

In the January 2012 issue

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ASB publishes Financial Reporting Exposure Draft: The Future of Financial Reporting in the UK and Republic of Ireland

Over the last few months, the ASB has been busy finalising its revised proposals for the new suite of UK Financial Reporting Standards. Project Director Michelle Sansom has been leading the way and provides an overview.

The ASB has published three Financial Reporting Exposure Drafts (FREDs) setting out revised proposals for the future of financial reporting in the UK and Republic of Ireland:

- FRED 46 'Application of Financial Reporting Requirements' (draft FRS 100);
- FRED 47 'Reduced Disclosure Framework' (draft FRS 101); and
- FRED 48 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (draft FRS 102).

It is intended that these FREDs will replace the current body of Financial Reporting Standards (FRS) issued by the ASB. These FREDs follow the ASB's previous exposure drafts (FREDs 43 to 45). The ASB is proposing significant changes to FREDs 43 to 45 after considering the matters raised during that consultation.

The FREDs can be accessed at <http://www.frc.org.uk/asb/publications/documents.cfm?cat=3>. The revised proposals are open for comment until 30 April 2012. The proposed effective date is for accounting periods beginning on or after 1 January 2015.

Content of the revised proposals
The revised proposals recommend:

- (a) a financial reporting structure (FRED 46) whereby:**
- (i) *entities required by law to apply EU-adopted IFRS must do so;*
 - (ii) *certain qualifying entities may apply the EU-adopted IFRS with reduced disclosures as set out in FRED 47;*
 - (iii) *all other entities apply the draft standard set out in FRED 48; and*
 - (iv) *entities eligible to apply the FRSSE may continue to apply it.*

(b) introduction of a reduced disclosure framework (FRED 47), consistent with its previous proposals, the ASB is recommending that certain entities (mainly subsidiaries and ultimate parents) may apply the recognition and measurement requirements of EU-adopted IFRS with reduced disclosures.

(c) replacing all current accounting standards with a single FRS (FRED 48). The ASB is proposing (consistent with its previous proposals) to use the IFRS for SMEs, as issued by the International

Accounting Standards Board (IASB), as the base for FRED 48. However, the revised proposals include modifications to the IFRS for SMEs so that it fits better with the financial reporting requirements in the UK and Republic of Ireland.

(d) retaining the financial reporting standard for smaller entities (FRSSE). In view of the European Commission's proposals to change the financial reporting requirements for small and micro-sized entities, the ASB considers that the FRSSE will need to be retained. It will consult further on this standard once the Commission's proposals are clarified.

As a consequence of the feedback to its previous FREDs, the ASB is proposing the following changes/clarifications:

(a) elimination of the reference to public accountability, previous proposals recommended the introduction of a tier system for financial reporting depending on whether an entity was publicly accountable. An entity with public accountability would have been required to apply EU-adopted IFRS.

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ASB publishes Financial Reporting Exposure Draft: The Future of Financial Reporting in the UK and Republic of Ireland */...Continued*

The ASB received feedback that the definition was difficult to apply and those entities that would have been considered publicly accountable questioned the benefits in comparison to the cost of applying EU-adopted IFRS. The ASB has removed references to public accountability and, consequently, the application of EU-adopted IFRS will not be extended beyond that required by the EU Regulation on International Accounting Standards.

(b) clarification of which entities may apply the reduced disclosure framework,

the proposal for the introduction of a reduced disclosure framework received strong support. The reduced disclosure framework is available to a member of a group that prepares publicly available financial statements in which that member is consolidated, this expands the availability of the framework to ultimate parent undertakings.

(c) clarification that reduced disclosures are only available for individual financial statements, that is entities preparing consolidated financial statements may not apply FRED 47.

(d) expanding requirements for a broader group of entities, the elimination of public accountability has the consequence that a broader group of entities may apply the proposals in FRED 48. The ASB is proposing:

- financial institutions provide additional disclosures supplementing the requirements in sections 11 and 12;
- pension funds follow new requirements set out in section 34 and the pension fund SORP is updated; and

- certain entities are required to apply the relevant EU-adopted IFRS for insurance contracts, interim financial reporting, segmental reporting and earnings per share.

(e) introducing accounting options permitted under current accounting standards, previously the ASB had sought to make minimal changes to the IFRS for SMEs it has, however, reviewed this and is now proposing that where an accounting treatment is permitted currently in UK and Irish accounting standards and in international accounting standards it should be retained. As a consequence the following options are proposed:

- revaluation of land and buildings
- capitalisation of borrowing costs
- carry forward of certain development expenses and
- hedge accounting is permitted for a net investment in a foreign operation.

(f) clarification of accounting treatment, the ASB has also sought to clarify the accounting requirements for a number of issues that respondents to its previous proposal requested, such as the requirements to prepare consolidated financial statements; and the treatment of loan covenants.

(g) incorporating guidance for public benefit entities (PBEs) into FRED 48. The ASB issued an exposure draft (FRED 45) that addressed the needs of public benefit entities in March 2011. The ASB is proposing that all accounting requirements relating to PBEs be incorporated into the single standard.

Future proposals on UK Financial Reporting Standards

Additional exposure draft for financial instruments

The ASB has also decided that it will issue a further FRED proposing amendments to FRED 48 for *financial instruments* when the IASB updates IFRS 9 Financial Instruments. The accounting for financial instruments in FRED 48 is mainly based on IAS 39 'Financial Instruments: Recognition and Measurement', the IASB standard on financial instruments. The IASB is in the process of issuing a replacement financial instruments standard, IFRS 9 '*Financial Instruments*'. As a consequence, FRED 48 does not reflect the most up-to-date thinking for financial instruments and incorporates weaknesses in IAS 39.

Consultation on insurance accounting

The ASB has issued a staff paper on insurance accounting. FRED 48 requires entities to apply IFRS 4 'Insurance Contracts'. IFRS 4 'grandfathers' entities previous accounting. In the UK, this includes applying the requirements of FRS 27 'Life Assurance'. The requirements in FRS 27 are based on the Regulatory Framework that exists in the UK at present. The Regulatory Framework is expected to change shortly which means that FRS 27 will no longer be aligned with the Regulatory Framework. The ASB is therefore consulting on how to amend accounting for insurance contracts (see page 7).

Consultation on the future of the FRSSSE

The ASB is proposing to consult on how to amend the FRSSSE once the EU proposals for small and micro-entities become clear.

Improving the Financial Reporting of Income Tax

Accounting for income tax is a topic that has generated debate not only in the UK but also in Europe and Internationally. Andrew Lennard, Research Director outlines some alternative approaches to accounting for tax.

The ASB and EFRAG have jointly published a Discussion Paper (DP) on the accounting for tax. The aim of the consultation is to obtain views on what, if any, changes to IAS 12 'Income Taxes' should be considered. The paper discusses two kinds of changes: first, limited improvements to IAS 12, that might be made without altering its fundamental principles; secondly, alternative conceptual views that might form the basis for a new standard.

The possible limited amendments requirements that are discussed in the paper are those that would make the information on tax that is given in financial reports more useful, especially by giving clearer insights into the tax charge and the prospects for future tax payments. In particular, improvements to the reconciliation of the tax charge to a standard rate are explored. Other issues discussed include discounting of deferred tax and various methods that might be used to measure uncertain tax positions.

The second part of the paper looks at the conceptual foundations of deferred tax accounting. It starts by reviewing the basis of the 'temporary difference' on which IAS 12 is built. The principle of that approach is that provision is made for a liability where the carrying amount of an asset is greater than its 'tax base', i.e. the amount attributed to the asset for tax purposes. This is based on the premise that recovery of the asset will necessarily entail a tax expense at higher than the standard rate.

However, there are a number of exceptions to this principle in IAS 12. These make the standard more complex and call into question its basic principle. Critics of IAS 12 do not agree that there is a necessarily a liability for all temporary differences. They note that the asset may generate future returns in excess of the carrying

amount of the asset and the related tax consequences. In their view, a parallel may be drawn to the review of an asset for impairment under IAS 36, which involves consideration of future income and expenses, although these are not presently assets and liabilities. The paper reviews four alternative approaches.

(i) Flow-through accounting

Under flow-through accounting the reported tax expense is simply the tax that will be assessed for the year. This is simple to apply, but seems to require consideration of exceptions, that could only be arbitrary, and extensive disclosures.

(ii) Partial allocation

Partial allocation, which was formerly required in the UK under SSAP 15, deferred tax is recognised only for timing differences that are expected to reverse in the future. The paper notes some conceptual arguments against partial allocation – including that some liabilities will be omitted. It also requires the use of estimates, which will often be complex and subjective. As with flow-through, there seems to be case for exceptions and a need for quite complex disclosures.

(iii) Valuation adjustment

Another approach – the 'valuation adjustment' is based on the premise that tax effects should be reflected in the amount at which other assets are stated. For example, an asset would be reduced for tax relief on capital allowances. But some would be concerned that this would obscure the difference between pre-tax and post-tax amounts. Further issues would arise if this approach were to be pursued.

(iv) The accruals approach

The accruals approach requires that all tax arising in a period is accrued – whether it will be assessed to tax for the

current period or a future one. And any tax effects of future transactions should be reported as assets or liabilities, to be released to income in the same period as the underlying transaction. In other words, tax should be accrued on the same basis as any other expense. In practice, such an approach is similar to a 'timing difference' approach. However, that was usually seen as a merely mechanical exercise: but the application of accruals explicitly requires consideration of an impact on future cash flows.

The DP can be accessed at <http://www.frc.org.uk/asb/publications/documents.cfm?cat=4>. The ASB and EFRAG are requesting comments by 29 June 2012.

European developments

EFRAG issues

The ASB continues to work closely with the European Financial Reporting Advisory Group (EFRAG), both as a participant in its Technical Experts Group (TEG), and with other major European standard-setters on proactive issues which fall within the remit of EFRAG's Planning and Resources Committee (PRC). As well as the proactive projects on income tax and the disclosure framework referred to elsewhere in this edition of *Inside Track*, the ASB is working with EFRAG and other European partners on a number of other projects:

- *Considering the Effects of Accounting Standards* – the ASB and EFRAG have been considering the responses to the January 2011 DP that proposed an approach for standard-setters to adopt on this issue and hope to issue a further report and feedback statement in the near future;
- *The role of the business model in financial reporting* – the ASB is working together on this project, which is still at an early stage, with EFRAG and the French ANC.

EU Endorsement of IFRS

Any new or revised IFRS or IFRIC Interpretation has first to be endorsed for use in the EU before it can be applied by EU-listed companies in their consolidated financial statements under a process first set out in Regulation 1606/2002, and as amended in Regulation 297/2008.

During January, EFRAG issued its latest report showing the status of endorsement for application in the EU of each IFRS and IFRIC Interpretation. The report shows that there are currently 14 IASB pronouncements awaiting endorsement for use in Europe. The report can be downloaded from the EFRAG website at: http://www.efrag.org/files/Endorsement%20status%20report/EFrag_Endorsement_Status_Report_20_January_2012.pdf.

European Commission (EC)

In October 2011, the EC issued a raft of material as part of a package of proposals under the banner 'responsible business'. In summary, the main elements include:

- Replacing the two existing Accounting Directives with a single Directive which would bring in a maximum harmonisation regime for small companies, with a Member State option for even simpler accounting by so-called micro-entities, which have been agreed between the European Council and the European Parliament (EP);

- Amending the Transparency Directive, including the removal of the requirement for issuers to prepare interim management statements/quarterly reports;
- Introducing a proposal for Country-by-Country Reporting (CBCR), that would require large companies operating in the extractive and logging sectors to report taxes, royalties and bonuses that it pays to a host government. The proposal is reflected in both the proposed Accounting and Transparency Directives, so that it can also apply to large unlisted companies operating in the relevant sectors.

The package also included a Communication on Corporate Social Responsibility (CSR), which made reference to the Commission developing a legislative proposal for the disclosure of non-financial information by companies. At the time of writing, the proposal has yet to be published.

The main legislative proposals are now being discussed in a Council Working Group and the Danish Presidency is keen to get agreement on them in the first half of this year. If passed in their current form, the proposals will impact on the ASB's proposed regime for the future of financial reporting (see page 1).

European Securities and Market Authority (ESMA)

In November 2011, ESMA published a consultation paper on materiality in financial reporting (**available at: <http://www.esma.europa.eu/news/ESMA-launches-consultation-considerations-materiality-financial-reporting?t=326&o=home>**). The consultation paper notes that a recurring theme of discussions between European enforcers of accounting standards (the EECS group) are the apparent differing views regarding the practical application of the concept of materiality amongst preparers, auditors, possibly users of the financial reports and, in some instances, accounting enforcers.

The consultation paper seeks comments (to be submitted by 29 February 2012) from interested parties on their understanding of various aspects of materiality in an effort to contribute to a consistent application. The ASB is planning to respond to the consultation, as is EFRAG. ESMA will consider the feedback received, with a view to publishing a final report later in 2012.

International issues

International Accounting Standards Board (IASB)

The IASB continues to address issues relating to both the financial crisis and its Memorandum of Understanding (MoU) with the US Financial Accounting Standards Board (FASB).

On 20 December 2011, the IASB posted on its website a revised Work Plan, which reflects an updated position and which can be accessed at: <http://www.iasb.org/Current+Projects/IASB+Projects/IASB+Work+Plan.htm>. As reported in *Inside Track* 68, the IASB has consulted on its future agenda and is now starting to consider the responses to that consultation. However, the Work Plan shows that completion of the IASB and FASB's work on the four main priority projects (leases, revenue recognition, financial instruments and insurance contracts) remains the major challenge.

In common with the rest of the world, the ASB is waiting for the determination from the US Securities and Exchange Commission (SEC) on the incorporation of IFRS into the US financial reporting system. At a US accounting conference in December 2011, SEC Chief Accountant James Kroeker announced that the staff will need a 'few additional months' to produce a final report for the SEC Commissioners on IFRS incorporation.

National Standard-Setters (NSS)

As reported previously, the ASB is part of a group of national accounting standard-setters (NSS) from around the world, plus other organisations that have a close involvement in financial reporting issues. The group has now been renamed the International Forum of Accounting Standard-Setters (IFASS) and continues to meet twice a year. The next meeting of the group will take place in Kuala Lumpur on 29-30 March. The ASB will attend and play an active role in the work of the group, as part of its influencing role.

UITF and IFRIC Update

UITF

The UITF has recently been considering two matters referred to it:

The accounting for multi-employer benefit schemes, the UITF was asked to consider whether the accounting requirements in IAS 17 'Retirement Benefits' should be amended for a multi-employer scheme where the employer has entered into a funding agreement to make deficit payments and accounts for the scheme as a defined contribution scheme as it is unable to identify its share of the underlying assets and liabilities in the scheme. The UITF referred the matter on to the ASB, which has decided not to take any further action.

The accounting for service charges, the UITF considered a request from the ICAEW to review the accounting for tenant service charges. The UITF requested that staff undertake further analysis and analysis examples to be considered at the next UITF meeting.

IFRIC Update

IFRIC last met on 6 & 7 January 2012

IAS 32 Financial Instruments: Presentation

Throughout 2010 and 2011, the IFRIC Committee considered a request for guidance on how an entity should account for changes in the carrying amount of a financial liability for a put option, written over shares held by a non-controlling interest shareholder (NCI put), in the consolidated financial statements of a parent entity. At its last meeting the IFRIC request staff to consider further providing application guidance specifying that paragraph 30 of IAS 27 *Consolidated and Separate Financial Statements* does not apply to NCI puts because the change in ownership interest has not yet occurred. In which instance only transactions with owners are recognised in equity, and re-measuring an NCI put is not a transaction with an owner (thus should be reflected in profit or loss).

IAS 37 Provisions, Contingent Liabilities and Contingent Assets & IFRIC 6 Liabilities arising from Participating in a Specific Market

The IFRIC also requested that staff develop an Interpretation to assist in identifying the event that gives rise to a liability for other levies charged for participation in a market on a specified date. In the UK this is relevant to entities subject to the bank levy. At its November 2011 meeting the IFRIC had set out principles regarding the accounting for a liability to pay a levy charged for participation in a specific market – at its January meeting the committee tested these principles against specific examples. The IFRIC staff will therefore develop a draft Interpretation based on the following principles:

- An entity does not have a constructive obligation to pay a levy that arises from operating in a future period, as a result of being economically compelled to continue operating in that future period.
- The going concern principle does not create a present obligation in accordance with IAS 37 and therefore does not lead to the recognition of a liability at a reporting date for levies that arise from operating in the future.
- The obligating event in accordance with IAS 37 is the last of the necessary events that is sufficient to create the present obligation. Consequently, for example, the obligating event for a levy that is charged if the entity undertakes discrete activities both in the current and in the previous period is the activity in the latter period as identified by the legislation.
- The obligating event arises progressively if the activity that creates the present obligation occurs over a period of time. For example, a liability is recognised progressively if the obligating event as identified by the legislation is the generation of revenues over a period of time.
- The liability for the obligation to pay a levy gives rise to an expense, unless the levy is an exchange transaction in which the entity that pays the levy receives assets or future services in consideration for the payment of the levy.

IFRS 11 Joint Arrangements – Acquisition of interests in joint operation

The Committee instructed staff to consider amending IFRS 11 Joint Arrangements to clarify the application of IFRS 3 Business Combinations by (i) joint operators for the acquisition of interests in joint operations under IFRS 11 and (ii) venturers for the acquisition of interests in jointly controlled operation or assets under IAS 31 Interests in Joint Ventures.

IAS 28 Investments in Associates – Application of the equity method

The Committee continued to debate paragraph 3 of IAS 28 which indicates that all changes in the net assets of an investee should be recognised by the investor and how changes that are recognised outside profit and loss and other comprehensive income should be recognised, (such as movements in other reserves of the associate or gains and losses arising on an associate's transactions with non-controlling interest of its subsidiaries). The Committee made some progress on identify principles but will continue its discussion.

IFRIC 12 Service Concession Arrangements – Payments made by an operator in a service concession arrangement

The IFRIC discussed but made little progress on the accounting for certain contractual costs to be incurred by an operation in a service concession arrangement, specially whether the costs should be recognised as the start of the concession as an asset with an obligation to make the related payment or should the costs be treated as executor in nature and recognised other the term of the concession arrangement.

IAS 33 Earnings Per Share – Calculating EPS with non-cumulative preference dividends

The Committee asked staff to continue their work on the period in which a dividend on non-cumulative preference shares should result in an adjustment to the EPS calculation. Research to date has identified diversity in practice as to how paragraph 14(a) of IAS 33 is applied. Paragraph 14(a) requires preference dividend that is deducted from profit or loss is the after-tax amount of the preference dividend for the period, whether or not the dividends have been declared.

Update on Current ASB and IASB

Financial Reporting Lab

The FRC is committed to improving the quality and effectiveness of financial reporting and set up the Lab in order to provide a safe environment for users and preparers to come together and discuss practical, innovative solutions without increased regulation and cost.

The Lab was launched in October 2011 at an event attended by senior representatives from the investment community, companies and the audit profession. At the same time, the Lab released an introductory leaflet A Guide to the Financial Reporting Lab which is available at <http://www.frc.org.uk/about/guidetothelab.cfm>.

The FRC has also set up a steering group to provide input into the project.

In November 2011, the Lab issued an update which detailed the first ten projects being undertaken, which includes projects aimed at both financial statement reporting and narrative reporting. Some of these are relatively small enhancements to existing reporting that have support from investors, including projects on presenting net debt reconciliations and on the clarity of cash flow reporting; others echo ideas from *Cutting Clutter*, examining ways that companies are streamlining accounting policy disclosure and refining share-based payment disclosure. Each of these projects was raised in relatively equal measure by companies and by investors during initial meetings with the Lab team. The Update from the Lab is available at <http://www.frc.org.uk/about/projects.cfm>.

The Lab is engaging with companies and with the investment community to encourage dialogue and innovation in the initial project areas and continues to encourage new ideas for information and presentation formats that would better meet investor needs.

Disclosure Framework

The ASB together with EFRAG and the ANC (the French Standard Setter) is working on a project to develop a

disclosure framework. The objectives of the project are to identify which disclosures are relevant for the notes to the financial statements; discuss what materiality means from a disclosure perspective; and develop a set of principles for good communication of disclosures.

A discussion paper is expected to be published during the summer.

Financial Instruments

The IASB continues to work on its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with the new standard IFRS 9 Financial Instruments. Following consultation, the IASB has decided to defer the effective date of IFRS 9 to 1 January 2015. The main parts of IFRS 9 outstanding are the impairment model and macro hedge accounting. Exposure drafts on these parts are expected during Q2 and Q3 respectively.

Investment Entities

On 15 December the ASB responded to the IASB's Exposure Draft (ED) 'Investment Entities'. A copy of the response can be accessed at <http://www.frc.org.uk/asp/publications/other.cfm?cat=73>.

The response to the ED confirms that the ASB is in general agreement with the principle behind the proposals and supports the IASB on issuing this ED which proposes to exempt investment entities from consolidation.

The ASB, however, has some concerns with the detail of the proposals, notably that the structure of an entity should not drive the accounting. The ASB's other concerns are that:

- the definition of an investment entity excludes insurance funds which should fall within the definition of an investment entity;
- the criteria to identify investment entities should also include a requirement that they should have an exit strategy;

- there are no conceptual reasons why a single investor could not be an investment entity;
- there is too much detail used to explain the disclosure objective;
- the rationale for amending the current exemption in IAS 28 should be better explained.

Leases

The IASB intends to replace IAS 17 'Leases' with a new International Financial Reporting Standard (IFRS). Since issuing an Exposure Draft (ED) 'Leases' in August 2010, the IASB and FASB have been re-deliberating the proposals. It is understood that a revised ED will be published during the summer.

Revenue Recognition

In November 2011, the IASB published an Exposure Draft 'Revenue from Contracts with Customers'. The IASB first published an ED 'Revenue from Contracts with Customers' in June 2010. The responses to those proposals highlighted some areas of concern and a need for clarification on some issues. After re-deliberation the IASB decided to re-expose the proposals because of the importance of the financial reporting of revenue to all entities and the IASB's desire to avoid unintended consequences arising from the final standard.

The proposed standard purports to improve IFRSs by:

- providing a more robust framework for addressing revenue recognition issues;
- removing inconsistencies from existing requirements;
- improving comparability across companies, industries and capital markets;
- providing more useful information to users of financial statements through improved disclosure requirements; and
- simplifying the preparation of financial statements by streamlining the volume of accounting guidance.

Projects

The core principle of these proposed requirements is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To achieve the core principle, an entity would apply all of the following steps:

- Step 1** Identify the contract with the customer.
- Step 2** Identify the separate performance obligations in the contract.
- Step 3** Determine the transaction price.
- Step 4** Allocate the transaction price to the separate performance obligations in the contract.
- Step 5** Recognise.

The amount of revenue recognised would be the amount of consideration promised by the customer in exchange for the transferred goods or services. However, in response to feedback received from nearly 1000 comment letters on the 2010 exposure draft and extensive outreach activities, the boards further refined their original proposals.

In particular they:

- added guidance on how to determine when a good or service is transferred over time;
- simplified the proposals on warranties;
- simplified how an entity would determine a transaction price (including collectability, time value of money, and variable consideration);
- modified the scope of the onerous test to apply to long-term services only;
- added a practical expedient that permits an entity to recognise as an expense costs of obtaining a contract (if one year or less); and
- provided exemption from some disclosures for non-public entities that apply US GAAP.

If adopted, the proposed standard will replace IAS 18 Revenue, IAS 11 Construction Contracts and related Interpretations.

The ASB will be responding to the proposals in the ED, which has a comment deadline of 13 March.

Annual improvements

The IASB issued an ED 'Improvements to IFRS' in June 2011, with a comment period deadline of 20 October 2011. The ASB submitted a response which was supportive of the IASB proposals (only three minor amendments to the proposals were suggested) <http://www.frc.org.uk/asb/publications/other.cfm?cat=73>. The IASB has not yet issued a final standard.

Insurance Accounting

A number of proposed changes in the financial and regulatory reporting regime for insurance in the coming years are likely to create a gap period where accounting requirements for insurance contracts in the UK need consideration. These changes include:

- (a) A likely delay in the finalisation and implementation of IFRS 4 *Insurance Contracts* Phase II;
- (b) A likely replacement of the Solvency I requirements applicable to insurance companies with those in the Solvency II regime from 1 January 2014 (rendering the relevant sections of FRS 27 and the ABI SORP obsolete); and
- (c) The ASB's proposals on the future of financial reporting becoming applicable in the UK and the Republic of Ireland (1 January 2015).

As a result, an ASB Staff paper was published on 30 January 2012 outlining: the impact of these changes for accounting for insurance contracts in the UK and Republic of Ireland; and the possible short and longer term solutions. This paper should be read in conjunction with the ASB's financial reporting exposure drafts on the future of Financial Reporting in the UK and the Republic of Ireland published on 30 January 2012.

In overview, the paper proposes that the preferred long-term solution is to require UK companies to account for insurance contracts in accordance with IFRS 4 Phase II, once it is issued by the IASB and adopted for use in the EU by the European Commission. However, until the IFRS 4 Phase II is available for use in the UK, there will be a gap period where the requirements of FRS 27 and the ABI SORP will be redundant (as they rely heavily on the Solvency I rules). The paper proposes four separate possible solutions for that gap period, including:

- I. Incorporate the current version of IFRS 4 into UK GAAP
- III. Embed the relevant rules of FSA's Realistic Capital regime into UK GAAP
- III. Update FRS 27 and the ABI SORP for Solvency II requirements
- IV. Incorporate IFRS 4 Phase II into UK GAAP

The paper can be accessed from the website at <http://www.frc.org.uk/asb/technical/projects/project0072.html>. Constituents are asked to respond by 30 April 2012.

Public Sector Update

In October 2011 the International Public Sector Accounting Standards Board issued two papers for consultation, Exposure Draft ED 46 *Reporting on the Long-term Sustainability of a Public Sector Entity's Finances* and a Consultation Paper *Reporting Service Performance Information*. Comments are due 29 February 2012 and 15 April 2012 respectively.

The proposals in ED 46 are aimed at providing guidance on how to present information on a public sector entity's long-term fiscal sustainability to supplement information in the general purpose financial statements and meet the objectives of financial reporting – accountability and decision-making.

The objective of the Consultation Paper (CP) is to use a principles based approach to develop a consistent framework for reporting service performance information on public sector entities, a framework that focuses on meeting the needs of intended users. The CP communicates and solicits feedback on (1) the preliminary views reached by the International Public Sector Accounting Standards Board (IPSASB), and (2) other specific matters related to the reporting of service performance information on which the IPSASB has not yet reached a preliminary view.

A staff response will be submitted to the ED taking into account comments from members of the Committee on Accounting for Public Benefit Entities (CAPE). The approach for response to the CP has not yet been determined but will be either a staff or CAPE response.

People

Welcome to Corinne Berg, on secondment from Deloitte, and Janice Lingwood, who have both joined to work on the Financial Reporting Lab with Sue Harding.

Dave Rice has completed his secondment to the ASB and returned to PKF. We thank Dave for his assistance on the UK GAAP project.

Further Information

For further information on any of these topics please contact Deepa Raval at Aldwych House.

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