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Insurance industry developments - 2008; Audit risk alerts

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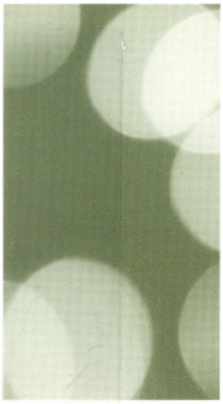
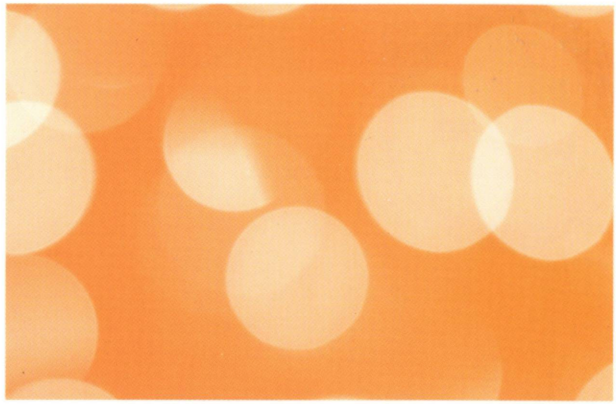
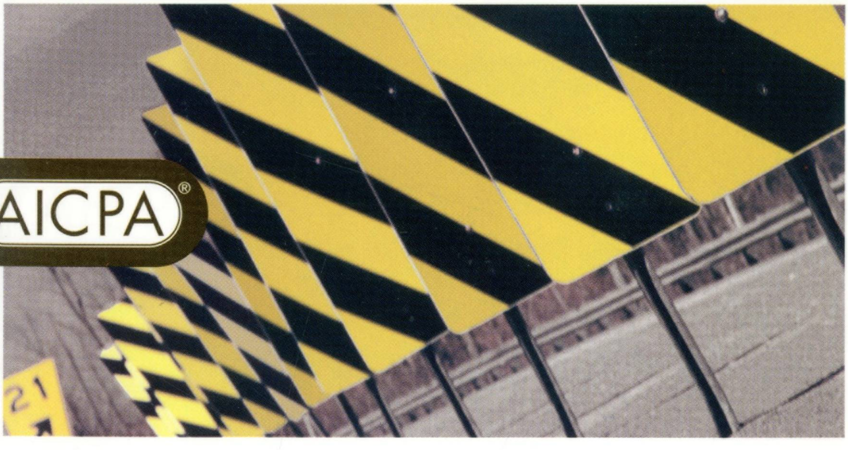




AUDIT RISK ALERT

2008 Insurance Industry Developments

STRENGTHENING AUDIT INTEGRITY
SAFEGUARDING FINANCIAL REPORTING



AICPA

American Institute of Certified Public Accountants

AUDIT RISK ALERT

2008

Insurance Industry Developments

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Notice to Readers

This Audit Risk Alert is intended to provide auditors of financial statements of insurance industry entities with an overview of recent economic, industry, technical, regulatory, and professional developments that may affect the audits and other engagements they perform.

This publication is an *other auditing publication* as defined in AU section 150, *Generally Accepted Auditing Standards* (AICPA, *Professional Standards*, vol. 1). Other auditing publications have no authoritative status; however, they may help the auditor understand and apply the Statements on Auditing Standards.

If an auditor applies the auditing guidance included in an other auditing publication, he or she should be satisfied that, in his or her judgment, it is both relevant to the circumstances of the audit and appropriate. The auditing guidance in this document has been reviewed by the AICPA Audit and Attest Standards staff and published by the AICPA and is presumed to be appropriate. This document has not been approved, disapproved, or otherwise acted on by a senior technical committee of the AICPA.

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How This Alert Helps You

.01 This Audit Risk Alert (alert) helps you plan and perform your insurance industry audits. This alert can also be used by an entity's internal management to address areas of audit concern. This alert provides information to assist you in achieving a more robust understanding of the business, economic, and regulatory environments in which your clients operate. This alert is an important tool in helping you identify the significant risks that may result in the material misstatement of financial statements. Moreover, this alert delivers information about emerging practice issues and current accounting, auditing, and regulatory developments.

.02 This alert is intended to be used in conjunction with the *Comprehensive Audit Risk Alert—2008* (product no. 022339kk). This alert can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. You should refer to the full text of accounting and auditing pronouncements as well as the full text of any rules or publications that are discussed in this alert.

Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement

.03 An auditor must obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risks of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures. An auditor's understanding of the entity and its environment consists of an understanding of the following aspects:

- Industry, regulatory, and other external factors
- Nature of the entity
- Objectives and strategies and the related business risks that may result in a material misstatement of the financial statements
- Measurement and review of the entity's financial performance
- Internal control, which includes the selection and application of accounting policies

.04 The insurance industry may be subject to specific risks of material misstatement arising from the nature of the business, the degree of regulation, or other external forces (for example, political, economic, social, technical, and competitive forces).

.05 The auditor should obtain an understanding of the entity's objectives and strategies and the related business risks that may result in material misstatement of the financial statements. Business risks result from significant conditions, events, circumstances, actions, or inactions that could adversely affect the entity's ability to achieve its objectives and execute its strategies, or through the setting of inappropriate objectives and strategies. Just as the external environment changes, the conduct of the entity's business is also dynamic, and the entity's strategies and objectives change over time. An understanding of business risks increases the likelihood of identifying risks of material misstatement. However, the auditor does not have a responsibility to identify or assess all business risks. Most business risks will eventually have financial consequences and, therefore, an effect on the financial statements. However, not all business risks give rise to risks of material misstatement.

.06 After obtaining a sufficient understanding of the entity and its environment, including its internal control, an auditor should identify and assess the risks of material misstatement at the financial statement level and at the relevant assertion level related to classes of transactions, account balances, and disclosures based on that understanding.

.07 Understanding and properly addressing, as necessary, the matters presented in this alert will help you gain a better understanding of your client's environment, better assess risks of material misstatement of the financial statements, and strengthen the integrity of your audits.

Economic and Industry Developments

The State of the Economy

.08 When planning and performing audit engagements, an auditor should understand the economic conditions facing the industry in which the client operates. Economic activities relating to factors such as interest rates, availability of credit, consumer confidence, overall economic expansion or contraction, inflation, and labor market conditions are likely to have an effect on the entity's financial statements being audited.

.09 In September 2008, unprecedented events occurred in the financial markets, including the failure of a major investment bank, acquisitions of several investment and commercial banks (including some that required assistance from federal agencies), and the placement of Fannie Mae and Freddie Mac into conservatorship. Further, several foreign financial institutions received assistance from their national governments or entered into similar acquisition agreements. Additionally, on September 17, 2008, a significant publicly-registered money market fund declined below the industry standard of $1.00 per share on a market value basis due to a combination of holdings of short-term securities issued by the failed investment bank and major shareholder redemptions. As a result of these events, the condition of the fixed income markets worsened, and corporations and financial institutions generally recognized as creditworthy began experiencing difficulty borrowing money in the financial markets for any period of time longer than an overnight basis.

.10 In response, the U.S. Senate and, on October 3, 2008, the U.S. House of Representatives passed a bill that, among other things, appropriated up to $700 billion to purchase various forms of asset-backed securities and made a number of changes to the Internal Revenue Code. The repercussions of these events are just beginning to be felt in the wider economy. How they will affect the financial markets in the fourth quarter of 2008 is difficult to predict.

.11 The U.S. real gross domestic product (GDP), the broadest measure of economic activity, measures output of goods and services by labor and property within the United States and increases as the economy grows. According to the Bureau of Economic Analysis, real GDP increased at an annual rate of 2.2 percent in 2007. According to 2008 third quarter final advance estimates, real GDP decreased at an annual rate of 0.3 percent, which is down significantly from the 2.8 percent increase in real GDP during the second quarter of 2008.

.12 The unemployment rate remained relatively unchanged during 2007, holding between 4.4 percent and 5.0 percent, with an annual average rate of 4.6 percent. However, during 2008, the unemployment rate has risen. As of October

2008, the unemployment rate was 6.5 percent, representing approximately 10.1 million people.

.13 The target for the federal funds rate remained stable at 5.25 percent from June 2006 to September 2007 when the Federal Reserve began decreasing rates. Since the first rate decrease in September 2007, the Federal Reserve has decreased rates a total of 4.25 percentage points to 1.0 percent as of the end of October 2008. The Federal Reserve noted in its October press release that the pace of economic activity appears to have slowed markedly, owing importantly to a decline in consumer expenditures. Business equipment spending and industrial production have weakened in recent months, and slowing economic activity in many foreign economies is damping the prospects for U.S. exports. Moreover, the intensification of financial market turmoil is likely to exert additional restraint on spending, partly by further reducing the ability of households and businesses to obtain credit. Inflation has been high, but the Federal Open Market Committee, which sets the nation's monetary policy, believes that the decline in energy and other commodity prices and the weaker prospects for economic activity have reduced the upside risks to inflation.

Industry Trends and Conditions

Life and Health Insurance Industry

.14 Over the past several years, life insurance companies have focused on products meant to accumulate wealth. Individual annuities compose the largest component of industry premiums and profits. As a result of an aging population, concerns about the viability of the social security system, and the shifting responsibility from employers to employees for retirement funds, life insurance companies are increasing the focus on products that ensure that an individual will not outlive his or her wealth. The early versions of these products were minimum guarantee products offered with variable annuities. The more recent focus includes variations on those minimum guarantee products as well as products that focus on longevity, liquidity, and retirement medical or long-term care expenses. Life insurers have responded to these challenges by offering creative financial options in addition to traditional mortality, morbidity, and investment returns as a part of basic product offerings.

.15 Through the end of 2008, U.S. life and annuity companies face an increasingly complex economic environment, with negative operating and net income trends and continuing adverse capital market conditions. In the midst of failing financial institutions and U.S. government intervention, financial flexibility remains diminished. The following points illustrate how significant realizable capital erosion remains a major risk, both from a ratings and an operating perspective:[1]

- Six month 2008 net income for the major U.S. publicly traded life and annuity companies included in A.M. Best Research's report was down 63 percent from a year earlier, whereas net operating income fell 16 percent.
- Sales of individual variable annuities through the first six months were down 12.5 percent, whereas sales of individual fixed annuities were up 34.2 percent.

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[1] According to A.M. Best Research 2008 Special Report Excerpt *U.S. Life & Annuity—GAAP Financial Review*.

- Investment risk remains heightened as asset prices continue to fall and more write-downs are likely.
- Merger and acquisition activity has slowed.

.16 Certain important elements, especially in this time of increased market volatility, may affect an auditor's risk assessment including, but not limited to, the following:

- Due to the continued decline in the market, there is an increased emphasis on accounting for and proper disclosure of other-than-temporary-impairments of debt and equity investments. Auditors should refer to Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 115-1/FAS 124-1, *The Meaning of Other-Than-Temporary-Impairment and Its Application to Certain Investments*, and FASB Emerging Issues Task Force (EITF) Issue No. 99-20, "Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets," for assistance in evaluating a company's assessment of whether an impaired investment is other-than-temporarily impaired.
- It has become increasingly difficult to obtain input for determining the fair value of auction rate securities, money market funds, commercial paper, mortgage-backed or other asset-backed securities, collateralized debt obligations, and municipal securities due to the slowdown in trading caused by the current market. Auditors should refer to FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, for help in clarifying the application of FASB Statement No. 157, *Fair Value Measurements*, in a market that is not active.
- Due to the significant upheaval in the current market, auditors should pay particular attention to the company's liquidity and capital resources, and whether the current conditions could affect the company's ability to continue as a going concern.
- Limited historical or market policyholder behavior experience to be utilized by companies in pricing and reserving for recently issued policyholder financial options continues to affect the comparability of valuation among competitors and the availability of reinsurance capacity. (The availability of reinsurance is beginning to loosen; see further discussion on reinsurance in the sections of this alert entitled "Reinsurance Arrangements" and "NAIC Reinsurance Disclosure and Filing Requirements.")
- Application of a statutory principles-based approach to reserving for no-lapse guarantees is still a few years away and, as a result, large excess reserving needs remain for many of these contracts, causing a need to fund this excess statutory strain. The auditor can refer to AU section 342, *Auditing Accounting Estimates* (AICPA, *Professional Standards*, vol. 1), which provides guidance on obtaining and evaluating sufficient appropriate audit evidence to support significant accounting estimates. In evaluating reasonableness, the auditor should obtain an understanding of how management developed the estimate and, based on that understanding, should use one or a combination of the approaches included in AU section 342.

- Hedging programs developed by insurers in recent years to manage exposures to policyholder financial options are being reexamined to determine the effect of a decline in a counterparty's creditworthiness or a company's own creditworthiness on the fair value of a derivative. The decline in the current market has increased the number of companies experiencing financial problems, resulting in widening credit spreads to bankruptcy. As discussed in FASB Derivatives Implementation Group Statement 133 Implementation Issue No. G10, *Cash Flow Hedges: Need to Consider Possibility of Default by the Counterparty to the Hedging Derivative*, "The entity must be aware of the counterparty's creditworthiness (and changes therein) in determining the fair value of the derivative. Although a change in the counterparty's creditworthiness would not necessarily indicate that the counterparty would default on its obligations, such a change would warrant further evaluation. If the likelihood that the counterparty will not default ceases to be probable, an entity would be unable to conclude that the hedging relationship in a cash flow hedge is expected to be highly effective in achieving offsetting cash flows." The auditor also can refer to AU section 332, *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (AICPA, *Professional Standards*, vol. 1), which provides guidance to auditors in planning and performing auditing procedures for assertions about derivative instruments, hedging activities, and investments in securities.

Guarantees and Other Developments

.17 Variable annuity products that contain minimum guaranteed death benefits (MGDBs) or guaranteed minimum income benefits (GMIBs) pose additional considerations, which include the following:

- Companies may experience general account charges for the payout of these benefits (upon either death or annuitization, as applicable) when the market value of the separate account assets is not sufficient to support the level of benefit payment.
- Generally accepted accounting principles (GAAP) and statutory accounting principles (SAP) may require insurers to establish reserves for variable annuity guarantees on these products, thereby placing strain on capital strength.

.18 The National Association of Insurance Commissioners (NAIC) Risk Based Capital C3 Phase II initiative requires cash-flow testing for annuities or other products with exposure to interest-rate risks. Interest-rate risk may increase if there is a duration mismatch between assets and liabilities. Testing includes multiple scenarios with various interest rate fluctuations to determine whether reserves are adequate. This testing may cause some life insurers to increase their capital requirements for interest-sensitive products.

.19 Companies that issue universal life insurance with no-lapse guarantee mortality features are subject to the provisions of Statement of Position (SOP) 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* (AICPA, *Technical Practice Aids*, ACC sec. 10,870), and should establish liabilities in addition to account balances if amounts assessed each period for the feature are expected to result in profits in earlier years followed by losses in subsequent years.

.20 SOP 03-1 contains guidance for accounting for MGDBs, GMIBs, and no-lapse guarantee features. These features also are addressed in FSP FAS 97-1, *Situations in Which Paragraphs 17(b) and 20 of FASB Statement No. 97,* Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments, *Permit or Require Accrual of an Unearned Revenue Liability*, and in Technical Practice Aid (TPA) Technical Questions and Answers (TIS) section 6300.08, "Definition of an Insurance Benefit Feature" (AICPA, *Technical Practice Aids*). Management should be familiar with all of these pronouncements in applying the guidance in SOP 03-1. Auditors also should gain an understanding of these pronouncements, depending on the circumstances of their clients.

Property and Casualty Insurance Industry

.21 The U.S. property and casualty (P&C) insurance industry experienced weak performance in the first half of 2008. Net written premiums declined 0.7 percent continuing the negative growth trend that began in 2007 with a –0.6 percent growth rate. These decreases are significant given that premium growth has not been negative since 1943, in the midst of World War II. During the first six months of 2008, the industry's net income decreased more than 50 percent to $15.9 billion, whereas the annualized after-tax return on surplus declined to 9.5 percent, down from 14.2 percent return for the 12 months ended June 30, 2007. The first half of 2008 combined ratio was 102.1, which is the highest level it has reached in 6 years.

.22 The industry decline was driven primarily by the housing and credit crisis faced by mortgage insurers[2] and financial guarantee insurers,[3] the continuation of soft market conditions through much of the industry, an increase in catastrophe losses, and a volatile investment market. Each of these performance factors are subsequently discussed in more detail.

Impact of the Housing and Credit Crisis on Mortgage and Financial Guarantee Insurers

.23 Since 2007, securities backed by subprime mortgages[4] have gone into default at record rates due to the slump in the housing market and loans that were extended to borrowers with poor credit histories. Mortgage insurers now face substantial borrower defaults on loans that were approved when the process of securing a mortgage was less difficult. During the first half of 2008, many mortgage and financial guarantee insurers reported significant underwriting losses. According to A.M. Best Research 2008 Special Report, *U.S. Property / Casualty—6-Month Financial Review*, as of September 23, 2008, although these lines only account for a small percentage of the industry's net premiums written, their loss impact caused a 5.0 point deterioration on the

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[2] According to the Mortgage Insurance Companies of America *2007–2008 Fact Book & Membership Directory*, property and casualty (P&C) insurers that protect lenders against loss from a mortgagor's default on conventional first home mortgages made to home buyers who make down payments of less than 20 percent of the purchase price.

[3] P&C insurers that issue financial guarantees, including the guaranteeing of interest and principal payments on corporate and municipal debt, the guaranteeing of limited partnership obligations, and a number of other products in which the insurance company takes on an obligation to pay at some later date. (AICPA Audit and Accounting Guide *Property and Liability Insurance Companies*)

[4] Subprime mortgages are mortgages used by borrowers with low credit ratings, who are considered risky by lending agencies because the default risk is greater than that of other borrowers. Due to this, lenders charge a higher interest rate on subprime loans.

industry-wide combined ratio. As a result, major rating agencies have downgraded the financial strength ratings of several mortgage insurance companies. Additionally, stock prices for these insurers are decreasing. In reaction, mortgage insurers have tightened their standards, making such insurance more challenging to obtain.

Continuation of the Soft Market Conditions

.24 For the fourth consecutive year, the P&C market remains soft as a consequence of a sustained, highly aggressive pricing environment. This is a result of competitive pressure in practically all lines of property casualty business and geographic areas. Renewals reportedly have declined and pricing increases have lagged the inflation rate. Due to increased competition, advertisement spending by P&C insurers is at a record high, even after accounting for growth premiums.

Surge of Catastrophe Losses

.25 The Insurance Services Office has noted that 2008 first quarter catastrophe losses have reached the highest level of any first quarter since 1994. The second quarter losses doubled the first quarter, allowing the total for the first half of 2008 to be greater than the total amount for all of 2007. According to A.M. Best Research, insured catastrophe losses reached $10.3 billion in the first 6 months of 2008, contributing 4.7 percentage points to the industry's combined ratio. These losses in the first half of the year were due to record-breaking tornado activity, brutal hail, wildfires, and wind damage. Severe flooding in the Midwest also has been a major cause of concern during the second quarter of 2008, costing private insurers $600 million. As of mid-September, 10 storms had been named, including Hurricanes Gustav and Ike. The estimated losses for Gustav range between $2 billion and $10 billion, and estimates for Hurricane Ike are as high as $18 billion. The hurricane season is expected to add earnings pressure to the market, but the overall financial impact is expected to be manageable due to the capital strength of the P&C industry.

Volatile Investment Market

.26 The P&C industry's profitability has been further adversely affected by volatile investment markets. Stock prices have declined, credit spreads have widened on fixed income securities, and the Federal Reserve has consistently cut rates on federal funds. Approximately two-thirds of P&C investments are in bonds, which are sensitive to interest rates. Recently, the market for investments has been affected by unfavorable news headlines about credit markets, increasing oil prices, and economic weakness. A.M. Best Research notes in the first half of 2008, the industry's total investment gain slipped by 11.2 percent or $3.4 billion. Investment returns have been significantly affected by the historically low interest rate environment, held constant at 2 percent, according to A.M. Best Research. Further declines are expected through the remainder of 2008 due to the tumultuous financial markets, which will test the strength of a number of insurers.

.27 According to A.M. Best Research 2008 Special Report, *U.S. Property/Casualty—1st Quarter Financial Review*, as of June 30, 2008, the property liability insurance industry faces a challenging environment for the remainder of 2008, due to a combination of deteriorating rate adequacy, loosening terms and conditions, a difficult investment climate, and catastrophe-related losses. A.M. Best Research notes it appears that the P&C industry will face underwriting losses for the year-end 2008, but believes the industry to be on track for an operating profit. For the long term, Conning Research & Consulting projects a soft market through 2010 with better performance in 2009 and 2010 compared to 2008. They anticipate a rebound in the economy and a moderating competitive environment.

Legislative and Regulatory Developments

Recent Statutory Accounting Principles

.28 The NAIC continues to create and clarify statutory accounting guidance for insurance enterprises through its ongoing maintenance process. The most recent *Accounting Practices and Procedures Manual* (manual) was published by the NAIC as of March 2008 and contains accounting practices and procedures adopted by the NAIC through December 2007. For manual subscribers, modifications made subsequent to the publication of the manual are available on the NAIC Web site at www.naic.org. Insurance laws and regulations of the state insurance departments require insurance companies domiciled in those states to comply with the guidance provided in the manual, except as otherwise prescribed or permitted by state law or regulation.

.29 The 2008 manual contains one new Statement of Statutory Accounting Principle (SSAP) that was adopted during 2007—SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*. SSAP No. 97 was adopted in December 2007 and was effective for reporting periods ending on or after December 31, 2007.

.30 Most of the revisions incorporated in SSAP No. 97 are related to satisfying the audit requirements applicable in various subsidiary, controlled, and affiliated entities (SCA) situations. The significant changes in SSAP No. 97 include the following:

- Combined audited financial statements are allowed in complying with requirements under SSAP No. 97 that SCA be audited.
- Foreign (non-U.S.) entities are allowed to provide audited financial statements on a foreign basis of accounting, with an audited footnote reconciliation to U.S. GAAP, in complying with the audit requirement under SSAP No. 97.
- In certain circumstances, the "look-through" approach, which permits a company to admit the value of a downstream holding company, is allowed.

.31 Language was added to clarify that the value of preferred stock and surplus notes issued by an SCA are to be deducted from the SCA's total equity in determining the carrying value attributed to the common stock of such an SCA.

.32 In fall 2008, the following two new SSAPs were issued:

1. SSAP No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, An Amendment to SSAP No. 43—Loan-Backed and Structured Securities*, requires fair value of the security be used to measure other-than-temporary impairments. In addition, SSAP No. 98 clarifies interest-related declines in value are considered other-than-temporary when there is intent to sell the investment prior to recovery of the cost and also clarifies the

asset valuation reserve and interest maintenance reserve treatment of other-than-temporary impairments. This SSAP is effective for quarterly and annual reporting periods beginning on or after January 1, 2009, with early adoption permitted and encouraged.

2. SSAP No. 99, *Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment*, adopts the guidance in paragraph 16 of FSP FAS 115-1/FAS 124-1 and provides guidance to account for the amortization or accretion of debt securities after an other-than-temporary impairment. Upon impairment of a security, an immediate amortization of premium shall be reported as a realized loss and shall not be included in investment income. This SSAP is effective January 1, 2009, with early adoption permitted.

.33 Additionally, nine new interpretations were adopted during 2007 and incorporated into the March 2008 manual. Also, several nonsubstantive revisions to various SSAPs and manual appendixes were made during 2007 by the NAIC. Interpretations are immediately effective upon adoption by the NAIC, and new SSAPs occasionally are effective for the calendar year they are adopted. Interim updates to the manual can be found under the SAP Working Group section of the NAIC Web site at www.naic.org/committees_e_app_sapwg.htm. Beginning in 2008, the user identification and password necessary to access adopted updates to the March 2008 manual require the prepurchase of the subsequent year's manual (the March 2009 publication, in this case).

The NAIC's Sarbanes-Oxley Initiative Update

.34 The NAIC adopted changes to the Annual Financial Reporting Model Regulation (Model Audit Rule) related to the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley) during its fall 2006 meeting, with the majority of the changes effective for 2010.

.35 Highlights of the significant changes made to the Model Audit Rule related to Sarbanes-Oxley include:

- Section 7: The time allowed to serve in the capacity as the lead or coordinating audit partner was decreased from seven years to five consecutive years with a new five year break in service (previously two years), effective beginning with year 2010 statutory audits.
- Section 7: A list of nonaudit services that cannot be performed by the auditor in conjunction with the audit (the prohibitions generally agree with those designated by the Securities and Exchange Commission [SEC]), effective for the year 2010 statutory audits.
- Section 9: To the extent required by AU section 319, *Consideration of Internal Control in a Financial Statement Audit* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Standards, As Amended), for those insurers required to file a management's report on internal control over financial reporting pursuant to Section 16 (see the following "Section 16" bullet point), the independent CPA should consider the most recently available report in planning and performing the audit of statutory financial statements.
- Section 11: Auditors should prepare a written communication of any unremediated material weaknesses that the insurer will furnish the domiciliary commissioner, effective beginning with year

2010 statutory audits. The current Model Audit Rule requires the auditor to prepare a report of significant deficiencies and material weaknesses in the insurer's internal control structure noted by the auditor during the audit. The AICPA NAIC Task Force has, for several years, undertaken efforts to confirm that states will accept the reporting of only those significant deficiencies and material weaknesses that are unremediated as of the balance sheet date, and it will continue to do so until the year 2010 effective date of the revised Model Audit Rule.

Until the revisions of this section become effective in 2010, representatives of the AICPA plan on obtaining negative clearance from regulators that they will continue to follow the guidance contained in a March 9, 2005 letter that was sent to regulators. This letter contained suggested guidance for complying with Section 11 of the Model Audit Rule because the term *significant deficiencies* had a different definition under Sarbanes-Oxley than it had under Section 11 of the Model Audit Rule.

- Section 14: New specifications for the responsibilities of audit committees and the required qualifications of audit committee members will be effective January 1, 2010. The adopted revisions require that insurance companies have an audit committee that is solely responsible for the appointment, compensation, and oversight of the company's auditor. The guidance also indicates that some audit committees, based on the insurer's premium volume, would need to be comprised of a certain percentage of individuals who are independent from company management. The premium threshold that triggers the requirement for independent audit committee members is $300 million assumed and direct premiums. The premium range for a majority (50 percent or more) of independent audit committee members is from $300 million to $500 million. The requirement for a supermajority (75 percent or more) of independent audit committee members is $500 million in premiums. Notwithstanding premium volume, all insurers are encouraged to structure their audit committees with at least a supermajority of independent audit committee members.
- Section 16: Every insurer required to file an audited financial report that has an annual direct written and assumed premium of $500 million or more shall prepare a report of the insurers' or group of insurers' internal control over financial reporting and file it with their insurance commissioner, effective December 31, 2010. The Model Audit Rule also includes a list of what should be included in management's report on internal control over financial reporting. This report is prepared by management and is not audited.
- An insurer that is a Sarbanes-Oxley compliant entity or is a direct or indirect wholly owned subsidiary of a Sarbanes-Oxley compliant entity will be able to file its or its parent's Sarbanes-Oxley Act Section 404 report in satisfaction of this Section 16 requirement. However, there also is an addendum that needs to be filed with the Sarbanes-Oxley Act Section 404 report that would include a

positive statement that there are no material processes related to the preparation of the audited statutory financial statements that were excluded from the Sarbanes-Oxley Act Section 404 report. If there are internal controls that have a material impact on the preparation of the audited statutory financial statements excluded from the Sarbanes-Oxley Act Section 404 report they need to be addressed. The insurer may either file a report under Section 16 or the insurer can file its Sarbanes-Oxley Act Section 404 report and a Section 16 report for those internal controls that would have a material impact on the audited statutory financial statements and were not covered by the Sarbanes-Oxley Act Section 404 report.

- The independent CPA should consider this report during the planning and performance of the annual audit. In addition, the proposed revisions require the insurer to file with the state insurance department the independent public accountant's communication regarding any unremediated material weaknesses noted during the course of the audit.

SSAP No. 9 Considerations

.36 SSAP No. 9, *Subsequent Events*, which was based on AU section 560, *Subsequent Events* (AICPA, *Professional Standards*, vol. 1), defines subsequent events and establishes criteria for recording such events in the financial statements or disclosing them in the notes to the financial statements. All information that becomes available prior to the issuance of the financial statements relating to a material type I subsequent event (currently defined in SSAP No. 9 as "events that provide additional evidence with respect to conditions that existed at the date of the balance sheet and affect the estimates inherent in the process of preparing financial statements") shall be used by management in determining the related accounting estimate.

.37 During 2007, the NAIC SAP Working Group adopted revisions to paragraph 13 of SSAP No. 55, *Unpaid Claims, Losses and Loss Adjustment Expenses*, to address the issue of whether accounting judgments and estimates inherent in the preparation of statutory-basis financial statements should be updated to reflect type I subsequent events occurring between the annual statement filing date and the issuance of the audited statutory-basis financial statements. This amended paragraph clarifies that liabilities for unpaid claims, losses, and loss adjustment expenses within the scope of SSAP No. 55 are not expected to be reestimated. Rather, additional information that is obtained after the submission of the annual statement, which is not indicative of an error in the estimation process, is considered part of the continuous review process and should be reflected in the statement of operations in the period the change becomes known.

.38 Readers should be aware that this guidance applies only to unpaid claims, losses, and loss adjustment expenses within the scope of SSAP No. 55, and that to be compliant with SSAP No. 9 as currently written, companies will need to have a process in place to update other judgments and estimates for type I subsequent events occurring between the annual statement filing date and the issuance of the audited statutory-basis financial statements.

Risk-Focused Statutory Examinations

.39 Companies are examined for statutory purposes by the domestic insurance departments. State regulators perform their financial examinations using the NAIC *Financial Condition Examiners Handbook*. Beginning in 2010, state examiners will be required to conduct their examinations using a risk-focused approach (although many states have already begun conducting examinations using a risk-focused approach). This examination approach, which is a key component of establishing and operating an effective risk-focused surveillance process, involves several differences from the traditional, more substantive-based statutory examination process. In particular, under the risk-focused approach, there is a heavy emphasis on the insurer's corporate governance and established risk management practices and processes. At the beginning of the examination, regulators gain an understanding of the corporate governance structure and assess the "tone at the top." In addition, examiners obtain information on the quality of oversight provided by a company's board of directors. Examiners also evaluate and assess the effectiveness of senior management as part of this corporate governance assessment process. All of this information contributes to an understanding of how a company identifies, controls, monitors, mitigates, evaluates, and responds to its risks. This assessment helps determine the most significant current and prospective risk areas and assists with determining the amount of substantive examination procedures that state examiners should perform. The examiner's review and consideration of prospective business risk is designed to focus on key risks to future solvency and allows the regulators to tailor their supervision plan to address key risks.

.40 In conjunction with the previously explained objectives, examiners typically will make inquiries of a company's external auditor regarding various areas in order to determine potential leverage of the auditor's work papers. In addition to reviewing areas associated with the auditor's balance sheet and income statement account testing, the examiners also may be interested in reviewing the auditor's internal control assessment and testing of the insurer's corporate governance environment, recognizing that the extent of documentation pertaining to the insurer's corporate governance structure and risk mitigation strategies will vary based on the size and structure of the company and its holding company group. As part of this assessment, the examiners also may request to see the auditor's assessment and testing over various entity-level controls, especially any testing or assessments performed related to the insurer's enterprise risk management (ERM) structure. Several rating agencies such as A.M. Best Research and Standard & Poor's have emphasized a review of a company's ERM environment and practices. If the external auditor has reviewed the ERM practices and potential relationship to the Committee of Sponsoring Organizations of the Treadway Commission ERM framework, the examiner generally will want to review this documentation.

.41 Additionally, once the examiners determine the most significant financial reporting areas of focus, they may be interested in reviewing the external auditor's testing of certain key internal controls related to public companies' compliance with Sarbanes-Oxley Act Section 404. The risk and control matrixes that outline the risk, key controls, financial statement assertions, testing performed, results of testing, and conclusions reached regarding design and operating effectiveness may be of particular interest to the examiners. The regulators will want to understand the scope of testing by the external auditors and may want to review or reperform certain aspects of the external auditor's testing in order to establish a basis for reliance. Most companies will want their external auditors to cooperate with the state insurance regulators in order to avoid duplication of effort relating to testing key financial controls.

.42 Furthermore, the regulators may be particularly interested in the scope of information systems testing performed by both the external auditor and the company. Given that data integrity is usually classified as a high inherent risk, the scope of information technology testing performed by the external auditor likely will be of interest to most examiners (that is, testing performed over information technology key controls related to both general and application controls). Smaller companies, as well as Sarbanes-Oxley compliant entities, will be expected to proactively address information technology risks, and the external auditor's work in this area will be considered important by most examiners.

Federal Initiatives—Treasury Department's Blueprint for a Modernized Financial Regulatory Structure, an Optional Federal Charter, and an Office of Insurance Information

.43 In March 2008, the Treasury Department released its *Blueprint for a Modernized Financial Regulatory Structure* (the blueprint). The purpose of the blueprint is to present a series of recommendations to Congress for the reform of the U.S. financial regulatory structure. The blueprint is a key part of the Treasury Department's efforts to improve the competitiveness of the U.S. capital markets in a global marketplace. One area of proposed reform affects the insurance industry and how the insurance industry is currently regulated by a state-based regulatory system. The blueprint recommends the following:

- The establishment of a federal insurance regulatory structure to provide for the creation of an optional federal charter (OFC). This structure is similar to the current dual-chartering system for banking. An office of national insurance within the Treasury Department would oversee this federal regulatory structure.
- As an intermediate step, Congress would establish a federal office of insurance oversight within the Treasury Department in order to establish a federal presence in insurance for international and regulatory issues with a goal toward providing "more effective, efficient, and consistent regulation for national insurers and [to] enhance product choice and innovation."

.44 Subsequent to the release of the blueprint, much debate has ensued regarding the merits of moving to a dual regulatory system for insurers. As of this writing, the OFC, if one were to be approved by Congress, is not expected to apply to health insurance. As currently drafted, it will apply to both property-casualty and life insurance lines of business but could ultimately apply only to life insurance. Indications from Treasury officials are that it would be broadly consistent with banking regulation, specifically dealing with charter, licensing, regulation, and supervision for insurers and producers. The state-based system would continue for those deciding not to operate at the national level. Legislation has been introduced in both the U.S. House of Representatives and the U.S. Senate supporting the establishment of an OFC.

.45 The office of insurance oversight that was recommended in the blueprint is now being referred to as the office of insurance information (OII).

Legislation to create the OII, the Insurance Information Act of 2008, was approved in July 2008 by the House Financial Services Subcommittee on Capital Markets, Insurance, and Government Sponsored Entities. The initial focus of the OII is expected to be on global issues, particularly those pertaining to the European Union's new framework for insurance regulation; it also is expected to have limited authorities. Auditors should be aware of and monitor developments in the preceding areas and assess effects to disclosures, liability accruals, and subsequent events for 2008 fiscal year-ends.

National Flood Insurance Program

.46 The National Flood Insurance Act of 1968 created the National Flood Insurance Program (NFIP) because flood insurance was unavailable from the private insurance markets. The NFIP was overwhelmed by claims from the 2004 and 2005 hurricane season and Congress was forced to raise the program's borrowing authority to pay claims. It became apparent the NFIP was in need of reform in order to remain viable and provide consumers the desired protection. Additionally, due to consumer's difficulty in obtaining windstorm coverage in the marketplace and controversial decisions regarding coverage of claims from Hurricanes Rita and Katrina, there has been a move to have the NFIP offer both windstorm and flood coverage. A U.S. House of Representatives bill passed in 2007 to reform the program and offer windstorm coverage. In July 2008, the U.S. Senate Committee on Banking, Housing, and Urban Affairs voted on its own legislative version to reform the NFIP; however, it did not propose an expansion of the program to the offering of windstorm coverage. The U.S. Senate voted to extend the NFIP through September 30, 2013. The Office of Management and Budget said that it would recommend the president veto any extension bill that contained the windstorm provision. U.S. House of Representatives and U.S. Senate negotiators will have to iron out differences between the two bills so the NFIP can be extended beyond its September 30, 2008 expiration. Auditors should be aware of and monitor developments in this area and assess effects to disclosures, liability accruals, and subsequent events for 2008 fiscal year-ends.

Terrorism Insurance Developments

.47 The market for terrorism risk insurance was severely disrupted by the events of September 11, 2001. Those events resulted in reinsurers no longer covering terrorism risk or offering coverage only at very high rates. On November 26, 2002, the president signed the Terrorism Risk Insurance Act (TRIA) into law. The TRIA established a temporary federal program of shared public and private compensation for insured commercial P&C losses resulting from acts of terrorism.

.48 Accordingly, terrorism exclusions on existing insurance policies were removed, and all policyholders had the ability to secure coverage for terrorism risk through mandatory offer requirements placed on insurers. The TRIA, as amended in 2005, placed the federal government temporarily in the terrorism risk reinsurance business because the program was written to expire on December 31, 2007. With expiration imminent, the TRIA was amended on December 26, 2007 by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (the Reauthorization Act), which extended the TRIA for another seven years, or through December 31, 2014. A summary of the 2007 amendments, which are in effect for 2008, are discussed in the following paragraphs of this alert.

.49 Under the original program, once an insurer suffers a loss equal to its deductible, the Treasury Department covers 90 percent of the losses above the deductible. The insurer's deductible increases over the life of the program. The TRIA also provides the Treasury Department with the authority to recoup federal payments via policyholder surcharges. The maximum amount of any potential policyholder surcharge that can be imposed is 3 percent per year.

.50 A summary of the major changes as a result of the 2007 amendments is as follows:

- The definition of *act of terrorism* was revised to remove the requirement that the act of terrorism be committed by an individual acting on behalf of any foreign person or foreign interest in order to be certified as an act of terrorism for purposes of the TRIA. Insurers have designed their insurance contracts and notifications to policyholders differently concerning potential changes to the certification criteria for acts of terrorism. Insurers must determine how their policy language and particular circumstances are affected by the revised definition of an act of terrorism.
- The definition of *insurer deductible* was revised for all additional program years as the value of an insurer's direct earned premium for commercial P&C insurance for the immediately preceding calendar year multiplied by 20 percent.
- The federal share of compensation for insured losses (subject to a $100 million program trigger) for all additional program years is set at 85 percent of that portion of the amount of insured losses that exceeds the applicable insurer deductible.
- The Treasury Department is required to submit a report to Congress and issue final regulations for determining the pro rata share of insured losses to be paid under the program when aggregate insured losses exceed the annual liability cap of $100 billion.
- The Secretary of the Treasury is required to notify Congress not later than 15 days after the date of an act of terrorism about whether aggregate insured losses are estimated to exceed $100 billion.
- For policies issued after the date of enactment, insurers are required to provide clear and conspicuous disclosure to the policyholder of the existence of the $100 billion cap at the time of offer, purchase, and renewal of a policy (in addition to current disclosure requirements).
- The recoupment provisions of the TRIA have been revised. For purposes of recouping the federal share of compensation under the TRIA, the insurance marketplace aggregate retention amount for all additional program years is the lesser of $27.5 billion and the aggregate amount, for all insurers, of insured losses during each program year. With regard to mandatory recoupment of the federal share of compensation through policyholder surcharges, collection is required within a certain schedule specified in the Reauthorization Act. The limitation that surcharges not exceed 3

percent of the premium charged for P&C insurance coverage under the policy is eliminated (but remains in the case of discretionary recoupment).

.51 Auditors should remain alert to developments in this area and assess effects to disclosures, liability accruals, and subsequent events for 2008 fiscal year-ends. The concern with the expiration of the TRIA in 2014 is that, in the absence of a federal program, it is likely that terrorism exclusions will become the norm for commercial line policies, and private reinsurers are not likely to fill the reinsurance capacity void.

.52 The NAIC has adopted a model bulletin to provide guidance to insurers related to rate filings and policy language that state regulators would find acceptable to protect U.S. businesses from acts of terrorism. They also have developed Model Disclosure Forms 1 and 2 to assist insurers in complying with the TRIA. The model disclosure forms may be used and modified by insurers to meet their obligation under the rules, provide policyholders with the status of current coverage, and, in some cases, make a selection regarding future insurance coverage for acts of terrorism. Insurers must comply with state law and the TRIA and are encouraged to review the disclosure forms in light of their current policy language, state legal requirements, and the provisions of the TRIA amendments and the Terrorism Risk Insurance Program.

Audit and Attestation Issues and Developments

Audit Risks Arising From Current Economic Conditions

.53 As mentioned in "The State of the Economy," unprecedented events occurred in the financial markets in September 2008 resulting in Congress appropriating up to $700 billion to purchase various asset-backed securities. Generally, many fixed income markets became extraordinarily illiquid in late September 2008, resulting in a substantial increase in risk over the valuation assertion for virtually any kind of fixed income security of any duration. Also, concerns existed about the possibility of significant redemptions from various types of funds and some reports of certain private funds either placing limits on redemptions, freezing the ability to redeem entirely, or determining to commence an orderly wind-down of operations. Thus, subsequent events reporting considerations, and assessment of the "going concern" status of some entities, take on added importance in the current environment as well.

.54 The AICPA staff has issued TIS section 1100.15, "Liquidity Restrictions" (AICPA, *Technical Practice Aids*), addressing the potential accounting and auditing implications when a fund or its trustee imposes restrictions on a nongovernmental entity's ability to withdraw its balance in a money market fund or other short term investment vehicle. The question and answer covers balance sheet classification, disclosures, debt covenants, subsequent events, and going concern considerations, among other things, and can be found at www.aicpa.org/download/acctstd/TIS1100_15.pdf.

.55 Recent economic conditions may cause additional risk factors that had not existed or did not have a material effect on audit clients in prior years. When obtaining an understanding of the external factors that affect the entity and the risks associated with those factors, the auditor may consider whether conditions exist that indicate risks of material misstatement. Some examples that relate to economic conditions are as follows:

- Operations that are exposed to volatile markets, which may include oil, agriculture, or currency markets
- Constraints on the availability of capital and credit
- Operations in regions with economic volatility, including employment and housing issues
- Going concern and liquidity issues

.56 In addition to economic conditions, external forces such as natural disasters significantly affect the insurance industry, especially property and liability insurance. Although many of these risks are not new to business, consideration of the many ways a client is affected by external forces is part of obtaining an understanding of the entity and its environment and will allow the auditor to plan and perform the audit to address those risks.

Other-Than-Temporary Impairments

.57 Emphasis has increased on accounting for and proper disclosure of other-than-temporary impairments of debt and equity investments due to the continued negative decline in the market. Auditors should refer to FSP FAS 115-1/FAS 124-1 and EITF Issue No. 99-20 for assistance in evaluating a company's assessment of whether an impaired investment is other-than-temporarily impaired.

Liquidity

.58 Also, due to the significant upheaval in the current market, auditors should pay particular attention to the company's liquidity and capital resources, and whether the current conditions could affect the company's ability to continue as a going concern. AU section 341, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1), requires auditors to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time, not to exceed one year beyond the date of the financial statements being audited. Statement on Auditing Standards No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380), requires that auditors communicate with those charged with governance events or conditions that lead the auditor to believe there is substantial doubt about the entity's ability to continue as a going concern.

Valuation

.59 It has become difficult to obtain input for determining the fair value of auction rate securities, money market funds, commercial paper, mortgage-backed or other asset-backed securities, collateralized debt obligations, and municipal securities due to the slowdown in trading caused by the current market. Auditors should refer to FSP FAS 157-3 for help in clarifying the application of FASB Statement No. 157 in a market that is not active.

Reinsurance

.60 Auditors of companies with significant reinsurance contracts may want to request that management state in its representation letter to the auditor that there are no side agreements to reinsurance contracts, or, alternatively, that the auditor has been informed of any such agreements in order to enable a determination about whether the company has properly considered these agreements in the accounting analysis for the contract. Auditors of companies with significant reinsurance contracts also may consider directing procedures under AU section 316, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1), toward these arrangements to identify any of the following:

- Contracts backdated to avoid retroactive reinsurance accounting on coverage of losses that had already been incurred
- Side agreements to reimburse the reinsurer for covered losses or to return profits under a contract in a different accounting period, which may compel accounting accruals
- Linked contracts where losses experienced under one will be reimbursed under another in the future and which should be considered together in the risk transfer analysis
- Contracts whose terms do not make economic sense and indicate a side agreement, or linkage, with another contract that should be considered in the accounting evaluation
- Exclusive reinsurance arrangements with offshore assuming companies that raise consolidation questions
- Commutations where the settlements are not in accordance with contract terms and suggest a noncontractual agreement on the allocation of profits and losses
- Contracts where the risk transfer analysis supporting the accounting evaluation differs materially from and cannot be reconciled to cash flow analyses included in the underwriting file

Reinsurance Recoverables

.61 Consideration should be given to the terms of the reinsurance agreements and the creditworthiness of the reinsurer. Significant payment terms may be material to liquidity and required capital levels. As previously noted, auditors should refer to AU section 341. Due to continued downturns in the market, the auditor should give significant consideration to whether the company complies with regulatory risk-based capital requirements when evaluating an insurance company's ability to continue as a going concern.

Claims Expense and Loss Reserves

.62 Due to the increased number and complexity of transactions surrounding claims and claim expenses, inherent risk surrounding the recording and payout of claims can increase. Auditors should evaluate their client's response and adherence to criteria and related controls surrounding expenses.

.63 The identification of changes surrounding valuation variables and consideration of their effect on losses are critical audit steps. The evaluation of these factors includes the involvement of specialists and input from various operating departments within the company, such as marketing, underwriting, actuarial, reinsurance, and legal. Readers should remember that losses are only accrued for events that have occurred; catastrophe reserves are not allowed in anticipation of future events.

.64 AU section 342 states that the auditor should obtain an understanding of how management developed the accounting estimates included in the financial statements. Claims expense and loss reserve estimates are significant variables on an insurance company's financial statements. Accordingly, regardless of the approach used to audit claims expense and loss reserve estimates, the auditor should gain an understanding of how management develops estimates. Additionally, chapter 4 and appendix A of the AICPA Audit and Accounting Guide *Property and Liability Insurance Companies* is an additional source of guidance.

.65 Auditors also can refer to AU section 336, *Using the Work of a Specialist* (AICPA, *Professional Standards*, vol. 1), as well as noting current practitioner prohibitions and restrictions that exist related to the performance of nonaudit services for audit clients, including certain actuarial services. Practitioners should be aware of and comply with these prohibitions and restrictions, including the AICPA, SEC, and Public Company Accounting Oversight Board (PCAOB) independence rules; new NAIC rules describing qualifications of an independent CPA included in the Model Audit Rule effective for 2010 statutory audits; and rules passed by the U.S. Government Accountability Office, state licensing boards, and others.

Summary of Recent Auditing and Attestation Pronouncements and Related Guidance

.66 Presented in the following table is a list of recently issued auditing and attestation pronouncements and related guidance. This alert is intended to be used in conjunction with the *Comprehensive Audit Risk Alert—2008* (product no. 022339kk); therefore, only industry specific pronouncements and related guidance or those of specific significance to the industry are summarized herein. For information on auditing and attestation standards issued subsequent to the writing of this alert, please refer to the AICPA Accounting and Auditing Web site at www.aicpa.org/Professional+Resources/Accounting+and+Auditing. You also may look for announcements of newly issued standards in the *CPA Letter*, *Journal of Accountancy*, and in the quarterly electronic newsletter *In Our Opinion*, issued by the AICPA Auditing Standards team, available at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Opinion. As a reminder, AICPA auditing and attestation standards are applicable only to audits and attestation engagements of nonissuers.

.67 The PCAOB establishes auditing and attestation standards for audits of issuers. Refer to the PCAOB Web site at www.pcaob.org for information about its activities. You may also review Audit Risk Alert *SEC and PCAOB Developments—2008* (product no. 022499kk), which summarizes recent developments at both the SEC and PCAOB. This alert can be obtained by calling the AICPA at (888) 777-7077 or by visiting www.cpa2biz.com.

Recent Auditing and Attestation Pronouncements and Related Guidance	
Statement on Auditing Standards (SAS) No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325) Issue Date: October 2008 (Applicable to audits conducted in accordance with generally accepted auditing standards [GAAS])	Replacing SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit*, this standard defines the terms *deficiency in internal control*, *significant deficiency*, and *material weakness*; provides guidance on evaluating the severity of deficiencies in internal control identified in an audit of financial statements; and requires the auditor to communicate, in writing, to management and those charged with governance, significant deficiencies and material weaknesses identified in an audit. It is effective for audits of financial statements for periods ending on or after December 15, 2009. Earlier implementation is permitted.
SAS No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380) Issue Date: December 2006 (Applicable to audits conducted in accordance with GAAS)	Replacing SAS No. 61, *Communication With Audit Committees*, this standard requires the auditor to conduct two-way communication with those charged with governance about certain significant matters related to the audit and also establishes standards and provides guidance on which matters should be communicated, to whom they should be communicated, and the form and timing of the communication. It is effective for audits of financial statements for periods beginning on or after December 15, 2006.
SAS No. 113, *Omnibus Statement on Auditing Standards—2006* (AICPA, *Professional Standards*, vol. 1) Issue Date: November 2006 (Applicable to audits conducted in accordance with GAAS)	This standard does the following: • Revises the terminology used in the 10 standards of AU section 150, *Generally Accepted Auditing Standards* (AICPA, *Professional Standards*, vol. 1), to reflect terminology in AU section 120, *Defining Professional Requirements in Statements on Auditing Standards* (AICPA, *Professional Standards*, vol. 1). • Adds a footnote to the headings before paragraphs .35 and .46 in AU section 316, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1), to provide a clear link between the auditor's consideration of fraud, the auditor's assessment of risk, and the auditor's procedures in response to those assessed risks. • Replaces throughout the SASs the term *completion of fieldwork* with the term *date of the auditor's report*.

Recent Auditing and Attestation Pronouncements and Related Guidance	
	• Changes the convention for dating the representation letter by requiring that it be dated as of the date of the auditor's report.
SAS Nos. 104–111, the risk assessment standards Issue Date: March 2006 (Applicable to audits conducted in accordance with GAAS)	The risk assessment standards provide extensive guidance on how to apply the audit risk model when planning and performing financial statement audits; focusing on identifying and assessing the risks of material misstatements; further designing and performing tailored audit procedures in response to the assessed risks at relevant assertion levels; and improving the linkage between the risks, controls, audit procedures, and conclusions. These eight SASs became effective for audits of financial statements for periods beginning on or after December 15, 2006.
Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements* (AICPA, *Professional Standards*, vol. 1, AT sec. 501) Issue Date: October 2008	This statement establishes requirements and provides guidance that applies when a practitioner is engaged to perform an examination of the design and operating effectiveness of an entity's internal control over financial reporting (examination of internal control) that is integrated with an audit of financial statements (integrated audit). This SSAE is effective for integrated audits for periods ending on or after December 15, 2008. Earlier implementation is permitted.
SSAE No. 14, *SSAE Hierarchy* (AICPA, *Professional Standards*, vol. 1, AT sec. 50) Issue Date: November 2006	This standard identifies the body of attestation literature, clarifies the authority of attestation publications issued by the AICPA and others, specifies the extent of familiarity a practitioner needs to have with various kinds of attestation publications when conducting an attestation engagement, and amends the 11 attestation standards to reflect the terminology used in AT section 20, *Defining Professional Requirements in Statements on Standards for Attestation Engagements* (AICPA, *Professional Standards*, vol. 1). It is effective when the subject matter or assertion is as of or for a period ending on or after December 15, 2006.

(*continued*)

Recent Auditing and Attestation Pronouncements and Related Guidance	
Interpretation No. 14, "Reporting on Audits Conducted in Accordance With Auditing Standards Generally Accepted in the United States of America and in Accordance With International Standards on Auditing," of AU section 508, *Reports on Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .56–.59) Issue Date: March 2002 Revised Date: May 2008 (Interpretive publication)	This interpretation of AU section 508 addresses the application of AU section 508 in reporting on financial statements prepared in conformity with International Financial Reporting Standards (IFRS).
Interpretation No. 19, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board," of AU section 508 (AICPA, *Professional Standards*, vol. 1, AU sec. 9508 par. .93–.97) Issue Date: May 2008 (Interpretive publication)	This interpretation of AU section 508 addresses the application of AU section 508 in reporting on financial statements prepared in conformity with IFRS.
Interpretation No. 2, "Financial Statements Prepared in Conformity With International Financial Reporting Standards as Issued by the International Accounting Standards Board," of AU section 534, *Reporting on Financial Statements Prepared for Use in Other Countries* (AICPA, *Professional Standards*, vol. 1, AU sec. 9534 par. .05–.08)	This interpretation of AU section 534 addresses the application of AU section 534 in reporting on financial statements prepared in conformity with IFRS.

Recent Auditing and Attestation Pronouncements and Related Guidance	
Issue Date: May 2008 (Interpretive publication)	
Interpretation No. 3, "Financial Statements Audited in Accordance With International Standards on Auditing," of AU section 534 (AICPA, *Professional Standards*, vol. 1, AU sec. 9534 par. .09–.11) Issue Date: May 2008 (Interpretive publication)	This interpretation of AU section 534 addresses the application of AU section 534 in audits of financial statements prepared for use outside the United States.
Statement of Position (SOP) 07-2, *Attestation Engagements That Address Specified Compliance Control Objectives and Related Controls at Entities That Provide Services to Investment Companies, Investment Advisers, or Other Service Providers* (AICPA, *Technical Practice Aids*, AUD sec. 14,430) Issue Date: October 2007 (Interpretive publication)	This statement addresses the application of SSAEs primarily to examination engagements in which a practitioner reports on the suitability of the design and operating effectiveness of a service provider's controls in achieving specified compliance control objectives. Examples of the service providers addressed by this SOP are investment advisers, custodians, transfer agents, administrators, and principal underwriters that provide services to investment companies, investment advisers, or other service providers.
AICPA Technical Questions and Answers (TIS) section 1100.15, "Liquidity Restrictions" (AICPA, *Technical Practice Aids*) Issue Date: October 2008 (Nonauthoritative)	This question and answer discusses auditing and accounting issues related to withdrawal restrictions placed on short term investments by a money market fund or its trustee.
TIS section 9120.08, "Part of an Audit Performed in Accordance With International Standards on Auditing" (AICPA, *Technical Practice Aids*) Issue Date: April 2008 (Nonauthoritative)	This question and answer discusses the implications to the principal auditor's report when part of an audit is conducted by other independent auditors in accordance with International Standards on Auditing or another country's auditing standards.

(*continued*)

Recent Auditing and Attestation Pronouncements and Related Guidance	
TIS section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*) Issue Date: May 2007 (Nonauthoritative)	This question and answer discusses whether the auditor is required to have the signed management representation letter in hand as of the date of the auditor's report. The question and answer indicates that although the auditor need not be in physical receipt of the representation letter on the date of the auditor's report, management will need to have reviewed the final representation letter and, at a minimum, have orally confirmed that it will sign the representation letter, without exception, on or before the date of the representations.
TIS section 8350.01, "Current Year Audit Documentation Contained in the Permanent File" (AICPA, *Technical Practice Aids*) Issue Date: May 2007 (Nonauthoritative)	This question and answer discusses whether the provisions of AU section 339, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1), related to documentation completion and retention, apply to current year audit documentation maintained in the permanent file. The question and answer indicates that AU section 339 does apply to current year audit documentation maintained in a permanent file, or, for that matter, maintained in any type of file, if the documentation serves as support for the current year's audit report.
AICPA Professional Issues Task Force (PITF) Practice Alert (PA) 03-1, *Audit Confirmations* (AICPA, *Technical Practice Aids*, PA sec. 16,240) Revised: June 2007 (Nonauthoritative)	This practice alert is a response to practitioners' current concerns about audit confirmations and includes discussion of improving confirmation response rates, negative versus positive confirmation requests, nonresponses to positive confirmations, responses to positive confirmation requests indicating exception, and use of electronic confirmations, among other topics.
AICPA PITF PA 07-1, *Dating of the Auditor's Report and Related Practical Guidance* (AICPA, *Technical Practice Aids*, PA sec. 16,290) Issue Date: January 2007 (Nonauthoritative)	This practice alert provides guidance regarding application of certain provisions of AU section 339, primarily related to dating the auditor's report.

Recent Auditing and Attestation Pronouncements and Related Guidance	
Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 6, *Evaluating Consistency of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards") Issue Date: November 15, 2008 (Applicable to audits conducted in accordance with PCAOB standards)	This standard and its related amendments update the auditor's responsibilities to evaluate and report on the consistency of a company's financial statements and align the auditor's responsibilities with Financial Accounting Standards Board (FASB) Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. This standard also improves the auditor reporting requirements by clarifying that the auditor's report should indicate whether an adjustment to previously issued financial statements results from a change in accounting principles or the correction of a misstatement.
PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards") Issue Date: July 2007 (Applicable to audits conducted in accordance with PCAOB standards)	This standard replaces the PCAOB's previous internal control standard, Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements*. This principles-based auditing standard is designed to increase the likelihood that material weaknesses in internal control will be found before they result in material misstatement of a company's financial statements, and, at the same time, eliminate procedures that are unnecessary. Auditing Standard No. 5 is required to be used by registered audit firms for all audits of internal control over financial reporting no later than for fiscal years ending on or after November 15, 2007. Earlier adoption is permitted and encouraged.
PCAOB Rule 3526, *Communication with Audit Committees Concerning Independence* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules") Issue Date: August 2008 (Applicable to audits conducted in accordance with PCAOB standards)	Rule 3526 requires the registered public accounting firm to • describe, in writing, to the audit committee of the issuer, all relationships between the registered public accounting firm or any affiliates of the firm and the potential audit client or persons in financial reporting oversight roles at the potential audit client that, as of the date of the communication, may reasonably be thought to bear on independence.

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Recent Auditing and Attestation Pronouncements and Related Guidance	
	• discuss with the audit committee of the issuer, the potential effects of any relationships that could affect independence, should they be appointed as the issuer's auditor. • document the substance of these discussions. These discussions should occur at least annually. The board also adjusted the implementation schedule for PCAOB Rule 3523, *Tax Services for Persons in Financial Reporting Oversight Roles* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules"), as it applies to tax services. The board agreed not to apply Rule 3523 to tax services provided on or before December 31, 2008, when those services are provided during the audit period and are completed before the professional engagement period begins. The amendments to Rule 3523 became effective August 28, 2008. The remaining provisions of Rule 3526 became effective on September 30, 2008.
PCAOB Rule 3525, *Audit Committee Pre-approval of Non-audit Services Related to Internal Control Over Financial Reporting* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules") Issue Date: July 2007 (Applicable to audits conducted in accordance with PCAOB standards)	This rule requires a registered public accounting firm that seeks preapproval of an issuer audit client's audit committee to perform internal control-related nonaudit services that are not otherwise prohibited by the act or the rules of the Securities and Exchange Commission or the PCAOB to describe, in writing, to the audit committee the scope of the proposed service, discuss with the audit committee the potential effects of the proposed service on the firm's independence, and document the substance of the firm's discussion with the audit committee. These requirements parallel the auditor's responsibility in seeking audit committee preapproval to perform tax services for an audit client under PCAOB Rule 3524, *Audit Committee Pre-approval of Certain Tax Services* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules"). This rule is effective for audits of fiscal years ending on or after November 15, 2007.

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PCAOB Conforming Amendments to the Interim Auditing Standards (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards") Issue Date: November 15, 2008 (Applicable to audits conducted in accordance with PCAOB standards)	In conjunction with the PCAOB's adoption of Auditing Standard No. 6, the PCAOB also adopted a number of conforming amendments to its interim standards. The conforming amendments can be found in appendix 2 of PCAOB Release No. 2008-001 at www.pcaob.org/Rules/Docket_023/PCAOB_Release_No._2008-001_-_Evaluating_Consistency.pdf.
PCAOB Conforming Amendments to the Interim Auditing Standards (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Standards") Issue Date: July 2007 (Applicable to audits conducted in accordance with PCAOB standards)	In conjunction with the PCAOB's adoption of Auditing Standard No. 5, the PCAOB also adopted a number of conforming amendments to its interim standards. The conforming amendments can be found in appendix 3 of PCAOB Release No. 2007-005A at www.pcaob.org/Rules/Docket_021/2007-06-12_Release_No_2007-005A.pdf. These amendments are effective for audits of fiscal years ending on or after November 15, 2007, the same effective date of Auditing Standard No. 5.
PCAOB Release No. 2007-001, *Observations on Auditors' Implementation of PCAOB Standards Relating to Auditors' Responsibilities With Respect to Fraud* (AICPA, *PCAOB Standards and Related Rules*, "Select SEC-Approved PCAOB Releases") Issue Date: January 2007 (Applicable to audits conducted in accordance with PCAOB standards)	This release focuses on aspects of the PCAOB's interim auditing standards that address the auditor's responsibility with respect to fraud, specifically AU section 316, *Consideration of Fraud in a Financial Statement Audit* (AICPA, *Professional Standards*, vol. 1). This report does not change or propose to change any existing standard nor is the PCAOB providing any new interpretation of existing standards.

(*continued*)

Recent Auditing and Attestation Pronouncements and Related Guidance	
PCAOB Staff Questions and Answers, *Ethics and Independence Rules Concerning Independence, Tax Services, and Contingent Fees* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 100 par. .05) Issue Date: April 2007 (Applicable to audits conducted in accordance with PCAOB standards)	Topics covered include the following: • The application of PCAOB Rule 3522(a), *Tax Transactions* (AICPA, *PCAOB Standards and Related Rules*, Rules of the Board, "Rules"), when conditions of confidentiality are imposed by tax advisors who are not employed by or affiliated with the registered public accounting firm • Whether a public accounting firm can advise an audit client on the tax consequences of structuring a particular transaction • Whether a registered public accounting firm's independence is affected by the IRS's subsequent listing of a transaction that the firm marketed, planned, or opined in favor of, as described in Rule 3522(b) • Clarification that the auditor must evaluate whether a person is in a financial reporting oversight role at affiliates and not just the audit client itself • Clarification of the term *other change in employment event* as it relates to Rule 3522(c)
PCAOB Staff Audit Practice Alert No. 2, *Matters Related to Auditing Fair Value Measurements of Financial Instruments and the Use of Specialists* (AICPA, *PCAOB Standards and Related Rules*, PCAOB Staff Guidance, sec. 400 par. .02) Issue Date: December 2007 (Applicable to audits conducted in accordance with PCAOB standards)	This practice alert highlights certain requirements in the auditing standards related to fair value measurements and disclosures in the financial statements and certain aspects of generally accepted accounting principles that are particularly relevant to the current economic environment.

Accounting Issues and Developments

Other-Than-Temporary Impairments

.68 Much attention has been given to the topic of other-than-temporary impairments, particularly due to the continuing declines in the markets. The resulting extended declines in the fair values of many investment securities have brought attention about whether these declines should be considered an other-than-temporary impairment. Significant judgment is involved in determining whether a decline in fair value is temporary or reflects conditions that are more persistent. An investor should assess whether an impaired investment is other-than-temporarily impaired at every reporting period and recognize an impairment loss when the impairment is deemed other-than-temporary even if a decision to sell has not yet been made.

.69 As mentioned earlier in this alert, auditors should refer to FSP FAS 115-1/FAS 124-1, EITF Issue No. 99-20, and FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, depending on the type of investment security, for guidance in determining whether an impaired investment is other-than-temporarily impaired.

.70 Under SAP, determining whether impairment has occurred on an investment under the NAIC *Accounting Practices and Procedures Manual* is similar to GAAP. Management needs to consider all available evidence in determining whether an impairment exists and if that impairment is other than temporary. SSAP No. 99 adopts the guidance in paragraph 16 of FSP FAS 115-1/124-1 and provides guidance to account for the amortization or accretion of debt securities after an other-than-temporary impairment. Upon impairment of a security, an immediate amortization of premium shall be reported as a realized loss and shall not be included in investment income.

Reinsurance Arrangements

.71 During the past several years, the SEC, the New York attorney general's office, several state insurance departments, and other governmental and regulatory bodies have been investigating the use of and accounting for finite reinsurance contracts. Several companies have restated previously issued financial statements with respect to accounting for certain reinsurance arrangements and some insurance company executives have been indicted or are the subject of enforcement actions. Reinsurance accounting and reporting—in particular, the question of what constitutes significant transfer of insurance risk and whether side agreements exist between ceding and assuming companies that may have accounting consequences—continue to be important issues requiring careful analysis.

.72 FASB Statement No. 113, *Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts*, and EITF Topic No. D-34, "Accounting for Reinsurance: Questions and Answers about FASB Statement No. 113," continue to be the primary sources of guidance used to determine whether a contract transfers significant insurance risk and meets the conditions for reinsurance accounting. In 2005, FASB undertook a project on insurance risk transfer, the objective of which was to clarify what constitutes transfer of significant insurance risk in insurance and reinsurance contracts. In 2007, FASB discussed editorial changes to FASB Statement No. 113 in order to clarify the risk transfer conditions and enhance required disclosures. Those changes were not issued and FASB removed the insurance risk transfer project from its agenda in June 2008 to better align FASB's agenda with its Memorandum of Understanding with the International Accounting Standards Board (IASB). FASB plans to consider at a future date whether to address insurance accounting in a joint project with the IASB.

.73 EITF Issue No. 93-6, "Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises"; EITF Issue No. 93-14, "Accounting for Multiple-Year Retrospectively Rated Insurance Contracts by Insurance Enterprises and Other Enterprises"; and EITF Topic No. D-35, "FASB Staff Views on Issue No. 93-6, 'Accounting for Multiple-Year Retrospectively Rated Contracts by Ceding and Assuming Enterprises'," represent guidance on required accruals when future rights and obligations under a multiple-year contract change based on loss experience to date.

.74 SOP 98-7, *Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Insurance Risk* (AICPA, *Technical Practice Aids*, ACC sec. 10,760), should be used to determine the appropriate method of accounting for contracts that do not meet the requirements for reinsurance accounting under FASB Statement No. 113. SOP 98-7 outlines the appropriate accounting for contracts based on whether the contract transfers the following:

- Only significant timing risk
- Only significant underwriting risk
- Neither significant timing nor underwriting risk
- An indeterminate risk

.75 Other accounting standards continue to have implications for transactions involving reinsurance arrangements. For example, FASB Interpretation No. (FIN) 46 (revised 2003), *Consolidation of Variable Interest Entities—an interpretation of ARB No. 51*, may necessitate counterparties to reinsurance arrangements placed in certain kinds of structures or entities (for example, catastrophe bond structures) to consider consolidation of these structures or entities. In addition, certain reinsurance contracts may contain embedded derivatives that require accounting in accordance with FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*. FASB Derivatives Implementation Group Statement 133 Implementation Issue No. B36, *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments*, addresses embedded derivatives in modified coinsurance and coinsurance with funds-withheld arrangements and other contracts with similar provisions where, for example, a return under the contract is calculated based on a referenced pool of assets. This implementation issue, which was last updated in June 2006, can be accessed on the FASB Web site at www.fasb.org/derivatives/issuindex.shtml.

.76 As products become more advanced and complex, careful consideration is required to determine whether the contracts are being accounted for appropriately based on a complete understanding of the facts and circumstances. Alternative risk transfer products and finite risk covers usually present complex issues with respect to evaluating the contracts for risk transfer under FASB Statement No. 113 and determining proper accruals under FASB Statement No. 60, *Accounting and Reporting by Insurance Enterprises*; FASB Statement No. 113; and EITF Issue No. 93-6 (for example, whether premium recognition should be accelerated as reinsurance coverage is exhausted). Auditors should assess whether companies have adequate internal controls to identify and analyze complex reinsurance agreements in order to determine the proper accounting.

Convergence With International Financial Reporting Standards

.77 Since the signing of the Norwalk Agreement by FASB and the IASB, the bodies have had a common goal—one set of accounting standards for international use. In this agreement, each body acknowledged its commitment to the development of high quality, compatible accounting standards that could be used for both domestic and cross-border financial reporting. In 2005 meetings, FASB and the IASB reaffirmed their commitment to the convergence of U.S. GAAP and International Financial Reporting Standards (IFRS). A common set of high quality, globally accepted standards remains the long-term strategic priority of both FASB and the IASB.

.78 FASB and the IASB have undertaken several joint projects, which are being conducted simultaneously in a coordinated manner to further the goal of convergence of U.S. GAAP and IFRS. These ongoing joint projects address the conceptual framework, business combinations, financial statement presentation, and revenue recognition. In September 2008, FASB and the IASB published an update of their 2006 Memorandum of Understanding to update the progress they have made since 2006 and to set the goal of completing their major joint projects by 2011. For more information on the status of this project go to www.fasb.org and www.iasb.org.

SEC Eases Acceptance of IFRS Financial Statements

.79 On December 21, 2007, the SEC took a major step toward easing the acceptance of IFRS financial statements by adopting rules to accept from foreign private issuers financial statements prepared in accordance with IFRS as issued by the IASB without reconciliation to U.S. GAAP. This rule marks an important step in the process toward the development of a single set of high quality, globally accepted accounting standards. This rule became effective March 4, 2008. Readers can access this rule at www.sec.gov/rules/final/2007/33-8879.pdf.

.80 More than 100 countries now either require or allow the use of IFRS for the preparation of financial statements by listed companies, and additional countries are moving to do the same. This recent movement to IFRS outside the U.S. has resulted in an increase of filings with the SEC of foreign private issuers that represent in the footnotes to their financial statements that their financial statements comply with IFRS as published by the IASB—from a relative few in 2005 to approximately 110 in 2006. The SEC expects this number will continue to increase in the future, particularly pursuant to Canada's announced move to IFRS, as there currently are approximately 500 foreign private issuers from Canada.

.81 This movement to IFRS also has begun to affect U.S. issuers, in particular those with a significant global footprint. For instance, certain U.S. issuers may compete for capital globally in industry sectors in which a critical mass of non-U.S. companies report under IFRS. Also, U.S. issuers with subsidiaries located in jurisdictions that have moved to IFRS may prepare those subsidiaries' financial statements in IFRS for purposes of local regulatory or statutory filings. Readers should remain alert to developments regarding convergence.

IFRS "Roadmap"

.82 On August 27, 2008, the SEC voted to publish for public comment a proposed roadmap that could lead to the use of IFRS by U.S. issuers beginning in 2014. The SEC would make a decision in 2011 on whether adoption of IFRS is in the public interest and would benefit investors. The proposed multiyear plan sets out several milestones that, if achieved, could lead to the use of IFRS by U.S. issuers in their filings with the SEC.

.83 The top 20 companies in each industry, as determined by market capitalization, could elect to begin filing IFRS financial statements for fiscal periods ending after December 15, 2009. If, in 2011, the SEC adopts IFRS for all filers, the roadmap suggests mandatory filing for large accelerated filers beginning in 2014, accelerated filers in 2015, and nonaccelerated filers in 2016. The 90 day comment period ends on February 19, 2009.

.84 The proposed roadmap sets forth seven milestones that will influence the SEC's decision to adopt IFRS for all filers. These milestones relate to improvements in accounting standards, the accountability and funding of the International Accounting Standards Committee Foundation, the improvement in the ability to use interactive data for IFRS reporting, education and training relating to IFRS, limited early use of IFRS where this would enhance comparability for U.S. investors, the anticipated timing of future rulemaking by the SEC, and the implementation of the mandatory use of IFRS by U.S. issuers.

.85 Additionally, the roadmap discusses two alternatives for U.S. issuers that elect to use IFRS to disclose U.S. GAAP information. Proposal A suggests a U.S. issuer that elects to file IFRS financial statements would provide the reconciling information from U.S. GAAP to IFRS called for under IFRS 1, *First-Time Adoption of International Financial Reporting Standards*, in a footnote to its audited financial statements. This information would include the restatement of and reconciliation from the prior year's financial statements and the related disclosures.

.86 Proposal B suggests that U.S. issuers that elect to file IFRS financial statements would provide the reconciling information from U.S. GAAP to IFRS required under IFRS 1, and also would disclose on an annual basis certain unaudited supplemental U.S. GAAP financial information covering a three year period. This unaudited supplemental financial information would be in the form of a reconciliation from IFRS to U.S. GAAP.

.87 The roadmap does not address how the SEC would mandate IFRS; however, it noted an option would be, "for the FASB to continue to be the designated standard setter for purposes of establishing the financial reporting standards in issuer filings with the Commission. In this option our presumption would be that the FASB would incorporate all provisions under IFRS, and all future changes to IFRS, directly into generally accepted accounting principles as used in the United States. This type of approach has been adopted by a significant number of other jurisdictions when they adopted IFRS as the basis of financial reporting in their capital markets."

.88 The full text of the roadmap can be viewed on the SEC Web site at http://sec.gov/rules/proposed/2008/33-8982.pdf.

AICPA Launches IFRS.com Web Site

.89 The AICPA is calling for an orderly transition and reasonable time frame of three to five years for the U.S. accounting profession to adopt IFRS. During a FASB forum on June 16, 2008, held to facilitate an open dialogue about whether and how to move the U.S. financial reporting system to IFRS and define the next steps in that process, it was noted that awareness of IFRS is growing, but most believe it will take three to five years to prepare.

.90 To assist in both awareness building and education, the AICPA launched a new Web site, www.ifrs.com, in May 2008. The site provides current information about developments in international convergence. The growing acceptance of IFRS as a basis for U.S. financial reporting represents a fundamental change for the U.S. accounting profession. Acceptance of a single set of high-quality accounting standards for worldwide use by public companies has been gaining momentum around the globe for the past few years.

.91 Developed by the AICPA, in partnership with its marketing and technology subsidiary, cpa2biz, IFRS.com provides a comprehensive set of resources for accounting professionals, auditors, financial managers, audit committees, and other users of financial statements.

.92 The Web site features tools and resources to help CPAs get acquainted with IFRS, the surrounding issues, and available support. Resources include a history of convergence, a high-level overview of the differences between IFRS and U.S. GAAP, frequently asked questions, articles, textbooks, continuing professional education (CPE) courses and live conference training, helpful links, and assistance for audit committee members.

FASB *Accounting Standards Codification*™

.93 On January 15, 2008, FASB launched the one-year verification period of FASB *Accounting Standards Codification*™ (ASC). FASB ASC is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in a topically organized structure. FASB ASC includes all accounting standards issued by a standard setter within levels A–D of the current U.S. GAAP hierarchy, including FASB, AICPA, EITF, and related literature. FASB ASC also includes relevant authoritative content issued by the SEC, as well as selected SEC staff interpretations and administrative guidance.

.94 The purpose of FASB ASC is not to change GAAP, but rather to reorganize thousands of GAAP pronouncements into approximately 90 topics. At the end of the one-year verification period, FASB is expected to formally approve FASB ASC as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. At that time, FASB will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the codification will become nonauthoritative. FASB expects to approve FASB ASC in April 2009. FASB ASC can be accessed at http://asc.fasb.org/home.

.95 The insurance portion of FASB ASC was released in September 2008. Constituents are encouraged to use FASB's online FASB ASC Research System free of charge and provide feedback to FASB on the codification.

.96 The AICPA has published the Financial Reporting Alert *FASB Codification Developments—2008* (product no. 029209kk). This Financial Reporting

Alert is intended to provide a better understanding of FASB ASC, outline its structure, as well as provide case studies on navigating the FASB ASC Research System and performing accounting research.

NAIC Reinsurance Disclosure and Filing Requirements

.97 Some reinsurance disclosures that consist of interrogatories directed at disclosing certain finite reinsurance situations were added to SSAP No. 62, *Property and Casualty Reinsurance*, in 2006, with minor modification in 2007. These reinsurance interrogatory disclosures are required to be included as accompanying supplemental schedules to the annual audited financial statements of P&C insurance companies. These disclosures, which also are included as interrogatories in the annual statement, require detailed information about specific ceded reinsurance contracts. Reinsurance issues took center stage at the NAIC as regulators reacted to the former New York state attorney general's investigations of finite reinsurance, as well as allegations that undisclosed side agreements between ceding and assuming companies contributed to some P&C insolvencies.

.98 The required disclosures include the following:

- Whether any quota share reinsurance contracts include provisions that would limit the reinsurer's losses below the stated quota share percentage (for example, a deductible, loss ratio corridor, loss cap, aggregate limits, or similar provisions). If such contracts exist, management is required to disclose the number of such contracts and whether the amount of credit taken under such contracts reflects the reduction in quota share coverage caused by any applicable provisions.
- Whether any significant[5] reinsurance contracts contain any of six specific contractual features often associated with finite reinsurance arrangements.[6]
- Whether there are any significant reinsurance contracts with related parties, other than approved pooling arrangements.
- Whether any contracts are accounted for as reinsurance under SAP and as deposits under GAAP, or vice versa, and, if so, why.

.99 For contracts meeting the second and third bulleted criteria, management is further required to disclose a summary of the reinsurance contract terms; a brief discussion of management's principal objectives in entering into the agreement, including the economic purpose to be achieved; and the aggregate financial statement impact gross of all such ceded reinsurance contracts on the balance sheet and statement of income.

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[5] *Significant* is defined as those contracts having an underwriting gain or loss or either ceded written premiums or ceded loss and loss expense reserves greater than 5 percent of the prior year-end surplus as regards policyholders.

[6] The six specific contractual features are (1) a contact term greater than two years when the contract is noncancelable by the reporting entity, (2) cancellation provisions that trigger an obligation on the reporting entity to enter into a new reinsurance agreement with the reinsurer, (3) aggregate stop loss reinsurance coverage, (4) a unilateral right by either or both parties to commute the treaty, (5) a provision permitting reporting or payment of losses less frequently than on a quarterly basis, and (6) any features designed to delay timely reimbursement to the ceding entity.

Summary of Recent Accounting Pronouncements and Related Guidance

.100 Presented in the following table is a list of recently issued accounting pronouncements and related guidance. This alert is intended to be used in conjunction with the *Comprehensive Audit Risk Alert—2008* (product no. 022339kk); therefore, only industry specific pronouncements and related guidance or those of specific significance to the industry are summarized herein. For information on accounting standards issued subsequent to the writing of this alert, please refer to the AICPA Web site at www.aicpa.org and the FASB Web site at www.fasb.org. You may also look for announcements of newly issued standards in the *CPA Letter* and *Journal of Accountancy*.

Recent Accounting Pronouncements and Related Guidance

Financial Accounting Standards Board (FASB) Statement No. 163 (May 2008)	*Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60*
FASB Statement No. 162 (May 2008)	*The Hierarchy of Generally Accepted Accounting Principles*
FASB Statement No. 161 (March 2008)	*Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*
FASB Statement No. 160 (December 2007)	*Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*
FASB Statement No. 141 (revised 2007) (December 2007)	*Business Combinations*
FASB Statement No. 159 (February 2007)	*The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*
FASB Statement No. 158 (September 2006)	*Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)*
FASB Statement No. 157 (September 2006)	*Fair Value Measurements*

(*continued*)

Recent Accounting Pronouncements and Related Guidance	
FASB Interpretation No. (FIN) 48 (June 2006)	*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* FASB Staff Position (FSP) FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, issued in February 2008, defers the effective date of FIN 48 for certain nonpublic enterprises, as defined in the FSP, to the annual financial statements for fiscal years beginning after December 15, 2007.
FASB Emerging Issues Task Force (EITF) Issues (Various dates)	Go to http://fasb.org/eitf/agenda.shtml for a complete list of EITF Issues.
FASB Staff Positions (FSPs) (Various dates)	Go to www.fasb.org/fasb_staff_positions/ for a complete list of FSPs.
AICPA Statement of Position (SOP) 07-1 (AICPA, *Technical Practice Aids*, ACC sec. 10,930)	*Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* In February 2008, FASB issued FSP SOP 07-1-1, *Effective Date of AICPA Statement of Position 07-1*, which indefinitely defers the effective date of SOP 07-1. Entities that early adopted SOP 07-1 before December 15, 2007 are permitted, but not required, to continue to apply the provisions of the SOP. No other entities may adopt the provision of the SOP, subject to the exception in the following sentence: "If a parent entity that early adopted the SOP chooses not to rescind its early adoption, an entity consolidated by that parent entity that is formed or acquired after that parent entity's adoption of the SOP must apply the provisions of the SOP in its standalone financial statements."
Technical Questions and Answers (TIS) section 1100.15 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	This question and answer discusses auditing and accounting issues related to withdrawal restrictions placed on short term investments by a money market fund or its trustee.

Recent Accounting Pronouncements and Related Guidance	
TIS sections 6910.25–.28 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	These questions and answers discuss financial statement presentation considerations for investment companies.
TIS sections 6140.20–.22 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	These questions and answers discuss not-for-profit organizations' fund-raising expenses.
TIS sections 6931.08–.10 (AICPA, *Technical Practice Aids*) (Nonauthoritative)	These questions and answers discuss various employee benefit plan topics.
AICPA Practice Guide (Nonauthoritative)	*Practice Guide on Accounting for Uncertain Tax Positions Under FIN 48*

.101 Of the accounting pronouncements and related guidance listed in the previous table, those having particular significance to the insurance industry are briefly explained here. The following summaries are for informational purposes only and should not be relied upon as a substitute for a complete reading of the applicable standard. The *Comprehensive Audit Risk Alert—2008* and other AICPA industry-specific alerts contain summaries of recent pronouncements that may not be discussed here. To obtain copies of AICPA literature, call (888) 777-7077 or visit www.cpa2biz.com.

FASB Statement No. 163

.102 In May 2008, FASB issued FASB Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts—an interpretation of FASB Statement No. 60.* The scope of FASB Statement No. 163 is limited to financial guarantee insurance and reinsurance contracts issued by enterprises included in FASB Statement No. 60. Financial guarantee insurance and reinsurance contracts obligate the insurance enterprise to pay a claim upon the occurrence of an event of default.

.103 This statement does not apply to enterprises excluded from FASB Statement No 60, financial guarantee insurance contracts that are accounted for as derivative instruments within the scope of FASB Statement No. 133, and some insurance contracts that are similar to financial guarantee insurance contracts issued by insurance enterprises (such as mortgage guaranty insurance and credit insurance on trade receivables). The changes to current practice are around premium revenue, claim liabilities, and disclosure requirements. The provisions of FASB Statement No. 163 should be applied on a contract-by-contract basis.

.104 At the inception of a financial guarantee insurance contract, a liability for the unearned premium revenue should be recognized, along with a premium receivable for the same amount. This initial measurement of the unearned premium revenue is the present value of the premiums due or, subject to certain criteria, expected to be collected over the contract period. The discount on the receivable should be accreted through earnings.

.105 The premium should be recognized as revenue over the contract period in proportion to the amount of insurance protection provided. As revenue is recognized, a corresponding decrease should occur in the unearned premium liability. For example, if there was a financial guarantee on a 10-year bond with periodic principal paydowns, the insurance enterprise would recognize more revenue in the earlier years as it is providing more protection (that is, insuring higher amounts of outstanding principal, which could possibly default).

.106 An insurance enterprise shall recognize a claim liability on a financial guarantee insurance contract when the insurance enterprise expects that a claim loss will exceed the unearned premium revenue for that contract based on the present value of expected net cash outflows to be paid under the insurance contract. Expected net cash outflows are probability weighted cash flows that reflect the likelihood of all possible outcomes of the insurance enterprise. This claim liability equals the present value of the contract's expected net cash outflows discounted using a current risk free rate, which shall be based on the remaining period of the insurance contract. In periods after initial recognition of a claim liability, an insurance enterprise shall update the discount rate each reporting period. An insurance enterprise also shall revise expected net cash outflows when increases (or decreases) in the likelihood of a default (insured event) (and related amounts of net cash outflows) and potential recoveries occur. These revisions should be recognized as claim expense in the period of change (as a change in accounting estimate).

.107 Paragraph 29 of FASB Statement No. 163 also notes that an insurance enterprise should disclose information that enables readers of the financial statements to understand the factors affecting the present and future recognition and measurement of financial guarantee insurance contracts.

.108 FASB Statement No. 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. However, select disclosure requirements are effective for the first period (including interim periods) beginning after the issuance of this statement. Besides those select disclosures, early adoption is prohibited.

.109 Readers are encouraged to review the full text of FASB Statement No. 163 before applying its guidance, which can be found on the FASB Web site.

Business Combinations

.110 In December 2007, FASB issued FASB Statement No. 141 (revised 2007), *Business Combinations*, and FASB Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51*. These standards strive not only to improve and simplify the accounting for business combinations and the reporting of noncontrolling interests in consolidated financial statements, but also to converge with international standards. The issuance of these standards marks the completion of FASB's first major joint project with the IASB.

.111 FASB Statement No. 141(R) requires the acquiring entity in a business combination to recognize all the assets acquired and liabilities assumed in the transaction, with specific additional guidance regarding insurance and reinsurance contracts acquired in a business combination; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

.112 The specific guidance applicable to insurance and reinsurance contracts acquired in a business combination, provided by amendment to FASB Statement No. 60, requires all assets and liabilities arising from insurance and reinsurance contracts acquired in a business combination to be recognized at their acquisition-date fair values, with those fair values separated into (*a*) insurance and reinsurance GAAP accounting balances using the acquirer's accounting policies and (*b*) an intangible asset (or, rarely, another liability). This approach enables the acquiring entity to subsequently report the acquired business on a basis consistent with its own written business. The amendments to FASB Statement No. 60 also clarify that the acquisition date assets and liabilities do not include certain of the acquiree's accounts, such as deferred acquisition costs and unearned premiums that do not represent future cash flows. However, if under the acquirer's accounting policies there would be an unearned premium reserve, these amendments would not preclude the acquirer from estimating that reserve in place of the acquiree's unearned premium reserve.

.113 Additionally, FASB Statement No. 141(R) amends FASB Statement No. 109, *Accounting for Income Taxes*, to require that changes in a valuation allowance for an acquiree's deferred tax asset, other than changes during the measurement period that result from new information about facts and circumstances that existed at the acquisition date, should be reported as a reduction or increase to income tax expense (or a direct adjustment to contributed capital in some circumstances). Although FASB Statement No. 141(R) is generally applicable on a prospective basis to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, this requirement will affect the accounting and reporting for changes in the valuation allowance for an acquiree's deferred tax asset even for business combinations for which the acquisition date is prior to that date. As a result, auditors should be aware that companies may be working toward refining the valuation allowance for an acquiree's deferred tax asset in the annual reporting period ending before implementation is required, during which time the companies would appropriately treat any such adjustment as an adjustment to goodwill, rather than as an income tax expense or benefit.

.114 FASB states that FASB Statement No. 141(R) also will decrease the complexity of existing GAAP because the new standard includes both core principles and application guidance, eliminating the need for other interpretive guidance. FASB Statement No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply the standard before this date.

.115 FASB Statement No. 160 improves the relevance, comparability, and transparency of financial information by requiring all entities to report noncontrolling (minority) interests in subsidiaries in the same way—as equity in the consolidated financial statements. FASB Statement No. 160 also eliminates the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. FASB Statement No. 160 is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2008 (for calendar year-end companies January 1, 2009). Earlier adoption is prohibited. The standard is applied prospectively as of the beginning of the fiscal year in which the statement is initially applied, except for the presentation and disclosure requirements. Presentation and disclosure requirements should be applied retrospectively for all periods presented.

Recent AICPA Independence and Ethics Pronouncements

.116 Audit Risk Alert *Independence and Ethics Developments—2008* (product no. 022479kk) contains a complete update on new independence and ethics pronouncements. This alert can be obtained by calling the AICPA at (888) 777-7077 or visiting www.cpa2biz.com. Readers should obtain this alert to be aware of independence and ethics matters that will affect their practice.

On the Horizon

.117 Auditors should keep abreast of auditing and accounting developments and upcoming guidance that may affect their engagements. The following sections present brief information about some ongoing projects that have particular significance to the insurance industry or that may result in significant changes. Remember that exposure drafts are nonauthoritative and cannot be used as a basis for changing existing standards.

.118 The following table lists the various standard setting bodies' Web sites, where information may be obtained on outstanding exposure drafts, including downloading exposure drafts. These Web sites contain in-depth information about proposed standards and other projects in the pipeline. Many more accounting and auditing projects exist in addition to those discussed here. Readers should refer to information provided by the various standard-setting bodies for further information.

Standard-Setting Body	***Web Site***
AICPA Auditing Standards Board (ASB)	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Auditing+Standards+Board/
Financial Accounting Standards Board (FASB)	www.fasb.org
National Association of Insurance Commissioners (NAIC)	www.naic.org
Professional Ethics Executive Committee (PEEC)	www.aicpa.org/Professional+Resources/Professional+Ethics+Code+of+Professional+Conduct/Professional+Ethics/
Public Company Accounting Oversight Board (PCAOB)	www.pcaob.org
Securities and Exchange Commission (SEC)	www.sec.gov

Overhaul Project—AICPA Audit and Accounting Guide *Property and Liability Insurance Companies*

.119 The AICPA is continuing to make progress overhauling the AICPA Audit and Accounting Guide *Property and Liability Insurance Companies*, addressing numerous accounting, auditing, industry, and regulatory issues that have transpired since this guide was originally issued in 1990. During this project, the AICPA will continue to issue annual editions of the guide, updated to reflect recent audit and accounting pronouncements.

Auditing Pipeline—Nonissuers

ASB Clarity Project

.120 In response to growing concerns about the complexity of standards, the Auditing Standards Board (ASB) has commenced a large-scale "clarity" project to revise all existing auditing standards so they are easier to read and understand. Over the next two or three years, the ASB will be redrafting all of the existing auditing sections contained in the *Codification of Statements on Auditing Standards* (AU sections of the AICPA's *Professional Standards*), to apply the clarity drafting conventions and to converge with the International Standards on Auditing issued by the International Auditing and Assurance Standards Board. The ASB proposes that, except to address current issues, all redrafted standards will become effective at the same time. Only those standards needing to address current issues would have earlier effective dates. The ASB believes that a single effective date will ease the transition to, and implementation of, the redrafted standards. The effective date will be long enough after all redrafted statements are finalized to allow sufficient time for training and updating of firm audit methodologies. Currently, the date is expected to be for audits of financial statements for periods beginning no earlier than December 15, 2010. This date depends on satisfactory progress being made, and will be amended should that prove necessary. See the *Clarity Project Explanatory Memorandum* and the discussion paper *Improving the Clarity of ASB Standards* at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Improving+the+Clarity+of+ASB+Standards.htm.

Auditing Pipeline—Issuers

.121 Guidance issued by the PCAOB is included in the section of this alert titled "Summary of Recent Auditing and Attestation Pronouncements and Related Guidance." For more information regarding recent developments at both the SEC and PCAOB, readers may refer to Audit Risk Alert *SEC and PCAOB Developments—2008*.

Accounting Pipeline

.122 A number of accounting projects and pronouncements are currently in progress. For a summary of significant accounting projects and pronouncements, refer to the *Comprehensive Audit Risk Alert—2008* (product no. 022339kk). Such in-progress issues include the following:

- Accounting for hedging activities exposure draft
- Accounting for contingencies exposure draft
- Phase 2 of the fair value project

- Transfers of financial assets project
- Earnings per share convergence project
- Income tax convergence project
- Leases project
- Reporting discontinued operations project
- Going concern proposed statement
- Subsequent events proposed statement
- Amendments to FIN 46(R) proposed statement

IASB Insurance Contracts Phase II

.123 The IASB is currently working on phase II of the insurance contracts project, which will provide a basis for consistent accounting for insurance contracts on the longer term. In February 2008, the IASB started its review of responses to the discussion paper preliminary views on insurance contracts. At their April 2008 meeting, the insurance working group provided input for a number of issues that followed from the responses to the discussion paper. During their September 2008 meeting, the working group discussed the notion advocated by respondents regarding a measurement that reflects the fact that the insurer intends (and in most cases must) settle the liability by paying the contractual benefits as they become due, rather than by transferring the liability to a third party; however, no decisions were reached. The next meeting of the insurance working group will take place in November 2008. FASB does not have this as a current project item, but lists it as an IASB project that is monitored by the FASB staff.

Proposed FASB Emerging Issues Task Force Issues and Staff Positions

.124 ***Proposed FASB EITF Issues.*** Numerous open issues are under deliberation by the EITF. Readers should visit the FASB Web site at www.fasb.org/eitf/agenda.shtml for complete information.

.125 ***Proposed FASB Staff Positions (FSPs).*** A number of proposed FSPs are currently in progress. Readers should visit the FASB Web site at www.fasb.org/fasb_staff_positions/ for complete information.

Resource Central

.126 The following are various resources that practitioners engaged in the insurance industry may find beneficial.

Publications

.127 Practitioners may find the following publications useful. Choose the format best for you—online, print, or CD-ROM.

- Audit and Accounting Guide *Life and Health Insurance Entities* (2008) (product no. 012638kk [paperback], WLH-XXkk [online], or DLH-XXkk [CD-ROM])
- Audit and Accounting Guide *Property and Liability Insurance Companies* (2008) (product no. 012678kk [paperback], WPL-XXkk [online], or DPL-XXkk [CD-ROM])
- Audit Guide *Analytical Procedures* (2008) (product no. 012558kk [paperback], WAN-XXkk [online], or DAN-XXkk [CD-ROM])

- Audit Guide *Assessing and Responding to Audit Risk In a Financial Statement Audit* (2006) (product no. 012456kk [paperback] or WRA-XXkk [online])
- Audit Guide *Auditing Derivative Instruments, Hedging Activities, and Investments in Securities* (2008) (product no. 012528kk [paperback], WDI-XXkk [online], or DDI-XXkk [CD-ROM])
- Audit Guide *Auditing Revenue in Certain Industries* (2008) (product no. 012518kk [paperback], WAR-XXkk [online], or DAR-XXkk [CD-ROM])
- Audit Guide *Audit Sampling* (2008) (product no. 012538kk [paperback], WAS-XXkk [online], or DAS-XXkk [CD-ROM])
- Audit Guide *Service Organizations: Applying SAS No. 70, as Amended* (2008) (product no. 012778kk [paperback], WSV-XXkk [online], or DSV-XXkk [CD-ROM])
- *Comprehensive Audit Risk Alert—2008* (product no. 022339kk [paperback], WGE-XXkk [online], or DGE-XXkk [CD-ROM])
- Audit Risk Alert *Independence and Ethics Developments—2008* (product no. 022479kk [paperback], WIA-XXkk [online], or DIA-XXkk [CD-ROM])
- Audit Risk Alert *SEC and PCAOB Developments—2008* (product no. 022499kk [paperback])
- Audit Risk Alert *Understanding the New Auditing Standards Related to Risk Assessment* (product no. 022526kk [paperback])
- *Checklists and Illustrative Financial Statements for Life & Health Insurance Companies* (product no. 008958kk [paperback] or WLI-CLkk [online])
- *Checklists and Illustrative Financial Statements for Property & Liability Insurance Companies* (product no. 008968kk [paperback] or WPI-CLkk [online])
- *Audit and Accounting Manual* (2008) (product no. 005138kk [paperback], WAM-XXkk [online], or AAM-XXkk [loose leaf])
- *Accounting Trends & Techniques, 62nd Edition* (product no. 009900kk [paperback] or WAT-XXkk [online])

.128 Additional resources for accountants in business and industry are the Financial Reporting Alert series, designed to be used by members of an entity's financial management and audit committee to identify and understand current accounting and regulatory developments affecting the entity's financial reporting.

- Financial Reporting Alert *Current Accounting Issues and Risks—2008* (product no. 029208kk [paperback])
- Financial Reporting Alert *FASB Codification Developments—2008* (product no. 029209kk [paperback])

AICPA reSOURCE: Accounting and Auditing Literature

.129 The AICPA has created your core accounting and auditing library online. AICPA reSOURCE is now customizable to suit your preferences or your firm's needs. Or, you can sign up for access to the entire library. Get access—anytime, anywhere—to the AICPA's latest *Professional Standards*, *Technical*

Practice Aids, Audit and Accounting Guides (more than 20), Audit Risk Alerts (more than 15), and *Accounting Trends & Techniques*. To subscribe to this essential online service for accounting professionals, go to www.cpa2biz.com.

Continuing Professional Education

.130 The AICPA offers a number of CPE courses that are valuable to CPAs working in public practice and industry, including the following:

- *AICPA's AnnualAccounting and Auditing Update Workshop(2008–2009 Edition)* (product no. 736184kk [text] or 187192kk [DVD]). Whether you are in industry or public practice, this course keeps you current and informed and shows you how to apply the most recent standards.
- *SEC Reporting* (product no. 736775kk [text] or 186756kk [DVD]). Confidently comply with the latest SEC reporting requirements with this comprehensive course. It clarifies new, difficult, and important reporting and disclosure requirements in addition to giving you examples and tips for ensuring compliance.
- *International Versus U.S. Accounting: What in the World is the Difference?* (product no. 731666kk [text]). With the fast pace of the convergence project, understanding the differences between IFRS and U.S. GAAP is becoming more important for businesses of all sizes. This course outlines the major differences between IFRS and U.S. GAAP.
- *The International Financial Reporting Standards: An Overview* (product no. 157220kk [online] or 739750HSkk [DVD]). This course captures a live presentation on IFRS given to the AICPA Board of Directors.

.131 Visit www.cpa2biz.com for a complete list of CPE courses.

Online CPE

.132 AICPA CPExpress (formerly AICPA InfoBytes), offered exclusively through CPA2Biz, is the AICPA's flagship online learning product. AICPA members pay $180 for a new subscription and $149 for the annual renewal. Nonmembers pay $435 for a new subscription and $375 for the annual renewal. Divided into 1-credit and 2-credit courses that are available 24 hours a day, 7 days a week, AICPA CPExpress offers hundreds of hours of learning in a wide variety of topics.

.133 To register or learn more, visit www.cpa2biz.com.

Webcasts

.134 Stay plugged in to what is happening and earn CPE credit right from your desktop. AICPA webcasts are high quality, two-hour CPE programs that bring you the latest topics from the profession's leading experts. Broadcast live, they allow you to interact with the presenters and join in the discussion. If you cannot make the live event, each webcast is archived and available on CD-ROM.

CFO Quarterly Roundtable Series

.135 The CFO Quarterly Roundtable Series, brought to you each calendar quarter via webcast, covers a broad array of "hot topics" that successful organizations employ and subjects that are important to the CFO's personal success. From financial reporting, budgeting, and forecasting to asset management and operations, the roundtable helps CFOs, treasurers, controllers, and other financial executives excel in their demanding roles.

SEC Quarterly Update Series

.136 The SEC Quarterly Update Webcast Series, brought to you each calendar quarter, showcases the profession's leading experts on what is "hot" at the SEC. From corporate accounting reform legislation and new regulatory initiatives to accounting and reporting requirements and corporate finance activities, these hard-hitting sessions will keep you "plugged in" to what is important. A must for preparers in public companies and practitioners who have public company clients, this is the place to be when it comes to knowing about the areas of current interest at the SEC.

Member Service Center

.137 To order AICPA products, receive information about AICPA activities, and get help with your membership questions, call the AICPA Service Operations Center at (888) 777-7077.

Hotlines

Accounting and Auditing Technical Hotline

.138 Do you have a complex technical question about GAAP, other comprehensive bases of accounting, or other technical matters? If so, use the AICPA's Accounting and Auditing Technical Hotline. AICPA staff will research your question and call you back with the answer. Beginning January 14, 2008, hotline hours were extended so that the hotline is now available from 9 a.m. to 8 p.m. on weekdays. You can reach the Technical Hotline at (877) 242-7212 or at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+and+Auditing+Technical+Help/.

Ethics Hotline

.139 In addition to the Technical Hotline, the AICPA also offers an Ethics Hotline. Members of the AICPA's Professional Ethics Team answer inquiries concerning independence and other behavioral issues related to the application of the AICPA Code of Professional Conduct. You can reach the Ethics Hotline at (888) 777-7077.

The Center for Audit Quality

.140 The Center for Audit Quality (CAQ), which is affiliated with the AICPA, was created to serve investors, public company auditors, and the markets. The CAQ's mission is to foster confidence in the audit process and to aid investors and the capital markets by advancing constructive suggestions for change rooted in the profession's core values of integrity, objectivity, honesty, and trust.

.141 To accomplish this mission, the CAQ works to make public company audits even more reliable and relevant for investors in a time of growing financial complexity and market globalization. The CAQ also undertakes research, offers recommendations to enhance investor confidence and the vitality of the capital markets, issues technical support for public company auditing professionals, and helps facilitate the public discussion about modernizing business reporting. The CAQ is a voluntary membership center that supports member firms that audit or are interested in auditing public companies with education, communication, representation, and other means. To learn more about the CAQ, visit http://thecaq.aicpa.org.

AICPA Industry Expert Panel—Insurance

.142 For information about the activities of the AICPA Insurance Industry Expert Panel, visit the panel's Web page at www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards/expertpanel_insurance.htm.

Industry Web Sites

.143 The Internet covers a vast amount of information that may be valuable to auditors of insurance entities, including current industry trends and developments. Some of the more relevant sites for auditors with insurance clients include those shown in the following table:

Organization	*Web Site*
Alabama Insurance Underwriting Association (AIUA)	www.alabamabeachpool.org
Citizens Property Insurance Corporation of Florida (Florida Citizens)	www.citizensfla.com
Florida Hurricane Catastrophe Fund (FHCF)	www.sbafla.com/fhcf
Insurance Information Institute (III)	www.iii.org
Louisiana Citizens Property Insurance Corporation	www.lacitizens.com
Mississippi Residential Property Insurance Underwriting Association (MRPIUA)	www.msplans.com/MRPIUA
Mississippi Windstorm Underwriting Association (MWUA)	www.msplans.com/mwua
National Association of Insurance Commissioners (NAIC)	www.naic.org/
Texas Windstorm Insurance Association (TWIA)	www.twia.org

.144 The insurance practices of some of the larger CPA firms may also contain industry-specific auditing and accounting information that is helpful to auditors.

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.145 This Audit Risk Alert replaces *Insurance Industry Developments—2007/08.*

.146 The Audit Risk Alert *Insurance Industry Developments* is published annually. As you encounter audit or industry issues that you believe warrant discussion in next year's Audit Risk Alert, please feel free to share them with us. Any other comments that you have about the Audit Risk Alert would also be appreciated. You may e-mail these comments to madams@aicpa.org or write to

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Appendix

Additional Web Resources

Here are some useful Web sites that may provide valuable information to accountants.

Web Site Name	*Content*	*Web Site*
American Institute of CPAs (AICPA)	Summaries of recent auditing and other professional standards as well as other AICPA activities	www.aicpa.org www.cpa2biz.com www.ifrs.com
AICPA Accounting Standards Executive Committee (AcSEC)	Issues guides, technical questions and answers, and practice bulletins containing financial, accounting, and reporting recommendations, among other things	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Accounting+Standards
AICPA Professional Issues Task Force (PITF)	Accumulates and considers practice issues that appear to present concerns for practitioners and for disseminating information or guidance, as appropriate, in the form of practice alerts	www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/Professional+Issues+Task+Force
Economy.com	Source for analyses, data, forecasts, and information on the United States and world economies	www.economy.com
The Federal Reserve Board	Key interest rates	www.federalreserve.gov
Financial Accounting Standards Board (FASB)	Summaries of recent accounting pronouncements and other FASB activities	www.fasb.org
USA.gov	Portal through which all government agencies can be accessed	www.usa.gov
International Accounting Standards Board (IASB)	Summaries of International Financial Reporting Standards and International Accounting Standards	www.iasb.org

Web Site Name	*Content*	*Web Site*
International Auditing and Assurance Standards Board (IAASB)	Summaries of International Standards on Auditing	www.iaasb.org
International Federation of Accountants (IFAC)	Information on standards setting activities in the international arena	www.ifac.org
Private Company Financial Reporting Committee (PCFRC)	Information on the initiative to further improve FASB's standard setting process to consider needs of private companies and their constituents of financial reporting	www.pcfr.org
Public Company Accounting Oversight Board (PCAOB)	Information on accounting and auditing activities of the PCAOB and other matters	www.pcaob.org
Securities and Exchange Commission (SEC)	Information on current SEC rulemaking and the EDGAR database	www.sec.gov


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