



# AMERICAN ACADEMY *of* ACTUARIES

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April 1, 2009

Financial Accounting Standards Board (FASB)  
401 Merritt 7  
P. O. Box 5116  
Norwalk, CT 06856-5116  
Via email: Adam Van Eperen, [ajvaneperen@fasb.org](mailto:ajvaneperen@fasb.org)

*Re: Response to FCAG Questions*

The Financial Reporting Committee of the American Academy of Actuaries<sup>1</sup> appreciates this opportunity to provide input to the joint IASB/FASB Financial Crisis Advisory Group (FCAG) as part of the FCAG's request. In the interest of brevity, our response is limited to three of the questions in the FCAG's request.

*Question 2. If prudential regulators were to require 'through-the-cycle' or 'dynamic' loan provisions that differ from the current IFRS or US GAAP requirements, how should general purpose financial statements best reflect the difference: (1) recognition in profit or loss (earnings); (2) recognition in other comprehensive income; (3) appropriation of equity outside of comprehensive income; (4) footnote disclosure only; (5) some other means; or (6) not at all? Please explain how your answer would promote transparency for investors and other resource providers.*

By analogy to the experience of the US insurance industry, as described in the next paragraph, we suggest that option (4) could be the preferable approach to the hypothetical situation posed regarding the banking industry. We also suggest that, if any one of options (1) through (3) above were adopted with respect to the banking industry, caution should be taken before automatically extending the selected option to other situations where regulatory accounting principles differ from general purpose accounting principles, such as accounting for insurance contract liabilities in the US.

For many decades, the accounting requirements promulgated by prudential regulators of US insurance companies with respect to those companies' insurance contract liabilities have differed

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<sup>1</sup> The American Academy of Actuaries ("Academy") is a 16,000-member professional association whose mission is to assist public policymakers by providing objective expertise and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States. Academy members are highly trained practitioners in mathematical and statistical approaches to quantifying risk, practicing in the insurance industry as well as the broader financial services industry.

The Academy's Financial Reporting Committee ("Committee") is comprised of representatives from across the spectrum of actuarial practice, primarily including life insurance, property/casualty insurance, health insurance, and pensions. Committee members apply their skills to analysis of public policy relating to company financial statements, taking into account different perspectives from the various roles that actuaries may play, including those of preparer, auditor's expert, and user.

from the US GAAP accounting requirements for such liabilities. This difference has generally received minimal attention within the general purpose financial statements of US insurers. For instance, the footnotes to a US insurer's general purpose financial statement would typically include disclosure of the income and net worth, as calculated under regulatory accounting principles, of the issuer's regulated insurance subsidiaries. The general purpose financial statement may also include a discussion of the extent to which regulated subsidiaries are in compliance with regulatory solvency standards, and the extent to which regulatory requirements restrict the ability of dividends to be made from regulated subsidiaries of the parent holding company. However, it would be atypical today for an insurer's general purpose financial statements to specifically address the difference between US GAAP and regulatory accounting principles with respect to the valuation of insurance contract liabilities.

*Question 4. Most constituents agree that the current mixed attributes model for accounting and reporting of financial instruments under IFRS and US GAAP is overly complex and otherwise suboptimal. Some constituents (mainly investors) support reporting all financial instruments at fair value. Others support a refined mixed attributes model. Which approach do you support and why? If you support a refined mixed attributes model, what should that look like, and why, and do you view that as an interim step toward full fair value or as an end goal? Whichever approach you support, what improvements, if any, to fair value accounting do you believe are essential prerequisites to your end goal?*

We have previously communicated to the IASB our belief that there is a case for using different methods to measure different types of financial instruments if the characteristics and applications of the instruments are sufficiently distinct, and that forcing the same measurement principles for very different instruments may impose a great cost in complexity and relevance to auditors, users, and preparers. In particular, we have concerns over whether fair value would be an appropriate measurement attribute for most insurance contracts. Given the characteristics of a typical insurance contract, market value is non-existent, and fair value is subjective, volatile, and may not be relevant at any particular accounting date due to the intention of the parties and the predominant use of the instrument.

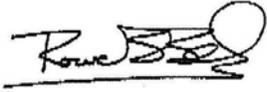
For more information, we refer you to our September 2008 comment letter to the IASB in response to its *Discussion Paper on Reducing Complexity in Reporting Financial Instruments*, which is item CL48 in the online IASB archive of comment letters received on that Discussion Paper.

*Question 5. What criteria should accounting standard-setters consider in balancing the need for resolving an 'emergency issue' on a timely basis and the need for active engagement from constituents through due process to help ensure high quality standards that are broadly accepted?*

We believe that it is important for accounting standard-setters, even in an 'emergency' situation, to solicit input from other professions whose expertise is salient to the matter at hand. As an example, were an 'emergency issue' to arise in areas such as accounting for insurance contracts or accounting for pensions, we believe it would be prudent and appropriate for accounting standard-setters to actively engage the actuarial profession in discussions leading up to a timely resolution of the issue.

Thank you for offering us this opportunity to comment and please do not hesitate to contact us if there is any way in which we can be of further assistance to the FCAG.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Rowen B. Bell", with a horizontal line underneath.

Rowen B. Bell  
Chairperson, Financial Reporting Committee  
American Academy of Actuaries