Educational Note

Subsequent Events

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Educational Note

Subsequent Events

Committee on Property and Casualty Insurance Financial Reporting

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Members should be familiar with educational notes. Educational notes describe but do not recommend practice in illustrative situations. They do not constitute Standards of Practice and are, therefore, not binding. They are, however, intended to illustrate the application (but not necessarily the only application) of the Standards of Practice, so there should be no conflict between them. They are intended to assist actuaries in applying Standards of Practice in respect of specific matters. Responsibility for the manner of application of Standards of Practice in specific circumstances remains that of the members in the property and casualty practice area.

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Memorandum

To: All Fellows, Affiliates, Associates, and Correspondents of the Canadian Institute of Actuaries Practising in Property and Casualty Insurance

From: Phil Rivard, Chair
Practice Council

Isabelle Périgny, Chair
Committee on Property and Casualty Insurance Financial Reporting

Date: September 17, 2012

Subject: **Educational Note—Subsequent Events**

Due to the September 2011 release of the updated Standards of Practice for Recognizing Events in Work, the Committee on Property and Casualty Insurance Financial Reporting of the Canadian Institute of Actuaries (CIA) has revised this educational note for use by property and casualty actuaries. The purpose of this educational note is to provide guidance in identifying subsequent events and in understanding appropriate courses of action for such events. In preparing this educational note, input was sought from insurance audit professionals at KPMG and PricewaterhouseCoopers.

In accordance with the Institute's Policy for Due Process for the Approval of Guidance Material other than Standards of Practice, this educational note has been prepared by the Committee on Property and Casualty Insurance Financial Reporting, and has received final approval for distribution by the Practice Council on September 7, 2012. As outlined in subsection 1220 of the Standards of Practice, "*The actuary should be familiar with relevant educational notes and other designated educational material.*" That subsection explains further that a "practice that the educational notes describe for a situation is not necessarily the only accepted practice for that situation and is not necessarily accepted actuarial practice for a different situation." As well, "educational notes are intended to illustrate the application (but not necessarily the only application) of the standards, so there should be no conflict between them."

If you have any questions or comments regarding this educational note, please contact Isabelle Périgny at her CIA Online Directory address, isabelle.perigny@lacapitale.com.

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1. INTRODUCTION

The Committee on Property and Casualty Insurance Financial Reporting of the Canadian Institute of Actuaries (CIA) prepared this educational note to provide guidance to property and casualty (P&C) actuaries in identifying whether events are subsequent events and in understanding appropriate courses of action for such events. This educational note focuses on subsequent events that are relevant to the actuary performing an actuarial analysis in support of financial reporting (e.g., insurance contract liabilities valuations supporting year-end and quarterly financial statements). It relies on the CIA's current definitions and Standards of Practice related to subsequent events, and also relies extensively on definitions of the Canadian Institute of Chartered Accountants (CICA) and input from senior audit professionals specializing in insurance organizations.

Federal and provincial insurance acts require that the Annual Return of a P&C insurance company be accompanied by an actuarial report on the insurance contract liabilities. (Insurance contract liabilities refer to both claim liabilities and premium liabilities.) The financial statement contained within the Annual Return is to be prepared in accordance with International Financial Reporting Standards, which is one of the financial reporting frameworks included in Canadian generally accepted accounting principles (GAAP). Accordingly, accounting and actuarial standards are relevant when considering the appropriate treatment of subsequent events in financial reporting for P&C insurance companies. Key standards that deal with the treatment of subsequent events are IAS 10 *Events After the Reporting Period* in Part 1 IFRS of the *CICA Handbook – Accounting* and subsection 1520 of the Standards of Practice.

This educational note begins with the definition of a subsequent event as contained in the Standards of Practice and examination of the accounting standards related to events after the reporting period, particularly the distinction between adjusting events and non-adjusting events, previously known as Type A and Type B events respectively. In considering events, a very important decision point for the actuary is materiality. Consequently, this educational note addresses materiality and refers the reader to the 2007 report from the CIA Task Force on Materiality. Next, the event decision tree is presented; this decision tree was added to the Standards of Practice in 2011 to assist actuaries in determining the appropriate course of action in response to an event.

To demonstrate the use of the event decision tree the educational note presents the following examples:

- Catastrophic event, such as Eastern Canada's January 1998 ice storm;
- Judicial decision, such as the February 2008 Alberta court decision related to the 2004 automobile reforms;
- Failure of a reinsurance company from the ceding company's perspective;
- Change in investment markets;
- Knowledge of missing claims;
- Late reported claim(s); and
- Change in insurance industry benchmarks.

The final section of this educational note focuses on communication between the actuary, company management, and the auditor at the company level as well as between our organizations at the profession level (i.e., CIA and CICA). The pertinent sections of the Standards of Practice and the *CICA Handbook – Accounting* are reproduced as appendices A and B, respectively.

2. DEFINITIONS AND STANDARDS OF PRACTICE

Subsection 1110 of the Standards of Practice defines a subsequent event as "an event of which an actuary first becomes aware after a calculation date but before the corresponding report date." The calculation date is defined as the "effective date of a calculation; e.g., the balance sheet date in the case of a valuation for financial statements. It usually differs from the report date." The report date is defined as the "date on which the actuary completes the report on his or her work. It usually differs from the calculation date." Finally, the term "report" refers to "an actuary's oral or written communication to users about his or her work."

Subsection 1520 of the Standards of Practice provides guidance regarding the possible effect of subsequent events on the work of actuaries. Paragraph 1520.02 states that

> *. . . the actuary should take a subsequent event into account (other than in a pro forma calculation) if the subsequent event*
>
> > *provides information about the entity as it was at the calculation date,*
> >
> > *retroactively makes the entity different at the calculation date, or*
> >
> > *makes the entity different after the calculation date and a purpose of the work is to report on the entity as it will be as a result of the event.*

Since the scope of this educational note is limited to actuarial analyses supporting financial reporting, particularly in the context of annual and quarterly financial statements, the discussion focuses on the first two circumstances in the above list.

The *CICA Handbook – Accounting*, Part I IFRS, IAS 10 *Events After the Reporting Period*, states:

> Objective
>
> 1 The objective of this Standard is to prescribe:
>
> (a) when an entity should adjust its financial statements for events after the reporting period; and
>
> (b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.
>
> The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.
>
> Scope
>
> 2 This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Definitions

3 The following terms are used in this Standard with the meanings specified:

Events after the reporting period are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:

(a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and

(b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

4 The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5 In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements . . .

6 In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board . . .

7 Events after the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Note that the "reporting date" in the accounting standards is equivalent to the "calculation date" in the Standards of Practice (and not the "report date").

Under IFRS, the financial statements now disclose the date the financial statements were authorized for issuance by the entity (typically the date of approval by the Board) and the auditor's report date will match that date. The Appointed Actuary's report date in the financial statements would typically be the same date.

Throughout this educational note, subsequent events are referred to as adjusting events or non-adjusting events according to the descriptions in IAS 10 *Events After the Reporting Period*, paragraphs 03 a) and b), respectively. In general, accounting standards require that an entity adjusts amounts recognized in its financial statements to take into account adjusting (subsequent) events and that the notes to the financial statements include disclosure of non-adjusting (subsequent) events.

The accounting treatment of adjusting events requires that "an entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting period" (IAS 10, paragraph 8). For non-adjusting events, the accounting treatment states that

If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made. (IAS 10, paragraph 21).

The actuarial classification is similar to the accounting classification. Paragraph 1520.05 of the Standards of Practice states:

. . . depending on the classification, the actuary would either

take that event into account, or

report that event, but not take it into account.

These two options for action are similar to the accounting guidelines for adjusting (subsequent) events (i.e., take the event into account) and non-adjusting (subsequent) events (i.e., disclosure only). Furthermore, paragraph 1520.03 states that "*The actuary should not take the subsequent event into account if it makes the entity different after the calculation date and a purpose of the work is to report on the entity as it was at the calculation date. Nevertheless, the actuary should report that subsequent event.*" This is similar to the accounting requirement for non-adjusting events.

An event decision tree was added in 2011 to the Standards of Practice to assist the actuary in deciding how to reflect an event in the work, if the actuary determines that the event makes the entity different. In a financial reporting context, the event decision tree can be used to determine whether to take the event into account or to report (i.e., disclose) the event but not to take it into account. When working with the event decision tree, it is critical that the actuary keep in mind the concept of materiality.

3. MATERIALITY

Paragraph 1340.03 of the Standards of Practice addresses the concept of materiality, in a general fashion, by stating that "an omission, understatement, or overstatement is material if the actuary expects it materially to affect either the user's decision making or the user's reasonable expectations."

As part of an actuarial valuation of insurance contract liabilities, the actuary would determine a materiality level. The November 2007 report from the Task Force on Materiality notes that it is important to recognize what materiality is not. The report emphasizes that the concept of materiality is different from the concepts of:

- The range of reasonable values in an actuarial estimate; and
- The inherent uncertainty associated with actuarial estimates.

Subsection 1630 of the Standards of Practice, CIA/CICA Joint Policy Statement, requires communication regarding the materiality level between the actuary and the auditor. Paragraph 1630.10 states, in part:

The enquiring professional would

e) make the responding professional aware of the enquiring professional's needs. This would include a discussion of:

i) the application of the concept of materiality to determine that the responding professional will be using a materiality level that is appropriate in relation to the enquiring professional's materiality level in accordance with applicable professional standards . . .

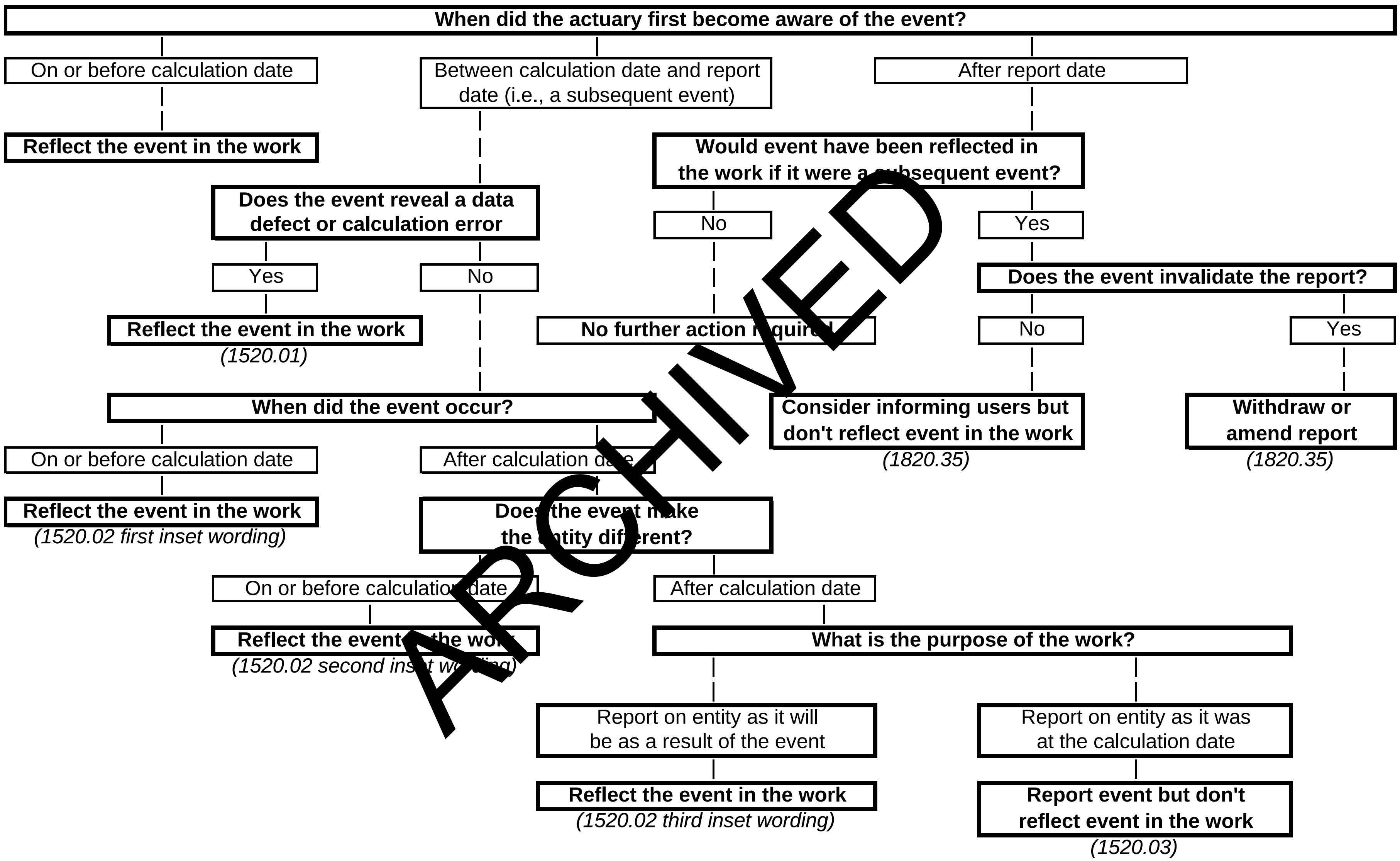
While the actuarial materiality may differ from the materiality level selected by the auditor, the actuary would be aware of the audit materiality level. Generally, the materiality level selected by the actuary for the purpose of actuarial analysis in support of financial reporting would not be greater than the materiality level selected by the auditor.

From an auditor's perspective, an adjusting event that is not material does not have to be reflected and a non-adjusting event that is not material does not require disclosure. If the actuary determines that an event is not material to the actuarial valuation of insurance contract liabilities, the actuary may not need to use the event decision tree. Nevertheless, the actuary would communicate to the auditor the details of such events since the auditor maintains various materiality thresholds. While actuarial standards may not require the actuary to change his or her analysis, the auditor may nevertheless have to consider the effect of the event.

4. EVENT DECISION TREE

The next page presents the event decision tree from the Standards of Practice for determining the appropriate course of action in respect of a potential subsequent event. Actuaries may use this decision tree in the analysis of subsequent events for both claim liabilities and premium liabilities. As noted previously, when working with the event decision tree, it is critical that the actuary keep in mind the concept of materiality.

EVENT DECISION TREE



Upon discovery of a potential subsequent event, the first question that the actuary would consider is when he or she obtained knowledge of the event.

4.1. Knowledge On or Before Calculation Date

According to the Standards of Practice, a subsequent event is an event of which an actuary first becomes aware after a calculation date but before the corresponding report date. Thus, if the actuary becomes aware of the event on or before the calculation date, the event is not a subsequent event and the actuary treats the event similarly to other information used in the valuation process.

4.2 Knowledge Between Calculation Date and Report Date

Events that occur between the calculation date and the report date are, by definition, subsequent events. If the actuary becomes aware of the subsequent event between the calculation date and the report date, the next question along the event decision tree is whether or not the event reveals a data defect or calculation error.

4.2.1 Data Defect or Calculation Error

Errors can arise in the data provided by the insurer, or the analysis or in the actuary's assumptions, calculations, and/or methodology. It is important to remember that the actuary's judgment about materiality pervades virtually all work and affects the actuary's decisions at all steps of the decision-making. If it is determined that the event exceeds the actuary's materiality level and is the result of an error, then the actuary would make the appropriate correction (i.e., reflect the event in the work) and communicate the revised insurance contract liabilities estimate to both management of the insurer and the auditor. Correction and communication of a data defect or calculation error is required regardless of whether the error was discovered before or after the report date.

Paragraph 1520.01 of the Standards of Practice states, "*The actuary should correct any data defect or calculation error that is revealed by a subsequent event.*" As part of the Classification portion of subsection 1520, the Standards of Practice reiterates that it is the actuary's responsibility to correct errors. Paragraph 1520.05 states, "The actuary would correct an error revealed by a subsequent event. The actuary would classify each subsequent event other than those which reveal errors . . ."

4.2.2 No Data Defect or Calculation Error

If the subsequent event does not reveal a data defect or calculation error, the next question the actuary asks is, "When did the event occur?"

4.2.2.1 On or Before the Calculation Date

The action to this branch of the event decision tree is similar to that described in section 4.1. The event is not classified as a subsequent event, and the actuary treats the event similarly to other information used in the valuation process.

4.2.2.2 After Calculation Date

If the event occurred after the calculation date, then the next question is related to the timing of when the entity becomes different. The two options in the event decision tree are: (1) on or before calculation date, and (2) after calculation date.

The response to this question is linked to the auditors' classification of an event as an adjusting event or a non-adjusting event.

Adjusting (subsequent) events, which the accounting standards define as events that provide evidence of conditions that existed at the end of the reporting period, require the actuary to recalculate the insurance contract liabilities, both claim liabilities and premium liabilities, at the calculation date. In the context of the decision tree, these events would therefore be ones that make the entity different on or before calculation date. The actuary would then report the recalculated insurance contract liabilities to management and the auditor for incorporation into the financial statements.

Non-adjusting (subsequent) events, which the accounting standards define as events that are indicative of conditions that arose after the reporting period, require disclosure rather than change to the balance sheet and income statement. In the context of the decision tree these events make the entity different after the calculation date and the purpose of the work is to report on the entity as it was at the calculation date. The actuary would nevertheless recalculate the insurance contract liabilities so that management can include appropriate values in the necessary disclosures; however, the insurance contract liabilities reported in the financial statements would remain unchanged.

In conclusion, if the event makes the entity different on or before the calculation date, then the actuary reflects the event in his or her work. If the event makes the entity different after the calculation date, then in the context of financial reporting, a disclosure in the financial statement would be required.

As mentioned previously in section 2, the scope of this educational note is limited to actuarial analysis supporting financial reporting and therefore does not address subsequent events which make the entity different after the calculation date and where the purpose of the work is to report on the entity as it will be as a result of the event.

4.3 After Report Date

If the actuary becomes aware of the event following the report date, the event, by definition, is not a subsequent event. Nevertheless, the event could trigger three possible actions depending on the type of event and the magnitude of the effect of the event. The actuary may: (1) take no action, (2) inform users but not change the work, or (3) withdraw or amend the report.

The first question the actuary asks upon discovering an event after the report date is, "Would the event have been reflected in the work if it were a subsequent event?" If the answer to this question is no, then no further action is required by the actuary. If the answer is yes, the actuary considers whether or not the event invalidates the report. To invalidate the report, the event would either reveal a data defect or a calculation error, provide additional information about the entity which is the subject of the report as that entity was at the calculation date, retroactively make that entity different at the calculation date, or make that entity different after the calculation date and a purpose of the work was to report on the entity as it would be as a result of the information. If the event does not invalidate the report, then the actuary would consider informing the user(s) but does not have an obligation to reflect the event in the work. For purposes of actuarial work that supports financial reporting, the auditor would expect to be informed by the actuary, particularly since the auditor would need independently to evaluate the effect of the event on the audit opinion. If the event does invalidate the actuary's report, then the actuary would withdraw or amend his or her report.

5. DISCLOSURE REQUIREMENTS

Company management is ultimately responsible for the notes to the financial statements. However, following a non-adjusting (subsequent) event, the actuary often plays an important role in determining the estimates of insurance contract liabilities that are contained in such notes.

The actuary's responsibility for disclosure with respect to subsequent events, both adjusting events and non-adjusting events, extends beyond simply the financial statements. Depending on the circumstances of the subsequent event, the actuary has varied means of communication. The actuary may present his or her findings orally through meetings with company management and/or presentations to the audit committee or the board of directors. The actuary would also include commentary regarding the subsequent event in written communication either in the Appointed Actuary's insurance contract liabilities valuation report or separate communication specifically addressing the subsequent event.

The February 1998 CIA educational note The Eastern Canada Ice Storm – Treatment in Financial Reporting included the following points for consideration for actuarial disclosure:

- A description of the nature of the event; and
- An estimate of the financial effect, when possible, or a statement that such an estimate cannot be made, including:
    - An estimate of the gross amount of claims (indemnities and loss adjustment expenses);
    - An estimate of the reinsurance recoveries;
    - An estimate of the reinsurance reinstatement premiums; and
    - A discussion about the impact of the event
        - On future insurance results of the entity;
        - On reinsurance risk of non-recovery from reinsurers; and
        - Other related events.

6. EXAMPLES

In order to illustrate the concepts described above, the following examples are analyzed using the event decision tree:

- Catastrophic event, such as Eastern Canada's January 1998 ice storm;
- Judicial decision, such as the February 2008 Alberta court decision related to the 2004 automobile reforms;
- Failure of a reinsurance company from a ceding company's perspective;
- Change in investment markets;
- Knowledge of missing claims;
- Late reported claim(s); and
- Change in insurance industry benchmarks.

These examples are for illustrative purposes only. This list is not meant to be exhaustive. It is important to recognize that other types of subsequent events could affect insurance contract liabilities. The course of action following an actual event will depend on each insurer's circumstances and the particular characteristics of the event itself. Unless stated otherwise in each example, the event is considered to be material to the insurer.

6.1 Catastrophic Event

The first example refers to the January 1998 ice storm in Eastern Canada. Depending on the geographical distribution of exposures, the financial effects of the ice storm may or may not have been material to a particular insurer. For many insurers with exposures in Eastern Canada, the financial effect of the ice storm was greater than the selected actuarial materiality level for the December 31, 1997, insurance contract liabilities valuation.

When did the actuary first become aware of the event?

The actuary would compare the date he or she became aware of the event to the calculation date. For this example, the calculation date for most insurers was December 31, 1997. The ice storm did not begin until January 5, 1998; therefore, actuaries did not know of the event before the calculation date (i.e., December 31, 1997). Since the ice storm occurred so early in January, for most actuaries knowledge of the event developed before the report date. Thus, the actuary proceeds along the middle branch of the event decision tree.

Does the event reveal a data defect or calculation error?

For the ice storm, the answer to this question is no.

When did the event occur?

The ice storm did not begin until January 5, 1998, which was after the calculation date of December 31, 1997.

Does the event make the entity different?

In February 1998, the CIA published an educational note titled The Eastern Canada Ice Storm – Treatment in Financial Reporting to provide guidance on the reporting of this event. The educational note concluded that:

> The ice storm clearly does not retroactively make the insurance company different . . . Accordingly, the ice storm is an event that makes an entity different after the balance sheet date.

What is the purpose of the work?

The educational note concluded that

> If the purpose is to report on the entity as it was, then the actuary would not take the event into account in the selection of methods and assumptions . . .
>
> the actuary should report the event, making no further distinction on the nature and amount of the event, once the materiality hurdle has been passed, and it has been determined that it is not appropriate to amend methods and assumptions.

Both actuarial and accounting guidance are consistent in indicating that the appropriate course of action is to disclose the effect of the ice storm in the notes to the financial statements, but to make no changes to the calculations underlying the 1997 results.

The educational note also addressed the issue of premium liability.

> It is clear that the actual premium liability will likely be larger than the premium liability anticipated as at December 31, 1997. However, this is not the key issue in the context of

financial reporting under GAAP. The key issue is the purpose of the work, which is to report on the insurance company as it was on December 31, 1997.

6.2 Judicial Decision

This example uses the 2008 judicial decision related to automobile insurance reforms in Alberta. In February 2008, Alberta’s Court of Queen’s Bench struck down the $4,000 cap on non-pecuniary damages for people who suffer soft-tissue injuries in car accidents.

For insurers doing business in Canada but without a significant portfolio of Alberta automobile insurance, the court decision was not material and no action was required. For some insurers with significant exposures in Alberta, the court decision was still not material due to the methods for setting individual case reserves, the proportion of bodily injury claims in their current portfolio of outstanding claims, or because a provision had already been established. Even if there were no changes in actuarial calculations, many auditors required an affirmative statement from the actuary regarding the non-material impact of the Alberta court decision. For many insurers, however, the effect of the court decision was greater than the actuarial materiality level.

In certain circumstances, the question of materiality may lead the actuary to conclude that no action is required according to the Standards of Practice, but significant industry-wide events may, in practice, require the actuary to provide a statement for financial reporting purposes regardless of materiality. This statement may require a quantification of the effect on the insurance contract liabilities or a disclosure in the notes to financial statements.

When did the actuary first become aware of the event?

For most insurers, the calculation date in this example was December 31, 2007. Thus, since the court decision occurred on February 8, 2008, the answer to the first question is that actuaries became aware of the event after the calculation date.

Unlike the Eastern Canada ice storm, the court decision occurred in early February, not early January. Some insurers had already held their audit committee meetings. Some actuaries had already prepared their actuarial statements of opinion regarding insurance contract liabilities even though their actuarial report on insurance contract liabilities had not yet been issued.

There was extensive discussion between actuaries and auditors, both at the individual company level and at the industry level, as to what constitutes a report date. Is the report date the date of:

- The audit committee meeting to approve the financial statements;
- The actuarial statement of opinion;
- The actuarial insurance contract liabilities report; or
- The auditor’s report on the financial statements (auditor’s report date)?

The general consensus of the auditors was that the report date was the date of the auditor’s report on the financial statements. According to the Standards of Practice, the actuarial report date is defined as the “date on which the actuary completes the report on his or her work.” There may be situations, such as Canadian branches, where the actuary’s report date is prior to the auditor’s report date. In the unusual circumstance of a significant event occurring after the actuary’s report date and before the auditor’s report date, the actuary and auditor will be expected to coordinate and decide upon necessary action.

Between Calculation Date and Report Date

Actuaries who became aware of the court decision prior to the report date would proceed along the middle branch of the event decision tree. The Alberta court decision was not related to a data defect or calculation error. Since the event occurred after the calculation date, the next question for the actuary who became aware of the court decision prior to the report date would be, "Does the event make the entity different?" While the conclusions were not consistent among all auditing firms and all insurers, most classified the Alberta court decision as an adjusting event, an event that provided further evidence of conditions that existed at the December 31, 2007 financial statement date. For an adjusting (subsequent) event, the actuary would take into account the effect of such an event in the calculation of the insurance contract liabilities at the calculation date. The accounting classification as an adjusting event aligns with the event decision tree branch "the event makes the entity different on or before calculation date."

After Report Date

For actuaries who became aware of the Alberta court decision after the report date, the event is not classified as a subsequent event (according to paragraph 1110.49 of the Standards of Practice). They would answer the question: "Would the event have been reflected in the work if it were a subsequent event?" The answer to this question typically was yes. Thus, the final decision for actuaries was whether or not the event invalidated the report.

For some insurers with significant exposures in Alberta, the court decision did, in fact, invalidate the report. In these situations, actuaries had the option of withdrawing the December 31, 2007, insurance contract liabilities valuation report or amending it. For other insurers without a significant portfolio of Alberta automobile insurance, the court decision was not sufficiently material to invalidate the report. Therefore, many actuaries informed users in the financial notes but did not reflect the event in their work. The decision-making process was based on discussions between the actuary, the company management, and the auditor and depended upon the specific circumstances of each company.

6.3 Failure of a Reinsurance Company from the Ceding Company's Perspective

The failure of an insurer's reinsurer is cited in subsection 1520, Subsequent Events, of the Standards of Practice as an example of a situation where the classification is not clear. Paragraph 1520.16 states:

> If the insolvency was the culmination of a gradual deterioration in the reinsurer's financial circumstances, most of which had occurred before the calculation date but which was not apparent until revealed by the insolvency, then the insolvency provides information about the entity as it was at the calculation date. If the insolvency was precipitated by a catastrophe, then it provides information about a change in conditions which makes the entity different after the calculation date.

The example in this educational note assumes that the failure of the reinsurer is not due to the occurrence of a catastrophe but instead the gradual deterioration in the entity's financial condition.

When did the actuary first become aware of the event?

This example assumes that the actuary becomes aware of the failure on January 15, which is after the calculation date of December 31 but before the report date. Thus, by definition the failure of the reinsurer is a subsequent event. Given that the actuary becomes aware of the event between the calculation date and the report date, the actuary uses the middle branch of the event decision tree.

Does the event reveal a data defect or calculation error?

The failure of the reinsurer is not considered an error in data, assumptions, calculations, and/or methodology.

When did the event occur?

Assume that the failure of the reinsurer occurred during the first week of January, which is after the calculation date of December 31. (Note, if the assumption was that the reinsurer failure occurred during the last week of December, the actuary would not treat the failure as a subsequent event and would incorporate the effect of the failure into his or her analysis.)

Does the event make the entity different?

This question is likely the most challenging for the actuary to answer. The response to this question determines whether or not the effect of the event is to be reflected in the work (i.e., included in the calculations of insurance contract liabilities) or only reported (i.e., included in disclosure). The response to this question determines whether the event is an adjusting or a non-adjusting (subsequent) event as defined by Canadian accounting standards.

Based on a review of the excerpt from the Standards of Practice initially cited in this example as well as the CICA definition of an adjusting event, i.e., an event that provides evidence of conditions that existed at the end of the reporting period, the failure of the reinsurer is classified as an adjusting event and is taken into account in the insurance contract liabilities valuation by the actuary. The actuary would work in concert with the insurance company financial management as well as with the auditor to confirm the response to this final question.

6.4 Change in Investment Markets

This example assumes a precipitate drop in the stock market that occurs during the first week of January along with a reduction in fixed income yields. Paragraph 1520.16 of the Standards of Practice also cites this example as a situation in which the classification is not clear. It states, in part:

> For financial reporting, one can argue that the stock market crash provides additional information about the entity as it was at the calculation date, because the crash is an indicator of the outlook for common share investments at that date; alternatively, one can argue that the crash makes the entity different only after the calculation date since it creates a new situation. The new situation would be reflected in the financial statements for the subsequent accounting period.

Different actuaries could come to different conclusions. When the situation is unclear, we suggest that the actuary discuss the issue with the auditor for further guidance.

When did the actuary first become aware of the event?

The drop in the stock market and investment yields occurs during the first week of January, which is after the calculation date of December 31. Since the change in the investment environment occurred in the first week of January, the assumption is that the actuary became aware of the event before the report date. The change in investment markets is considered a subsequent event since the actuary became aware of the event after the calculation date and before the report date. The actuary once again uses the middle branch of the event decision tree to determine whether and how to reflect the event in his or her work.

Does the event reveal a data defect or calculation error?

The drop in the stock market and investment yields is not an error in data, assumptions, calculations, and/or methodology.

When did the event occur?

The drop in the stock market and investment yields occurs during the first week of January, which is after the calculation date of December 31.

Does the event make the entity different?

As noted in the previous example, this last question represents one of the most challenging questions for the actuary. The CICA standards define non-adjusting events as those events that are indicative of conditions that arose after the reporting period. Paragraph 11 of the *CICA Handbook – Accounting*, Part 1 IFRS, IAS 10 *Events After the Reporting Period*, states:

> An example of a non-adjusting event after the reporting period is a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 21.

The appropriate course of action, according to CICA standards, is to disclose the effect of the decline in market value of the investments but not to take account of the event in the calculation of insurance contract liabilities as at December 31.

6.5 Knowledge of Missing Claims

This example assumes that the actuary receives notice on August 5 that the June 30 claims database, which the actuary is using to perform a second-quarter insurance contract liabilities valuation, does not include data from a particular group of claims.

When did the actuary first become aware of the event?

August 5 (the date on which the actuary was informed of the missing claims) is after the calculation date of June 30 but before the report date. Thus, this example initially proceeds down the middle branch of the event decision tree.

Does the event reveal a data defect or calculation error?

This event represents an omission (i.e., an error) in the data provided by the insurer. Since the answer to this question is yes, there is only one course of action: a corrected analysis. As stated in paragraph 1520.01 of the Standards of Practice, "*The actuary should correct any data defect or calculation error that is revealed by a subsequent event*."

It is important for the actuary to recognize that an error in data, assumptions, calculations, and/or methodology that is greater than the materiality level requires correction, even if correcting the error yields an estimate that is still within the range of reasonable values of the auditor.

Lack of Clarity in What Constitutes the Event

In this example, it is unclear whether the event is the late notice of the missing claims, which occurred in August (between June 30 calculation date and report date), or the actual claims themselves which occurred prior to the calculation date of June 30. The conclusion that the data is to be incorporated into the June 30 analysis is reached regardless of whether the actuary proceeds down the first or second branch of the event decision tree. If the event refers to the dates of the missing claims that occurred before the calculation date, then according to the event decision tree, the missing data are not treated as a subsequent event and the claims data are incorporated into the analysis. If the event refers to the actuary's knowledge of the missing claims, the actuary proceeds along the middle branch and responds affirmatively to the question about a data defect or calculation error.

If the omission of data is discovered on August 16, which is usually after the report date, the event is not classified as a subsequent event and the actuary would proceed down the third branch of the event decision tree. The actuary would answer the question, "Would the event have been reflected in the work if it were a subsequent event?" The answer to this question is typically yes. The final decision would be whether or not the event invalidated the report. As stated in paragraph 1820.33 of the Standards of Practice, the report would be invalidated if the event reveals a data defect or a calculation error. This event represents a data defect and thus the report would be invalidated.

6.6 Late Reported Claim(s)

Lags in reporting of claims activity often occur for reinsurers. Several weeks, and sometimes months, can elapse between the time the ceding company increases a case reserve and the excess notice is received by the reinsurer. This example assumes that for year-end reserving purposes, the reinsurer's actuary relies on all notices received by December 29 from its ceding companies. Furthermore, it is assumed that the reinsurer receives notice on January 12 of a November 20 increase in case reserve from a three-year-old claim that now exceeds the primary retention by more than $10 million.

When did the actuary first become aware of the event?

The actuary became aware of the event on January 12, which is after the calculation date of December 31 but before the report date. Thus, by definition this is a subsequent event.

Does the event reveal a data defect or calculation error?

It is important to recognize that the late reported claim in this example differs from the missing claims in the previous example. The late reported claim of the reinsurer is not classified as an error. Reinsurers routinely rely on data as of December 31 and receive updated claims information from brokers or ceding companies on new claims or case reserve changes occurring in December in early to mid-January. Thus, this example differs from the group of claims that were inadvertently excluded from the claims database in the missing claims example.

When did the event occur?

The increase in case reserve occurred on November 20, which is before the calculation date of December 31. According to the event decision tree, since the event (i.e., the increase in case reserve) occurred before the calculation date, the actuary would reflect the event in the work.

6.7 Change in Insurance Industry Benchmarks

Paragraph 1520.07 of the Standards of Practice states, in part:

.07 Examples of subsequent events that provide information about an entity as it was at the calculation date are

> publication of an experience study which provides information for selection of assumptions . . .

This final example assumes that the actuary is working for a relatively new company that does not yet have a reliable, credible database for development of actuarial assumptions for reserving purposes. Thus, the actuary relies on insurance industry benchmark information for the selection of loss development patterns and expected loss ratios for this company. Furthermore, the example assumes that the industry's statistical agency releases new industry development data on July 15. In this situation, is the actuary required to analyze the new industry data for the purpose of conducting a June 30 reserve valuation, which the company uses for financial reporting purposes?

When did the actuary first become aware of the event?

July 15, the date at which the actuary became aware of the new industry data, is after the June 30 calculation date. Thus, the actuary proceeds down the middle branch of the event decision tree.

Does the event reveal a data defect or calculation error?

The release of new industry benchmarks is not considered a data defect or calculation error.

When did the event occur?

The event is the availability of new industry data. The new data became available July 15, which is after the June 30 calculation date.

Does the event make the entity different?

It is typically not expected that the release of new industry benchmarks would make the entity different. Generally, industry benchmark patterns, particularly loss development patterns, do not change dramatically from release to release. Since actuaries review the experience of multiple years when selecting benchmarks based on industry data, the addition of one year is not usually expected to change the actuary's assumptions drastically. However, if the industry data are used for the selection of trend rates or expected loss ratios, changes in industry experience could be more significant, and the effect on selected assumptions could be material. It is incumbent upon the actuary to verify that the new industry information would not have a material effect on the estimate of insurance contract liabilities for the company.

It is expected that in most circumstances, the actuary would conclude that the effect of the subsequent event is unlikely to be material. Thus, in most circumstances, the actuary would not be required to incorporate the latest industry data in his or her calculations on that basis.

7. COMMUNICATION BETWEEN ACTUARIES, COMPANY MANAGEMENT, AND AUDITORS

Strong communication between the actuary, company management, and the auditor is critical, particularly with respect to subsequent events. Subsection 1630 of the Standards of Practice, CIA/CICA Joint Policy Statement, requires communication regarding subsequent events between the actuary and the auditor. Paragraph 1630.10 states, in part:

> The enquiring professional would:

e) make the responding professional aware of the enquiring professional's needs. This would include a discussion of . . .

   ii) subsequent events, to determine that the responding professional understands how they are to be treated and that he or she will consider the effect of matters that come to his or her attention up to the date of his or her report.

Therefore, the actuary would review the treatment of subsequent events with the auditor as well as with company management and consider the specific circumstances of the insurance company to ensure that the treatment is appropriate for the entity and that the audit and actuarial approaches are consistent.

The November 2007 report from the CIA Task Force on Materiality states: "An important part of knowing the user in communications between the actuary and the auditor may also be to understand what constitutes a material subsequent event to the accountant user who is also the preparer of general purpose public financial statements."

Following a subsequent event that has the potential to affect many organizations in the insurance industry, the CIA and CICA will also play a role in facilitating discussions and decision making as to how to classify the event. Two examples of such events are the Eastern Canada ice storm in January 1998 and the Alberta court decision in February 2008. The discussions at the industry level, however, are not a substitute for discussion at the individual company level.

APPENDIX A

CIA STANDARDS OF PRACTICE, 1520 SUBSEQUENT EVENTS

.01 *The actuary should correct any data defect or calculation error that is revealed by a subsequent event.*

.02 *For work with respect to an entity, the actuary should take a subsequent event into account (other than in a pro forma calculation) if the subsequent event*

> *provides information about the entity as it was at the calculation date,*
>
> *retroactively makes the entity different at the calculation date, or*
>
> *makes the entity different after the calculation date and a purpose of the work is to report on the entity as it will be as a result of the event.*

.03 *The actuary should not take the subsequent event into account if it makes the entity different after the calculation date and a purpose of the work is to report on the entity as it was at the calculation date. Nevertheless, the actuary should report that subsequent event.* [Effective December 1, 2002]

Classification

.04 A subsequent event is relevant to the recommendation if it reveals an error, provides information about the entity, or is a decision that makes the entity different.

.05 The actuary would correct an error revealed by a subsequent event. The actuary would classify each subsequent event other than those which reveal errors and, depending on the classification, the actuary would either

> take that event into account, or
>
> report that event, but not take it into account.

Definitive and virtually definitive decisions

.06 A definitive decision means a final and permanent decision that is not tentative, provisional, or unsettled. It would be evidenced by an amendment to a benefits plan, a collective bargaining agreement, a binding exchange of letters between two contracting parties, a court order, a legislative bill that has been proclaimed, or the like. A virtually definitive decision is one that is virtually certain to become definitive, but that lacks one or more formalities like ratification, due diligence, regulatory approval, third reading, royal assent, or proclamation. However, a decision that still involves discretion at an executive or administrative level is not virtually definitive.

Entity

.06.1 Examples of entities are

> the pension plan, in the case of an actuary doing a valuation of a pension plan,
>
> the block of annuity business, in the case of an actuary calculating the insurance contract liabilities for an insurance company's annuity business,
>
> a combination of the pension plan and the member's specific data, in the case of the determination of a member's individual entitlement under a pension plan, and

the insurance company, in the case of an actuary valuing the insurance contract liabilities of an insurance company.

Event provides information about entity as it was or retroactively makes entity different

.07 Examples of subsequent events that provide information about an entity as it was at the calculation date are

publication of an experience study that provides information for selection of assumptions,

reporting to an insurer of a claim that was incurred on or before the balance sheet date, and

adoption of a pension plan amendment prior to the calculation date of which the actuary becomes aware after the calculation date.

.08 Repealed

.09 Repealed

.10 Examples of events that retroactively make the entity different at the calculation date are definitive or virtually definitive decisions, made after the calculation date but effective on or before the calculation date, to

wind-up a pension plan, partially or fully,

sell a portion of a participating employer's business and consequently to spin-off the corresponding members from the participating employer's pension plan,

amend the benefits of a pension plan,

transfer a portion of an insurer's policies to another insurer, or

invoke a judicial decision that nullifies or significantly modifies the law affecting insurance claims.

.11 If an event provides information about the entity as it was at the calculation date or provides information that retroactively makes the entity different at the calculation date, the effect of the subsequent event on the work is the same as if the actuary first became aware of the information on or before the calculation date and the actuary would not report the event as a subsequent event. That is, the actuary would report the event only to the extent that the event would have been reported had the actuary first become aware of the information before the calculation date.

.12 Repealed

Event makes entity different after

.13 If the subsequent event makes the entity different after the calculation date, then the purpose of the work determines whether or not the actuary takes the event into account.

.14 If the subsequent event makes the entity different after the calculation date and the purpose of the work is to report on the entity as it will be as a result of the event, then the actuary would take that event into account and would describe it in reporting.

.15 If the subsequent event makes the entity different after the calculation date and the purpose of the work is to report on the entity as it was at that date, then the actuary would not take that event into account but would report the event since it would affect the entity's future operations and the actuary's subsequent calculations.

Classification not clear

.16 The classification of a subsequent event may be unclear, at least a priori, although the circumstances of the case and the actuary's engagement may make it clear. The following are examples of such events.

a precipitous fall in the stock market. For financial reporting, one can argue that the stock market crash provides additional information about the entity as it was at the calculation date, because the crash is an indicator of the outlook for common share investments at that date; alternatively, one can argue that the crash makes the entity different only after the calculation date since it creates a new situation. The new situation would be reflected in the financial statements for the subsequent accounting period.

a salary freeze for employees who are members of a pension plan. If the salary freeze is a correction of excessive salaries, then it provides additional information about the entity as it was at the calculation date, because the freeze is an indicator of the outlook for salaries at the calculation date. If the salary freeze deals with a recent problem, then it indicates a change in conditions that makes the entity different after the calculation date. In either case, the actuary would consider the effect of the freeze on the employees' pension benefits. It may be that the freeze will have a lasting effect. Alternatively, it may be that the freeze will be compensated for by higher salaries later on, so that the salary inflation assumption based on historical trends continues to be valid.

default on a bond. If the default was the culmination of a gradual deterioration in its issuer's financial circumstances, most of which had occurred before the calculation date but which was not apparent until revealed by the default, then the default provides additional information about the entity as it was at the calculation date. If the default was precipitated by a catastrophe, then it provides information about a change in conditions that makes the entity different after the calculation date.

insolvency of an insurer's reinsurer. This is similar to default on a bond. If the insolvency was the culmination of a gradual deterioration in the reinsurer's financial circumstances, most of which had occurred before the calculation date but which was not apparent until revealed by the insolvency, then the insolvency provides information about the entity as it was at the calculation date. If the insolvency was precipitated by a catastrophe, then it provides information about a change in conditions that makes the entity different after the calculation date.

.17 Repealed

Reporting

.18 Sometimes the actuary may consider it appropriate, or the terms of the work may require the actuary, to report an alternative and opposite calculation; i.e., an alternative calculation that does not take the subsequent event into account when the main calculation does, or that takes the subsequent event into account when the main calculation does not. For example, in a province for which the calculation date for a pension valuation following marriage breakdown is the date of separation, a subsequent event may be the early retirement of the plan member at some time between the calculation date and the report date. The actuary would consider reporting values assuming that this subsequent event had been an established intention at the calculation date, instead of or in addition to retirement scenarios otherwise recommended in the practice-specific standards. In such cases, the actuary would make the same calculations regardless of the purpose of the work but the reporting thereof would depend on the purpose of the work.

APPENDIX B

CICA HANDBOOK – ACCOUNTING: IAS 10 Events After the Reporting Period

Objective

1 The objective of this Standard is to prescribe:

(a) when an entity should adjust its financial statements for events after the reporting period; and

(b) the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting period.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting period indicate that the going concern assumption is not appropriate.

Scope

2 This Standard shall be applied in the accounting for, and disclosure of, events after the reporting period.

Definitions

3 **The following terms are used in this Standard with the meanings specified:**

Events after the reporting period **are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue. Two types of events can be identified:**

(a) those that provide evidence of conditions that existed at the end of the reporting period (*adjusting events after the reporting period*); and

(b) those that are indicative of conditions that arose after the reporting period (*non-adjusting events after the reporting period*).

4 The process involved in authorising the financial statements for issue will vary depending upon the management structure, statutory requirements and procedures followed in preparing and finalising the financial statements.

5 In some cases, an entity is required to submit its financial statements to its shareholders for approval after the financial statements have been issued. In such cases, the financial statements are authorised for issue on the date of issue, not the date when shareholders approve the financial statements.

Example

The management of an entity completes draft financial statements for the year to 31 December 20X1 on 28 February 20X2. On 18 March 20X2, the board of directors reviews the financial statements and authorises them for issue. The entity announces its profit and selected other financial information on 19 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the approved financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of board authorisation for issue).

6 In some cases, the management of an entity is required to issue its financial statements to a supervisory board (made up solely of non-executives) for approval. In such cases, the financial statements are authorised for issue when the management authorises them for issue to the supervisory board.

Example

On 18 March 20X2, the management of an entity authorises financial statements for issue to its supervisory board. The supervisory board is made up solely of non-executives and may include representatives of employees and other outside interests. The supervisory board approves the financial statements on 26 March 20X2. The financial statements are made available to shareholders and others on 1 April 20X2. The shareholders approve the financial statements at their annual meeting on 15 May 20X2 and the financial statements are then filed with a regulatory body on 17 May 20X2.

The financial statements are authorised for issue on 18 March 20X2 (date of management authorisation for issue to the supervisory board).

7 Events after the reporting period include all events up to the date when the financial statements are authorised for issue, even if those events occur after the public announcement of profit or of other selected financial information.

Recognition and measurement

Adjusting events after the reporting period

8 **An entity shall adjust the amounts recognised in its financial statements to reflect adjusting events after the reporting period.**

9 The following are examples of adjusting events after the reporting period that require an entity to adjust the amounts recognised in its financial statements, or to recognise items that were not previously recognised:

(a) the settlement after the reporting period of a court case that confirms that the entity had a present obligation at the end of the reporting period. The entity adjusts any previously recognised provision related to this court case in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* or recognises a new provision. The entity does not merely disclose a contingent liability because the settlement provides additional evidence that would be considered in accordance with paragraph 16 of IAS 37.

(b) the receipt of information after the reporting period indicating that an asset was impaired at the end of the reporting period, or that the amount of a previously recognised impairment loss for that asset needs to be adjusted. For example:

  (i) the bankruptcy of a customer that occurs after the reporting period usually confirms that a loss existed at the end of the reporting period on a trade receivable and that the entity needs to adjust the carrying amount of the trade receivable; and

  (ii) the sale of inventories after the reporting period may give evidence about their net realisable value at the end of the reporting period.

(c) the determination after the reporting period of the cost of assets purchased, or the proceeds from assets sold, before the end of the reporting period.

(d) the determination after the reporting period of the amount of profit-sharing or bonus payments, if the entity had a present legal or constructive obligation at the end of the reporting period to make such payments as a result of events before that date (see IAS 19 *Employee Benefits*).

(e) the discovery of fraud or errors that show that the financial statements are incorrect.

Non-adjusting events after the reporting period

10 **An entity shall not adjust the amounts recognised in its financial statements to reflect non-adjusting events after the reporting period.**

11 An example of a non-adjusting event after the reporting period is a decline in market value of investments between the end of the reporting period and the date when the financial statements are authorised for issue. The decline in market value does not normally relate to the condition of the investments at the end of the reporting period, but reflects circumstances that have arisen subsequently. Therefore, an entity does not adjust the amounts recognised in its financial statements for the investments. Similarly, the entity does not update the amounts disclosed for the investments as at the end of the reporting period, although it may need to give additional disclosure under paragraph 21.

Dividends

12 **If an entity declares dividends to holders of equity instruments (as defined in IAS 32 *Financial Instruments: Presentation*) after the reporting period, the entity shall not recognise those dividends as a liability at the end of the reporting period.**

13 If dividends are declared after the reporting period but before the financial statements are authorised for issue, the dividends are not recognised as a liability at the end of the reporting period because no obligation exists at that time. Such dividends are disclosed in the notes in accordance with IAS 1 *Presentation of Financial Statements*.

Going concern

14 **An entity shall not prepare its financial statements on a going concern basis if management determines after the reporting period either that it intends to liquidate the entity or to cease trading, or that it has no realistic alternative but to do so.**

15 Deterioration in operating results and financial position after the reporting period may indicate a need to consider whether the going concern assumption is still appropriate. If the going concern assumption is no longer appropriate, the effect is so pervasive that this Standard requires a fundamental change in the basis of accounting, rather than an adjustment to the amounts recognised within the original basis of accounting.

16 IAS 1 specifies required disclosures if:

(a) the financial statements are not prepared on a going concern basis; or

(b) management is aware of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The events or conditions requiring disclosure may arise after the reporting period.

Disclosure

Date of authorisation for issue

17 **An entity shall disclose the date when the financial statements were authorised for issue and who gave that authorisation. If the entity's owners or others have the power to amend the financial statements after issue, the entity shall disclose that fact.**

18 It is important for users to know when the financial statements were authorised for issue, because the financial statements do not reflect events after this date.

Updating disclosure about conditions at the end of the reporting period

19 **If an entity receives information after the reporting period about conditions that existed at the end of the reporting period, it shall update disclosures that relate to those conditions, in the light of the new information.**

20 In some cases, an entity needs to update the disclosures in its financial statements to reflect information received after the reporting period, even when the information does not affect the amounts that it recognises in its financial statements. One example of the need to update disclosures is when evidence becomes available after the reporting period about a contingent liability that existed at the end of the reporting period. In addition to considering whether it should recognise or change a provision under IAS 37, an entity updates its disclosures about the contingent liability in the light of that evidence.

Non-adjusting events after the reporting period

21 **If non-adjusting events after the reporting period are material, non-disclosure could influence the economic decisions that users make on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting period:**

(a) the nature of the event; and

(b) an estimate of its financial effect, or a statement that such an estimate cannot be made.

22 The following are examples of non-adjusting events after the reporting period that would generally result in disclosure:

(a) a major business combination after the reporting period (IFRS 3 *Business Combinations* requires specific disclosures in such cases) or disposing of a major subsidiary;

(b) announcing a plan to discontinue an operation;

(c) major purchases of assets, classification of assets as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, other disposals of assets, or expropriation of major assets by government;

(d) the destruction of a major production plant by a fire after the reporting period;

(e) announcing, or commencing the implementation of, a major restructuring (see IAS 37);

(f) major ordinary share transactions and potential ordinary share transactions after the reporting period (IAS 33 *Earnings per Share* requires an entity to disclose a description of such transactions, other than when such transactions involve capitalisation or bonus issues, share splits or reverse share splits all of which are required to be adjusted under IAS 33);

(g) abnormally large changes after the reporting period in asset prices or foreign exchange rates;

(h) changes in tax rates or tax laws enacted or announced after the reporting period that have a significant effect on current and deferred tax assets and liabilities (see IAS 12 *Income Taxes*);

(i) entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees; and

(j) commencing major litigation arising solely out of events that occurred after the reporting period.

Effective date

23 An entity shall apply this Standard for annual periods beginning on or after 1 January 2005. Earlier application is encouraged. If an entity applies this Standard for a period beginning before 1 January 2005, it shall disclose that fact.

Withdrawal of IAS 10 (revised 1999)

24 This Standard supersedes IAS 10 *Events After the Balance Sheet Date* (revised in 1999).