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IAA Report From Zagreb

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When I last reported on the IAA in the June 2011 issue of the Financial Reporter, I said that by the time of the next meeting of the IAA in October, we would know the IASB's decisions on IFRS for insurance. I should have known better. The IASB's work plan for the insurance project now calls for a review draft or a revised exposure draft no sooner than the first half of 2012. There is still much uncertainty about the decisions. But uncertainty never stopped an actuary, and the Accounting Committee of the IAA has stayed very busy even without knowing where the IASB will land on the key undecided topics.

In addition to IFRS for insurance, standard setting was a key agenda item for several of the committees and the council. The importance of international standards was underscored by the IAA's contribution to the report of the Private Sector Task Force (PSTF) to the G-20 on regulatory convergence in financial professions and industries.

ACCOUNTING COMMITTEE AND SUBCOMMITTEE ON EDUCATION AND PRACTICE (ACSEP)

The ACSEP has a pipeline of publications that are intended to help actuaries address some of the key technical challenges when complying with IFRS for insurance. They do not anticipate the specific requirements of the emerging standard, but rather they are premised on the safe assumption that stochastic modeling, discounting, and setting risk margins will be part of the actuary's required skill set.

The first of these, the IAA's book *Stochastic Modeling*, has been featured in this column before. It is receiving good reviews and is so popular that it is now going for its second printing. Copies can be ordered from the IAA website.

Second in the pipeline is a monograph on discounting. It is fairly well advanced. The ACSEP has reviewed the second draft and anticipates another version by year end. A publication date has not been set, but the progress points to completion in mid 2012.

The third publication relates to risk margins. The working group tasked with selecting a vendor has completed

its work and by the time this Financial Reporter is published, the selection will have been approved and work will be underway. A realistic expectation for the date of publication is sometime in 2013, which, given the progress of the IASB, should be in plenty of time to be useful for implementation of IFRS for insurance.

Also as reported previously, the ACSEP is committed to developing practice notes (International Actuarial Notes or IANs) on key topics of IFRS for insurance. This effort is on hold until the insurance standard crystallizes.

The IASB is seeking the input from all interested parties on its strategic direction and the broad overall balance of its work plan. The ACSEP is drafting a comment letter providing input from the IAA. The letter will say that the IAA believes that the insurance project should remain a priority project and that the board should work to complete the project as soon as possible. It will also say that the IAA believes that there should be a common standard with the FASB. This latter statement will be made notwithstanding the fact that members of the ACSEP are not able to agree among themselves on the resolution of the issues that are dividing the boards.

The ACSEP may also provide some unsolicited input to the IASB providing advice on certain technical issues. It is apparent from comments of IASB members in board meetings that they benefit from the input provided by actuaries. Whether this particular input comes to fruition or not depends on the members agreeing on what advice to give to the boards, which has been problematic in the past. ACSEP members are not of one mind on some of the technical points. For example, some actuaries believe that the measurement of insurance liabilities should incorporate an adjustment for risk while others favor the composite margin proposed by FASB. Providing input at this stage also depends on the ACSEP finding the energy and the will to write a letter. It seems to me that the ACSEP is suffering from input fatigue and may opt to wait for the next exposure draft before submitting further input.

STANDARDS SETTING

By the time this is published, the Council of the IAA almost certainly will have approved the revised due

process for the development of model standards. Under this due process, the development of model standards (International Standards of Actuarial Practice, or ISAPs) is driven by the Interim Actuarial Standards Subcommittee (IASSC), which is a recently formed subcommittee of the Executive Committee. The due process replaces the previous process, under which responsibility for developing model standards was dispersed to the various committees and subcommittees. The revised due process is expected to streamline the process and is meant to be a better fit for the structure of the IAA than the superseded process. The IAA has already formed a task force to consider a permanent structure for standards setting, which is active but has not set a timetable for itself.

First up under the due process is a general standard, the development of which is in fact already well underway. An exposure draft has been circulated for comment. The general standard provides guidance to actuaries providing actuarial services across the full spectrum of actuarial activities. It addresses topics related to the conduct of an engagement or project, such as engagement acceptance, assumption setting, and communication.

The deadline for submission of comment letters is Dec. 1, 2011. The American Academy of Actuaries and the ACSEP will submit comment letters. Both groups are supportive of the development of international standards and are in general agreement with the direction of the draft general standard. Each will provide some suggestions for improvements before adoption of the ISAP.

The IASSC will develop an ISAP on accounting in the future, pending completion of the IASB's insurance project. The ACSEP has formed a working group to assist the IASSC in this regard. In recent discussions among the IASSC, the ACSEP, and the pensions committee of the IAA, the general direction of an accounting standard is taking shape. The current thinking is that, since IFRS is important to both the ACSEP and the pensions committee, they should work together to support the IASSC. The likely design of an ISAP on accounting would include a section on topics of interest to insurance financial reporting actuaries and pension



actuaries, such as the accounting hierarchy, disclosures, constructive obligations and changes in accounting policies. There would then be either separate standards or (more likely) separate sections within a single standard covering insurance and pensions.

Somewhat as an aside, it is perhaps important to mention that model standards are, as the name implies, not binding on actuaries who belong to member associations. They are written to assist member associations in the development of standards and to facilitate convergence of standards (more on this a little further below).

Actuaries can make the ISAPs binding by declaring that they are using them as the set of standards underlying their work. This would not be necessary in the United States, where actuaries who are in the American Academy of Actuaries are bound to its code of conduct and to the standards of the ASB. When actuaries practice in an environment that does not have a set of standards, in a developing country for example, they may decide to use international standards. An actuary's client may request that the actuary follow

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international standards. In fact, the governance of international actuarial work was the subject of a discussion paper presented to the council by the professionalism committee. The paper provides a comprehensive examination of the topic and concludes that for now at least, crafting a clear set of guidance is not practicable. Actuaries involved in cross-border work should consult this paper (http://www.actuaries.org/COUNCIL/Documents/Zagreb_B11c_Governance_International_Work.pdf) and be careful.

THE IAA HELPS THE G-20

As mentioned, one of the strategic objectives of the IAA is to promote the global convergence of actuarial standards. The experience of the IAA convergence no doubt was useful when it was invited to be a member of the PSTF, which was formed by the G-20. The PSTF’s objective is to provide an analysis of gaps in regulatory convergence and to make recommendations on how to close such gaps across a number of professions and industries that operate within the financial sector. The PSTF recommended, among other things, that the G-20 “encourage and support the development, adoption, implementation and consistent interpretation of globally accepted high-quality international standards, to the greatest extent possible, for each of financial reporting, auditing, valuation, and actuarial services.” The report of the PSTF also supports adoption of global standards for capital adequacy for insurers and for broad implementation of the emerging common framework being developed by the International Association of Insurance Supervisors as a template for supervision of internationally active insurance groups.

LOS ANGELES IN 2012

The IAA meets next in late May 2012 in Los Angeles. Maybe by then the IASB will have exposed its revised proposal for IFRS. There will have been progress on the standards setting process and other activities and events of interest to financial reporting actuaries. ■

International Acronyms	
Private Sector Task Force	PSTF
Accounting Committee and Subcommittee on Education and Practice	ACSEP
International Actuarial Notes	IAN
International Standards of Actuarial Practice	ISAP
Interim Actuarial Standards Subcommittee	IASSC