

The logo for GNAIE (Group of North American Insurance Enterprises) features the acronym 'GNAIE' in white, bold, sans-serif capital letters on a dark blue background. To the left of the text is a vertical bar with horizontal stripes in shades of blue, green, and yellow. The entire logo is set against a light blue background that tapers to the right, where it meets a dark blue rounded rectangle containing the full name of the organization.

GNAIE

**Group of North American
Insurance Enterprises**

**IASB/FASB Conceptual Framework
IAIS Accounting Subcommittee
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What is GNAIE?

- GNAIE is an industry organization of US, Bermudian and Canadian based insurers.
- The mission of the GNAIE is to assist North American and global standard setters and regulators in cooperation with the global insurance industry and with insurance and other financial services industry trade associations:
 - To support high quality insurance accounting standards that are useful, understandable, comparable and reliable; that preserve the insurance industry's level-playing field access to global capital markets; and that provide good disclosure to the insurance industry's diverse constituencies;
 - To support high quality insurance solvency standards that provide useful and effective statutory solvency measures to protect the interests of policyholders and other stakeholders while encouraging competitive insurance markets; and
 - To enhance cooperation, education and communication regarding insurance accounting and solvency among the insurance industry's standards setters, regulators, and diverse constituencies.

Who are the Members?



Conceptual Framework Project

- Joint Project of the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB)
- Goal: to develop a common conceptual framework (ie a single converged framework)
- Improve both existing frameworks
- Make them complete and internally consistent
- Serve as a foundation for all new standards
- Eight phases, each phase effective on adoption

Conceptual Framework Project

- Phases

- A Objectives and qualitative characteristics (Exposure draft expected Q4 2007)
- B Elements and recognition (Preliminary Views ~ Q3/4 2008)
- C Measurement (Preliminary Views ~ Q1 2009)
- D Reporting entity (Preliminary Views ~ Q3 2007)
- E Presentation and disclosure
- F Purpose and status
- G Application to not-for-profit entities
- H Remaining Issues, if any

A. The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information

- 2006 Discussion Draft released
 - Segmented approach
 - FASB recommending a building-block approach
 - IASB to review in September 2007
 - Redeliberation on objectives in Q3 2007

A. Tentative Decisions

- The objective in the proposed Framework should pertain to financial reporting as a whole, not just financial statements.
- The proposed Framework should generally describe what is meant by financial reporting; the scope of financial reporting should be dealt with in Phase E
- Entity perspective - an entity, not its owners and others having an interest in it, is the object of general purpose external financial reporting.
- Primary user group - both current and potential investors and creditors (capital providers). Government and regulatory bodies as potential users of financial reporting was discussed and rejected by the SAC.

A. The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information

• Qualitative Characteristics

- Faithful representation - attained when the substance of an economic phenomenon is depicted completely and neutrally.
- Verifiability – a separate characteristic
- Relevance – to be distinguished
- Understandability – focus on primary users
- Timeliness – a separate characteristic
- Conservatism/Prudence – to be excluded

A. The Objective of Financial Reporting and Qualitative Characteristics of Decision-Useful Financial Reporting Information – Questions Raised

- Whether stewardship should be an explicit part of the objective of financial reporting
- Whether the list of potential users is exhaustive
- What the primary user group of financial reports should be
- Whether the objective should relate to financial reporting or financial statements
- Whether financial reports should reflect the entity or proprietary perspective
- Whether the qualitative characteristic of relevance should be described as “capable of making a difference”
- Whether faithful representation should replace reliability as a qualitative characteristic
- Whether verifiability should be a component of faithful representation or a separate qualitative characteristic
- Whether other suggested qualitative characteristics of accounting information should be included in the framework
- Whether the qualitative characteristics should be presented as a hierarchy
- Whether materiality should be a constraint or a component of a qualitative characteristic.

A. The Objective of Financial Reporting and Qualitative Characteristics of Decision-useful Financial Reporting Information

● Open Issues

- Relevance - should it be described as “capable of making a difference? Should there be a balance between relevance and faithful representation; should one take priority over the other.
- Comparability (including consistency) – Should the Framework’s qualitative characteristics be expanded to include consistency as a separate characteristic, rather than imbedded within the meaning of comparability.
- Materiality - a constraint or a component of a qualitative characteristic. Should the Framework have the constraints of materiality and benefits and cost as recommended in the Discussion Paper. Should materiality and benefits and cost be qualitative characteristics of relevance and applicable to all accounting standards.

A. Stewardship

- FASB Action
 - Financial reports should provide financial information about the reporting entity that is useful to present and potential investors and creditors in making the decisions that they make in their capacity as capital providers to the reporting entity.
 - The role of stewardship in financial reporting would then be covered
- IASB to review in September – staff recommends change

B. Elements and Recognition

- Definition of Assets
- Definition of Liabilities
- Equity – should there be a distinction between liabilities and equity
 - Single element v two elements
 - Board preference for single

B. Elements and Recognition

- Weaknesses of current definitions per IASB/FASB
 - *Likelihood* – Some people misinterpret the terms "expected" in the IASB definition and "probable" in the FASB definition to mean a high likelihood of future economic benefits
 - *Future economic benefits* – Existing definitions focus on identifying the future flow of economic benefits, instead of focusing on the item that presently exists, an economic resource.
 - *Control* – Some people misinterpret the term "control" and use it in the same sense as that used for purposes of consolidation accounting, instead of as whether the entity has some rights or privileged access to the economic resource.
 - *Past transaction or event* – Undue emphasis is being placed on identifying the past transaction or other event that gave rise to the asset, instead of focusing on whether the economic resource and the entity's access to it exist at the balance sheet date.
 - *Contractual promises* – It is unclear how the definition applies to contractual promises.

B. Elements and Recognition – Assets

- An asset is a present economic resource to which the entity has a present right or other privileged access.
- An asset of an entity has three essential characteristics:
 - There is an economic resource.
 - The entity has rights or other privileged access to the economic resource.
 - The economic resource and the rights or other privileged access both exist at the financial statement date

B. Elements and Recognition – Assets

- **Status**
 - Testing against various scenarios
 - Comparing to existing definitions
- **Insurance Issues**
 - Does this allow for capturing of future premiums?
 - Guaranteed insurability
 - Policyholder relationship

B. Elements and Recognition - Liabilities

- A **liability** is a present economic burden for which the entity has a present obligation.
 - *Present* means that both the economic burden and the obligation exist on the date of the financial statements.
 - An *economic burden* is something that has negative economic value. It is capable of requiring the sacrifice of economic resources.
 - An *obligation* requires the entity to bear the present economic burden directly or indirectly. Obligations are legally enforceable or enforceable by equivalent means (such as by a professional association).

B. Elements and Recognition - Liabilities

- **Status**
 - On hold for Liabilities and Equity project
 - What is a present obligation
 - What is a future obligation
 - What is a constructive obligation
- **Insurance Issues:**
 - Guaranteed Insurability
 - Participating contracts
- **Other Projects:**
 - Business Combinations – constructive obligation

B. Elements and Recognition – Issues to be addressed after definitions

- **Unit of Account**
 - Should similar things be accounted for together
 - Should an entity recognize assets and/or liabilities for contracts that are still fully executory?
 - Should some "related" assets and liabilities be accounted for together or netted?
- **Recognition and Derecognition**
 - Align recognition criteria
 - Establish derecognition criteria

C. Measurement

- Milestone Paper I (written)
 - Scientific approach to measurement
 - Criteria –real, present and observable attributes
 - Catalogue of approaches to measurement
- Milestone Paper II
 - Will test various approaches against the criteria

C. Measurement

- Issues to be addressed
 - Past entry price
 - Modified past entry amount
 - Past exit price
 - Current entry price
 - Current exit price
 - Current equilibrium price
 - Value in use
 - Future entry price
 - Future exit price

C. Measurement Roundtables

- Held in Hong Kong, London, New York
- Recommendations:
 - No need for conceptual ideal, flexibility, tool box
 - Record economic performance as well as economic value
 - Meaningful and useful income statement
 - Mixed model basis preferred
 - Comparability less important

D. Reporting Entity

- Exposure Draft to be released Q3 2007
 - Entity can be broadly described as a circumscribed area of economic interest to external users of financial reporting.
 - Defines what constitutes an entity for the purposes of financial reporting, but not define a reporting entity.
 - Not be limited to legal entities.
 - An entity that chooses to, or is required to, prepare general purpose external financial reports (GPEFR) is a reporting entity
 - Parent Entity – consolidated statements
 - Control – key factor

D. Reporting Entity

- Control should be defined at the concepts level and contain both a power element and a benefits element, together with a link between the two.
 - Control is based upon an assessment of all the current facts and circumstances. Therefore, the concept of control includes all situations in which control exists even though it might be temporary.
 - The control concept should not be limited to circumstances in which the entity has sufficient voting rights or other legal rights to direct the financing and operating policies of another entity, but should be a broad concept that encompasses economically similar circumstances.
 - Control cannot be shared, that is, control involves a single entity (not multiple entities) having control over another entity.

Other Phases

- Status:
 - E. Presentation and disclosure – no action or discussion
 - F. Purpose and status – deferred until closer to completion; assume elevation
 - G. Application to not-for-profit entities – deferred until 4 phases completed
 - H. Remaining Issues, if any – none identified yet

Conceptual Framework: Relationship to Other Projects

- Revenue Recognition (B)
- Financial Instruments: Liabilities and Equity (B)
- Fair Value Measurement (C)
- Financial Statement Presentation (E)
- Disclosure Framework and Management Commentary (E)

Insurance Impact

- Definition of Assets
- Definition of Liabilities
- Characteristics: Prudence, Relevance
- Objective: User Definition
- Measurement
- Reporting Entity – Groups/Control