



SOCIETY OF ACTUARIES

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## Editor's Notes

by Thomas Nace

As I write this column, I am deep into what has been commonly known as "March Madness." For some, this evokes the image and sound of sneakers squeaking their way across a basketball court as time on the clock runs down. For others, it means putting on a full court press, in order that the last interest scenario might be run and the final touches on the Actuarial Memorandum might be made, again as the sound of time winding down echoes like a ref's whistle.

For many, it is like a much-needed time out. Having survived the flurry of activity called year-end, it is time to take a breath and re-evaluate your game plan for the coming year. You now realize that all of the projects that you planned to get done over a 12-month period still have to get done, but now you have less than 10 months.

For others yet, somewhat closer to home, it means getting those last articles in hand and reviewed so that putting the next issue of the *Financial Reporter* in the hands of Section members on a timely basis becomes a mere slam-dunk.

There are many instances where "Madness" is not the name of the game, however. For example, March was the month when the NAIC Actuarial Life and Health Task Force (LHATF) meeting was held, as well as the American Academy of Actuaries' Committee on Life Insurance Financial Reporting (COLIFR) meeting. At the March LHATF meeting, AG-ZZZZ (reserving) was adopted.

Also at this meeting, the status of several hot projects was discussed. (See Don Maves' article in this issue on page 4). One of these topics was Variable Annuity Guaranteed Life Benefits (VAGLB). As it just so happens, we are fortunate to have in this issue an article by Jim Lamson discussing this concept and the latest developments.

One of the other topics discussed at the March meeting was a status on UVS — a Unified Valuation System. Dave Sandberg made the status report at the LHATF meeting and has also contributed an in-depth article

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## An Actuarial Analysis of FAS 133 (Part 2)

by Anson J. Glacy, Jr.

Part 1 of this paper, contained in the February 2000 edition of *The Financial Reporter*, described the basic objective and provisions of the Financial Accounting Standards Board's new standard on derivatives, Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 133 requires that all derivatives, including those embedded in non-derivative instruments, be recognized in the balance sheet at fair value.

The Statement dramatically changes the way hedging relationships are reported and creates earnings and capital volatility that may be unavoidable. The principles embodied in FAS 133 are complex and controversial, particularly as they relate to insurers using derivatives to hedge capital market risks. Part 2 of this paper presents a case study of how FAS 133 affects the accounting for perhaps its most interesting application in the life insurance industry: the equity-indexed annuity. Please note that this analysis does not constitute accounting advice and is not a substitute for a comprehensive assessment of how the Statement may affect your organization.



### Brief Recap of FAS 133

FAS 133 requires that all derivatives be recognized in the balance sheet at fair value. The Statement retains a type of hedge accounting that attempts to preserve the intent of a hedging relationship, but the qualification criteria for this treatment are complex and potentially onerous. FAS 133 defines derivatives based on distinguishing characteristics rather than by reference to specific types of instruments and consequently finds

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to this issue of the newsletter on the same topic. The March LHATF meeting also saw presentations on the new proposed Actuarial Opinion Model Regulation (AOMR). Once again, we are attempting to stay current with all of the latest developments in these areas and thank Norm Hill for his role in authoring this article.

We are thankful to Bruce Moore for providing an overview of the current activities taking place in regard to International Accounting Standards. Bruce wrote an article on international standards for the *Financial Reporter* back in 1997. This update brings us current with the progress of the Academy Task Force on International Insurance Committee.

And as promised, we have Part Two of Jay Glacy's article on SFAS 133. You will remember that Part 1 appeared in the last issue of the *Financial Reporter*. In this article, Jay gets into some of the practical applications of SFAS 133. Note that the spreadsheet Jay uses to support the numerical examples in his article is being made available to the readers. This is being done in order to clarify the nature of the calculations that are required and to make the learning process associated with SFAS 133 more hands-on. We encourage you to take advantage of this option. See Jay's article for further details on how to get a copy of the spreadsheet.

Also, in this issue we have Mike McLaughlin's article as Section chair, the Section's Treasurer's Report by Larry Gorski and a final preview of the Financial Reporting Section seminar in 2000.

Finally, the Society of Actuaries is interested in contributors of data for experience studies. A form for interested parties is provided.

In conclusion, depending upon your perspective, I hope that by devoting time and print to some of the many topics occupying the actuarial media these days, a greater level of understanding and less confusion will result. If I have been able to provide a little sanity in the process,

then I think I have achieved my purpose — a welcome break from all of the Madness!

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*Tom Nace, Editor*

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