FA Module 2: Financial reporting standards (overview 4th edition)

(The attached PDF file has better formatting.)

(Readings from the fourth 4th edition of the Robinson text.)

Readings: chapter 3, financial reporting standards

- § 2 the objective of financial reporting
- § 3 standard setting bodies and regulatory authorities, *excluding*
  - industry specific regulation and specific acts (eg, 1933, 1934, 2002)
  - sub-section 3.2.1 (the international organization of securities commissions)
  - sub-section 3.2.2 (the Securities and Exchange Commission)
- § 4 the international financial reporting standards framework (conceptual framework)

[Sections 5, 6, and 7 are not on the syllabus for this course.]

Supplementary reading: "Conceptual Framework for Financial Reporting" (on discussion forum)

The supplementary reading is from an introductory accounting text and assumes no previous knowledge of GAAP or IFRS.

This course covers GAAP (used in the United States) and IFRS (used in most other countries). The two systems are the same for most items, though accounting for insurance contracts is different.

Know the International Financial Reporting Standards (IFRS) conceptual framework, especially:

- Elements of financial statements
  - assets, liabilities, equity
  - revenue, expenses, gains, losses
- Objective of financial statements: emphasis on investors and creditors
- Qualitative characteristics of financial statements

The elements of financial statements (assets, liabilities, equity; revenue, expenses, gains, losses) must be clear. You must understand why revenue causes an increase in assets or a decrease in liabilities, and why this causes an increase in equity. Translating insurance terms into accounting terms gives you a better sense of what each means. For example, policyholder reserves are liabilities; incurred losses are expenses. Earned premium is a revenue; the cash received and the cash due are assets. Bonds issued are liabilities; bonds held are assets; policyholders' surplus is equity.

Understand the standard-setting bodies vs the regulatory authorities:

- U.S.: Financial Accounting Standards Board; Securities and Exchange Commission
- Global: International Accounting Standards Board; international organization of securities commissions

The detailed information in the textbook about the international organization of securities commissions and the Securities and Exchange Commission is not on the syllabus for this course.

The final exam does not test the details in §3.1 Accounting standards boards. Know the basic structure of the FASB in the United States and the IFRS for other countries.

Banks and insurers have extensive capital regulation in Europe and the United States

- Basel II/III (banks, global)
- Solvency II (insurers, Europe)

! Risk-based capital (insurers, U.S.)

The textbook discusses bank regulation and the discussion forum comments on insurance regulation. The discussion forum readings on the risk adjustment for non-financial risk in IFRS 17 (in the IFRS 17 modules) illustrate with the cost of capital procedure in Solvency II and the Swiss Solvency Test.

The final exam covers the mathematics of financial regulation, not specific statutes. You will not be tested on Solvency II or the Swiss Solvency Test.