ILAG

Investment & Life Assurance Group
The Practitioner Voice

Accounting Standards Board
5th floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

30 April 2012

Dear Sirs,

Insurance Accounting – mind the UK GAAP

ILAG is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

A list of ILAG members is at the end of this submission.

Overview

We welcome the opportunity to respond to the Board's discussion paper.

As indicated in our response to FREDs 46 to 48, we support the Board's short term solution of incorporating IFRS 4 Phase I into FRS 102 (option 1).

The discussion on how to fill the gap in UK GAAP needs to be concluded promptly so that preparers have as long a period of certainty as possible before the mandatory effective date of FRS 102.

We would also flag that option 1 will still leave a gap in UK GAAP for some insurers during 2014 if Solvency 2 comes into effect from 1 January 2014 and the Solvency 1 rules referenced in FRS 27 and the ABI SORP are switched off. A solution to this '*2014*' gap is needed and the solution must be compatible with IFRS 4 Phase I. Preparers will not want to change their accounting policies for 2014 only to change them again in 2015, especially as IFRS 4 Phase II may mean further changes shortly after that.

IFRS 4 Phase II appears to be the obvious long term solution for insurance accounting under UK GAAP but it is important, particularly as much of the detail of the Phase II standard has still to be finalised, that the Board puts down a marker now that it will consider making modifications as appropriate to the Phase II standard for UK GAAP purposes. The Board's objective of proportionate financial reporting should determine the nature of these modifications, which should be applicable to all entities, not just qualifying entities.

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There are a number of insurers that are relatively small, or with simple business models, which are not part of group's already preparing full IFRS financial statements. For such entities, the full weight of the Phase II standard could be disproportionate, with the cost involved far outweighing any benefit derived by users.

Our responses to the specific consultation questions are attached.

Yours faithfully

Lynda Maynard
Administration Team

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Response to specific Consultation questions - Insurance Accounting – mind the UK GAAP

Long-term solution

7.4 Do you agree that the long-term solution for accounting for insurance by reporting entities in the UK (listed and unlisted) is to incorporate IFRS 4 Phase II into UK GAAP, when issued by the IASB and adopted for use in the EU?

We agree that the long term solution should be to incorporate IFRS 4 Phase II into UK GAAP. When the disclosure requirements of IFRS 4 Phase II have been finalised, consideration should be given to making appropriate exemptions available to qualifying entities, and indeed to other entities.

In the interests of proportionate financial reporting, the Board should not rule out the possibility of making modifications to the recognition and measurement requirements of the Phase II standard, should this be appropriate when the final details of the new standard are known.

Short-term solution

7.5 When providing comments on the short-term solutions please comment on: (a) whether you agree that all aspects of the problem have been identified? If not, what is missing and how do you see it impacting the accounting for insurance contracts?

Under option 1, no consideration appears to have been given to UK GAAP for accounting periods beginning 1/1/2014. This is still the date when Solvency II is expected to be implemented and it will make the Solvency I – related sections of FRS 27 and the ABI SORP obsolete. As draft FRS 102 is only expected to be mandatory from 1/1/2015, preparers will need some guidance for this interim period.

The potential impact of the changes to the tax regime for life insurance should be identified. The detailed rules and particularly the transitional arrangements may have a significant impact on how entities opt to account for their insurance liabilities.

(b) what is your preferred solution (whether one of those set out in section 6 above or not) for insurance accounting in the UK during the gap period?

Our preferred solution is option 1, notwithstanding our comments in 7.5(a) regarding the gap in 2014 in respect of UK GAAP.

The 2014 gap in UK GAAP will necessitate the re-writing of FRS 27 and the ABI SORP and the pragmatic solution appears to be to embed the existing FSA solvency rules into UK GAAP, albeit that most (but not all insurers) are expected to be subject to Solvency II requirements from 1/1/2014. This approach will enable entities to continue with their existing accounting policies in 2014 and require limited changes on adopting IFRS 4 Phase I under draft FRS 102.

If IFRS 4 Phase II is finalised in the near future, and a clear timetable for its implementation established, we accept that there is an argument for permitting insurers to continue with their '*2014*' arrangements, as a transitional provisional under draft FRS 102, until Phase II is effective.

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(c) what is the your rationale for proposing that solution, including the balance of cost and benefits?

Option 1 provides the greatest flexibility and allows preparers to strike their own balance between cost and benefit. Preparers can continue using their existing accounting policies; alternatively, they can improve them in line with current developments in regulatory and accounting practice.

(d) what is the likely impact of any changes in accounting for insurance contracts under UK GAAP on the entity you have in mind. It would be helpful if your response clarifies the current position of the reporting entity you have in mind (listed, unlisted, reporting in accordance with IFRS/grandfathering/own accounting policies/UK GAAP/other).

No comment.

Ends

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ILAG Membership

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