AMERICAN ACADEMY *of* ACTUARIES

March 27, 2006

Subcommittee on Actuarial Standards
Committee on Insurance Accounting
International Actuarial Association
Via e-mail to katy.martin@actuaries.org

To Subcommittee on Actuarial Standards:

Thank you for the opportunity to comment on the preliminary exposure draft of the Practice Guideline, *Disclosure of Information about Insurance Risk under International Financial Reporting Standards [IFRS 2005]*. The Financial Reporting Committee of the American Academy of Actuaries[1] is pleased to provide these comments on the exposure draft.

We compliment the authors for their efforts in developing a detailed analysis of international accounting guidance concerning disclosure. The paper will be an extensive and thorough resource for actuaries and other practitioners who provide advice to their clients with respect to disclosure requirements of IFRS 4 and other IFRSs that apply to non-insurance contracts offered by insurers.

General Comments

By its completeness and thoroughness, the paper may leave the impression that a greater volume of disclosure is needed than the IASB may have intended. In order to clarify the intent, we suggest that Sec. 4.2 (Aggregation and materiality) be divided into two sections, 4.2 and 4.3. Sec. 4.2 could cover materiality, while Sec. 4.3 could cover aggregation.

A draft of a revised Sec. 4.2 appears below. Sec. 4.3 (Aggregation) could be left largely the same as the existing Sec. 4.2, with the deletion of its last paragraph.

[1] The American Academy of Actuaries is a national organization formed in 1965 to bring together, in a single entity, actuaries of all specializations within the United States. A major purpose of the Academy is to act as a public information organization for the profession. Academy committees, task forces and work groups regularly prepare testimony and provide information to Congress and senior federal policy-makers, comment on proposed federal and state regulations, and work closely with the National Association of Insurance Commissioners and state officials on issues related to insurance, pensions and other forms of risk financing. The Academy establishes qualification standards for the actuarial profession in the United States and supports two independent boards. The Actuarial Standards Board promulgates standards of practice for the profession, and the Actuarial Board for Counseling and Discipline helps to ensure high standards of professional conduct are met. The Academy also supports the Joint Committee for the Code of Professional Conduct, which develops standards of conduct for the U.S. actuarial profession.

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4.2 Materiality

Materiality is an important consideration in designing disclosure. Details that do not contribute useful information to the decision-making needs of the intended users of financial statements would typically not be provided.

Throughout this Practice Guideline there are many lists of categories or types of information that may be included in helpful disclosure. These lists are included to serve as reminders of types of information that may be useful, but their usefulness or materiality depends on the circumstances. The preparer of financial statements will not normally provide disclosure covering every item on every list, but will choose those items that best provide useful information to the decision-making needs of the intended users of financial statements.

Decisions regarding materiality generally are made by the preparer of the financial statements, subject to confirmation by its auditor.

The second paragraph in the above draft Sec. 4.2 contains the message we strongly believe should be included somewhere in the Practice Guideline. To be consistent with this, the wording in certain later sections of the document might be revised.

For example, Sec. 4.3.3 discusses a means of disclosing processes used to determine assumptions. The section concludes with a list of 11 examples of the type of information that "would typically be provided". The wording suggests that every company should include a discussion of all 11 of these examples in their disclosure statements. We feel that this would usually provide a quantity and level of detail well beyond being useful to the user's decision-making process. Rather we would prefer that words such as "might be considered" be used instead of "would typically be provided" in order to convey that the list is composed of items that the practitioner should think about but would only include items that are material to the reporting company in its disclosure statement.

A number of other areas in the Draft Practice Guideline also contain the phrase "would typically be…." Similarly, that would instruct a reader to include every item listed in a disclosure report, rather than to consider each item and include in the disclosure statement only those items that provide material and useful information on the reporting company.

Enunciation of Basic Principles Regarding Disclosure

We believe that a practice guideline should outline enduring, basic principles. The disclosure guideline is uneven in this regard. For example, paragraph 4.4.3.1.1 contains a very good discussion of appropriateness. However, in some instances, the document goes into great detail regarding how an analysis leading to a disclosure might be performed. For example, paragraph 4.4.3.2.3 discusses at some length the attributes and relative merits of various scenario testing methods. We believe such process detail and discussion are more properly handled in technical notes rather than a practice guideline regarding the principle of disclosure.

Accessibility/User Friendliness of the Guideline

The Draft Practice Guideline seems very long and detailed compared to other class 4 IASPs. We believe it makes the material more difficult to absorb and may discourage actuaries who would benefit greatly from its contents. For example, almost all accounting items are addressed in some depth, rather than just those items that would normally be prepared by actuaries or require actuarial expertise. It provides guidance to company management in general, rather than to actuaries who perform traditional actuarial roles. We question whether this is consistent with the intended scope of the Guideline.

The document also provides extended, detailed discussion on specific practice areas. For example, many paragraphs are not especially relevant in the non-life context. Likewise, the detailed discussion of claim liabilities may cause life and pension actuaries to lose the focus of the guideline. The guideline may benefit from a structure that separates general discussion from discussion of subjects specific to individual practice areas.

Specific Comments

Paragraph 4.2 seems to imply that large, diversified, multinational insurance groups would typically be expected to provide only qualitative discussion of their risks, whereas smaller, more localized companies would be expected to provide quantitative information. While we agree that larger company disclosure may be at a more aggregated level, we would expect there to be considerable quantitative information provided also.

Paragraph 4.4.3.3 indicates that IBNR is not relevant to claims analyzed on a report year basis. This is an incorrect statement in U.S. accounting practice. The specific claim reserves established for claims-made coverages, the most common subject of report year analysis, may or may not be adequate to extinguish the ultimate liability. The difference between initial valuation and final settlement for these coverages is regularly estimated and is recorded as IBNR. The size and character of the IBNR reserves for such coverages may differ from occurrence-based coverage, but it does exist.

Paragraph 4.3.1.5 states in its final sentence that it is inappropriate to change accounting policies to further fraud or manage earnings. While we believe this is a true statement, we believe it belongs more in a guideline regarding professional conduct rather than a guideline discussing disclosure.

The suggestion that actuaries discuss correlation matrices and copulas in reviewing concentration of risk goes beyond current practice in most contexts and goes well beyond what readers of disclosures are likely to be able to assimilate.

Once again, on behalf of the American Academy of Actuaries Financial Reporting Committee, I wish to thank you for the opportunity to comment. Should you have any questions or need further information on our comments, please feel free to contact us through Bill Copeland at Copeland@actuary.org or at (202) 223-8196.

Sincerely,

Henry Siegel

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