

**CAS BOARD OF DIRECTORS TELEPHONE CONFERENCE**  
**JANUARY 31, 2003**  
**Minutes**

**Present**

Board Members: Ralph Blanchard, Gary Dean, Janet Fagan, Gary Josephson, David Hartman, Janet Nelson, David Oakden, Deborah Rosenberg, Oakley Van Slyke, and Patricia Teufel

Immediate Past President: Robert Conger

President: Gail Ross

Vice Presidents: John Narvell

Executive Director, Cynthia Ziegler; Assistant Secretary-Board of Directors, Joanne Spalla; Manager, Communications and Research, Michael Boa

Board Members Not Present: Phillip Ben-Zvi, Mary Frances Miller, and Michael Miller

Vice Presidents Not Present: Chris Carlson, Donald Mango, Thomas Myers, Sheldon Rosenberg, and Roger Schultz

Bob Conger called the meeting to order at 9:05 a.m. (Eastern) on Friday, January 31, 2003.

**1. IAA DRAFT COMMENTS ON “EXPOSURE DRAFT OF REVISIONS TO IAS 32 AND IAS 39”**

On November 1, 2002, the IAA issued Draft Comments on the Exposure Draft of Revisions to IAS 32 and IAS 39 for review and comments for a period lasting until February 3, 2003. Ralph Blanchard, who is a member of the IAA Committee that drafted the comments, provided feedback to the EC that was supportive of the document. During its discussion of the document, the EC also expressed support for the IAA comments. The EC was particularly supportive of the comment stating that a consistent definition of insurance contracts should be used throughout all International Financial Reporting Standards. In addition, the EC was supportive of the use of the Draft Statement of Principles (DSOP) definition of insurance whereby insurance risk should consider the amount or timing of risk. The EC has recommended that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments, with confirmation that the definition of insurance contracts be consistent and that insurance risk considers the amount or timing of risk.

**There was a motion that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments with confirmation that the definition of insurance contracts be consistent with the Draft Statement of Principles and that insurance risk considers the amount or timing of risk. It was seconded and approved unanimously.**

**2. COMMENTS ON THE IAIS STANDARD FOR SUPERVISION OF REINSURERS**

On December 5, 2002 the IAA issued “Comments on the IAIS Standard for Supervision of Reinsurers” for review and comment for a period lasting until March 4, 2003. Susan Witcraft of the CAS Reinsurance Research Committee submitted feedback on the IAA draft. The EC agreed with Susan Witcraft’s concern relating to asset/liability and currency management. The IAA comments state that “reinsurers should attempt to match their liabilities’ time horizons and currencies with high quality assets, ideally reflecting the same risk characteristics.” However, CAS research committees have produced studies that demonstrated that duration matching does not appear to be an optimal strategy for most property casualty insurers. “A Study of

the Effects of Asset/Liability Mismatch on Property/Casualty Insurance Companies” by the CAS Financial Analysis Committee was published in the 1989 Discussion Paper Program and “Interest Rate Risk: An Evaluation of Duration Matching as a Risk-Minimizing Strategy for Property/Casualty Insurers” by the CAS Valuation, Finance, and Investments Committee was published in the 2002 Summer Forum. It was noted that the IAA would likely be receptive to reviewing the studies. The EC agreed that this concern was not substantial enough to warrant voting against the release of the paper, but that comments should be provided citing the two studies.

Susan Witcraft also raised concerns that the wording on disclosure in the IAA letter needed to be strengthened. The EC believes that the wording as proposed by the IAA is strong enough to warrant the need for further clarification and substantiation and, therefore, felt that no comments were required in the area of disclosure.

The EC has recommended that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments, and to submit comments on duration matching that cite the two CAS studies on the topic.

The Board agreed with the concerns about the treatment of duration matching. The Board indicated that they would support voting in favor of the IAA communication, but suggested that the IAA review the two papers cited and revisit the wording on asset/liability matching. It was suggested that the CAS provide alternative wording for the first sentence of the first paragraph on page 6 of the IAA Draft Comments.

**There was a motion that that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments, and to submit comments on duration matching that cite the two CAS studies on the topic. The motion was amended to state that the Board would instruct the CAS delegate to vote in favor of releasing the IAA comments and to offer a revision of the first sentence of the first paragraph on page 6 of the IAA Draft Comments. The Board directed the EC to identify a member to work with Dave Hartman on the revised wording of the IAA comments.** The amended motion was seconded and approved unanimously

### **3. IAA DRAFT SUBMISSION ON THE IAIS ISSUES PAPER ON INSURANCE SECURITIZATION**

On December 5, 2002 the IAA issued “Comments on the IAIS Draft Issues Paper on Insurance Securitization” for review and comments for a period lasting until March 4, 2003. The CAS Advisory Committee on Securitization/Risk Financing reviewed the IAA paper and provided editorial comments, which reinforce the IAA comments. Other comments received from a CAS member familiar with the IAA draft statements described the document as a well-written educational document. The EC has recommended that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments, and to submit the editorial comments provided by the CAS Advisory Committee on Securitization/Risk Financing.

The Board discussed its concerns with the statement in paragraph 4 of in the IAIS Draft Issues Paper that “portfolio theory holds that the addition of uncorrelated risks to an investment portfolio reduces the overall risk of the portfolio.” A Board member commented that the addition of uncorrelated risks reduces the *average* risk of the portfolio, not the *overall* risk. It was suggested that the CAS offer comments on the statement related to portfolio theory.

**There was a motion that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments, and to submit the editorial comments provided by the CAS Advisory Committee on Securitization/Risk Financing. The motion was amended to state that the Board instruct the CAS delegate to vote in favor of releasing the IAA comments with the editorial comments provided by the CAS Advisory Committee on Securitization/Risk Financing and to direct the EC to ask a CAS member to provide additional comments relative to the statement in paragraph 4 regarding portfolio theory.** The amended motion was seconded and approved unanimously.

#### **4. OTHER DISCUSSION**

Gail Ross commented that the process for approving IAA statements was not working effectively. While the EC recommendations to the Board were effective, she noted that it was difficult for the EC to thoroughly analyze the statements and provide recommendations. She proposed that the Board discuss the process at a future meeting and consider the role that the research committees should play in this process.

Cynthia Ziegler noted that the materials for March Board meeting will be posted on the CAS Web Site on February 7<sup>th</sup>.

#### **5. ADJOURN**

The meeting was adjourned at 9:55 a.m.

Respectfully submitted,

Joanne S. Spalla  
Assistant Secretary - Board of Directors

Approved March 10, 2003