Michelle Sansom
Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

30 April 2012

Dear Michelle,

The Future of Financial Reporting in the UK and Republic of Ireland – FREDs 46, 47 and 48

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 proposals set out in FREDs 46 to 48. The proposals are broadly welcomed and are a definite improvement on the original proposals contained in FREDs 43 to 45. We are particularly pleased that the Board has drawn back from requiring all '*publicly accountable*' entities to adopt full IFRS. There are many entities falling within the proposed definition of 'publicly accountable' for which the costs of full IFRS would far outweigh the benefits.

Having saved '*publicly accountable*' entities from unnecessary costs by this decision, it is, however, to be regretted that the Board has seen fit to inflict new unnecessary costs on many of the same entities, now defined as '*financial institutions*', by refusing them some of the disclosure exemptions in respect of investments available to other entities.

Specifically, as regards insurance, the Board's new proposals seem sensible and pragmatic. 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.

However, the preferred short term solution of incorporating IFRS 4 Phase I into draft FRS 102 will still leave a gap in UK GAAP for some insurers during 2014 if Solvency II comes into effect from 1 January 2014 and the Solvency I 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

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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. 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 sincerely

Lynda Maynard
Administration Team

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Response to specific Consultation questions – FREDs 46, 47 and 48

Q1. 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?

We broadly support the proposals in FREDs 46 to 48, although we draw your attention to our comments in Q2 and 4.

Specifically, in respect of insurance contracts, given the ASB's proposals are still at a discussion paper stage, with multiple options under consideration, it is not possible to form a view as to whether the project objectives have been met in this area.

Q2. 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?

We do not accept that it is appropriate to make the distinction in disclosure requirements between '*financial institutions*' and other entities. It would be more useful to differentiate on the basis of the complexity of the financial instruments held by entities. There are many '*financial institutions*' for which providing any additional disclosures would represent an unnecessary burden given the limited benefit users are expected to derive from them. This is one area where the proposals do not meet the ASB's desired objective as stated in Q1.

The information needs of users will be met by the regulatory reporting requirements applicable to banks and insurers. The Pillar III requirements of Solvency II, for example, are expected to result in a lot of investment information being made publicly available.

Notwithstanding the above, if the ASB is to require qualifying entities that are financial institutions to make additional disclosures in respect of financial instruments, we prefer the second option as it is less burdensome.

Q3. 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.

The proposals are reasonable in respect of earnings per share, interim financial reporting and operating segments.

In respect of accounting for insurance contracts, please refer to our separate response to the *'Insurance Accounting – mind the UK GAAP'* discussion paper *(attached)*

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Q.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.

As stated in our response in Q2, it is not necessary to include a definition of a financial institution in the FRS.

However, if a definition is to be included, it should be only those entities regulated as insurers that are included within the scope of the definition. As currently drafted, it is unclear if the reference to '*insurance contracts*' is intended to represent the accounting or regulatory definition of that term.

The regulatory definition is the appropriate one and, therefore, we recommend tying the definition back to those companies that have a Part IV permission to effect or carry out contracts of insurance.

Q5. 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?

No comment.

(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

No comment.

Q6. 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?

No comment.

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

No comment.

Q7. 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?

The proposals in section 33 seem reasonable and should meet the needs of preparers and users.

Q8. Do you agree with the effective date? If not, what alternative date would you prefer and why?

Yes, we agree with the effective date provided the standard is finalised on a timely basis to give adequate lead-time to preparers.

Q9. Do you support the alternative view, or any individual aspect of it?

No comment.

Ends

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