



SOCIETY OF ACTUARIES

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Editor's Notes

by Thomas Nace

This issue of the *Financial Reporter* represents a lot of firsts. It is the first issue in what people are referring to as the new millennium. It is the first issue of the newsletter started under the leadership of the Section's new chairperson, Mike McLaughlin, and it is my first issue as editor of the newsletter.

In terms of the latter, I would like to thank Tom Mitchell for the help he has provided me during the transition of the editorial responsibilities of this newsletter. The newsletter provides a valuable means of communicating to the members of the Section, the activities taking place that affect us all as financial actuaries. This includes activities of the Section itself, its members and the committees and projects that will mold the framework within which we will perform our job. As such, I hope to uphold the tradition of high quality that my preceding editors have established through their work on this newsletter.

Already the position of editor has afforded me the opportunity to interact with many new people, whom I probably would not have come in contact with otherwise. I believe that you too will appreciate what these authors have to offer in the articles that they have so graciously agreed to provide in this issue.

One of our articles, "Demutualization: Filling the 'GAAP' in Accounting" by Patricia Matson and Darryl Wagner, was provided on a volunteer basis without solicitation. I encourage others to follow suit, if you believe the information you have gained from your work or from a particular project would be of interest to your fellow Section members. The newsletter can only be informative to our readers if people are willing to take the time to contribute to it.

Also in this issue are several articles related to seminars that our members have been involved with. Ed Robbins highlights a seminar held in Mexico; Michelle Chong Tai-Bell reviews a Caribbean seminar; Tom Mitchell details the activities of the recent Toronto seminar dealing with segregated funds; John Bevacqua provides a preview of

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An Actuarial Analysis of FAS 133 (Part 1)

by Anson J. Glacy, Jr.

In June of 1998, after long years of contentious debate, the Financial Accounting Standards Board issued its new standard on derivatives, Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The goal of the new Statement is to resolve the many inconsistencies that have haunted derivatives accounting. It will dramatically change the way hedging relationships are reported and create earnings and capital volatility that is virtually unavoidable. The principles embodied in FAS 133 are complex and controversial, especially as they relate to insurers using derivatives to hedge capital market risks. Part 1 of this article summarizes the key provisions of FAS 133 from the perspective of an insurance company, while Part 2 (in the next issue) will explore its implications for actuaries. Please note that this analysis is not a substitute for a comprehensive assessment of how the Statement may affect your organization.

Background

The FASB believes that once remaining conceptual and measurement issues are



resolved, all financial instruments are to be carried on the balance sheet at fair value. Like FAS 115 before it, FAS 133 thus is an interim step toward the FASB's ultimate goal. While certain traditional insurance contracts are excluded under FAS 133, many insurers, after experiencing the standard's thorny implementation and compliance challenges, may long for the ability to simply present all financial instruments at fair value.

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the upcoming spring meeting to be held in San Diego.

Our new chair, Mike McLaughlin, addresses the Section in his article, "Chair's Corner." Mike raises several thought-provoking issues that affect all Section members.

On the education front, Larry Gorski provides a timely update of the current activities in the new education and examination system, and Tom Herget gives an interesting overview of the players and the process involved in the project he has assumed — to develop a new GAAP text book.

Industry committee and task force updates are presented by Kevin Palmer (COLIFR), Ted Schlude (LHATF) and Bob Brown (Task Force on Life RBC).

Finally, our lead story is the first of two parts dealing with a topic that has been in the news quite a bit lately, SFAS 133. Jay Glacy provides an excellent summary of the major issues addressed by SFAS 133. Part two of this article will be published in the next issue of the *Financial Reporter*.

Once again, I look forward to the opportunities that this position will provide me, and I look to the members of the Section to help me make this as good a product as it can be.

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