

# International Insurance News

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## “Non-Fair Value” for International Insurance Accounting an Interim or Final Step?

On June 12-15, 2001, the Insurance Steering Committee (“ISC”) met for the last time before turning the Insurance Project over to the International Accounting Standards Board (“IASB”). The IASB has indicated that the Insurance Project should be a high priority project on its future work programme, pending confirmation by the Standards Advisory Council which is expected at the July 2001 IASB meeting in London.

Among the most important factors affecting the direction of the Insurance Project is that the deliberations and resolution of the Financial Instruments Project is viewed by the IASB as a long-term project. Prior to this view, the ISC’s tentative conclusions on accounting for insurance contracts were all in the assumed context of a future standard that would require full fair value for financial instruments.

What does this mean for the Insurance Project? The ISC is urging the IASB to continue focusing on the Insurance Project in light of the European Commission’s proposal that listed companies follow International Accounting Standards by 2005. Therefore, the ISC has decided to propose to the IASB a “non-fair value” version of the asset/liability model for accounting for insurance contracts. This model includes measuring insurance liabilities on a prospective basis and is referred to as the “entity-specific value” (representing the value of an insurance liability to the enterprise that holds it – which may reflect factors that are not available (or not relevant) to other market participants.) The ISC further recommends that fair value of insurance contracts be considered as the IASB contemplates full fair value for financial instruments.

“Even though fair value of insurance contracts may be on hold for now, there will still be significant challenges in developing and applying international guidance for accounting for insurance contracts,” said Bill Freda, Global Insurance Chairman of Deloitte Touche Tohmatsu, and the U.S. CPA profession representative on the ISC. “Whether the IASB pursues the ISC recommendations or develops different guidance, it is probable that it will significantly change the way most countries account for insurance contracts. It is critical that issuers of insurance contracts stay close to the IASB activities.”

Over the last four years, the ISC has spent a significant amount of time examining issues surrounding international accounting for insurance contracts. At its June meeting, the ISC completed discussions on a Draft Statement of Principles (“DSOP”). This document includes the concepts in the 1999 Issues Paper and takes into consideration the related public comments received and additional discussions by the ISC. An updated DSOP is anticipated to be completed by early October 2001. Although at that time the IASB will not have the time for detail deliberations on the DSOP, it is hoped that the IASB will agree to post the document to the IASB website to keep interested parties current on the Insurance Project.

At the July IASB meeting, educational sessions will continue to assist the IASB in understanding the Insurance Project. Also, Warren McGregor, ISC Chairman and member of the IASB wants to keep up the momentum of the Insurance Project and he plans to recommend the ISC remain in place as an advisory committee to the IASB.

For more information about the IASB, visit [www.iasplus.com](http://www.iasplus.com), maintained by Deloitte Touche Tohmatsu.

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