May 12, 1999

The Secretary-General
International Accounting Standards Committee
166 Fleet Street
London UK
EC4A 2DY

Subject: E63: Events After the Balance Sheet Date

Dear Sir Bryan:

Further to my letter to you of February 15, 1999 forwarding the International Actuarial Association’s (IAA) draft comments on the IASC’s Exposure Draft E63 - Events After the Balance Sheet Date, I am pleased to confirm that the IAA’s due process is now complete and the draft comments, as submitted, have been approved by the member associations for release as an IAA public statement.

Yours sincerely,

Jean Berthon
President
International Actuarial Association Comments on the
International Accounting Standards Committee’s
Exposure Draft E63
Events After the Balance Sheet Date

THE INTERNATIONAL ACTUARIAL ASSOCIATION

The International Actuarial Association (the “IAA”) represents the international actuarial profession. Our member actuarial associations exceed forty in number, and represent more than 95% of all actuaries practicing around the world. The IAA promotes high standards of actuarial professionalism across 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 on the areas of expertise of actuaries.

The IAA’s interest in the IASC’s Exposure Draft E63: Events After the Balance Sheet Date (“Exposure Draft”) is to assist the IASC in developing a high quality standard on this very important topic. The IAA appreciates the opportunity to provide comments on this Exposure Draft. We must note that the time provided for comments was quite short in view of its international scope and the need in our case to communicate with the various actuarial organizations in the world. Our response has been organized in a manner consistent with the questions raised in the IASC’s “Invitation to Comment”.

DUE PROCESS

This is a draft version of a statement of the IAA that has been prepared by the IASC Insurance Accounting Standards Committee of the IAA, the members of which are listed below by name and association. The member associations of the IAA are also listed below (in an Appendix to this statement). The final copy of this draft statement will be transmitted to the IASC as soon as this draft statement has passed through the IAA’s due process review process.
MEMBERS OF THE IASC INSURANCE ACCOUNTING STANDARDS COMMITTEE

Sam Gutterman (Chair)
Clive Aaron The Institute of Actuaries of Australia
William Abbott Institute of Actuaries
Avi Bar-Or Israel Association of Actuaries
Félix Arias Bergadá Col.legi d’Actuaris de Catalunya
Morris W Chambers Canadian Institute of Actuaries
Eva Gustafson Svenska Aktuarieföreningen
Eckhard Hütter Deutsche Aktuarvereinigung e.V.
Tony Jeffery The Society of Actuaries in Ireland
Shen-Yue Kuan The Actuarial Institute of the Republic of China
Iain Lumsden Faculty of Actuaries
Bruce D Moore American Academy of Actuaries
Toshiyuki Okita Institute of Actuaries of Japan
Markku Paakkonen The Actuarial Society of Finland
Pascal Parant Institut des Actuaires Français
Richard S Robertson Society of Actuaries
Francis Ruygt Het Actuarieel Genootschap
Mariano Gongora Roman Instituto de Actuarios Españoles
Eike Steinmann Association Suisse des Actuaires
Chris Swanepoel Actuarial Society of South Africa
Bjarni Thordarson Félig Islenskra Triggingastærdfærdinga

Response to Questions Addressed

Question 1 – Do you agree that:

(a) an enterprise should disclose the date when the financial statements are authorized for issue;
(b) an enterprise should disclose the name of the governing body that gives that authorization;
(c) if the financial statements are subject to approval by the enterprise’s owners, an enterprise should disclose that fact; and
(d) no detailed guidance is needed on how to determine the date when the financial statements are authorized for issue?

Response – Although we have no special expertise to provide an opinion concerning this issue, the proposed approach appears to be consistent with the objective of clear disclosure.

Question 2 – Do you agree that the Standard should permit, but not require, an enterprise to recognize dividends payable that are stated to be in respect of the period covered by the financial statements and that are proposed or declared after the balance sheet date but before the financial statements are authorized for issue?
If you do not agree with the treatment in E63, please indicate whether proposed dividends:
(a) should never be recognized;
(b) should always be recognized; or
(c) should be recognized only if there is a legal or constructive obligation. If you favor this treatment, please indicate when a legal or constructive obligation comes into existence.

Response - As a general principle, to promote consistency in reporting among enterprises, we believe that choices given to an enterprise with respect to the selection of an accounting method to follow should be held to a minimum. Based on this principle, if practical, in a given circumstance only one choice should be available. In choosing a method, although we do not claim special expertise in this area, we do observe that it does not seem appropriate to ignore a material fact applicable to a reporting period, just because dividends are proposed or declared after the balance sheet date.

If only a portion of a dividend would have been “earned” by the end of the period, only that portion should be recognized (this is particularly applicable if dividends refer to policyholder dividends in an insurance context; see our response 4(b) below).

Question 3 – Do you agree that
(a) an enterprise should not prepare its financial statements on a going concern basis if events after the balance sheet date indicate that the going concern assumption is not appropriate; and
(b) an enterprise should continue to prepare financial statements on a going concern basis for the whole enterprise if events after the balance sheet date indicate that part of the enterprise is not a going concern?

Response – We agree with the answer given in (a). With respect to the answer given in (b), unless not material to the overall financial statements of an enterprise, appropriate disclosure would be called for covering the identification of the part of the enterprise that is found not to be a going concern and the financial values relevant to the portion of the enterprise that is a going concern. It seems inappropriate to report values based on a going concern assumption that paragraph (11) suggests could have a pervasive effect throughout a balance sheet.

Question 4 – Other comments:
(a) Paragraph 4. We feel uncomfortable with a possible interpretation that could be given to this paragraph with respect to adjusting events that affect estimates of the financial effect of events occurring prior to the balance sheet date. The best way to illustrate this concern is by example: in a property/casualty insurance enterprise, many adjusting events (for example, settlement of outstanding court cases) can occur between the balance sheet
date and the date on which the financial statements are authorized for issue that could affect estimates made with respect to loss reserves for losses incurred prior to the balance sheet date. In many cases, it might prove impractical (due to the time and effort involved) to derive a revised estimate of loss reserves as of the date on which the financial statements are authorized for issue.

We do not believe that this was the intent of the IASC in writing this paragraph. As a minimum, this issue should be clarified. Of course, if an adjusting event occurred that would materially misstate the Financial Statement, such as material information arising regarding a very large claim, such a fact should be appropriately disclosed. This issue could be referred to the IASC Insurance Steering Committee for their review. In addition, this concern applies to provisions as well.

(b) Paragraphs 8 and 9. These paragraphs refer to “dividends”. In a North American insurance context (and other geographical areas that follow the North American model), there are two types of dividends: “shareholder (stockholder)” dividends and “policyholder” dividends. We assume that the IASC intended these paragraphs to refer to the former, although similar issues could involve policyholder dividends. For clarity, unless the IASC intended to apply this standard to both types of dividends, we recommend that the final standard be more specific and refer to “shareholder” dividends. We also recommend that the treatment of “policyholder” dividends be referred to the IASC Insurance Steering Committee for appropriate resolution, in a manner consistent with the principles underlying the final E63 standard.

(c) Paragraph 16. A practical concern associated with Example (c) may arise with respect to the implementation of E63 in the disclosure of certain non-adjusting events. Based on recent experience, market movements of equities (or other items) of ten percent over a very short time interval may not be abnormal in the future. What should be the value used for disclosure purposes in this case -- the end of the business day before the financial statements are authorized for issue? Such a determination may prove quite difficult in the case of certain liabilities that are complex to evaluate – the extreme interpretation of this example might require instantaneous valuations. Clarification of what appears to be a surprising and largely undesirable change would be appropriate. Additional guidance would be appropriate as to the intent of this disclosure requirement.
Appendix

IAA Member Associations

Full Members
Committee of Actuary Professional Activity - Consejo Profesional de Ciencias Económicas de la Capital Federal (Argentina)
Institute of Actuaries of Australia (Australia)
Aktuarvereinigung Österreichs (AVÖ) (Austria)
Association Royale des Actuaires Belges (Belgium)
Instituto Brasileiro de Atuária (IBA) (Brazil)
Canadian Institute of Actuaries (Canada)
Cyprus Association of Actuaries (Cyprus)
Česká Společnost Aktuárů (Czech Republic)
Den Danske Aktuarforening (Denmark)
The Actuarial Society of Finland (Finland)
Association des Actuaires Diplômés de l'I.S.F.A. (France)
Institut des Actuaires Français (France)
Deutsche Aktuarvereinigung e. V. (DAV) (Germany)
Hellenic Actuarial Society (Greece)
Félag Íslenskra Tryggingastærðfrædinga (Iceland)
Actuarial Society of India (India)
The Israel Association of Actuaries (Israel)
Istituto Italiano degli Attuari (Italy)
Institute of Actuaries of Japan (Japan)
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)
Instituto dos Actuários Portugueses (Portugal)
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)
The Actuarial Institute of the Republic of China (Taiwan, Republic of China)
Faculty of Actuaries (United Kingdom)
Institute of Actuaries (United Kingdom)
American Academy of Actuaries (United States of America)
American Society of Pension Actuaries (United States of America)
Casualty Actuarial Society (United States of America)
Conference of Consulting Actuaries (United States of America)
Society of Actuaries (United States of America)
Associate Members
Japanese Society of Certified Pension Actuaries  (Japan)

Observer Members
Instituto Actuarial Argentino  (Argentina)
Carribean Actuarial Association  (Carribean)
Asociación Colombiana de Actuarios  (Colombia)
Croatian Actuarial Association  (Croatia)
Asociacion Actuarial Centroamericana  (Central America)
Union Strasbourgoise des Actuaires  (France)
Actuarial Society of Ghana  (Ghana)
Actuarial Society of Hong Kong  (Hong Kong)
Hungarian Actuarial Society  (Hungary)
Persatuan Aktuaris Indonesia  (Indonesia)
Korean Actuarial Association  (Korea)
Association Luxembourgeoise des Actuaires  (Luxemburg)
Persatuan Aktuari Malaysia  (Malaysia)
Asociacion Mexicana de Actuarios A.C.  (Mexico)
Pakistan Society of Actuaries  (Pakistan)
Polskie Stowarzyszenie Aaktuariuszy  (Poland)
Singapore Actuarial Society  (Singapore)
Slovak Society of Actuaries  (Slovakia)
Türkiye Aktüerler Dernegi  (Turkey)
Asociacion Venezolana de Actuarios  (Venezuela)