

# AMENDMENT TO FRS EXPOSURE DRAFT

## AMENDMENT TO FRS 3

‘REPORTING FINANCIAL PERFORMANCE’:

INSURANCE COMPANIES



ACCOUNTING  
STANDARDS  
BOARD

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*and should be dispatched so as to be received not  
later than 30 April 1999. All replies will be  
regarded as on the public record unless  
confidentiality is requested by the commentator.*

# AMENDMENT TO FRS EXPOSURE DRAFT

## AMENDMENT TO FRS 3 ‘REPORTING FINANCIAL PERFORMANCE’: INSURANCE COMPANIES



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*This draft is issued by the Accounting Standards Board for comment. It should be noted that the draft may be modified in the light of comment received before being issued in final form.*

## **PREFACE**

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Insurance companies are exempt from paragraphs 13 and 21 of FRS 3 'Reporting Financial Performance'.

### Paragraph 13

"All gains and losses recognised in the financial statements for the period should be included in the profit and loss account or the statement of total recognised gains and losses. Gains and losses may be excluded from the profit and loss account only if they are specifically permitted or required to be taken directly to reserves by this or other accounting standards or, in the absence of a relevant accounting standard, by law. "

### Paragraph 21

"The profit or loss on the disposal of an asset should be accounted for in the profit and loss account of the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost (less any provisions made) or at a valuation. "

The exemption for insurance companies was granted in June 1993 because the Accounting Standards Board concluded that, at the time, the cost to insurance companies of compliance would probably be greater than the benefit to users. The reason for this conclusion was that the implementation of the EC Insurance Accounts Directive was imminent and that, if insurance companies were also required to comply with FRS 3, they might have had to make significant changes to their accounting twice within a three-year period. The exemption was then left in place awaiting the outcome of work on accounting for investments, which is now reflected in the Statement of Recommended Practice (SORP) 'Accounting for Insurance Business' published by the Association of British Insurers (ABI) on 8 January 1999.

The Board, on the basis of a review of limited scope, gives only a statement of negative assurance to SORPs. However, in its limited review of the ABI's SORP, the Board decided that the recommendations on the treatment of investment returns would be acceptable only if applied by insurance companies as a package. The exemption for insurance companies from paragraph 21 of FRS 3, which permits a flexibility in reporting gains and losses on investments that is not available to other companies, makes it particularly important that the recommendations of the SORP are followed in full. The Board therefore proposes amending FRS 3 to include the main new recommendation of the SORP on investment returns and to require insurance companies to include in their profit and loss accounts both realised and unrealised gains and losses on investments held as part of their investment portfolios.

Requiring such realised and unrealised investment gains and losses to be included in the profit and loss account reflects the importance of investment returns to insurance companies. The principle that gains and losses on an investment portfolio should be reported together may be regarded as more widely applicable than to insurance companies or groups. However, entities in other industries are at present mainly restricted by companies legislation from using the proposed treatment. A forthcoming Discussion Paper on reporting financial performance will consider the wider application of this principle. The effect of companies legislation will also need to be considered.

Because the new SORP relies on the exemption from paragraph 21 in formulating its definition of realised gains, the Board has decided not to remove that exemption for the time being.

When commenting on the proposed amendments, please give reasons for the views expressed.

## **STATEMENT OF STANDARD ACCOUNTING PRACTICE**

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- 1 In FRS 3, paragraph 31A is amended as follows:
  - (a) the references to “paragraphs 13 and 21” become references to “paragraph 21”.
  - (b) the following new sentence is added at the end of the paragraph:

“However, for insurance companies or insurance groups both realised and unrealised gains and losses on investments held as part of their investment portfolios should be included as part of the investment return in the profit and loss account.”
- 2 This [draft] amendment is effective for financial statements relating to accounting periods ending on or after [date to be inserted after exposure]. Earlier adoption is encouraged.

