February 23, 2005

Mr. Eric Wong  
Project Manager  
IASC Foundation  
30 Cannon Street  
London EC4M 6XH  
United Kingdom  
(Email: ewong@iasb.org)

Dear Sir:

Re: IAA comments on the Review of the Constitution; Proposals for Change

In response to the request for comments to the IASC Foundation’s Trustees’ Proposals for Change in its Constitution Review, I am pleased to transmit on behalf of the International Actuarial Association (IAA) our comments and recommendations.

Periodic reviews of the Constitution of the IASC Foundation, including this one, should prove valuable. We encourage their continuation in the future to ensure that the public interest is properly considered in the development and maintenance of international financial reporting standards. We are pleased to provide our commentary on the current proposals. We hope that you find the attached comments to be of value.

These comments have been prepared by a committee of the IAA, the members of which are listed by name and association in the Appendix to this submission.

Yours sincerely,

Yves Guérard  
Secretary General

Attachment: IAA comments
THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our fifty Full Member actuarial associations represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism around the globe and serves as the voice of the actuarial profession when dealing with other international bodies on matters falling within, or likely to have an impact upon, the areas of expertise and practice of actuaries.

We are not a trade association and do not represent the interests of either clients or employers. As actuaries, we have developed significant experience and expertise in the assessment of the value of contingent cash flows. Using this experience, actuaries will continue to provide assistance to those involved in the enhancement of financial reporting standards to make them more useful to the users of financial statements.

IAA COMMENTS

The IAA appreciates this opportunity to provide input to the IASC Foundation’s self-assessment process and in particular, its review of its Constitution, noting that some of our previous suggestions have already been adopted. We commend the continuing, very worthwhile, efforts of the IASC Foundation to develop globally accepted international financial reporting standards.

We believe that the IASC Foundation’s Constitution should undergo regular reassessment, as should the methods and operations of the IASB and related bodies. We particularly encourage such reviews to continue to emphasize the first objective of the IASC Foundation and the IASB to operate “in the public interest.” We have previously stated our concern about how the ‘public interest’ is to be interpreted, encouraging the Board to take a broad view of this important and relevant concept. Although these latest proposals clarify somewhat the issues surrounding it, we welcome further public discussion of this issue.

Paragraph 8 of the Trustees’ proposals highlights some of the challenging topics facing the IASB, with our own constituency having a particular interest in these topics. What constitutes an ‘even-handed manner’ may be a subject of some philosophical debate, but one would hope that intellectual integrity and consistency will be maintained. An acid test will be whether the processes revised as a result of this review improve the chances of enhancing the financial reporting treatment of these challenging topics to reflect economic reality better. The next such review should consider the evidence as to whether the standards promulgated meet such a test.

Our responses to the Foundation’s invitation for comments on the ten specific topics follow:

1. Whether the objectives of the IASC Foundation should expressly refer to the challenges facing small and medium-sized entities (SMEs).

   IAA comments: The IAA has previously indicated that it believes the challenges specific to SMEs can be viewed as already having been addressed through a broad interpretation of the term “in the public interest.” This is equally true for emerging economies. Indeed, several industries believe that their special needs should also be considered. One aspect to be considered, especially with respect
to financial and holding companies, is the ease with which companies can be relocated; it is therefore desirable to ensure that the choice of accounting regime is not a relevant factor in such decision-making. It would be appropriate to include a general discussion that might lead to a proper framework for considering the public interest in a consistent manner. The use of expressions such as ‘as appropriate’ is understandable but can be highly subjective without identifying sufficient criteria under which appropriateness can be judged.

The primary objective of the Trustees should be to develop a single set of high quality global financial reporting standards, both robust and readily transparent. As such, at least in the case of insurance companies and in view of their fiduciary responsibility to the public as well as their complex risk characteristics, there should not be separate standards for small and large insurers.

2. Number of Trustees and their geographical and professional distribution.

IAA comments: We support the proposed increase from 19 to 22 members. This should permit increased opportunity for a broader range of views to be expressed and improve input into the Trustees’ discussions and decision-making processes. However, in making this comment, it should be observed that we do not have sufficient information to assess the financial ramifications of this decision.

It would not be appropriate to provide additional emphasis of particular regions solely due to their commitment to use IFRSs. It is paramount that all Trustees be of high quality and integrity. We would not support a counter-suggestion for more specific geographical designation or reserved seats given the representations made on the policy of the Trustees, nor would we support the obligation to take into account views of named international bodies. Nevertheless, the value of broad representation of different world-views that can be gained from a diversity of backgrounds should always be kept in mind in selecting Trustees.

3. The oversight role of the Trustees.

IAA comments: We agree with the proposals. In particular, we support the proposed revisions that require the Trustees to monitor the agenda and the consultative and due process procedures of the IASB.

4. Funding of the IASC Foundation.

IAA comments: We are not able to make any specific suggestions with regard to funding, although we recognize that any funding will carry the risk of withdrawal of such funding if particular standards are not considered acceptable by the providers of the funds. It would be appropriate to seek as broad a funding base as possible, so that such funding may reduce the risk of actual or apparent bending to pressure for inappropriate or inconsistent financial reporting standards. Educational aspects of the operations of the IASB may require separate funding sources.

5. The composition of the IASB.

IAA comments: We do not object to the proposals presented, but would remind the Foundation of our view that, to be more effective, it might be desirable to delegate formally part of the issues management process to sub-committees of the Board that meet in open session. This could prove beneficial because of the
formidable workload of the Board. Expecting all Board members to follow all issues in detail at all stages does not appear to serve as the best use of scarce and valuable human resources.

As to whether to have part-time members, if this would make it possible to attract certain talented individuals who were not able to devote full time to the IASB, then such a policy should be continued. Nevertheless, we recognize that the IASB’s agenda seems to be continually expanding and that it will be quite difficult for a part-time member to make the full contributions that will be needed. To allow for exceptional situations, it might make sense to allow for up to two part-time members, rather than to require it.

6. The appropriateness of the IASB’s existing formal liaison relationships.

IAA comments: We note the reference made to other official bodies concerned with standard setting. We assume that this would include regulatory bodies (e.g., bodies concerned with prudential regulation of financial institutions) who are users of accounts, but who may also specify the contents of the accounts used for their own prudential purposes. It should also be kept in mind that regulators’ objectives, e.g., concern with solvency and consumer protection, may not always be the same as those of other users of international financial reporting statements.

We reiterate our view that special ongoing educational efforts should be undertaken, such as some of the IASB internet educational efforts currently contemplated that would, in part, address some of the needs of emerging economies. In addition, Board members and staff should actively present IASB initiatives to other standard setters to encourage convergence.

7. Consultative arrangements of the IASB.

IAA comments: With the inclusion of the proposed paragraph 32(g), we find the changes proposed acceptable. We are supportive of the proposed revision that requires the IASB to provide explanations for situations in which non-mandatory due process procedures are not conducted.

8. Voting procedure of the IASB.

IAA comments: We are not convinced by the argument that nine out of the fourteen IASB Board members, rather than eight, is necessarily more appropriate to take decisions. The argument is purportedly that this will enhance the credibility of a new standard. The argument is easily reversible in that a majority, but less than nine, voting for a change would demonstrate that the existing standards (or in some cases lack of standards) are not credible. This proposal is not needed.

9. Resources and effectiveness of the IFRIC.

IAA comments: We believe that matters that IFRIC addresses should be expanded somewhat. Being in the midst of the implementation of a newly adopted IFRS, IFRS 4, it is clear that there are significant issues that may be worthwhile being addressed that would clarify the intent of the IASB and assist in the preparation of comparable financial statements. Nevertheless, we do not
believe it appropriate that IFRIC should become an interpretation panel addressing day-to-day questions that arise in practice.

10. The composition, role and effectiveness of the SAC.

IAA comments: We support the proposal to appoint the chairman of the SAC.

We welcome further discussion both as to how desirable SAC diversity should be obtained in practice, although we recognize that this may be an operational detail rather than a strategic issue, and as to how this committee should most effectively operate to secure input from a relevant, diverse collection of users (including preparer management) and other interested professionals. At the same time, we recognize that its current size may restrict its effectiveness as an advisory body. Particularly if its size is reduced somewhat, we encourage the IASB to seek to select the SAC to provide as wide a range of external views as practical in respect of overall strategy and priorities, as well to continue to seek specific input from the SAC early in its deliberative process on particular matters.

If the SAC remains close to its current size, we believe that to increase its effectiveness it should include in its operating procedures the use of informal subgroups on a regular basis to provide more in depth advice on important issues.

We had previously made two observations which have not been taken up in the current proposals that we believe worthwhile to re-iterate here:

a. Name. We believe that the IASC Foundation should consider a change in its name. It is time to move to become the “IASB Foundation.” The “IASC” is not relevant to the rest of its organization and is only confusing to the outside world. Although we are not aware of the practical difficulties or cost that may be associated with such a change in name, in principle, it seems more consistent with the rest of the organization, rather than its predecessor.

b. Framework. Since a proper Framework is vital to the development of sound accounting standards, we believe that it would be of value in paragraph 32(a), or in a separate bullet in paragraph 32 of the Constitution, to refer explicitly to the importance of proper maintenance of the IASB’s Framework.

Again, along with other responders to these proposals, the IAA appreciates the opportunity to express our views regarding the IASC Foundation’s due process procedures and hope these comments add value to the deliberations.
Appendix

Members of the IAA's Insurance Accounting Committee

Sam Gutterman (Chair)
W. Paul McCrossan (Vice-chair)
Francis Ruygt (Vice-chair)
Clive Aaron Institute of Actuaries of Australia
William Abbott Institute of Actuaries
Yutaka Amino Institute of Actuaries of Japan
Victor Hugo Cesar Bagnati Instituto Brasileiro de Atuária
Daniel Barron Israel Association of Actuaries
Ralph Blanchard Casualty Actuarial Society
Guy Castagnoli Association Suisse des Actuaires
Paolo De Angelis Istituto Italiano degli Attuari
Angie Felipe Checa Col.legi d'Actuaris de Catalunya
Mark J. Freedman Society of Actuaries
Mariano Gongora Roman Instituto de Actuarios Españoles
Stephen Handler Actuarial Society of South Africa
William C. Hines American Academy of Actuaries
Antony John Jeffery Society of Actuaries in Ireland
Ad A.M. Kok Het Actuarieel Genootschap
Kurt Lambrechts Association Royale des Actuaires Belges
Jean-Pierre Lassus Institut des Actuaires
Kristine Lomanovska Latvijas Aktuaru Asociacija
W. Paul McCrossan Canadian Institute of Actuaries
Richard O'Sullivan Society of Actuaries in Ireland
Markku Paakkanen Suomen Aktuaariyhdistys
Venkatarama Rajagopalan Actuarial Society of India
Nithiarani Rajasingham Singapore Actuarial Society
Jaanus Sibul Eesti Aktuaaride Liit
Dieter Silbernagel Deutsche Aktuarvereinigung e.V.
Bjarni Thordarson Félag Islenskr Tryggingastærðfræðinga
Tuomo Virolainen Svenska Aktuarieföreningen
Robert E. Wilcox Conference of Consulting Actuaries
Kevin Yah Actuarial Society of the Republic of China
Jesús Zúñiga Colegio Nacional de Actuarios A. C.
Appendix

Full Member Associations of the IAA

Consejo Profesional de Ciencias Económicas de la Ciudad Autónoma de Buenos Aires (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgique)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries/Institut Canadien des Actuaires (Canada)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
Egyptian Society of Actuaries (Egypt)
Eesti Aktuaaride Liit (Estonia)
Suomen Aktuaariryhmä (Finland)
Institut des Actuaires (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Actuarial Society of Hong Kong (Hong Kong)
Magyar Aktuárius Társaság (Hungary)
Félag Islands Tryggingastæðafélag (Iceland)
Actuarial Society of India (India)
Society of Actuaries in Ireland (Ireland)
Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
Japanese Society of Certified Pension Actuaries (Japan)
Latvijas Aktuāriu Asociācija (Latvia)
Lebanese Association of Actuaries (Lebanon)
Persatuan Aktuari Malaysia (Malaysia)
Colegio Nacional de Actuarios A. C. (Mexico)
Het Actuarieel Genootschap (Netherlands)
New Zealand Society of Actuaries (New Zealand)
Den Norske Aktuarforening (Norway)
Actuarial Society of the Philippines (Philippines)
Polskie Stowarzyszenie Aktuarzy (Poland)
Instituto dos Actuários Portugueses (Portugal)
Academia de Actuarios de Puerto Rico (Puerto Rico)
Singapore Actuarial Society (Singapore)
Slovensko Aktuársko Drustvo (Slovenia)
Actuarial Society of South Africa (South Africa)
Col.legi d’Actuaris de Catalunya (Spain)
Instituto de Actuarios Españoles (Spain)
Svenska Aktuarieföreningen (Sweden)
Association Suisse des Actuaires (Switzerland)
Actuarial Institute of the Republic of China (Taiwan)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States)
American Society of Pension Professionals and Actuaries (United States)
Casualty Actuarial Society (United States)
Conference of Consulting Actuaries (United States)
Society of Actuaries (United States)