



**ASSOCIATION ACTUARIELLE INTERNATIONALE
INTERNATIONAL ACTUARIAL ASSOCIATION**

July 25, 2005

To: Presidents, Full and Associate Member Associations of the IAA

cc: Council Delegates and Correspondents

Subject: **Release of International Actuarial Standards of Practice 2 to 8 and
Glossary of terms**

Today, the IAA released seven International Actuarial Standards of Practice (IASPs), plus a Glossary of terms used in these IASPs. They can be found in the Standards section of the IAA Library at www.actuaries.org. These standards are in respect of actuarial professional services related to the application of the International Financial Reporting Standards (IFRSs) of the International Accounting Standards Board (IASB) as they apply to insurance companies. They are:

IASP 2	Actuarial Practice
IASP 3	Classification of Contracts
IASP 4	Measurement
IASP 5	Current Estimates
IASP 6	Liability Adequacy Testing
IASP 7	Discretionary Participation Features
IASP 8	Changes in Accounting Policies
(unnumbered)	Glossary for IASPs under International Financial Reporting Standards

Note that IASP 1 was released earlier as “IAA Guidelines of Actuarial Practice for Social Security Programs.”

I would particularly like to draw your attention to the wording at the beginning of each of the new IASPs:

“This Practice Guideline applies to an actuary only under one or more of the following circumstances:

- *If the Practice Guideline has been endorsed by one or more IAA Full Member associations of which the actuary is a member for use in connection with relevant International Financial Reporting Standards (IFRSs);*

- *If the Practice Guideline has been formally adopted by one or more IAA Full Member associations of which the actuary is a member for use in connection with local accounting standards or other financial reporting requirements;*
- *If the actuary is required by statute, regulation, or other binding legal authority to consider the Practice Guideline for use in connection with IFRS or other relevant financial reporting requirements;*
- *If the actuary represents to a principal or other interested party that the actuary will consider the Practice Guideline for use in connection with IFRS or other relevant financial reporting requirements; or*
- *If the actuary's principal or other relevant party requires the actuary to consider the Practice Guideline for use in connection with IFRS or other relevant financial reporting requirements.”*

The IAA decided to issue the Glossary because some of the “terms of art” used by accountants can have somewhat different meanings than the same words when commonly used by actuaries. Therefore, the IAA feels that it is important that actuaries be aware of the precise definitions given to these terms of art and their origin and definitions of certain additional useful terms. The convention used in IASPs 2 – 8 has been to put each defined term in lower case capital letters the first time it is used in each IASP. In addition, the final Appendix of each IASP contains a list of all defined terms used in the IASP that are found in the Glossary.

Please inform the IAA if (and when) your association endorses, adopts or adapts these IASPs, and also provide a copy of the relevant notice given to your members. Also, please inform the IAA if application of these IASPs is required in the jurisdiction in which your association is located and provide details of these requirements.

Each of the IASPs is a class 4 IASP (practice guideline) in accordance with paragraph 6.4 of the IAA Due Process for International Actuarial Standards of Practice. After two full year ends have passed, the IAA may consider raising IASP 2 (*Actuarial Practice*) to a class 3 (recommended practice) status. Any such consideration will not take place until 2007 and will be undertaken in accordance with the IAA Due Process. It is not contemplated at this time that any of the other IASPs will be raised from class 4 status.

At the Rome meeting of the IAA in which the IASPs were adopted, the Subcommittee on Actuarial Standards felt that member associations should be particularly cognizant of paragraph 4.1.5 in IASP 6 (*Liability Adequacy Testing*). This is because, due to the recent decline in interest rates in many countries, an increasing number of guarantees, embedded options or embedded derivatives that may be found in existing insurance contracts may have recently either come “into the money” (become valuable) or come close to the money. While IASP 6 along with all of the other new IASPs is educational and non-binding in nature, the IAA feels that its member associations may wish to bring this issue to their members’ attention, indicating that such features are the subject of IFRS reporting and that the Liability Adequacy Test in IFRS 4 is a mandatory part of IFRS 4.

On behalf of the IAA, I would like to thank the Actuarial Standards Board (U.S.) for making available their staff experienced in providing standards development support. I would also like to express particular appreciation to the members of the IAA drafting team listed below, who have worked in many cases since the Cancun Congress in 2002 to provide this educational material to our member associations.

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Finally, the IAA will produce French language versions of these IASPs as soon as possible and post them on its web site. The IAA has also received an indication that its Spanish and Mexican member associations will undertake to produce Spanish language versions of these IASPs. When available, these versions will also be posted on the IAA web site. Should your association intend to produce a version of these IASPs in a language other than English, French or Spanish, please inform the IAA Secretariat of your intent, how these versions of the IASPs may be accessed when they become available and whether you wish them to be posted on the IAA web site.

Sincerely,



Yves Guérard
 Secretary General