



SOCIETY OF ACTUARIES

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Report on the International Actuarial Association

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The International Actuarial Association (IAA) held its most recent meeting in Sydney, Australia on April 6-10. As always, the agenda for the meeting was full. The discussions that were of greatest importance to actuaries were those related to activities of the Accounting Committee of the IAA (the Committee) and of the Subcommittee on Actuarial Standards (the Subcommittee) in connection with International Financial Reporting Standards (IFRSs) and the efforts of the IAA to create global convergence of actuarial standards.

THE ACCOUNTING COMMITTEE AND IFRSs

Comment Letter

A major part of the efforts of the Committee relate to activities of the International Accounting Standards Board (the board). In November 2010, the Committee submitted its comment letter on the board's exposure draft "Insurance Contracts" (the ED). The comment letter is a little different from the draft version discussed in the December issue of the *Financial Reporter*. It can be found on the IAA website at www.actuaries.org/LIBRARY/Submissions/INSACC_IASB_InsuranceContracts.pdf or it can be found along with 247 other comment letters on the IASB website. (As an aside, the input from actuaries was specifically mentioned by board members in recent discussions on the adjustment for risk. The board has decided to restate the objective for the risk adjustment—if indeed it decides that there should be an explicit adjustment for risk—along the lines suggested by actuaries in the letters from the IAA and from the American Academy of Actuaries.)

Guidance on the insurance standard

In anticipation of a final standard by June (this date has since been pushed back to later in 2011), the Subcommittee on Actuarial Standards began planning for the development of guidance to actuaries. Most of the guidance is expected to take the form of practice notes, which are educational in nature and do not serve as professional standards. They are referred to as International Actuarial Notes or IANs. There may be the need for model actuarial standards of practice as well.

The Subcommittee has identified no fewer than 13 topics for IANs. The topics include those that are revisions to existing IAA guidance on IFRS 4, namely:

- Classification of contracts,
- Current estimates,
- Measurement of financial instruments and service contracts,
- Liability adequacy testing,
- Discretionary participation features,
- Changes in accounting policies,
- Reinsurance,
- Embedded derivatives and derivatives,
- Business combinations, and
- Disclosure.

Other topics that would be additions to existing IAA guidance include:

- Discount rates,
- Risk adjustment,
- Subsequent measurement of margins,
- Short-duration methods,
- Transition,
- Presentation, and
- Unbundling.

Some of these topics may be unnecessary once the board has made its final decisions. Nonetheless, it can be seen by just listing the topics that the development of guidance will be a daunting task. There is a greater need for actuaries to participate in writing the IANs than the number of actuaries who have been identified. Readers who wish to help can volunteer by contacting Sam Gutterman at sam.gutterman@us.pwc.com.

Discount rate monograph

The Subcommittee reviewed a preliminary draft on the monograph on discount rates. The monograph is in a very early stage. It is intended to describe current practices among actuaries when discounting cash flows for financial reporting purposes. It is not intended to serve as guidance related to IFRS in particular, although it will undoubtedly be a valuable resource for actuaries involved in IFRS reporting. It is also intended to cover all actuarial areas of practice, i.e., pension as well as

insurance. The monograph is scheduled for public exposure in July with publication set for September.

Stochastic modeling book

The IAA's book on stochastic modeling, which was published with support from the Financial Reporting section, has nearly sold out of the 1,000 copies that were printed. Actuaries who wish to have a hard copy should order one right away to avoid delays associated with waiting for a second printing. Electronic copies can be obtained online at any time without fear of delay, and are free of charge to actuarial students.

Other monographs

Anticipation of the IFRS on insurance has led the Subcommittee to discuss whether other monographs may be useful to actuaries. A monograph on risk adjustments seems to have the greatest interest, but the pursuit of another monograph depends on whether there is sufficient interest to attract the support needed to develop a quality document.

CONVERGENCE OF STANDARDS

The IAA has sponsored a series of meetings of members of actuarial standard setters from around the world to discuss the possibility of moving toward a converged global standard. The roundtable meetings have resulted in a proposal to the Council of the IAA that the process for developing standards be modified to facilitate effective development of standards and to encourage convergence. Convergence will occur when standards of the various actuarial associations that are members of the IAA are congruent with model standards of the IAA. A standard is congruent with a model standard when compliance with the standard would necessarily constitute compliance with the model standard, hypothetically, as if it were in effect. It is important in this context to understand that the IAA is not contemplating a single global set of standards, but rather expects that each member association will continue to have its own set of standards. In fact, having a robust set of standards is a requirement for membership in the IAA. The intent is to have sufficient commonality in standards, at least those that have international relevance, such that actuaries in one part of the world are using consistent practices.



If the Council of the IAA agrees to the proposal, it would form an interim actuarial standards subcommittee (IASCC) to direct the process of standards development. The IASCC would be assisted by specialty teams, one of which is a team to draft standards as needed in connection with IFRS for insurance. The IASCC would report to the Executive Committee of the Council. The Professional Committee would rule on whether the process had been followed.

A special committee has drafted a proposed process for the development of the model standards. The draft proposal defines the roles of the various committees and of the Council of the IAA and it describes the process for involving the member associations. The essential idea is to take the responsibility for developing standards out of the various committees and to place it into the IASCC. The motivation for this change is to create a more effective process with clear accountability.

The procedural changes do not, in themselves, cause greater convergence. Part of the proposal is to make congruence of standards a requirement for member associations.

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The proposals are scheduled for further discussions by the Council in November at the next meeting of the IAA. It is unclear if there will be a vote on the proposals at that time or if the Council will need more time for deliberations. It is also unclear what it would mean for the IASCC to drop the “I word” and no longer be an interim committee. Perhaps this would mean only that the Council was satisfied with the organization and the process and that the structure would become permanent. There were, however, some informal discussions about the possibility that the IASCC would become an autonomous body.


STANDARDS DEVELOPMENT

In the meantime, standards development continues under the existing process. The current IASP 2 “Actuarial Practice When Providing Professional Services Concerning Financial Reporting under International Financial Reporting Standards” is being revamped into two model standards. The first model standard is a generic one, reflecting the fact that much of IASP 2 could apply to any area in which actuaries practice. The second is a standard on actuaries’

involvement in reporting under IFRS. The generic standard is fairly well developed and may be ready for exposure after the November meeting of the IAA. It has not yet been determined if there is in fact a need for an insurance-specific standard. It may be that the guidance in IASP 2 is mostly generic in nature and that there is not sufficient insurance-related content in IASB to form the basis for a new standard. The decision may depend in part on discussions about what model standards are needed to follow on to the new IFRS on insurance when it becomes effective.

NEXT MEETING

By the time of the next meeting of the IAA in November, the board will have approved the insurance standard. It may not have been published, but the decisions will be known. The Accounting Committee will have the information it needs to chart its course with respect to the insurance standard. The Subcommittee may in fact have a special meeting before the IAA meeting, to kick start its efforts. There will also be a lively debate at the next IAA meeting on the direction for standard setting. ■



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