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Dear Ms Carter,

FRED 64: Draft amendments to FRS 103 *Insurance Contracts* in light of Solvency II (December 2015)

We are pleased to have the opportunity to comment on the Exposure Draft "FRED 64: Draft amendments to FRS 103 *Insurance Contracts* - Solvency II (December 2015)" (the Exposure Draft).

We agree with most of the amendments to FRS 103 as these are necessary given the change in regulatory framework for long-term insurance underwriters that came in to effect on 1 January 2016. We note certain amendments could be reworded in order to make them clearer or clarify ambiguities. These are specifically in relation to the scope of the prohibition of deferring acquisition costs and the definition of the 'net premium method'.

Our detailed comments on the questions asked in FRED 64 are set out overleaf.

If you wish to discuss any of the points further, please do not hesitate to contact me.

Yours sincerely,



BDO LLP
Nicole Kissun
Partner
For and on behalf of BDO LLP

Question 1: Do you agree with the amendments proposed to FRS 103 and the related Implementation Guidance? If not, why not?

We agree with most of the proposed amendments as these update the definitions and terminology used within FRS 103 and its Implementation Guidance so to reflect those that are used within the insurance regulatory framework that came in to effect on 1 January 2016.

We note that certain amendments in the related Implementation Guidance use clearer English to convey what is required or enhance consistency between general and long-term insurance business, both of which we consider to be positive.

We do note that the following amendments could be reworded in order to make them clearer or clarify ambiguities.

a. scope of the prohibition of deferring acquisition costs

Paragraph 3.7 prohibits the deferring of acquisition costs by with-profits business and with-profits funds that have or had at any time since 31 December 2004, with-profits liabilities that were or are greater than £500 million. We note that this means that it does not apply to all long-term insurance business despite paragraph 3.1(a) stating that it does. We thus suggest that paragraph 3.7 is moved to become paragraph 3.10 and that paragraph 3.1 is amended to state:

“3.1 This section sets out requirements for entities applying this FRS that are carrying out long-term insurance business:

(a) Paragraphs 3.3 to ~~3.10~~ 3.9 and 3.16 to 3.18 apply to all long-term insurance business.

(b) Paragraphs ~~3.11~~ 3.10 to 3.15 apply to with-profits business and with-profits funds, that has, or had at any time since 31 December 2004, with-profits liabilities greater than £500 million.”

This means that the need to refer to “*within the scope of paragraph 3.1(b)*” and “*Except as required by paragraph 3.7*” at the end and start of what are currently 3.7 and 3.8 respectively would no longer be required. We consider that this would make the flow of Section 3 more logical.

b. ‘Net premium method’ definition

The last sentence of the definition of the ‘net premium method’ states “*The detailed methodology for UK companies is included in the regulations contained in the PRA Rulebook.*” We recommend that this sentence is deleted as this method is no longer prescribed under the new insurance regulatory framework.

Question 2: Have you identified any other amendments that you consider should be made to FRS 103 or the related Implementation Guidance as a result of the changes in the regulatory framework? If so, please provide details of your proposed amendments and the rationale for them.

We note that the proposed amendments require the interpretation of certain terms to be “consistent with those applied in periods ending before 1 January 2016”. As from 1 January 2016, new entrants will need to make reference to how their peers interpret such items which may lead to some unnecessary complexity and cost for those preparers. We acknowledge though that, while this is unfortunate, it is in practice unavoidable given we are in a transition period as we understand that the FRC would like to see what the IASB issues in an amended IFRS 4 *Insurance Contracts* before it amends FRS 103 more holistically.

We also question whether there is a need to retain the definition of a ‘long-term fund’ as it no longer exists as a concept under the new insurance regulatory framework. We suggest that the FRC consider its continued need in light of other national requirements.