Association of British Insurers

Future of Financial Reporting in the UK and the Republic of Ireland

The ABI's response to the ASB's revised exposure drafts

Introduction

1. The ABI is the voice of insurance in the UK. It has over 300 members, accounting for some 90% of premiums to the UK insurance industry, which manages investments amounting to 26% of the UK's net worth.

2. The ABI is grateful to the Accounting Standards Board (ASB) for the opportunity to respond to its revised exposure drafts, *The Future of Financial Reporting in the UK and Republic of Ireland.*

ABI comments

3. We welcome the ASB's publication of revised proposals for the future of UK financial reporting, in particular eliminating the concept of public accountability. This will enable more entities to apply its FRS rather than the IASB's IFRS, and should enable more subsidiaries to apply the reduced disclosure framework for IFRS, subject to company law constraints that we suggest need to be evaluated further.

4. We highlight three concerns. The first is that the proposals for disclosures by subsidiaries in financial institution groups do not take into account fully enough the way that financial risks are managed at the group level. The second is that it may be counterproductive to lose the current option in UK GAAP to include subsidiaries at a directors' valuation in a parent entity's own accounts. The third is that the proposed effective date of 2015 needs to be kept under review in the light of developments in IFRS 9 and in the ASB's proposals for UK insurance accounting.

5. Our responses to the ASB's individual questions, including further detail on these concerns, are set out in the appendix.

6. We also suggest that the ASB should seek changes to company law to enable subsidiaries currently on full IFRS to change to the reduced disclosure regime.

Association of British Insurers
April 2012

ABI response to the ASB's revised exposure drafts ***Appendix***
The Future of Financial Reporting in the UK and the Republic of Northern Ireland

ABI responses to the ASB's questions

Question 1

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

> *To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.*

Do you agree?

ABI response

1. We agree with the ASB other than in three respects. We suggest that the disclosure requirements for financial instruments should be further reduced for qualifying entities that are financial institutions – see paragraph 4 below. We also suggest that the effective date needs to be kept under review – see paragraph 11 below.

2. In addition, we recommend the retention of the current option in UK GAAP for subsidiaries in a parent company's own financial statements to be included at the directors' valuation, which is usually based on the subsidiaries' net assets. The requirement under IFRS for fair value, if not cost, is onerous and imposes costs on preparers. It is likely that a default to accounting at cost would become widespread practice, although it is not clear that this would produce information that is more relevant to users. We suggest that this current UK GAAP option should be retained both in the reduced disclosure framework (ED 47) and the UK FRS (ED 48).

3. We note that EDs 47 and 48 do not generally amend IFRS measurement requirements. This ensures consistency of measurement within a group and so facilitates consolidation. However, because valuations of subsidiaries are eliminated on consolidation, we suggest that to continue to allow directors' valuations would an appropriate pragmatic compromise.

4. Lastly, we note that an insurer that might wish to report under the reduced disclosure framework proposed in draft FRS 101 would anyway have to comply with the specific insurance accounting requirements in Schedule 3 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, which are largely derived from the European Insurance Accounts Directive. We suggest that further work is needed in this area. We highlight in particular the Regulations' requirements for:

- technical/non-technical account presentation compared with the more general requirements of IAS 1;

- discounting general business provisions – only for claims settlement periods exceeding four years, on a prudential basis, and at a rate capped in relation to asset performance; and

- detailed disclosures, including for financial instruments.

Question 2

The ASB has decided to seek views on whether as proposed in FRED 47:

> *A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or alternatively*
>
> *A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41, and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).*

Which alternative do you prefer and why?

ABI response

5. We prefer that a qualifying entity that is a financial institution should not have to comply with all of the disclosure requirements in IFRS 7 and IFRS 13.

6. We agree that a qualifying entity that is a financial institution should make disclosures for financial instruments that are not required of other qualifying entities. However, we do not agree with all of the ASB's selection of disclosures.

7. Subsidiaries in financial services groups very often engage in financial transactions that reflect the management of financial risks at a group level. In these cases, it may be misleading to give the detailed but partial information that may be needed to meet some of the requirements of IFRS 7 that the ASB refers to. We suggest the disclosure requirements should be restricted to the more general ones in IFRS 7, being paragraphs 6, 7, 31, 33, and 34(a). We consider this approach to be consistent with that proposed by the ASB for IFRS 13, being to include only the generalised requirement in paragraph 91.

Question 3

Do you agree with the proposed scope for the areas cross-referenced to EU adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

ABI response

8. We agree with the scope.

Question 4

Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

ABI response

9. We agree with the definition.

Question 5

In relation to the proposals for specialist activities, the ASB would welcome views on:

> *(a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?*
>
> *(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?*

ABI response

10. We have no views on these questions.

Question 6

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

> *(a) Do you consider that the proposals provide sufficient guidance?*
>
> *(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?*

ABI response

11. We have no views on this question.

Question 7

Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

ABI response

12. We agree with these requirements.

Question 8

Do you agree with the effective date? If not, what alternative date would you prefer and why?

ABI response

13. We note that the ASB intends to consult again once IFRS 9 is finalised. We suggest that the effective date for the proposed FRSs should be reviewed again at

that stage as well as, for insurers, when the future of insurance accounting in the UK is determined.

Question 9

Do you support the alternative view, or any individual aspect of it?

ABI response

13. We support some of the aims of the ASB member with the alternative view, such as to cut the clutter. However, we do not support any wholesale re-writing of IFRS requirements for the UK so as to introduce significant new recognition and measurement differences. Instead, we suggest that the ASB's focus should be to seek appropriate changes to IFRS.