

Chairman's Report

AGM and Industry Developments

IMAC held its Annual General Meeting on September 2, 2011 and elected the members of the Executive Committee for 2011-2012. The initial meeting of the newly elected Executive followed the AGM electing the sub-committee heads:

Clayton Price - Chairman
 Rob Leadbetter - Vice Chairman
 Stephen Gray - Treasurer
 Mike Gibbs - Secretary
 Linda Haddleton
 Education Committee Chair
 John Pitcairn
 Scholarship Committee Chair
 Kieran O'Mahony
 Legislative & Regulatory
 Committee Chair
 Seamus Tivnan
 Forum 2012 Committee Chair
 Monique MacDonald
 Research & Development
 Committee Chair
 Steve Britton
 Marketing & Social Committee Chair

A luncheon then followed at the Ritz Carlton Hotel which was attended by several IMAC members as well as representatives from the Cayman Island Monetary Authority including Mr. George McCarthy - Chairman, Mr. Gordon Rowell - Head of Insurance Supervision, Mr. Patrick Bodden - Deputy Managing Director (Operations), Mr. Langston Sibbles - Deputy Managing Director (General Counsel), Mr. Pedro Reiss - Chief Analyst. After

lunch the IMAC golf outing was held at the Ritz Carlton's Blue Tip course followed by a cocktail reception held at Abacus. IMAC wishes to express its gratitude to both the Ritz Carlton and Abacus for generously hosting our AGM events.

During the luncheon the attendees at the AGM were addressed by the outgoing Chairperson, Monique MacDonald who provided a status report acknowledging the list of Full Members being in Good Standing and the acceptance of two new members, International Captive Managers Limited and Folio Insurance Management bringing the total membership to a count of 27. Ms. MacDonald addressed the progress on recommendations put forward for the Insurance Regulations and possible changes for Segregated Portfolio Companies by the Legislative & Regulatory Committee. She also thanked the Forum Committee who were responsible for achieving a record breaking attendance for the 2010 Cayman Captive Forum, the Scholarship Committee for its ongoing dedication with 24 students having benefited.

In the past year, the newly formed Research & Development Committee has created a Fact Sheet as well as a Domicile Comparison which are available on the IMAC web site. Branding has been moved forward with an updated logo, removing the palm tree as well as establishing a Mission Statement.

Ms. Macdonald thanked the Friends of the Cayman Captive Industry for

their continued participation in the Business Symposiums and for their valued direction. As of the AGM, Cayman based members of this group include the newly appointed Chairman of IMAC Clayton Price, IMAC Vice Chairman Rob Leadbetter, Monique MacDonald - Chair of the Research & Development Committee, Cindy Scotland - Cayman Islands Monetary Authority and Gordon Rowell - Cayman Islands Monetary Authority, Bart Hedges - Greenlight Re, Dax Basdeo - Cayman Islands Government and Samuel Rose - Cayman Islands Government. Also a special note of appreciation was expressed to Paul Scrivener for his contributions to the Symposium during the past year.

The Head of Insurance Supervision, Gordon Rowell provided an update on the statistics into the third quarter projecting newly licensed Class B companies at 29 which is 14 more than the prior year at the same point in time and representing a 93% increase with the total number at 730. Mr. Rowell noted that the total premiums stood at \$9.6 billion being the highest in CIMA's history and the total assets stood at \$58.5 billion. The count of 730 is slightly less than the 738 as of year end December 2010 due to license terminations and special purpose vehicles completing their policy cycle. Healthcare professional liability remains the leading line of business with 256 licensed companies comprising 35% of the market. Workers Compensation remains the second highest line with 157 companies being 22%. Premiums that originate from North America account

Chairman's Report continued

for 84% of the Cayman market, Europe accounts for 4%, Caribbean and Latin America 2% and the remainder of the global economy comprises the balance of 11%.

Good News! The Cayman Islands are listed by The Financial Stability Board as being a jurisdiction demonstrating sufficiently strong adherence. The FSB commenced an initiative in March 2010 to encourage the adherence by all countries and jurisdictions to regulatory and supervisory standards on international cooperation and information exchange. The initiative responded to a call by the G20 Leaders at their April 2009 Summit in London for the FSB to develop a toolbox of measures to promote adherence to prudential standards and cooperation with jurisdictions. Cayman received the positive news on November 2, 2011.

Forum Committee Report

The Cayman Captive Forum 2011 was held at The Ritz-Carlton, Grand Cayman from Tuesday November 29th to Thursday December 1st, 2011. The Forum Committee made the finishing touches on what was reported to be an amazing week of learning and networking. Over 1,260 attendees registered which exceeded our record attendance from last year!

The slate of speakers this year may be viewed on the agenda at <http://www.caymancaptive.ky/index.php?q=node/104>. Our Keynote Speaker Mr. Daniel Burrus, considered one of the world's leading technology forecasters and business strategists, wowed the crowd, with his ability to help clients better understand how technological, social, and business forces are converging to create enormous, untapped opportunities. An expert in predicting the future using hard trends, the New York Times has

referred to Burrus as one of America's top three business "gurus" in the highest demand as a speaker.

We were proud to have KPMG as our main event sponsor again this year! We seek further sponsorship opportunities in 2012 for those of you who are interested and we encourage you to contact our General Manager, Willie Forsythe at william.forsythe@caymancaptive.ky for more details.

Without the support of our sponsors and exhibitors we would not be able to hold this event nor would we be able to provide funding to the IMAC scholarship fund, the main beneficiary of this event, which annually provides scholastic opportunities to Caymanian students.

Thank you for attending the 2011 Forum which is now the world's leading captive conference.

IMAC Forum Committee members:

Seamus Tivnan, Chair - SRS
Rob Leadbetter
Executive Vice Chair - USA Risk
Erin Brosnihan - Kensington
Nick Gale - Marsh
Peter Jones - CMI
Kevin Poole - Kane
Jennifer Reid - Global
Helen Stephenson - Aon

Scholarship Committee Report

The Educational Scholarship Trust Fund of the Insurance Managers Association of Cayman (IMAC) was formed in 1994 to assist with the post high school education of young Caymanians. Contributions are derived from IMAC, the individual insurance management firms and the captive insurance companies themselves along with the proceeds of the annual Cayman Captive Forum held at the

Ritz Carlton. It is the intention that the funds available be used where they can provide the most benefit. During 2010 the Fund achieved charitable status which it is hoped will assist with future fundraising efforts. The financial statements are audited by KPMG.

The first recipient of a scholarship from the Fund was Mesha Scott from Cayman Brac. She successfully completed a United World Colleges degree at Atlantic College in Wales. Later Dorothy Scott from George Town was the recipient of a scholarship from the Fund to Armand Hammer College, New Mexico, U.S.A. She completed her studies and proceeded to study law at the London School of Economics. Thereafter the fund assisted Bradley Erskine who studied for a Finance degree at Florida International University and Tuda Murphy, who also gained a finance degree at King College in Tennessee. Additional funds have been granted, over the years to Adam Clyne, Jamile Solomon, Janine Mitchell, and Ian Beckles.

Our first full-time scholarship enabled Tiffany Anderson of Bodden Town to study for a BA (Hons) in Accounting and Finance at South Bank University in London, while Laveda Burton completed a B.A. Honours degree in Finance and International Business from Richmond University, also in London. Jessica Powell obtained an International Finance degree at the University of Miami and in May 2010 Monique Hydes graduated with a Bachelors in Business Administration with a concentration in Marketing at Nova Southeastern University. In early 2011 Victoria King gained a B.A in Spanish and Philosophy at the University of Virginia and Shivonne Nixon has recently graduated with a BA in Psychology at Acadia University in Canada.

Chairman's Report continued

Currently the fund is supporting the following full-time students:

Samantha Dorman
Bachelors in Vet Science at Massey University, New Zealand.

Onassia Bodden
Bachelor in Business Administration University of Miami

Camille Bodden
A Communications degree at Stetson University, Florida.

Karysa Ebanks
Management, majoring in Organisational Behaviour and Human Resource Management at Purdue University.

James Geary - Music at Anderson University.

Freddy Diaz Christian
Studying Film at University in Norwich, England

Brittany Borden
Business Administration at the University of Tampa. (2010 Tom Clark Scholarship recipient)

Sheena Jackson
Computer Science at University of Waterloo in Ontario, Canada (2011 Tom Clark Scholarship recipient)

Priscilla Brown
Business Management at the University of South Florida in Tampa

Whitney General
Biomedical Sciences at University of Sheffield

Annual Scholarship Fund Dinner & Auction

The 2nd annual scholarship dinner and auction was held on the 17th of September at Pappagallo Ristorante in order to meet these Scholarship obligations. It was attended by 150 IMAC members and guests and raised approximately \$30,000 for the fund. The evening consisted of a welcome reception on the patio with a silent auction, followed by a wonderful dinner prepared by the Pappagallo staff. All of this built up to the live auction with auctioneer Dan MacLean. The evening ended with the DJ playing music for dancing or simply enjoying a drink with fellow IMAC members.

The Committee is chaired by John Pitcairn - Artex

Legislative & Regulatory Committee Report

The Legislative and Regulatory Committee has reviewed a number of important items that came across its purview, including the proposed Regulations associated with the 2010 Insurance Law.

The Committee Chair has worked closely with other members of the IMAC Executive Committee, specifically the Chair and Vice-Chair, under the auspicious of the "Ad Hoc" committee to formulate a response to the initial draft of the Regulations. Also involved in the Ad Hoc Committee's make up were representatives of the captive insurance management industry, lawyers, auditors, and representatives from the existing and future classes of license holder under the 2010 Insurance Law, being Class As, Class Cs and Class Ds.

The work of the Ad Hoc Committee, including interacting with both CIMA

and Government, continued over the autumn of 2010 and into 2011. This involved a number of meetings and many drafts of the Regulations before breaking into the constituent parts of the industry, to better refine the response to the proposed draft Regulations. The ability to share the draft Regulations has been restricted to the Executive Committee and the Ad Hoc Committee, the L&R committee made proposals for the Regulations from both a wording and quantitative (capitalization etc) perspective. The considered feedback from the members of the Committee was coordinated and formed a significant portion of the final draft response submitted by the Chair of IMAC to Government.

Also reviewed are provisions of the US driven FATCA and Series LLC and Cell companies' tax initiatives. Currently, the Chair of the L&R Committee is involved in a small team of cross discipline interested industry parties, in determining and shaping the Cayman Islands need for Incorporated Cell Company Legislation. Due to the nature of the subject matter, this work is being kept to a select audience but when it is opportune, the proposed legislation will be made available to the Committee to review.

The Committee maintains a close eye on the potential impact of Solvency II and recent developments, as reported in the press.

Legislative & Regulatory Committee members:

Kieran O'Mahony, Chair – Aon
Steve Butler, Vice Chair – Chandler
Clayton Price, Executive Chair – Marsh
April Panton – Crusader
David Roberts – CSI
Dena Thompson – Kane
Harry Thompson - Captiva

Chairman's Report continued

Education Committee Report

The education committee of IMAC once again hosted the Captive 101 series. A record number of 52 attendees required having to move the sessions from UCCI to the theaters at Camana Bay. Attendees are took part in 6 sessions on a variety of topics including: understanding risk, underwriting and claims reserving, how captives work, regulation and industry developments, captive structures and account for captives and audit. When Susan Walton was asked about the sessions she stated "I am finding the sessions provide a great chance to learn more about captives from well prepared local experts and how critical the insurance industry is

The final session included a quiz night and a chance for the attendees to socialize with the presenters and other attendees.

On November 4, 2011 Tom Jones of McDermott Will & Emory and Gordon Rowell, Cayman Islands Monetary Authority presented at a joint Educational / Social also held at Camana Bay. This event was over subscribed with attendance at maximum capacity covering:

Health Care Reform in the USA
Topical Regulatory & Legislative matters in the USA affecting the Captive Industry
Insurance Law Reform

Following the educational session a social was held at Michael's Genuine Food & Drink. IMAC wishes to thank PKF for its support of the event.

Education Committee members:
Linda Haddleton, Chair - Kane
John Pitcairn, Vice Chair - Artex
Colleen Artuch - Aon
Jackie Campbell - Kensington
Barbara Fawcitt - Kane
Liz Fredrick - Kane
Megan Ogden - Marsh USA
Kevin Poole - Kane



L-R: John Pitcairn, Linda Haddleton & Melisa O'Brate



Barlo & Dan MacLean



Gala Dinner



CB Course

Chairman's Report continued



CB Course

Marketing Committee Report

Ongoing and current committee responsibilities and initiatives include conferences, media & press, website & social media, membership, local awareness to raise the profile as an industry of choice for young Caymanians, lobbying, and social events.

For the quarter, IMAC has introduced its new logo and expects to launch its new website, including links to committee organized and overseen social media pages, such as Facebook and LinkedIn. The committee is also working with Cayman Free Press (CFP) to provide regular access for IMAC news to the international news wire services and with newly established Cayman News Services (CNS) Business. Since September 1st this year, IMAC articles have appeared in Cayman Captive Magazine, Captive Review, Cayman Financial Review and Business Annual 2012 (waiting publishing).

The committee plans to produce an IMAC informational video in 2012 and to coordinate a trade road show and promotional materials to Canada in 2012 promoting expanded business opportunities between the Cayman Islands and Canada as result of the Tax Information Exchange Agreement (TIEA) signed between the two governments which became effective June 1, 2011.

Under the committee's ongoing guidance, IMAC Class B membership increased by 22%, or by 67 members, over the nine month period ending September 30, 2011, from 292 to 357 members. A new membership drive will coincide with the launch of IMAC's new website this quarter.

Finally, members of the Marketing Committee along with the Cayman Islands Government, attended the Annual ASHRM (American Society for Healthcare Risk Management) Conference & Exhibition held on

October 16-19 where the Honorable Premier, Mr. McKeever Bush, attended the conference and delivered welcoming remarks at the organized Cayman Social Reception that was held at the Westin Hotel, on the conference site in Phoenix, Arizona. The next event organized by the committee will be the IMAC's annual Christmas Party which will be held on the evening of Thursday, December 15th at Karma on Seven Mile Beach in Grand Cayman.

Marketing Committee members:
Steve Britton, Chair - Horseshoe
Alissa Mathews, Vice Chair - Marsh
Alanna Grace - Global
Colin Robinson - SRS
James Rawcliffe - Sagicor
JS de Jager - CSI
Lawrence Walters - Aon
Liam Fleming - Willis
Melisa O'Brate - Crusader
Michelle Storr - Kensington
Nick Leighton - Atlas
Willie Forsythe, IMAC General Manager.

Upcoming Events

IMAC Annual Christmas Party
December 15th at Karma.
Details to follow.

CICA 2012
March 11th - 13th
Scottsdale, Arizona

ARK and Aon join forces to help Cayman's needy families

Aon Insurance Managers (Cayman) Limited ("Aon") has made a significant commitment to supporting Cayman's ARK (Acts of random kindness). Aon generously donated the funds generated from their internal tuck shop to the ARK PANTRY PROJECT. The employees managed to raise \$500 and Aon as a Company made an additional \$1,500 contribution.

Aon's first food drive was organized in July and they managed to collect a substantial amount of food, and household items. Aon committed to a bi-annual food drive within the firm. This contribution will be a significant contributor to keeping the ARK pantry well stocked. Cayman's ARK pantry is a wonderful resource to local families who are struggling with hunger as a result of the economic downturn or families experiencing a unique crisis. The Pantry enables these families to choose the daily items they need in a more dignified manner, as well as food, they receive food vouchers so they can purchase fresh vegetables and meats. "Cayman's ARK are delighted that Aon Insurance Managers (Cayman) Limited has committed to organise a food drive twice a year to help stock ARK's Pantry and cannot thank the management and staff enough for their incredible generosity".

It is one of ARK's missions to work more closely with local corporations to get involved with local support groups and maintain an awareness that keeps them involved on a regular basis.

Paul Fitzgerald the Aon Insurance Managers' Social Committee representative said: "The donations were raised from two sources - staff members contributed by bringing food supplies and the profits of the office tuck shop went towards food items

and food vouchers".

Cayman's Ark has been working in the local community for 5 years helping families in crisis and supporting

those that 'fall between the cracks' of society. "ARK is acutely aware that hunger is not just a seasonal problem and work hard to ensure families that need it, will have access to it".



PwC welcomes Ian Bridges as Tax Director

On October 1, 2011, PwC Cayman welcomed Ian Bridges as Tax Director to the Cayman Islands firm. Ian is a Certified Public Accountant licensed in the state of Illinois, a member of the Canadian Institute of Chartered Accountants (CICA) (including the completion of the CICA in-depth tax course), and a member of the Cayman Islands Society of Professional Accountants. Ian received his Bachelors of Business Administration from Saint Francis Xavier University in Nova Scotia, Canada where he was an Academic All-Canadian.

Ian's focus is on providing U.S. tax compliance services to various entities, including captive insurance companies, alternative investment vehicles and expatriates. He has 14 years of combined tax, audit and captive management experience with both public accounting firms and the private sector. PwC Cayman is thrilled to have Ian on board.



Marsh spends their summer social day supporting the Blue Iguana Recovery Program

The Blue Iguana Recovery Program was developed among several international collaborators to reverse the iguana's path to extinction by breeding, head starting, and releasing iguanas within protected reserves in Grand Cayman. As recent as 2002 the wild population of the Grand Cayman Blue Iguana had dropped to less than 10. Since that discovery over 500 Blue iguanas (*Cyclura lewisi*) have been released into protected areas on the Eastern side of Grand Cayman.



The ultimate goal of the Blue Iguana Recovery Program is to secure and protect a stable, breeding wild population of at least 1000 iguanas capable of surviving indefinitely without ongoing human intervention. In addition to the direct goal of preventing the extinction of the iguana, John Merotta,

Warden for the Blue Iguana Recovery Program stated "we view this program as a flagship species approach to its more fundamental mission of protecting the unique natural environments of the Cayman Islands."

With only two full time staff members

Marsh Staff dedicated the time during their Summer Social Day by helping repair, prep and paint several of the pens. Mr. Merotta embraced Marsh's support saying "Marsh is on the front-lines, along with our staff, to assist when they can to ensure our ultimate goal is reached."

U.S. Tax Update

Grand Cayman – October 6th 2011 – On August 9, 2011, the U.S. Internal Revenue Service (IRS) reiterated guidance to its excise tax agents which continued the theme of increased scrutiny for offshore captive insurance companies originally announced by the IRS in 2008.

In general, the U.S. imposes a 4% excise tax on the amount of premiums paid to foreign insurers for property & casualty policies that insure against U.S. risks, and a 1% excise tax on the amount of premiums paid to foreign reinsurers. In 2008, the IRS addressed the issue of "cascading" excise taxes, and took the position that U.S. excise tax applies to

each payment to insure or reinsure the U.S. risks subject to the original policy, even if payments are between foreign insurers.

With the IRS' reiteration that it will continue to closely inspect offshore captives for potential underpayment of cascading excise taxes, it is critical for captives and their owners to understand when the IRS believes that U.S. excise tax should apply to premium payments, and plan for these situations accordingly. This issue may be especially important to captives that, because of a U.S. tax-exempt parent, are deliberately structured so as not to qualify as "insurance

companies" for U.S. tax purposes, since the IRS may attempt to levy excise tax in situations where premiums are reinsured with foreign companies that would be insurance companies under U.S. tax principles.

For more information, please contact:

Jonathan A. Treadway
Senior Manager | Tax Services
jtreadway@deloitte.com

Deloitte
One Capital Place, Shedden Road
Grand Cayman, Cayman Islands
1 (345) 949 7500

IMAC sees new business opportunities with Canada

The following article appeared in the CayCompass.com on 12 October 2011

Captive industry representatives from the Cayman Islands met with key decision makers from leading law firms, insurance brokers and actuaries at the annual convention of the Canadian Risk Insurance Management Society in Ottawa, Canada, from 19-21 September. The annual conference followed the signing of a tax information exchange agreement between Canada and the Cayman Islands in June 2011.

“Having ratified the Tax Information Exchange Agreement between Canada and Cayman earlier this year, Cayman is poised to offer Canadian business a viable option to Barbados for forming captive insurance companies,” said Clayton Price, current chairman of the Insurance Managers Association of Cayman and managing director of Marsh Management Services. The agreement is expected to offer a more tax-effective platform for Canadian

owned companies that have foreign operating subsidiaries. It will exempt certain dividends payable to foreign affiliates resident in the Cayman Islands and distributed to their Canadian parent companies from relevant Canadian taxation, according to a note by law firm Conyers Dill Pearman. In addition, it will make it easier for Canadian firms to form new Cayman companies, particularly captives and financing vehicles, and to potentially move business to Cayman from other double-tax treaty jurisdictions. “The TIEA puts Cayman in the same favourable position as Barbados,” said Mr. Price. Before the TIEA ratification, Barbados had enjoyed an advantage for doing business with Canadian companies due to the tax treaty the country has concluded with Canada. While Bermuda has also ratified a TIEA with Canada at the same time as Cayman, Mr. Price believes Cayman captives will offer a more efficient proposition, because Bermuda has chosen to adopt the European

Solvency II regulations, which may add extra costs.

Mr. Price said that after the meetings in Canada, the Cayman representatives felt encouraged and enthusiastic about the future prospects of incorporating captives with Canadian parents in the Cayman Islands being the domicile of choice.

In addition to the IMAC chairman, other attendees included IMAC members and industry representatives, including former chairman Ron Sulisz, director, Strategic Risk Solutions; Dan MacLean, managing director, Aon Risk Solutions; Harry Thompson, Captiva; Stephen Gray, Head of Office, Willis Management; Alan Craig, partner at Campbell’s; Dara Keogh, director with KPMG and Gordon Rowell, head of Insurance, Cayman Islands Monetary Authority.

<http://www.compasscayman.com/caycompass/2011/10/12/IMAC-sees-new-business--opportunities-with-Canada/>

Cayman Islands represented at ASHRM 2011



Premier McKeeva Bush flanked by Clayton Price (IMAC Chairman) and John Ferrari (KPMG) who sponsored the Reception.

Over 35 representatives from the industry and the Cayman Islands Government, attended the Annual ASHRM (American Society for Healthcare Risk Management) Conference & Exhibition held in Phoenix, Arizona on October 16-19, 2011. The Honorable Premier, Mr. McKeeva Bush, attended the conference and delivered welcoming remarks at the Cayman Islands Financial Services Reception that was held at the Westin Hotel and generously sponsored by KPMG.

A Note of Appreciation from one of our IMAC Scholarship Recipients

My name is James Antonio Geary and I am currently a senior music major studying to achieve my Bachelor of Arts degree at Anderson University. Music and the arts are a universal language that brings humanity together regardless of race, religion, or social standing.

Over the past 3 years, I have strived to become the best musician I could possibly be. In addition, I have been involved in a production of the musical "Children of Eden", playing the lead role of Noah and I have been accepted into Anderson's top music choir ("Chorale") which has performed on tour in numerous cities, in Ohio, Indiana, Pennsylvania, and even New York City. I have been accepted as a Vocal Performance minor here at the university. I am also the worship Leader at Celebration Church in Arrow Heights in Indiana.

In March, I released my six song EP entitled "Roots" which is now available on iTunes. My band has played at various music festivals, coffee shops, churches, and just recently on the radio in the Cayman Islands, courtesy of Radio Cayman.

For the past three years, I have also been heavily involved in dance both domestically and internationally. Here in Indiana, I run a Christian dance group called Covenant Army, and the styles represented are hip-hop, modern, breakdancing, reggae, salsa, and contemporary dance. Back in Cayman, I have been the dance instructor for a Church of God one-week summer camp called "Camp Jam" in which I taught a week long intensive on dance with a focus on worship.

Over the last 5 years I have been on the Cayman Islands National Rugby team and have toured with the team to Barbados, Bahamas, Guyana, London, and Nairobi, Kenya. In the U.S. I play for my university's team and so far this year we have won the state championship and the Sevens Championship for the Mid west region.

I am heavily involved with youth work both in the U.S. and in Cayman. During the summers I work at Springhill camps out in Evart, Michigan as a counselor working with junior high and high school students. I taught them about life, spirituality, and just having fun in the outdoors. In the community, I am a leader for my church's youth group which meets once a week. I normally share a word of encouragement with the youth. I have also been involved with organizations such as Young Life and NIYC (National Inspirational Youth Convention). On campus I work as a peer mentor, Admissions team guide, box office assistant, and music theory tutor.

All of the things mentioned above would not be possible without the help and support of the foundation in which you all have set aside for me. It has been by the grace of God that I have made it this far and my hearts goes out to the IMAC Scholarship Foundation for believing in me.

© 2011 KPMG, a Cayman Islands partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.

Technical Update

For the benefit of IMAC members and associate members, KPMG presents a quarterly summary of the key industry and technical accounting issues that are impacting captives and their boards of directors this year.

ASU 2011-04: Fair Value Measurement

1. What is it?

- Update to ASC topic 820 on Fair Value measurement.
- Defines fair value.
- Sets out in a single topic, a framework for measuring fair value.
- Sets out required disclosures with respect to fair value measurement.

2. Why was it issued?

- As part of the convergence project, the update was issued to improve comparability of fair value measurements between IFRS and US GAAP.
- IASB issued a similar standard, IFRS 13 concurrently with this update.

3. How does it affect us?

- Amendments to ASC topic 820 are split into amendments that *clarify* the FASB original intent and those that introduce *changes in principle* or *new disclosures*:

Clarifications	Changes in principle or new disclosures
- Principal market should be determined based on market with the greatest volume and level of activity.	<i>Principles</i> - Allows fair value measurement on a net basis for assets and liabilities managed as a portfolio subject to certain criteria.
- "Highest and best use" premise is only applicable for non-financial assets.	- Valuation premiums and discounts allowed only if market participants would consider these when measuring the fair value of the unit of account.
- Entities should disclose quantitative information about the unobservable inputs used in a fair value measurement classified as Level 3.	<i>Disclosures</i> - Valuation process applied in the measurement of the fair value of Level 3 instruments. - Sensitivity of the fair value measurement to the unobservable inputs. (Level 3)* - All transfers between Level 1 and Level 2 categories.* - Use of a non-financial asset in a manner that differs from the highest and best use where the highest and best use premise has been used to measure fair value. - Categorisation in the Fair Value Hierarchy for instruments that are not recognised at their fair value but for which fair value is a required disclosure.*

* Not required for non-public companies

4. When is it effective?

- Effective for periods beginning on or after December 15, 2011.
- Requirements are only applicable on a prospective basis.

For more information please contact:

Edward Gwekwete
Senior Manager
+ 1 345 914 4461
egwekwete@kpmg.ky

David Watt
Director
+ 1 345 914 4451
davidwatt@kpmg.ky

www.kpmg.ky

