I. ISSUES

Sarbanes-Oxley Act

Through a special leadership group staffed by the Financial Reporting Council, the Academy commented to the SEC on proposed rules implementing disclosure and auditor independence provisions of the Sarbanes-Oxley Act. Several of the Academy’s concerns were reflected in the SEC’s revised proposals, including a broadening of the definition of “financial expert” as it was used with respect to work on audit committees. The Financial Reporting Council continues to monitor the SEC rule-making process as well as the formation of the Public Company Accounting Oversight Board (PCAOB). The Financial Reporting Council is also discussing possible meetings with both these groups to discuss relevant Academy projects.

A. Banking and Financial Services
   (Timothy J. Tongson, chairperson; James E. Rech, vice-chairperson)

   The Federal Charters Work Group has finished work on a monograph outlining the actuarial components that should be incorporated into any federal regulatory structure for insurance companies. The components focus on the role of the actuary in a federal charter environment and will not take a position on specific legislative proposals. The Work Group will coordinate activities across the practice councils and will draft any external communications on optional federal charters prepared by the Academy. A presentation on the monograph is planned for the upcoming Washington Forum on May 9.

Outlook: The Federal Charters Work Group’s monograph is expected this month for publication. Tim Tongson plans to provide a federal charter presentation during the Washington Forum “Hot Issues” session on May 9, and a Capitol Hill briefing highlighting the release of the monograph is planned for April or May.

B. Joint Financial Reporting

The Joint Financial Reporting Task Force (Andrea Sweeny, chairperson; TBD, vice-chairperson) has scheduled a liaison meeting with the American Institute of Certified Public Accountants (AICPA) on April 28 to discuss relevant Academy projects.
At the Spring National Association of Insurance Commissioners (NAIC) meeting in Atlanta, the Joint Risk-Based Capital (RBC) Work Group (Rowen Bell, chairperson; Jim Reiskytl, vice-chairperson) responded to a request from the NAIC to review issues involving the various RBC formulas and update the formulas for 2003. The work group presented its initial report and recommendations on the various RBC formulas at the 2002 Spring NAIC meeting in Reno. The work group continues to work with the NAIC to provide clarification on these recommendations and offer more rationale for the group’s findings.

The Best Estimates Work Group continues to work on a monograph/white paper addressing “best estimates” of claim reserves. Also, work begun by the Life Financial Reporting Committee on a monograph/white paper regarding purchase accounting issues will be continued by a work group of the Joint Financial Reporting Task Force. Dan Kunesh (Life) and Marc Oberholtzer (Casualty) will co-chair this work group.

Outlook: Despite some scheduling setbacks, the Best Estimates Work Group is currently editing the draft version of the monograph and expects to publish the final product in late Spring. Drafting of the purchase accounting white paper/monograph will get under way shortly thereafter.

C. International

The International Task Force (David Sandberg, chairperson; Daniel J. Kunesh, vice-chairperson) continues to follow the activities of the International Accounting Standards Board (IASB), the International Association of Insurance Supervisors (IAIS), the Joint Working Group, as well as the International Actuarial Association (IAA).

Working with the Accounting Policies and Procedures Task Force, the International Task Force is following the progress of the IASB’s International Accounting project closely. The task force is also reviewing several recent papers issued by the IAIS, as well as the IAA’s responses to them. The task force is peripherally following the Academy’s Fair Value Work Group discussions of the Joint Working Group paper on Recognition and Measurement of Financial Instruments. It should be noted, however, that this JWG project is not among the IASB’s top priorities.

Outlook: Comment letters are being prepared in response to all of the pertinent IASB and IAIS exposure drafts. The actuarial perspective will be shared and discussed with the IAA, so that Academy members’ views can be incorporated in the IAA responses to the documents. The IAA’s Insurance Accounting Committee is gearing up to develop actuarial standards of practice, which would apply in conjunction with the international accounting standards. The Academy’s identification of resources for this effort and level of support for this project has yet to be decided.

D. Accounting Policies and Procedures

The Accounting Policies and Procedures Task Force (Burton D. Jay, chairperson; Ralph S. Blanchard, vice-chairperson) has prepared and submitted to the IASB comments on the IASB's Draft SOP on Insurance Contracts (DSOP) and has completed a monograph on fair value accounting, which was released in September 2002. The fair value monograph presents the Academy's views on a number of fair value accounting issues, while remaining neutral with respect to the fair value platform. The task force will work with Joint Financial Reporting, as needed, to address "best estimate" issues, and will
follow the one-set-of-books movement as it progresses.

The task force is also considering whether to prepare comments for the IASB on their proposed changes to IAS 32 and IAS 39.

*Outlook:* The fair value monograph published in September was discussed during a November 18 meeting with the Financial Accounting Standards Board, and will be a topic of discussion at the April 28 meeting with the AICPA.

E. **Solvency and Risk Management**

The Solvency and Risk Management Task Force (James Reiskytl, chairperson; Maryellen Coggins, vice-chairperson) is continuing to work on a monograph to contrast banking versus insurance risks, in response to a request from the Federal Reserve Board. The monograph will also prove useful in discussions with the NAIC Financial Reporting Working Group and in educational efforts with policymakers on Capitol Hill. The monograph was temporarily set aside in order to prepare comments on the IAA draft of a global framework for insurer solvency assessment. Those comments will be shared with the IAA on April 1.

*Outlook:* Comments on the draft version 16 of the global framework for insurer solvency assessment paper will be shared with the IAA on April 1. At that point, the task force will push to finalize the monograph comparing banking versus insurance risk.

II. **PEOPLE ISSUES**

Bill Weller submitted his resignation as Chairperson of the Joint Risk Based Capital Task Force. Rowen Bell has accepted the position with Jim Reiskytl serving as the vice-chairperson.

Burt Jay has retired from Mutual of Omaha. He will continue to chair the Accounting Policies and Procedures Task Force at least until completion of its current agenda.

Jim Reiskytl has retired from Northwestern Mutual. He will continue to chair the Solvency and Risk Management Task Force at least until the completion of its current agenda.

III. **BOARD OF DIRECTORS / EXECUTIVE COMMITTEE ATTENTION**

None.

IV. **EXTERNAL CONTACTS**

- To advance the Academy’s ongoing effort to foster relationships with key policy-makers, Ethan Sonnichsen met with staff members of several congressional offices (all members on the Capital Markets and Insurance Subcommittee of the House Financial Services Committee) in a series of joint Capitol Hill visits to discuss current and upcoming Academy projects. Among the topics of interest, the Academy’s monograph on Optional Federal Charter requirements and a related Hill briefing, as well as issues stemming from implementation of the Sarbanes-Oxley Act, dominated most of the discussions.
To further the Academy’s goal of meeting standard setting bodies, the FRC has scheduled a liaison meeting with the American Institute of Certified Public Accountants (AICPA) for Monday, April 28, at the AICPA’s office in New York. The agenda will be similar to that of the November meeting with members of the Financial Accounting Standards Board (FASB). The discussion will focus on current relevant projects, such as the fair value monograph and work on the best estimates white paper/monograph, as well as potential Academy work on issues surrounding purchase accounting, international accounting standards, and the expensing of stock options.

In line with the AICPA meeting, the FRC will seek similar meetings with the SEC and the Public Company Accounting Oversight Board (PCAOB) on any relevant areas of interest.

V. PUBLICATIONS

The following Financial Reporting Council public statements have been issued over the past year:

<table>
<thead>
<tr>
<th>Publication</th>
<th>Audience</th>
<th>Publication Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monograph: Fair Value Accounting</td>
<td>Actuarial Profession, FASB, AICPA</td>
<td>September 2002</td>
</tr>
<tr>
<td>Comments to SEC on proposed disclosure rules</td>
<td>SEC</td>
<td>November 2002</td>
</tr>
<tr>
<td>Joint Comments to GASB on new accounting standard for post retirement benefit plans</td>
<td>GASB</td>
<td>January 2003</td>
</tr>
<tr>
<td>Comments to SEC on proposed auditor independence rules</td>
<td>SEC</td>
<td>January 2003</td>
</tr>
<tr>
<td>Comments to NAIC – update of 3 RBC formulas</td>
<td>NAIC</td>
<td>March 2003</td>
</tr>
<tr>
<td>Comments to IAA on draft of Solvency Framework Paper</td>
<td>IAA</td>
<td>March 2003</td>
</tr>
</tbody>
</table>

The following Financial Reporting Practice Council publications are expected to be completed within the next six months:

<table>
<thead>
<tr>
<th>Publication</th>
<th>Audience</th>
<th>Expected Publication Date*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monograph: Optional Federal Charter Proposals</td>
<td>Actuarial Profession, Congress, other Policy Makers</td>
<td>April 2003</td>
</tr>
<tr>
<td>Monograph: Banking versus Insurance Risk</td>
<td>Actuarial Profession, Congress, NAIC, IAIS</td>
<td>May 2003</td>
</tr>
<tr>
<td>Comments: Joint RBC comments on RBC formula differences</td>
<td>NAIC</td>
<td>Ongoing</td>
</tr>
<tr>
<td>Monograph/white paper: Best Estimates of Claim Reserves</td>
<td>Actuarial Profession</td>
<td>May 2003</td>
</tr>
</tbody>
</table>
VI. KEY ISSUES/PRIORITIES FOR 2003

During their fall planning discussions, members of the Financial Reporting Council identified the following key issues/priorities to guide their efforts in 2003:

- Continue to Develop Relationships with Key Accounting Standard-Setters and Regulators (e.g., NAIC, FASB/GASB, IASC, AICPA; IAIS; Congress – Financial Services/Banking Committees)
- International Accounting Standards
- Fair Value Accounting – follow up work following monograph publication
- Optional Federal Charters – Financial Services Modernization –monograph publication
- Best Estimates
- Performance Measurement
- Risk-Based Regulation

VI. STRATEGIC PLAN ACTIVITIES

- Through a special leadership group staffed by the Financial Reporting Council, the Academy commented to the SEC on Sarbanes-Oxley proposed rules regarding disclosure and auditor independence. Several of the Academy’s concerns were reflected in the revised comments.
- Successful contacts have been initiated at the staff level with SEC officials to gather information about the agency’s plans for ongoing Sarbanes-Oxley implementation. Similar relationships will be initiated with the newly formed Public Company Accounting Oversight Board.
- Hill visits on March 24 were very helpful in building relationships with staff on the House Financial Services Committee. Relevant Academy projects and the optional federal charter Hill briefing were discussed.
- The FRC met with FASB on November 18, 2002 to discuss current FASB-related projects. The monograph on fair value accounting was a major topic discussion. FASB extended a commitment to make an effort to involve the Academy on issues they feel require an actuarial perspective.
- A meeting with the AICPA is scheduled for April 28, 2003. The Academy has been asked to identify resources to serve as members of various AICPA Task Force initiatives: Academy members currently serve on the AICPA Long Duration and Purchase Accounting Task Forces.