA Insurance Committee Task Force on Reinsurance has been working on an audit guide and on an accounting issues paper. In the first of these, they dealt with property and liability. The intent is to go ahead with the life and health area further along. This has been chaired by a task force, headed by Jack Hart, operating under Jack McDonough's Committee. The material has been very widely discussed with the industry, with trade associations, with the Academy of Actuaries and others, and a great many different positions have been supported. There are several statements which both of the accounting task forces have incorporated here, along with the Academy's comments. Without going into a great deal of depth on this - I should emphasize that much of the material really goes outside the actuarial arena and deals with all kinds of somewhat specialized reinsurance procedures. For example, one of the questions that pops up and is given rather full treatment in the reinsurance audit guide is to try to get at the reliability of the accepting reinsurance company, when viewed from the vantage point of the ceding reinsurance company. That is a tremendously important consideration, but it's not strictly an actuarial consideration. How you do this becomes complex because, at this point, you're determining the financial stability of the assuming company. Another key ingredient that's being covered in this material is the question of the degree of transfer of risks. Those of you particularly familiar with property and liability reinsurance know that there are all kinds of reasons for reinsurance. They all have an impact on the financial statement. But the degree of transfer of risk ranges all up and down the line and may not really involve the transfer of risk, but may accomplish some other purpose. All of this gets involved and not all of it is strictly actuarial. There are other considerations which get involved here. As I have indicated, there have been a couple of exposure drafts. A lot of input and work continues. It's a relatively long-range project but there is a lot of accounting and actuarial communication and many questions are yet to be resolved.

MR. WATERFIELD: To give you some background as to the reason for the AICPA committee's involvement in the area requires going back some time. I think we've always been concerned about whether or not procedures were adequate for auditing reinsurance - most particularly in terms of auditing reinsurance assumed. Some of the concern goes back to Equity Funding, the insolvency of some of the pools that have developed over the past several years, the concerns that people had in terms of whether or not there were adequate controls to preclude that sort of thing happening in the future, and whether auditors were capable of auditing in situations that might preclude that in the future. The Securities and Exchange Commission also became involved and directed a letter to the AICPA raising some questions which included, not only their concerns about the adequacy of auditing procedures in this area, but also raised some questions about the adequacy of accounting **principles** with respect to reinsurance - particularly as it relates to those kinds of contracts that Stan just mentioned - where there may not be a transfer of risk, that may be a financing arrangement, or may be simply an arrangement in order to recognize some tax benefits. The AICPA Insurance Companies Committee was directed to undertake this project. The first piece of the project that they're devoting most of

their time to, at present, is the auditing piece of reinsurance, from both the standpoint of the assuming company and the ceding company. At their meeting last month they did finally approve a draft of an auditing statement of position on reinsurance and that will be submitted to the Auditing Standards Board for their approval. Then the Committee will move into the accounting issues. The major thrust of this paper on reinsurance relates in large part to identifying controls that may be appropriate for reinsurers, to satisfy themselves that the information they have in their financial statements is correct. Most of this paper deals with identifying those kinds of controls, suggesting that the auditor should ascertain that they are present, that they are functioning properly, and that if they aren't he may have to do things which the company should otherwise be doing. Otherwise he may have to go into the ceding or the assuming company and perform some auditing procedures. I can't predict at this time how long it will be before that particular document is adopted. It will not have a significant impact on the auditing practice. It will hopefully make it clear what people should have been doing all along and there may be some concern on the part of companies, particularly if they don't have, in place, the kind of controls that are recommended in this particular paper. I don't think that the paper suggests that people need to have all of those controls. It just identifies the kinds of controls that are possible, and companies will have to make their own cost-benefit analysis as to whether or not maintaining those controls is justifiable. It's going to be some time before the committee is able to resolve the accounting issue.

MR. FARLEY: Randy, why don't you proceed to the question of life insurance companies and some of the interesting questions in this area.

MR. WATERFIELD: There are two principal areas I want to talk about. The first one is generally accepted accounting **principles** for mutual life insurance companies. I know there are several people here that would be interested in that subject. It's been lying almost dormant since about 1973. As you may know, the Audit Guide for Stock Life Insurance Companies specifically excluded mutual companies and, to this date, no further resolution of that matter has come about. In the meantime, we know that the public accounting firms that report on mutual life insurance companies report in different ways. There is not a standard report that's being issued on mutual life insurance companies. The profession is concerned about that. The task force has been working and has been meeting with the task force chaired by Frank Bruni. I'm also a member of that task force. We met periodically over the years to try to resolve this issue. There has not been a great deal of pressure, so we haven't met as frequently as the Insurance Companies Committee. We attempted one approach, and that was to come up with a standard report that auditors would issue on all mutual life insurance companies. This notion was rejected because it was felt that in order to do that, you really had to make an accounting determination as to what generally accepted accounting **principles** were, in order to word your report. The subject was sent back to the task force with the suggestion that they develop an issues paper on the subject of generally accepted accounting **principles** for mutual life insurance companies. This is the project that the task force is presently involved in. Our next meeting is in June. We would hope at that time to review a



very preliminary draft of an issues paper which would set forth the arguments for and against any change from what mutual companies are presently doing. That's pretty much where we stand on the mutual issue.

The second issue affecting life insurance companies, that has been percolating slowly, is the subject of purchase accounting. This relates to the accounting for business combinations that are treated as purchases - the acquisition of a life insurance company, for example. The basic issues in this area are how do you allocate the purchase price to the assets and liabilities of the acquired company under generally accepted accounting principles. The first question that arises is in connection with the reserve adjustments and how those reserve adjustments should be made. The second issue is: what happens to the excess cost over the acquired net assets? Does that become good-will, or is some of that an amount which people would characterize as the present value of the in-force business - the price that you've been willing to pay for the inherent profits in that business? Should it be set up as an asset and amortized? There is an AICPA task force working on that subject. The American Academy Committee on Financial Reporting also has a task force. There have been communications and discussions between the two groups and that matter continues to progress but it will be some time before it's finally resolved.

MR. HUGHEY: I'd like to make one quick comment on the issue of loss reserve certification because I think it needs to be noted here. You remember that in 1975 the NAIC added an actuarial statement of opinion to the Life and Accident Health Blank applicable to all companies. The property casualty comparable statement of opinion on loss reserves was added in 1979, but this was done after long study and deliberation. The problem for property casualty companies is different and the adopted proposal specifies that, if required by its domiciliary commissioner, a statement of a qualified loss reserve specialist is to be included. In this language the phrase "qualified loss reserve specialist" is defined as a member in good standing of the American Academy of Actuaries, or a person who otherwise has competency in loss reserve evaluation. There are currently at least eight commissioners who had indicated their intent to require such opinions, with two of these eight - Illinois and Indiana - requiring such statements for the 1981 reports. As a separate but very much related issue there are several states currently requiring a CPA audit of statutory statements. The primary issue involving the public, the actuaries and the accountants is finding a satisfactory definition of a person with competency in loss reserve evaluation. From the Casualty Actuarial Society standpoint, most of the meat of this education comes in Part 7. So the various forms of definition have tended to revolve around the use of Part 7 of the CAS exam structure. But there is certainly a lot involved in the experience, and things get battled back and forth without full resolution as yet. One of the suggestions, for example, is that somewhere along the line a list of qualified people be determined, one way or another. The Casualty Actuarial Society is holding a seminar on the general subject of casualty loss reserves, which is intended to help people qualify themselves.

MR. FARLEY: Within the actuarial profession, whenever we see language such as "to be qualified to act in a given area you ought to be a member of the Academy", or something of that sort, it's very pertinent to automatically put in the reminder that the Academy's Opinion A - 5 gives advice on when an actuary is competent to act in a given area. And that should be in our minds. The next subject on our agenda is a comment on relation of actuaries and accountants in the United Kingdom.

MR. STEWART LYON: I feel very privileged to have been invited to join this panel this morning, particularly since I really came to New York to learn about what has been happening over here. **Nevertheless**, I will try, in the course of a few minutes, to give you an impression of what has been happening on the other side of the Atlantic in one area of this discussion. I think I first ought to say that we don't have, in the U.K., the same kind of overall liaison committees that you have here. There is no committee of the Institute of Actuaries or Faculty of Actuaries on relations with accountants as such, and there is no corresponding committee on the accountants' side. What we have had in recent years - and the history of this is perhaps even more recent than over here - are two main areas of liaison. The first is for life insurance reporting and the second is for pension plan liabilities. I'm going to concentrate on the first of these. We have Dennis Gilley with us and he has been very much involved in relations with accountants on questions dealing with pension liabilities. At the end of 1979 we completed discussions with the accountants on the relationship between the auditor of a life insurance company and the actuary in the context of the life insurance funds - what we call long term business funds of insurance companies. These funds include ordinary life insurance, insured pension plans, insurance linked to mutual funds, and long term disability income plans. These discussions have lasted about ten years, which seems to be par for the course to establish a mutual understanding. Just as suspenders mean different things on different sides of the Atlantic, so do reserves mean different things as between actuaries and accountants. What we call a reserve, they often call a provision. So we had a lot of problems, and I think about eight or nine of those ten years were spent simply in getting to understand one another's point of view.

The result of all this was the issue of audit guidelines on the relationship with actuaries, by the **accountants**, at the end of 1979, with the full concurrence of the actuarial bodies. A little bit of background: We have, in the U.K., two main auditing bodies - The Institute of Chartered Accountants in England and Wales - and The Institute of Chartered Accountants in Scotland. And, similarly, on the actuarial side we have the Institute of Actuaries - primarily in England, and the Faculty of Actuaries in Scotland. The last year or two these discussions took the form of a qualified working party. It can sometimes be difficult to reach agreement between two parties; to reach agreement between four takes that much longer. We're also concerned with two different sets of returns: the returns to the statutory authorities for supervisory purposes, and the published accounts of insurance companies. It was really in the context of published accounts, and the audit opinions expressed in relation to those, that the main discussion took place.

Legislation in the U.K. requires every insurance company that does long term business to appoint an actuary who is called the Appointed Actuary. This is paralleled in Canada where one has the Valuation Actuary - with specific responsibilities to the supervisory authorities. The Actuary, of course, can usually be an in-house actuary, particularly for the large companies. The smaller companies quite often appoint consulting actuaries. The actuary's job under the statute is to investigate the financial condition of the long term business account which one has the liabilities on, on the one hand, and the assets attributable to that business, on the other. And when the Actuary carries out a valuation, one of his objectives is to determine what surplus there is in that fund that could be distributed to the policyholders, or could be transferred out of the life fund into the profit and loss account for the benefit of the shareholders. In companies where there are participating policyholders, the constitution of the company usually determines in what proportions the surplus has to be distributed between the policyholders and the shareholders. As far as the legislators are concerned, the Appointed Actuary has a professional responsibility to determine the maximum amount of surplus that could be distributed. When he carries out an investigation, he has to produce quite an extensive report that goes to the Department of Trade, and which is subject to scrutiny by the government's actuarial department, which performs a kind of actuarial audit function. Although the government's actuarial department uses its own discretion as to the extent to which it feels it needs to probe into the actuarial reports made by particular companies, in theory, if the company has a problem, the government's actuarial department is going to look more carefully at it than in the case of a long established life company.

The actuarial profession has issued guidance to Appointed Actuaries on how they need to carry out their duties. This guidance is in fairly general terms. It is much less specific, for instance, than the guidance issued by the Canadian Institute. At the moment, the actuaries are fairly free to choose valuation bases they are going to use for valuing the liabilities. There are rules governing the way in which assets can be valued and the extent to which certain kinds of assets can be admitted for the purpose of valuation. But we shall, before very long, have some general principles laid down and subject to regulations as to how valuation of liabilities must be carried out. The reason we haven't had them yet is that this is all bound up with legislation that is going to have to be introduced in the U.K. in accordance with the EEC Life Directive. The accountants are concerned with their responsibilities under general company law. In general, they have to make sure that the published financial statements show a true and fair view. In the context of insurance companies, there are some exemptions from disclosure which modify the true and fair view concept.

Nevertheless, there is absolutely nothing in general company law about the role of the actuary in an insurance company. Therefore the accountants consider that they still have the full responsibility after giving an audit opinion. They can say in their audit opinion that they've relied on statements by the Actuary, etc. Of course, in practice, because the actuary has special skills they really can't attempt to duplicate the work

of the actuary or, indeed, to audit what the actuary does. In fact, the actuarial profession would have been very concerned if the accountants had felt that it was their duty to audit what the actuary does. Nonetheless, because of the need to understand what he does, insofar as a reasonable man should understand this, they use the concept of the reasonable man quite a lot in their guidelines. What do the accountants need to be concerned with in the U.K. situation? In the early days of the discussions, there was quite a strong feeling among the accountants that it was their job to try to judge the reasonableness of the actuary's valuation assumptions and this, not surprisingly, was a very sensitive area. One remembers hearing accountants standing up at meetings and criticising certain methods of valuation - methods of valuation based on pure premium approach, rather than the gross premium approach, for instance. And I think it was reasonable to argue that they were in very serious danger of going beyond the limits of their own competence. Also, they seemed to think that they ought to get concerned about what kinds of rates of interest are being used. An actuarial valuation in the U.K., in the context of reversionary bonus systems, very often uses low rates of interest which are designed to hold back the release of surplus until such time as it is needed to declare the bonuses that the company has not contractually committed itself to declare, but which fits in with its pattern of distribution of surplus. The actuarial valuation controls the emergence of surplus as much as anything else. So during these 10 years we really had to build up an understanding between the professions of what each was about - particularly what the actuarial profession was about - and to build up a mutual respect for one another's professional skills.

What came out of this in the end? I'll just run very quickly through the main principles of the agreed audit guidelines. First, it was clearly established that the validity of the data base was a common concern of the actuary and the auditor. If the auditor needed to investigate the data base, or the systems used for maintaining it and for extracting data from it, and if he found things wrong with that, he would need to tell the actuary; because the actuary might have been using data which, in fact, was unreliable. The actuary's valuation calculations and the bases he uses are his responsibility, but the auditor needs to be concerned that the system's work is an extension of the database and that the system that the actuary relies on actually works. The auditor, as a reasonable man and not as an expert, has to try to understand the purpose of the actuary's valuation, for various reasons. Firstly, because he needs to satisfy himself, again as a reasonable man, that the business is solvent and the company is not hiding an insolvency situation. Secondly, he needs to ask about changes that the Actuary may make from one year to another in his valuation basis, because in order for the accountants to share a true and fair view, it might be necessary, not so much to question the changes and bases, but to question whether the implications of those changes ought to be the subject of some disclosure in the accounts. So a lot of the emphasis in the guidance was on the possible need for disclosure. Finally, of course, in light of all the discussions the auditor may have with the actuary, he ends up with the responsibility of deciding whether he needs to qualify an audit certificate. That, if you like, is a last resort situation if he can't get an explanation from the actuary that satisfies him.

There are a lot of associated matters which there isn't really time for me to go into. The question of the independence of the actuary is as much an issue in the U.K. as it clearly is here. In the context of the actuary being an employee of the company - maybe even a director of the company - the actuarial profession argues that the actuary has a professional job to do in this context. And he is subject to the professional disciplines imposed by the Institute and the Faculty. Although he is clearly not independent in the sense that he's an outside consultant, he has to take an objective and professional view of his job. We do not yet have many firms of auditors in the U.K. employing their own actuaries for the purpose of advising the auditor on what the Appointed Actuary of the life company has done. In Canada this is much more prevalent. But the responsibility of an auditor's actuary is not to prepare a second opinion on the actuarial condition of the life business, but to advise the auditor, in order to help the auditor form his own view. We would be very worried if this developed into any kind of second guessing of the Appointed Actuary's job, particularly because the supervisory authorities rely very heavily on what the Appointed Actuary does, just as they do on the Valuation Actuary in Canada. Clearly it could be intolerable if some other actuary sought to come into this, and get in the way of the relationship between the Appointed Actuary and either his company or the supervisory authority.

There are parallel situations in the auditing of the returns that go to the supervisory authority. But here we are not any longer concerned with the question of true and fair view. It's a question of whether the returns have been properly prepared by the company, in accordance with the regulation.

Just a very brief word on the actuarial involvement in property and casualty. It was only comparatively recently that the Institute got involved in property and casualty matters. There is no equivalent in the U.K. to the Casualty Actuarial Society. The result is that there is no statutory role for the actuary in establishing loss reserves for property and casualty business, although there is an increasing actuarial involvement in practice. There's a very active general insurance actuarial group. They have been very much concerned with investigating delay patterns for the purpose of establishing loss reserves. Of course, these delay patterns can vary from a matter of months, in the case of much of the automobile business, to ten or twenty years, or sometimes more. If we're dealing with casualty excess loss reinsurance, the question of discounting is clearly a subject that those actuaries involved in that business are interested in. Though we would take the view that whether you can discount a loss reserve must depend on the extent to which you are building into the loss reserve an allowance for inflation for claim settlements - the one very largely offsetting the other. And finally the question of reserves put up for disability income benefits comes within the Appointed Actuary's responsibility because, in the U.K., that kind of business is treated as long term business - like life business - rather than like casualty business.

MR. FARLEY: I was glad that you commented in your observations on Canadian experience too, since we don't have a Canadian representative up

here. A final item on our agenda today is to give the current Chairmen of the Liaison Committees a chance to comment on the relation of actuaries and accountants in the United States.

MR BRUNI: I'd like to suggest to you that things have never been better, and that probably will surprise you. When I started working in the insurance field - and predominantly I worked in the life field, and then the casualty field, and then the pension field - back in 1965, a guide came out - Audits of Property and Casualty Insurance Companies. I think a comparison of what happened then, and what is happening now, would probably tell more about our relationship than anything else. When that guide came out, the committee that worked on it not only did not consult with any actuaries of any magnitude, but didn't even consult with the insurance companies that were being affected at the time. We came from that to the Audit Guide for Stock Life Insurance Companies in 1972 and I was on that committee, as was Randy. It has to be said we worked very closely with the actuarial profession on that audit guide. Now when we talk about coming out with statements of audit guides of any type that involve anything to do with the actuarial profession, I think there is no question in anyone's mind that we want input from the actuarial profession. That's a good illustration of how far we've come. Certainly our joint committees are an excellent illustration that we are trying to come closer together. It certainly behooves us to do that because if we don't work closer together, somebody else might step in and usurp that prerogative and tell both of us what we should be doing. I don't think either profession would like that. Earlier Ed mentioned some problems that may exist in practice. I like to call them people and communications problems. I don't think they're really problems that can't be overcome. There has to be an understanding that we accountants have been given a responsibility to render an opinion. I think it's significant that a last-minute change was made. That change was that the auditor should determine that the assumptions are not unreasonable. In order for an auditor to discharge that responsibility he must communicate with the actuaries. I think that because of personalities, communications sometimes may seem like a confrontation. But I think it has to be appreciated that the only way the auditor can discharge his responsibility is to communicate with the actuary and try to gain some understanding. I think the outlook is very good for our relationship and, as I said, it's come a long way.

MR. HUGHEY: I'd just like to - in this case at least - echo your words very much, Frank. I think that you have expressed the communications and the intent of this very well. Perhaps just as a quick closing comment I would like to emphasize that the purpose of these joint committees, as defined by some of our Mort Millers and others, was really to establish a basis of dialogue and an understanding of the work of each of the other professions. I should emphasize that the Committee on Relations with Accountants, for example, and the counterpart Accounting Committee, does not attempt, per se, to do any work. All we're really here for is to get the dialogue going between the professions at an early stage of any issue, and then, in a sense, to act as a catalyst in making certain that there are actuarial committees or accounting committees that are dealing with these issues and are exchanging viewpoints and trying to make certain that we're both on a reasonable wavelength.