



Preliminary Exposure Draft
International Actuarial Standard of Practice

**Glossary for Practice Guidelines
Regarding International Financial
Reporting Standards**

**A Preliminary Exposure Draft of the
Subcommittee on Actuarial Standards of the Committee on Insurance Accounting
International Actuarial Association / Association Actuarielle Internationale**

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Regarding International Financial Reporting Standards*

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1. SCOPE and PUBLICATION DATE

This glossary accompanies the various INTERNATIONAL ACTUARIAL PRACTICE GUIDELINES regarding INTERNATIONAL FINANCIAL REPORTING STANDARDS.

This glossary was published on [date approved by the Council of the INTERNATIONAL ACTUARIAL ASSOCIATION (IAA)].

2. GLOSSARY

Accounting policy

The specific principles, bases, conventions, rules and practices applied by a REPORTING ENTITY in preparing and presenting its FINANCIAL STATEMENTS. *[IAS 8, ¶6]*

Acquisition cost

The costs that an INSURER incurs to sell, underwrite and initiate new INSURANCE CONTRACTS. *[IFRS 4 Basis for Conclusion BC116]*

Actuary

An individual member of one of the Full Member Associations of the IAA who, according to the applicable rules of professional conduct of the Member Association to which the actuary a member, is qualified to practice under INTERNATIONAL FINANCIAL REPORTING STANDARDS in the applicable jurisdiction.

Alternative investment

A comparison contract according to part (b) of the definition of a DERIVATIVE in IAS 39, ¶9.

Amortised cost

The amount at which the FINANCIAL ASSET or FINANCIAL LIABILITY was measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation of any difference between that initial amount and the maturity amount, and minus any write-down (directly or through the use of an allowance account) for impairment or uncollectability. *[IAS 39, ¶9]*

Benefit

Any economic advantage granted by one party to another party under a CONTRACT, especially any cash flow and service provided, or any reduction of cash flows otherwise due to be received, regardless of whether there is a requirement of a prior equivalent payment.

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Cedant

The POLICYHOLDER under a REINSURANCE CONTRACT. *[IFRS 4, Appendix A]*

Component

The smallest element of a CONTRACT containing a specific identifiable and separable feature that contains all of the economic features of a stand-alone CONTRACT.

Constructive obligation

An obligation that derives from an enterprise's actions where:

- (a) by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- (b) as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities. *[IAS 37, ¶10]*

Contract

An agreement between two or more parties that has clear economic consequences that the parties have little, if any, discretion to avoid, usually because the agreement is enforceable by law. Contracts may take a variety of forms and need not be in writing *[IAS 32, ¶13]*

Cost

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, when applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other IFRSs. *[IFRS Glossary]*

Derivative

A FINANCIAL INSTRUMENT or other CONTRACT within the scope of IAS 39 (in IAS 39, ¶2-7) with all three of the following characteristics:

- (a) its value changes in response to the change in a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the CONTRACT (sometimes called the 'underlying');
- (b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of CONTRACTS that would be expected to have a similar response to changes in MARKET FACTORS; and
- (c) it is settled at a future date. *[IAS 39, ¶9]*

Discretionary participation feature

A contractual right to receive, as a supplement to GUARANTEED BENEFITS, additional BENEFITS:

- (a) that are likely to be a significant portion of the total contractual BENEFITS;

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- (b) whose amount or timing is contractually at the discretion of the ISSUER; and
- (c) that are contractually based on:
 - (i) the performance of a specified pool of CONTRACTS or a specified type of CONTRACT;
 - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the ISSUER; or
 - (iii) the profit or loss of the company, fund or other entity that issues the CONTRACT. *[IFRS 4, Appendix A]*

Effective interest method

A method of calculating the amortised cost of a FINANCIAL ASSET or a FINANCIAL LIABILITY (or group of FINANCIAL ASSETS or FINANCIAL LIABILITIES) and of allocating the interest income or interest expense over the relevant period. *[IAS 39, ¶9]*

Effective interest rate

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the FINANCIAL INSTRUMENT or, when appropriate, a shorter period to the net carrying amount of the FINANCIAL ASSET or FINANCIAL LIABILITY. *[IAS 39, ¶9]*

Embedded derivative

A COMPONENT of a hybrid CONTRACT that also includes a non-DERIVATIVE host CONTRACT – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone DERIVATIVE. It causes some or all of the cash flows that otherwise would be required by the CONTRACT to be modified according to a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the CONTRACT. *[IAS 39, ¶10]*

Embedded derivative cash flow

A cash flow of a CONTRACT that varies in a similar way to a cash flow of a DERIVATIVE.

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. *[IAS 32, ¶11]*

Financial asset

An asset that is:

- (a) cash;
- (b) an equity instrument of another entity;
- (c) a contractual right:
 - (i) to receive cash or another FINANCIAL ASSET from another entity; or
 - (ii) to exchange FINANCIAL ASSETS or FINANCIAL LIABILITIES with another entity under conditions that are potentially favourable to the entity; or
- (d) a CONTRACT that will or may be settled in the entity's own equity instruments and is:

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- (i) a non-DERIVATIVE for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or
- (ii) a DERIVATIVE that will or may be settled other than by the exchange of a fixed amount of cash or another FINANCIAL ASSET for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves CONTRACTS for the future receipt or delivery of the REPORTING ENTITY's own equity instruments. [IAS 32, ¶11]

Financial instrument

A CONTRACT that gives rise to both a FINANCIAL ASSET of one entity and a FINANCIAL LIABILITY or equity instrument of another entity [IAS 32, ¶11]

Financial instrument component

The smallest element or component of a CONTRACT containing a specific identifiable and separable feature that gives rise to both a FINANCIAL ASSET of one entity and a FINANCIAL LIABILITY or equity instrument of another entity and contains all of the economic features of a stand-alone CONTRACT.

Financial liability

A liability that is:

- (a) a contractual obligation:
 - (i) to deliver cash or another FINANCIAL ASSET to another entity; or
 - (ii) to exchange FINANCIAL ASSETS or FINANCIAL LIABILITIES with another entity under conditions that are potentially unfavourable to the entity; or
- (b) a CONTRACT that will or may be settled in the entity's own equity instruments and is:
 - (i) a non-DERIVATIVE for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or
 - (ii) a DERIVATIVE that will or may be settled other than by the exchange of a fixed amount of cash or another FINANCIAL ASSET for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves CONTRACTS for the future receipt or delivery of the entity's own equity instruments. [IAS 32, ¶11]

Financial reporting

The preparation and reporting of a REPORTING ENTITY's financial position, financial performance and cash flows, regarding, but not limited to, the preparation of the FINANCIAL STATEMENTS under IFRSs.

Financial risk

The risk of a possible future change in one or more of a specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial

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variable that the variable is not specific to the party to the CONTRACT. *[IFRS 4, Appendix A]*

Financial statements

A structured representation of the financial position and financial performance of an entity. The objective of general purpose financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions. *[IAS 1]* For the purpose of IASPs, a financial statement is a general purpose financial statement prepared according to IFRSs.

Guaranteed insurability

A right to take insurance for a specific risk at a later time, without a reassessment of the status of that risk.

Guaranteed benefits

Payments or other BENEFITS to which a particular POLICYHOLDER or investor has an unconditional right that is not subject to the contractual discretion of the ISSUER. *[IFRS 4 Appendix A]*

Guarantees

CONTRACT features that contractually constrain the REPORTING ENTITY's ability to modify the net cash flows under the CONTRACT.

Guaranteed element

An obligation to pay GUARANTEED BENEFITS, included in a CONTRACT that contains a DISCRETIONARY PARTICIPATION FEATURE. *[IFRS 4, Appendix A]*

IAA

International Actuarial Association.

IAS

International Accounting Standard, as approved by the International Accounting Standards Committee, the predecessor organization to the IASB or as updated by the IASB.

IASB

International Accounting Standards Board.

IASP

International Actuarial Standard of Practice. A standard of practice adopted by the IAA, which is a statement of behaviour required of ACTUARIES operating within a specified context, including the methodology adopted, the approach used to set assumptions, the contents of the resulting REPORT or OPINION and the REPORT or OPINION's presentation.

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The four types of IASP are class 1: MANDATORY; class 2: VOLUNTARY; class 3: RECOMMENDED PRACTICE and type 4: PRACTICE GUIDELINE.

IFRS

International Financial Reporting Standard, as adopted by the IASB. Also can include IAS.

IFRSs

International Financial Reporting Standards are Standards and Interpretations adopted by the IASB. They are comprised of: (1) IFRS; (2) IAS; and (3) Interpretations originated by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC). [IAS 8, ¶5]

Impracticable

When an entity cannot apply a requirement after making every reasonable effort to do so. For a particular prior period, it is impracticable to apply a change in an accounting policy retrospectively or to make a retrospective restatement to correct an error if:

- (a) the effects of the retrospective application or retrospective restatement are not determinable;
- (b) the retrospective application or retrospective restatement requires assumptions about what management's intent would have been in that period; or
- (c) the retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that:
 - (i) provides evidence of circumstances that existed on the date(s) as at which those amounts are to be recognised, measured or disclosed; and
 - (ii) would have been available when the FINANCIAL STATEMENTS for that prior period were authorized for issue from other information. [IAS 8, ¶5]

Insurance asset

An INSURER's net contractual rights under an INSURANCE CONTRACT. [IFRS 4, Appendix A]

Insurance contract

A CONTRACT under which one party (the insurer) accepts significant risk from another party (the POLICYHOLDER) by agreeing to compensate the POLICYHOLDER if a specified uncertain future event (the INSURED EVENT) adversely affects the policyholder. [IFRS 4, Appendix A]

Insurance liability

An INSURER's net contractual obligations under an INSURANCE CONTRACT. [IFRS 4, Appendix A]

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Insurance risk

Risk, other than FINANCIAL RISK, transferred from the holder of a CONTRACT to the issuer.
[IFRS 4, Appendix A]

Insured event

An uncertain future event that is covered by an INSURANCE CONTRACT and creates **insurance risk**. *[IFRS 4, Appendix A]*

Insurer

The party that has an obligation under an INSURANCE CONTRACT to compensate a POLICYHOLDER if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Intangible asset

An identifiable non-monetary asset without physical substance. *[IAS 38, ¶8]* Most such assets addressed in IASPs consist of contractual rights arising from contracts issued (often described as deferred ACQUISITION COSTS) and contractual rights acquired in a business combination or a portfolio transfer.

Intended user

The ACTUARY'S PRINCIPAL or other individual or entity that the ACTUARY anticipates and intends to use the WORK PRODUCT at the time the ACTUARY provides PROFESSIONAL SERVICES to the PRINCIPAL.

Investment contract

A FINANCIAL INSTRUMENT, that may or may not include a SERVICE COMPONENT but is not an INSURANCE CONTRACT or a stand-alone DERIVATIVE where the REPORTING ENTITY is the ISSUER. The unbundled deposit COMPONENT of an INSURANCE CONTRACT under IFRS 4 would be included. It is an informal term used for convenience. *[Note that this definition is compatible with the informal term used in IFRS 4 Implementation Guidance (example 1.8 in IG1) and has been expanded to exclude DERIVATIVES and include the unbundled deposit component of an INSURANCE CONTRACT for completeness.]*

Issuer

A party of:

- 1) an INSURANCE CONTRACT obliging that party to compensate a POLICYHOLDER if an INSURED EVENT occurs;
- 2) a FINANCIAL INSTRUMENT obliging that party to provide additional BENEFITS under a DISCRETIONARY PARTICIPATION FEATURE;
- 3) a FINANCIAL INSTRUMENT without a DISCRETIONARY PARTICIPATION FEATURE, creating a FINANCIAL LIABILITY or equity instrument (as defined in IAS 32) of that party; or
- 4) a SERVICE CONTRACT, obliging that party to perform an agreed task.

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Legal obligation

An obligation that derives from:

- (a) a CONTRACT (through its explicit or implicit terms);
- (b) legislation; or
- (c) other operation of law. *[IAS 37, ¶10]*

Legal unit

A CONTRACT as determined according to the legal definition in the jurisdiction of the CONTRACT, in contrast with the term CONTRACT as used in these IASPs.

Liability adequacy test

An assessment of whether the carrying amount of an INSURANCE LIABILITY needs to be increased (or the carrying amount of related deferred ACQUISITION COSTS or related INTANGIBLE ASSETS decreased), based on a review of future cash flows. *[IFRS 4, Appendix A]*

Mandatory IASP

A class 1 IASP. This is a standard of practice which is mandatory, in the sense that all ACTUARIES are obliged to comply with it, or in the sense that IAA Member Associations are required to adopt it or endorse it. National associations of ACTUARIES may issue mandatory standards, for example where they are a surrogate for legislation. At the international level a mandatory standard would need to be adopted by each IAA Member Association and imposed by them as mandatory on their individual members. *[IAA Due Process for International Actuarial Standards of Practice]*

Margins for risk and uncertainty

The margins that are included in the assumptions used in a model to provide for risks and uncertainty inherent in the issue about which assumptions are made.

Market factor

A specified interest rate, FINANCIAL INSTRUMENT price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable, provided that in the case of a non-financial variable the variable is not specific to a party to the CONTRACT. *[taken from but not defined in IFRS 4, Appendix A, in the definition of FINANCIAL RISK]*

Market value margin

A monetary amount that represents the market's assessment of risk and uncertainty incorporated in relevant transaction prices.

Model

A framework for analysis that, in the ACTUARY's professional judgment, provides a reasonable basis for the valuation of the financial effects of future events, adjusted, where necessary or appropriate, to recognise the inherent uncertainty associated with projections

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involving future events. The term model, as used by ACTUARIES, typically refers to mathematical forms, terms or computational procedures, designed to be consistent with RECOGNISED ACTUARIAL PRACTICE, and may also refer to methods, techniques, procedures, or approaches used by ACTUARIES.

Net carrying amount [of insurance liabilities]

The carrying amount of INSURANCE LIABILITIES less related deferred ACQUISITION COSTS or related INTANGIBLE ASSETS.

Onerous contract

A CONTRACT for which the unavoidable costs of meeting the obligations under the CONTRACT exceed the economic benefits expected to be received under it. *[IAS 37]*

Opinion

A statement by an ACTUARY that, in the ACTUARY's professional judgment, one or more aspects of a FINANCIAL STATEMENT, such as a liability (or asset), have been valued, assessed or analyzed in accordance with RECOGNISED ACTUARIAL PRACTICE. An opinion will be relied upon by the ACTUARY's PRINCIPAL or other INTENDED USER, and may involve estimates or financial information other than a liability (or asset).

Option

A CONTRACT feature that gives a POLICYHOLDER, or holder of a CONTRACT issued by an INSURER, the right (or potential right) to affect the net cash flows under the CONTRACT. In addition, an **INSURER OPTION** is a CONTRACT feature that gives the **INSURER** the right (or potential right) to affect the net cash flows under the **CONTRACT**.

Policyholder

A party that has a right to compensation under an INSURANCE CONTRACT if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Practice guidelines

A class 4 IASP. These are educational in nature, representing a statement of good practice (or perhaps practice as generally accepted among ACTUARIES) and intended, for example, to help the client audience to understand better what they should expect from the WORK PRODUCT of ACTUARIES in the area in question. They might also serve to show non-actuaries who carry out similar work how an ACTUARY is expected to approach the subject matter. *[IAA Due Process for International Actuarial Standards of Practice]*

Practitioner

A person who applies an IASP.

Principal

The party requesting the ACTUARY to provide PROFESSIONAL SERVICES.

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Professional services

Services provided by the ACTUARY to a PRINCIPAL that include the rendering of advice, recommendations, findings, or an OPINION based upon actuarial considerations with respect to FINANCIAL REPORTING under IFRSs and consistent with RECOGNISED ACTUARIAL PRACTICE.

Provision

A liability of uncertain timing or amount. *[IAS 37]*

Provision for risk and uncertainty

The increase in liability created by the inclusion of MARGINS FOR RISK AND UNCERTAINTY.

Recommended practice

A class 3 IASP. ACTUARIES would be expected to follow a recommended practice unless there was a sound and defensible reason for not doing so. ACTUARIES who do not follow the recommended practice should be prepared to give good account as to why it was felt appropriate not to follow the standard and should disclose the material aspects where they have departed from it. A Member Association may choose to raise the recommended practice to a stronger form of standard in the local context. *[IAA Due Process for International Actuarial Standards of Practice]*

Recognised actuarial practice

A practice or practices that are generally recognised within the actuarial profession as appropriate to complete PROFESSIONAL SERVICES under an IASP or the applicable professional standards of practice adopted by the IAA member organization in the applicable REPORTING JURISDICTION.

Reinsurance contract

An INSURANCE CONTRACT issued by one INSURER (the REINSURER) to compensate another INSURER if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Reinsurer

The party that has an obligation under a REINSURANCE CONTRACT to compensate a cedant if an INSURED EVENT occurs. *[IFRS 4, Appendix A]*

Report

An **actuary's** oral or written communication to a PRINCIPAL or other INTENDED USER about the WORK PRODUCT.

Reporting entity

The entity for whose financial statements the professional service is provided.

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Reporting jurisdiction

The jurisdiction, if any, whose laws, and regulations are applicable to the preparation of the FINANCIAL STATEMENTS of the applicable REPORTING ENTITY.

Service contract

The contractual agreement governing the performance by a REPORTING ENTITY of an agreed task over an agreed period of time. *[IAS 18, ¶4]*

Service component

The smallest element of a CONTRACT containing a specific identifiable and separable feature that governs the performance by a REPORTING ENTITY of an agreed task over an agreed period of time and contains all of the economic features of a stand-alone CONTRACT.

Transaction costs

Incremental costs directly attributable to the acquisition or disposal of a FINANCIAL ASSET or FINANCIAL LIABILITY. *[IAS 39, ¶9]*

Unbundle

Account for the COMPONENTS of a CONTRACT as if they were separate CONTRACTS. *[IFRS 4, Appendix A]*

Underlying

A MARKET FACTOR that affects the value of a CONTRACT or COMPONENT of a CONTRACT and causes it to be a DERIVATIVE.

Unit of account

The economic item to which recognition and measurement rules of IFRSs are to be applied.

Value in use

The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. *[IAS 36, ¶5]*

Voluntary IASP

A class 2 IASP. This is an actuarial standard of practice that is not mandatory. However, it would apply with mandatory effect whenever an ACTUARY asserted compliance with a standard. An IAA Member Association may impose it on its individual members. It may be that a third party, such as a client, a regulator or a security exchange commission, could require its application. In those circumstances an opinion or report that did not comply with the relevant voluntary standard would be of little value to the client, hence effectively making it mandatory on ACTUARIES engaged in the relevant practice area. *[IAA Due Process for International Actuarial Standards of Practice]*

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Work product

The totality of the PROFESSIONAL SERVICES provided by an ACTUARY to a PRINCIPAL including any OPINION or REPORT, as well as any supporting calculations and documentation produced by the ACTUARY rendering PROFESSIONAL SERVICES under an IASP.

3. IFRSs referred to in IASPs

- IAS 1 *Presentation of Financial Statements*
- IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*
- IAS 18 *Revenue*
- IAS 32 *Financial Instruments: Disclosure and Presentation*
- IAS 36 *Impairment of Assets*
- IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRS 1 *First-Time Adoption of International Financial Reporting Standards*
- IFRS 3 *Business Combinations*
- IFRS 4 *Insurance Contracts*