



ASSOCIATION ACTUARIELLE INTERNATIONALE INTERNATIONAL ACTUARIAL ASSOCIATION

September 14, 2004

To: Full Member Associations of the International Actuarial Association

Subject: **Preliminary Exposure Drafts for Potential IAA Standards regarding International Financial Reporting Standards**

In March 2004, the International Accounting Standards Board (IASB) published its International Financial Reporting Standard for insurance contracts (IFRS 4). This IASB standard sets forth the principles (and some rules) for accounting for insurance contracts. In addition, many insurers have issued contracts that do not qualify as insurance. These financial instruments or service contracts are subject to other standards of the IASB, in particular IAS 39 and IAS 18, respectively.

It is expected that many insurers in a number of countries, including EU member states and Australia, will be required to use these standards as from 2005.

None of these standards include detailed guidance to the actuary regarding how to perform the needed calculations or to assess the appropriateness of the measurement of the liability for these balance sheet obligations. Since a key objective of the IASB is to achieve a set of high quality globally consistent financial reporting standards, the development of associated actuarial guidance is also best served by high quality globally consistent actuarial standards and guidance that the IAA has undertaken to provide.

As a result, in line with the IAA due process for International Actuarial Standards of Practice, the Subcommittee on Actuarial Standards of the IAA Committee on Insurance Accounting has drafted proposed International Actuarial Standards of Practice (IASPs) for actuaries dealing with either insurance contracts or investment contracts issued by insurers in connection with IFRSs.

Informal working drafts of these IASPs were distributed in April and May 2004 to Full Member Associations and known interested parties, so as to have the opportunity to receive comments before the publication of preliminary exposure drafts. These informal drafts and the comments provided were discussed in the Stockholm meeting of the IAA Subcommittee on Actuarial Standards. Since then, the subcommittee has been working to finalise a series of preliminary exposure drafts.

Attached is a first set of these preliminary exposure drafts that includes the following drafts:

1. Actuarial practice – to provide guidance concerning the role of the actuary and actuarial practice relating to work performed related to IFRSs for insurance contracts, financial instruments and service contracts.

2. Measurement of the liability for investment and service contracts – to provide guidance to actuaries on the liability measurement of those contracts currently offered by insurance companies that do not meet the IASB definition of insurance contracts.
3. Current estimates – to provide guidance on setting current best estimate assumptions.

In addition the material includes a draft Glossary in which terminology used in the IASPs is defined.

The subcommittee expects to issue a second set of preliminary exposure drafts in a couple of weeks. The second set is anticipated to include drafts of standards on classification of contracts, discretionary participating features, liability adequacy testing, embedded derivatives, and changes in accounting policy. There most likely will be a third set distributed later.

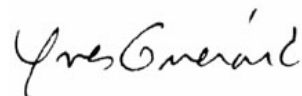
All of these IAA standards under development will be proposed as class 4 standards (practice guidelines). The subcommittee's intention is that, as experience is gained over time, the Standard on *Actuarial Practice* will be considered to be proposed as a class 3 standard (recommended practice).

In line with the due process, the preliminary drafts will have a four-month exposure period to allow IAA Member Associations and other interested parties sufficient time to submit their comments. Attached is a set of questions to which we are particularly interested in receiving responses, although you are encouraged to address other areas as well. The comment period will end on January 14, 2005. However, the subcommittee encourages comments prior to that date to allow sufficient time to discuss any required changes.

The subcommittee does not intend to issue final exposure drafts, unless comments are received indicating a need for extensive revision. The Council will be requested to issue the practice guidelines on an experimental basis with a view to early updating and revision in the light of experience with their operation. Adoption is expected to occur in February of 2005. Full Member Associations will retain the right to comment even after the date of adoption, and comments will be taken into consideration up to and including June of 2005.

The subcommittee looks forward to continued two-way communication, both with representatives of IAA Member Associations and with other interested parties, including individual actuaries, who wish to raise issues of concern throughout this process.

Sincerely,



Yves Guérard
Secretary General

Attachment

APPENDIX

Questions for further input to the IAA Subcommittee on Actuarial Standards of the Committee on Insurance Accounting September 14, 2004 Preliminary Exposure Drafts

General Questions

1. Do the Preliminary Exposure Drafts provide adequate and appropriate guidance for the application of IFRS 4 and related IFRSs?
2. In which areas would you recommend additional guidance? To what extent is the guidance inappropriate or unnecessary?
3. If you are an IAA member association, what are your plans regarding implementation of this Practice Guideline? Where IFRS is the required reporting basis in your jurisdiction, do you intend to introduce similar standards or use this guidance? What are your plans for members practicing in other jurisdictions?
4. Other comments.

Actuarial Practice

5. The Practice Guideline proposes in section “4.1.6 Material Inconsistencies” that the actuary should consider whether management’s selection of the measurement basis could result in materially misleading results. The IAA is continuing to sponsor research on this matter. Do you consider this section to be appropriate? If not, why not and do you have any suggested alternative?
6. The Practice Guideline takes the position in section “4.2.8 Model and assumptions” that, to the extent the actuary selects or takes responsibility for assumptions, the actuary should consider their reasonableness on an aggregate basis. Do you consider this section to be appropriate? If not, on what basis should the reasonableness of the assumptions be considered?
7. Other comments.

Measurement

8. The Practice Guideline takes the position, when calculating the carrying value for a financial instrument on an amortised cost or fair value measurement basis and with accruals for service contracts that the calculations should first be performed applying the methodology and subsequently applying the additional accounting requirements. Do you consider this approach to be appropriate? If not, what process would you consider appropriate?

9. The Practice Guideline takes the position in section “4.4.7.2 Level of margins for risk and uncertainty” that the actuary should select the level of confidence in selection margins for risk and uncertainty. Do you consider this approach to be appropriate? If not, what would you consider appropriate?
10. The Practice Guideline takes the position in section “4.4.8.2 Calibration” that the approach to calibration should be left to the actuary’s judgment. The actuary should consider the limited market for investment contracts where the insurance company is the issuer and consider what observable data is available. Do you consider this approach to be appropriate? If not, what process would you consider appropriate and should a different priority be placed on calibration to the total price or, where additional observable data is available to the individual elements?
11. Other comments.

Current Estimates

12. The Practice Guideline takes the position in section “4.1.1 Approach” that the practitioner should consider whether the assumptions are reasonable in aggregate. Do you consider this section to be appropriate? If not, on what basis should the reasonableness of the assumptions be considered?
13. The Practice Guideline takes the position in section “4.2.2 Market assumptions” that “the practitioner usually selects market assumptions that are consistent with current market prices and other market data, unless there is reliable and well-documented evidence that current market experience and trends are not likely to continue.” In taking this position it is recognised that there may be observable market data that the practitioner, based on his/her judgment considering other objective evidence, has chosen not to follow. Do you consider this approach to be appropriate? If not, what would you consider appropriate?
14. Other comments.