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Dear Jenny

**RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED
ACCOUNTANTS IRELAND**

FRED 49 – DRAFT FRS 103 INSURANCE CONTRACTS

The Accounting Committee (AC) of Chartered Accountants Ireland welcomes the opportunity to respond to the proposals in the abovementioned exposure draft.

AC is supportive of the general approach, adopted by the FRC in the FRED, of basing the UK and Irish GAAP standard on insurance contracts on IFRS 4 and incorporating relevant requirements and guidance from both FRS 27 and the ABI SORP.

AC encourages the FRC to consider clarifying that captive insurance entities, within non-insurance groups, would be entitled to a level of disclosure exemptions consistent with the exemptions available to qualifying entities in FRS 101 and FRS 102, with particular reference to the development table.

Should you wish to discuss any of the views expressed, please feel free to contact me.

Yours sincerely



Mark Kenny
Secretary to the Accounting Committee

APPENDIX

Question 1

Do you support the introduction of draft FRS 103, based on IFRS 4 and incorporating many of the requirements of FRS 27 Life Assurance and elements of the ABI SORP? Does it achieve its aim of allowing entities, generally, to continue with their existing accounting policies for insurance contracts? If not, why not?

AC supports the approach taken by the FRC. The approach set out in ED is consistent with the feedback from the 'Mind the GAAP' consultation where the vast majority of respondents sought an approach which was based on current existing requirements including IFRS 4. It should be noted, however, that insurance companies that had not adopted FRS 26, and therefore had not applied the insurance contracts definition in Appendix C of that standard, may face significant change as they apply the insurance contract definition.

Furthermore, by including the requirements of IFRS 4, significant additional disclosures are required under FRS 103 which will significantly expand the requirements for insurance companies.

Ireland is a significant domicile for captive insurance entities. Captive insurance entities 'self-insure' a portion of the risks of corporate groups. On consolidation, the disclosure requirements of IFRS 4 fall away for the insurance business of the captive (replaced by the more limited disclosures required for provisions in IAS 37). Therefore, AC recommends that the FRC should consider clarifying that captive insurance entities, within non-insurance groups, are entitled to a level of disclosure exemptions in line with that available to qualifying entities under FRS 101 and 102, with particular reference to the development table.

Question 2

The FRED includes the 'improvement' options from IFRS 4. Do you agree with the inclusion of these options in the draft FRS? If not, why not?

AC agrees with the inclusion of the options. As noted in the section on the Accounting Council's advice to the FRC, part of the objective of the FRS 102 project was to move closer to the IFRS measurement model and, therefore, including this section of IFRS 4 is appropriate. This paragraph in IFRS 4 was aimed at the divergence of accounting policy across the EU and was an anti-avoidance measure to ensure the accounting policy choice in IFRS 4 did not allow for the selection of policies which were inconsistent with the general IFRS principles. This is less relevant where the predecessor GAAP is a single framework, such as UK GAAP, however, the improvements options should allow entities to select accounting policies in future periods particularly if Regulations permit more market consistent approaches (for example, the use of discounting if this becomes permitted under Solvency II).



Question 3

Draft FRS 103 paragraph 1.5 requires new entrants to apply the same requirements as existing preparers in setting a benchmark for their accounting policies, but they are also permitted to utilise the improvement option where justified, in finalising their initial accounting policies.

Is there sufficient clarity on the application of the draft FRS by new entrants? If not, how should this be improved?

AC supports the FRC addressing the issue of new entrants as this was an issue not covered by the IASB with IFRS 4. However, often new entrants will be part of an existing insurance group and, therefore, AC recommends that entities should be permitted to adopt initial accounting policies based on the group accounting policies, subject to those policies satisfying an appropriate level of acceptability. This would be consistent with the wider objectives of the overall project. In practice, such an option may not lead to significant divergence by new entrants as those entities will still be subject to the same prudential insurance regulations to which predecessor GAAP is aligned. However, as the regulatory landscape changes, this approach may be beneficial to new insurance entities within a group.

AC considers that the application guidance for new entrants is sufficient.

Question 4

Draft FRS 103 includes paragraphs from IFRS 4 on future investment margins. Paragraph 2.8 notes that an insurer need not change its accounting policies to eliminate future investment margins, however there is a rebuttable presumption that an insurer's financial statements will become less relevant and reliable if an accounting policy is introduced that reflects future investment margins in the measurement of insurance contracts (unless those margins affect contractual payments). Paragraph 2.9 describes how an insurer might overcome the rebuttable presumption.

Do you agree with the rebuttable presumption? If not, please describe your preferred measurement basis for insurance contracts and whether or not you would permit insurers to continue with their existing accounting policies in this area for the time being?

This is an area of significant debate within the IASB insurance contracts project. However, maintaining the IFRS 4 requirements in FRS 103 does mean closer alignment between FRS and current IFRS and does not create an unnecessary difference between the two frameworks. The FRC has already indicated the need to review the standard when the IASB insurance contract project is complete or when Solvency II is implemented. AC considers this to be a reasonable approach.

Question 5

Draft FRS 103 paragraph 4.7(c)(iii) has adopted the IFRS 4 requirement for claims development disclosures. Is the data for these disclosures readily available to preparers?

Yes – while this was an issue on EU adoption of IFRS, insurers should be able to obtain this detail. However, AC notes the comments in the response to Question 1 in relation to disclosure exemptions for captive insurance entities.

Question 6

The requirement to provide capital disclosures is now contained in paragraph 34.31 of FRS 102 and Section 3 of the draft Implementation Guidance provides only guidance on how those disclosures might be made by insurers with long-term insurance business, rather than mandating a particular presentation.

Do you believe this approach is appropriate in the context of applying draft FRS 103 with FRS 102? Will it have an impact on the usefulness of the disclosures to users of financial statements?

AC agrees with the proposed approach, on the grounds that providing the detailed requirements from FRS 27 in the IG should ensure that appropriate disclosures continue to be made, that are useful for users of financial statements of long term insurance business, while the new capital disclosure requirements will increase the usefulness of financial statements of general insurance companies for users. AC would consider the inclusion of the disclosures in the body of FRS 103 equally acceptable and recommends that, if the IG approach is retained, FRC should assess in its post-implementation review whether there is evidence of entities not following the IG disclosure approach.

Question 7

Do you think the guidance on providing capital disclosures, set out in Section 3 of the draft Implementation Guidance, should also be applicable to other financial institutions applying FRS 102, such as banking entities?

AC considers that providing additional guidance on capital disclosure for regulated entities, such as banking entities, would be beneficial in ensuring more consistent disclosures and therefore enhance the understanding for users of financial statements. The guidance would require significant modification, however.



Question 8

Draft FRS 103, as with other accounting standards, is written in the context of a company and the relevant legal requirements. Appendix IV recognises that draft FRS 103 applies to other entities, including mutual insurers established under the Friendly Societies Act 1992. Are there any requirements of the draft standard or accompanying draft Implementation Guidance that you consider require amendment in order to be applied by insurers other than companies?

No.

Question 9

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

AC agrees with the proposed effective date. While there is some merit in considering a delayed implementation, to allow for the impending insurance contracts standard and Solvency II, delaying the implementation of the new FRS framework for insurance entities, while all other entities move to the new framework, is not desirable. The approach taken in FRS 103 is an alignment with existing requirements, recognising the significant changes ahead and, therefore, minimising the impact of having the adopt FRS 103 in advance of those changes.