A few thoughts on International Accounting, Statutory Accounting, Convergence and Solvency

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• G20 has called upon the IASB & FASB to work on a single set of high quality accounting standards.

• IASB/FASB are working jointly on insurance contracts & financial instruments – the two major components of life insurers’ balance sheets.
Why do I care here in the US?

• The G20 has committed all members of the FSB to undergo regular Financial Sector Assessment Programs (FSAPs).
• Insurance sector FSAPs use the IAIS Insurance Core Principles (ICPs)
• Therefore US State Insurance Regulators will be assessed on their compliance with the IAIS ICPs. No ifs, no buts.
ICP14 Valuation

• This ICP, which will be re-examined at the end of the IASB/FASB process, is designed to be as IFRS-esque as possible (it includes amortized cost).

• Convergence means it will also be US GAAP-esque – unless something goes wrong.

• Statutory Accounting adopts, adopts with modification, or rejects new GAAP pronouncements.
What happens after?

• If IASB & FASB issue single global standards, SAP will consider them.
• Rob’s thesis: if they are indeed single global standards, the Commissioners are unlikely to REJECT them.
• Whether they accept, or accept with modifications, there is likely to be a need to recalibrate the RBC requirements
Does this mean we’re adopting SII?

- Much confusion in the US: IFRS ≠ Solvency II.
- Modification to US SAP as a result of changes to US GAAP does not mean that we’ll adopt e.g. 99.5%, 1 year time horizon capital.
- We have 70,000 company-years worth of experience with our system a/k/a 70,000 more than SII! We can modify the US system – that’s what SMI is doing.