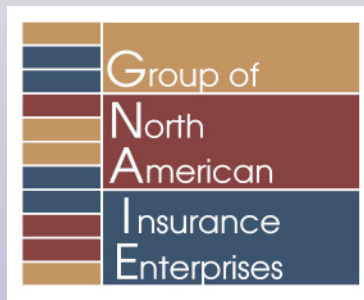


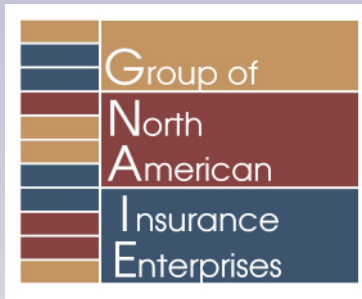
Insurance Roundtable

Insurance Contracts
Revenue Recognition
Comprehensive Income
Financial Instruments

Presentation to the FASB



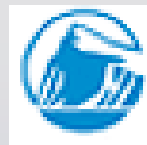
Group of North American Insurance Enterprises
15 October 2004



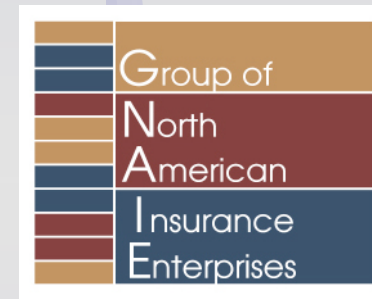
Objectives of GNAIE

- To reverse the current IASB process from one based on theoretical models to one which **begins with an analysis of those aspects of US GAAP which should be retained and those which need improvement**
- To avoid any changes to the international accounting standards for insurance which would create volatile or misleading performance measures
- To minimize the transaction costs of implementing any revisions to accounting standards by avoiding unnecessary interim changes
- To educate the IASB Board members and staff as to the impact of proposals on insurance and to improve their knowledge of insurance accounting
- **To increase the transparency and due process of the IASB and its processes**
- **To increase communications between North American insurers and the IASB**
- **To strengthen the FASB and IASB Insurance Advisory Committees**

Group of North American Insurance Enterprises (GNAIE)

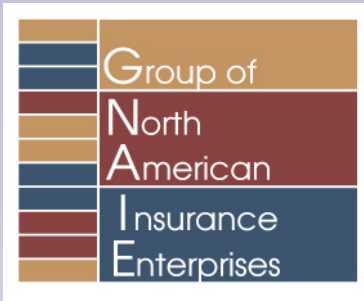


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Mission

To influence international accounting standards to ensure that they result in high quality, robust accounting standards for insurance companies.



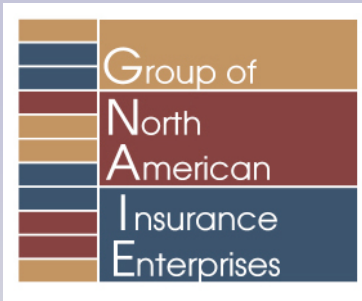
Activities of GNAIE

- **Research Committee**

- Focused on developing models which quantify the difference between US GAAP and FV
- Initial focus on P&C
- Developing model for Life products

- **Accounting Convergence Committee**

- Review issues on IASB/FASB Agenda that affect the insurance industry
- Initial Scope – Issues selected from current FASB and/or IASB agendas:
 - Revenue Recognition (FASB/IASB joint project)
 - Reporting Financial Performance (FASB/IASB joint project)
 - Disclosure of Financial Risk (IASB project)
 - Insurance Contracts (IASB project)
 - Monitor development of IASB proposal
 - Recommend alternatives to IASB FV model



Activities of GNAIE (2)

- IASB Insurance Working Group
 - Support for Members
 - U.S. GAAP Questionnaire
 - Failures Questionnaire
 - Estimation Questionnaire

Overview of Presentation

- Objectives and Activities of GNAIE
- Recent IASB Actions
- Convergence Agenda
- US GAAP and DSOP
- Insurance Contracts
- Insurance – Modified Joint Project
- Revenue Recognition
- Reporting Comprehensive Income
- Financial Instruments
- Predictions
- Due Process Issues of the IASB Insurance Working Group

Recent IASB Actions

- IASB: Completion of the “Stable Platform”
 - General Improvements
- Financial Instrument Improvements - IAS 32/39
 - Measurement and Recognition
 - Fair Value of Derivatives
 - Disclosure
 - Macro hedging Improvements
- Insurance Contracts - IFRS 4
- IASB/FASB: Short Term Convergence

Proposed Convergence Agenda

- Reporting Financial Performance
- Liabilities and Equity
- Measurement of Risk
- Disclosure Framework
- Revenue Recognition
- Leases
- Disclosure of Financial Risk
- Insurance Contracts



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FINANCIAL ACCOUNTING STANDARDS BOARD

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History of IASB for Insurance Contracts

- Project Starts - 1997
- December 1999 - Issues Paper
 - 150+ Comment Letters
 - Generally Opposed to FV Model
- May 2002 - Two Phases
 - Phase I – To conform to EU required 2005 deadline
 - Phase II – To develop a permanent standard
- September 2002 - Draft Statement of Principles (DSOP)(unfinished)
 - (also time of Norwalk Agreement)
- October-December 2002 - IASB Review of DSOP
- January 2003 - IASB Tentative Decisions

Phase II IASB Progress

- April 2004 - Joint FASB/IASB Meeting
 - Insurance Project Discussion
 - Modified Joint Project
- July/September IASB Educational Sessions
 - 2004 IASB Meetings
 - Other Information sessions

Monitored by FASB Staff

- For IASB projects that are not currently on the FASB's agenda but are important to the FASB, a member of the FASB staff is assigned to monitor the project and to keep the Board apprised of project activities. Responsibilities of staff monitors include reading project related materials and providing feedback to the IASB. These projects are deemed important to the FASB because they (1) have potentially significant implications for existing or future convergence of IASB and FASB standards, (2) relate to a topic for which there are no U.S. standards or the quality of U.S. standards is less than optimal, or (3) cover issues that are fundamental and pervasive to the financial reporting model. Those projects follow:
 - Active Projects
 - Amendments to IAS 39
 - Disclosure of risks arising from and other disclosures relating to financial instruments
 - **Insurance contracts, Phase I**
 - **Insurance contracts, Phase II**

Insurance – Modified Joint Project

- Joint FASB/IASB meeting in April 2004
- Any major project should be a joint project
- Discussed plans for more closely coordinating
- Modified Joint Project was proposed
- One of a number of projects where one or the other boards had done a significant amount of work
- Single leader, staff following
- Perhaps team members
- At some point, the other Board would simultaneously join and expose the projects draft and then join as a full partner
- Administrative Issues

Revenue Recognition

- General Approach
 - FASB Project
 - IASB Project
- Insurance Issues
 - Revenue for insurance contracts are defined in US GAAP
 - IASB/FASB Projects not considering this
 - Scope out insurance or include in papers
 - Recommend it be part of Insurance Contracts

Reporting Comprehensive Income

- **Common Projects of the FASB and IASB**
- IASB projects for which the FASB has a similar or overlapping project on its agenda are referred to as common projects. For these projects, the FASB project team is assigned to monitor the related IASB project, and this involves careful consideration of all IASB deliberations and frequent communication between the Boards. The Board is interested not only in being aware of the direction that the IASB is taking on its project, but also in considering international developments and the prospects for convergence as it makes decisions on its own project.

Reporting Comprehensive Income

- IASB Project – Full Stop
- FASB Project Continuing with Certain Transactions taken through equity
- Common Project?
- But, treatment for income for insurance contracts will be a function of the Revenue Recognition Project
- Should be a function of the Insurance Contracts Project
- Or Scope Out?

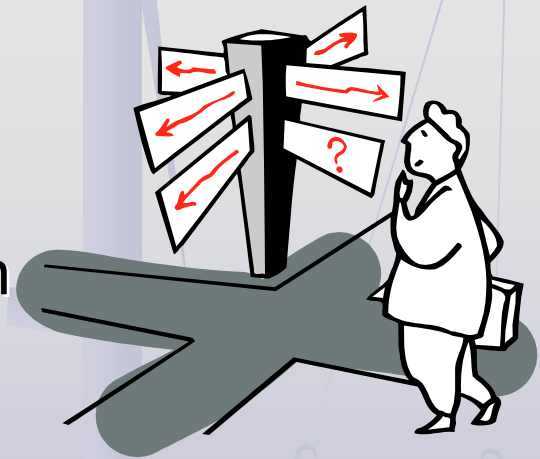
Financial Instruments



Back and Forth Across the Pond

European Issues-Insurance and IAS 32/39

- Asset Liability Mismatch
- Extrication and fair valuing embedded derivatives creates confusion with distinguishing from insurance contracts
- Not enough time to get ready
- Many changes for temporary standard
- Volatility
- EFRAG=>ARC=>European Commission



Overview of IAS 32/39

- Modified FAS 115/133
- Categories of investments:
 - Trading - MTM - Income
 - Available for Sale (AFS) – MTM - Equity
 - Held to Maturity (HTM) – Amortized Cost
- Reporting Changes in fair value
 - Trading – Investment Income
 - AFS – “Other Comprehensive Income” (Equity)
- Majority of portfolio will be held in AFS and valued at FV whereas liabilities will be held at cost creating a Mismatch in Balance Sheet and Income Statement



Financial Instruments



- **Definitional Issues**
 - Insurance Contracts
 - Everything Else
 - Where to draw the line?
 - Can it be drawn?
 - Is FAS 133 the International Answer?
- **Financial Assets**
 - Assets Backing Liabilities
 - Time to Review FAS 115?

What Does the Future Hold?

Possible Timing:

- Final IASB Insurance Contracts standard by 2007/2008
- Gradual Convergence with FAS with ultimate in 2009/2010
- Formation of IASB Insurance Working Group
 - Companies, Analysts, Actuaries, Accountants
 - Advisory capacity to Board
 - Due Process Issues Outstanding



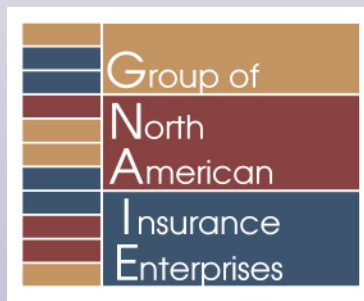
Due Process Issues

- Include the members of the Insurance Working Group in the development and approval of the agenda for its meetings, which would add an industry perspective to the process.
- Remove the prohibition against the Insurance Working Group's development of recommendations. Such a change would benefit the debate, while in no way eliminating the exchange of ideas or expression of personal opinions.
- Permit Insurance Working Group members to substitute other persons of similar standing if they cannot attend.
- Make electronic conferencing available for those Insurance Working Group members who are not able to attend a given meeting.
- Provide that the minutes constitute an accurate record of the meetings and, when approved by the Insurance Working Group, be made public. These minutes will be essential for Board members who are not at the meeting, Insurance Working Group members who might not be able to attend a given meeting, and key representatives of their organizations.
- Make the minutes and documents reviewed by the Insurance Working Group available to the public.
- Because of the level of the participants and the importance of the subject, require that the Insurance Working Group meet at least quarterly in person to conduct its business, rather than having the communications mainly by email.
- To increase attendance, the meeting dates should be set as far in advance as possible, no less than eight weeks.
- Distribute all materials at least four weeks in advance of a meeting.

Insurance Roundtable

Insurance Contracts
Revenue Recognition
Comprehensive Income
Financial Instruments

Presentation to the FASB



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15 October 2004