

PAKISTAN SOCIETY OF ACTUARIES

GUIDANCE NOTE 1

In a circular dated 16 February 2009 the Securities and Exchange Commission of Pakistan (SECP) has, for the purpose of Regulations 16(1)(a) of Parts A and B of Annexure II to the Securities and Exchange Commission (Insurance) Rules 2002, allowed any fall in value of available for sale investments as at 31 December 2008 below cost to be treated as temporary, although any such fall is to be accounted for in determining distributable profits for the purpose of paying out dividends. This leeway given to insurance companies goes substantially further than the leeway given to entities other than insurance companies by way of SRO 150(1)/2009 dated February 13, 2009 where entities have to recognize any fall in value in their balance sheets, being allowed, however, to route such falls through the Statement of Changes in Equity rather than through the Profit and Loss Account.

Section 34 (2)(a) of the Insurance Ordinance 2000 (“the Ordinance”) restricts any asset from being valued at more than market value for solvency purposes. As the provisions of the Ordinance would take precedent over the provisions of any notifications and circulars, the Pakistan Society of Actuaries (PSoA) considers issuing the following guidance to all appointed actuaries:

- a) All appointed actuaries of life insurers shall, for the purpose of determining any transfer from Statutory Funds to the Shareholders’ Fund as well as for determining the solvency of any fund (including the Shareholders’ Fund), take the market value of available for sale investments.

In addition the Pakistan Society of Actuaries (PSoA) considers both the SECP circular and notification as being inconsistent with good accounting practice, and also considers the leeway given in the circular to insurance companies as totally inappropriate. The PSoA has sought it necessary, therefore, to issue the following guidance to all its members advising insurance companies:

- b) All members advising insurance companies shall write to the management, Board of Directors as well as statutory auditors of the companies, expressing an opinion that available for sale investments should not be treated, in aggregate, at more than the aggregate market value of such investments as at 31 December 2008 or any other date.

For the purpose of the above the “market value” of each listed instrument shall be the closing price at which the instrument was quoted at close of trading on the Karachi Stock Exchange.

NAUMAN CHEEMA
President

25 February 2009

- cc. The Securities and Exchange Commission of Pakistan
The Institute of Chartered Accountants of Pakistan