

International Accounting Update—3rd Quarter, 2008



William Hines
FSA, MAAA

IASB REAFFIRMS INSURANCE CONTRACT PROJECT TIMELINE AND CONSIDERS ALTERNATIVE MEASUREMENT ATTRIBUTE

At its September meeting, the staff of the International Accounting Standards Board (IASB) presented a timeline for completing the insurance accounting project that reaffirms their commitment to release an exposure draft of an accounting standard in October 2009 and a final accounting standard in May 2011. The timetable requires the IASB to discuss the insurance project at each meeting between September 2008 and October 2009 and to reach conclusions on each relevant issue at one meeting.

The IASB is expected to consider an alternative to “current exit value” for the valuation of insurance liabilities as the project moves forward. At the September board meeting, the staff presented an attribute based on a settlement notion rather than a transfer notion. Current fulfillment value is being considered by the board based on comments received from the discussion paper released last year. Current fulfillment value is “the expected present value of the cost of fulfilling the obligation to the policyholder over time.” It would include market-based assumptions to the extent they are observable, and entity-specific-based assumptions to the extent that no market observations exist. They will discuss both current exit value and current fulfillment value at their October meeting.

FASB AGREES TO JOIN IASB INSURANCE PROJECT

The Financial Accounting Standards Board (FASB) announced in late October that they would be a full participant in the IASB’s insurance project. The project was being conducted on what is called a modified joint basis. In a modified joint project, one board, in this case the IASB, takes the lead in developing the project to the point that a discussion paper or similar document is issued. The other board, the FASB, issues the paper for comment and, after considering the comments, decides whether or not to fully participate in developing an exposure draft and final accounting standard. The FASB did issue the IASB discussion paper for comment and has now decided they will join the project.

FASB has stated that the objective of the joint IASB/FASB insurance contracts project is to “develop a common, high-quality standard that will address recognition, measurement, presentation, and disclosure requirements for insurance contracts. Specifically, this project is intended to:

1. Improve and simplify the financial reporting requirements for insurance contracts.
2. Eliminate numerous pieces of current U.S. accounting literature that add to the complexity of accounting for insurance contracts.
3. Provide investors with more decision-useful information.

Given the objectives, it seems likely that the current US GAAP guidance for insurance will be replaced with the result of the joint project. If this occurs it would effectively mean accounting under US GAAP and IFRS for insurance contracts would be the same. Financial assets accounting between the two is already quite similar.

IASB staff had previously estimated that if FASB joined the project, it would cause a delay of as much as one year in the timeline. As of now, both FASB and IASB are targeting no delay.

FASB has updated the timeline for this project on its website to be consistent with that presented by the IASB staff. However, it is quite possible that the education effort involved in bringing FASB up to date with the IASB may cause a delay to this schedule. IASB staff had previously estimated that if FASB joined the project, it would cause a delay of as much as one year in the timeline. As of now, both FASB and IASB are targeting no delay.

SEC PROPOSES ROADMAP TO ADOPTION OF IFRS

In August 2008, the U.S. SEC stated they would release for comment a proposed roadmap to replace the current U.S. generally accepted accounting practices (GAAP) accounting guidance developed by the FASB with International Financial Reporting Standards (IFRS), issued by the IASB. Although the roadmap has not yet been released by the IASB, the press release announcing the decision to release the roadmap indicates that the Securities and Exchange Commission (SEC) will actually decide on whether to require mandatory adoption of IFRS in 2011. The SEC identified a number of milestones that need to be met between now and 2011 in order for adoption to be approved. Among those milestones are completion of the projects outlined in the memorandum of understanding between the FASB and the IASB, and independent funding of the IASB. The SEC is also considering allowing larger companies early-adopt IFRS as early as 2014. The recent financial market turmoil will no doubt have an effect on the move to IFRS. However, at this point it is not clear what that impact will be.

William Hines is a principal and consulting actuary with the Boston office of Milliman. Contact William at 781.213.6200 or at william.hines@milliman.com.