



SOCIETY OF ACTUARIES

Article from:

The Financial Reporter

September 2012 – Issue 90

Report on the Los Angeles Meeting of the IAA

By Jim Milholland



Jim Milholland FSA, MAAA is a retired partner from Ernst & Young, LLP. He can be reached at actuary@milholland.com.

Waiting for the International Accounting Standards Board (IASB) to develop the new insurance standard is growing tiresome. At the meeting of the International Actuarial Association (IAA) in late May, members of the Insurance Accounting Committee and the Subcommittee on Education and Practice (collectively, the IACEP) found themselves in hurry-up-and-wait mode, eager to get started on responding to the new standard and frustrated by the ever-extending timetable. Fortunately there was a lot more on the agenda to make the time spent in Los Angeles worthwhile.

IFRS

The meetings of the Accounting Committee included an update of the status of the development of the emerging international standard on insurance and discussions of some of the possible challenges to actuaries responsible for implementing the standard. These discussions anticipate that the committee will submit a comment letter when the revised exposure draft is published by the IASB.

The work plan of the IASB calls for it to have a review draft or a revised exposure draft during the second half of 2012. Most observers think the document will be published at year-end at the earliest.

The IASB has requested input from interested parties on certain topics, but the Accounting Committee has not been able to generate interest among the members to draft responses. The feeling seems to be that the IAA has already provided commentary on all the subjects and at this time has nothing additional to add. The committee is aware that it will need to write a comment letter when the exposure draft is released. It seems sufficient to comment at that time.

In past comment letters, the IAA has emphasized two themes. The first is that the measurement of liabilities and the measurement of assets should have broad consistency in how the movement in insurance liabilities and backing assets affect profit and loss. The second theme is the desire to have a common standard with the Financial Accounting Standards Board (FASB) of the United States.

The discussions of the IASB on the use of Other Comprehensive Income (OCI) to capture the effects of changes in discount rates and corresponding treatment of the change in the fair value of debt securities are encouraging. It appears that the IASB is on track to have consistency in the treatment of assets and liabilities.

Since the time of the meeting of the IAA, FASB has announced that it has given up on reaching an agreement with IASB on a common standard. It now is likely that actuaries in the United States and Canada will apply standards that differ in a few key respects. Actuaries in Canadian companies and U.S. actuaries working for foreign-owned companies, for example, will use IFRS. Actuaries for U.S. companies will use US GAAP. To be sure, US GAAP will not be the same as it is today; it will be, as noted, the same as IFRS in most respects but different in others. (Refer to Henry Siegel's article titled, "Convergence Once Again" in this *Financial Reporter*, for a summary of the key differences between the IASB's and FASB's proposed standard.) If the SEC decides to accept IFRS for domestic registrants (it already accepts IFRS for foreign registrants), some U.S. companies may opt for IFRS. It is unfortunate that the actuarial profession will have to contend with two sets of standards, even if they are largely similar.

The IAA is likely to repeat these themes in its comment letter to the IASB, first expressing gratitude for the consistent treatment of assets and liabilities and then expressing concern about the failure to reach agreement on a common standard with FASB.

MONOGRAPHS SUPPORTING IFRS

As previously reported, there are three monographs sponsored by the Education and Practice Subcommittee that are in various stages of completion. The objective of the monographs is to provide a technical foundation for implementation of IFRS for insurance. The three topics are stochastic modeling, discounting and risk margins.

The book on stochastic modeling for insurance has sold out of the first printing of hard copies. The IAA has just announced that a second printing is available and can be ordered at the IAA website. Electronic versions

are also available from the IAA website. The book has been well received and its success has provided a lot of the impetus for the other monographs.

The drafting of the monograph on discounting is well advanced. The timetable now calls for public exposure in late summer or fall of 2012 with publication by the end of the year. This timetable may be optimistic. Publication in the second half of 2013 is a more reasonable expectation.

The timetable for the monograph on risk margins calls for a draft in mid 2013 with publication late in the year. Experience with the stochastic modeling book and the discounting monograph suggests that achieving this timing is unlikely. Nonetheless, given the delays in the development of the insurance standard, it does seem likely that practitioners will have at least a public exposure draft to refer to when implementing the accounting standard.

INTERNATIONAL ACTUARIAL NOTES (IANS)

Writing technical notes to assist actuaries with the new accounting standard promises to consume a lot of the IACEP resources. In fact, the committee has started reaching out to member associations to recruit additional resources for the effort. In the meantime, the actual work on the IANS awaits the finalization of the standard.

INTERNATIONAL STANDARDS OF ACTUARIAL PRACTICE (ISAPS)

There is now a standing body to direct the development of ISAPs, namely the Interim Actuarial Standards Subcommittee. It is a subcommittee of the Executive Committee, although it will soon be a stand-alone committee. The general standard, ISAP 1, is the furthest advanced among the ISAPs in the pipeline. It will be the first standard published under the IAA's new protocol. The exposure draft of ISAP 1 has been published and has been sent to member associations for comment. Of course, anyone who wishes can comment. The exposure draft can be found at the IAA website.

Progress on an ISAP for accounting has been slow. A joint task force of the Insurance Accounting Committee and the Pensions and Employee Benefits Committee

has been charged with deciding if there should be a common standard. The task force has not made much progress. A common standard would have guidance that is applicable to actuaries involved with accounting for pension plans and for insurance contracts. It would be supplemented by separate standards on insurance and on pensions for practice-specific topics. If the task force cannot find enough in common to have a standard applicable to both practice areas, then there will be two standards with some common elements.

RELATIONSHIP TO OTHER COMMITTEES

There is a growing awareness by the IACEP of the need to be informed of activities of other committees and to work jointly with them when necessary. For example, as already mentioned, the IACEP is working with the Committee on Pensions and Employee Benefits on a common ISAP on accounting. The IACEP stays informed of the activities of the Committee on Insurance Regulation and the Committee on Enterprise and Risk Management. With respect to the latter two, there does seem to be a lot of overlap in the modeling and technical issues, although the objectives are distinct and different. It would not be surprising to find that the committees decide to address efficiencies that can be found in common platforms and the extent of internal consistency among the various efforts that should be expected. For now, however, the discussions are informational in nature.

MEMORANDUM OF UNDERSTANDING (MOU)

The IAA announced that it has signed MOUs with the IASB and with the International Association of Insurance Supervisors. The MOUs provide formal recognition of relationships that already exist and cement the intent of the parties to stay involved with each other in areas of common interest. The MOUs are evidence that the IAA is seen as an increasingly important body in international affairs.

NEXT MEETING

The next meeting of the IAA is in the Bahamas in November. At that time surely there will be a revised exposure draft on insurance accounting to occupy the IACEP. Otherwise the members will just have to sit on the beach. ■