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Dear sirs

FINANCIAL REPORTING IN THE UK AND REPUBLIC OF IRELAND - REVISED FINANCIAL REPORTING EXPOSURE DRAFTS

We are pleased to respond to the above paper. Our response reflects the activities of the RSA Group as a general insurer operating in 33 countries around the world. As a quoted company the Group's results are reported under IFRS, however we continue to use UK GAAP for our insurance and non insurance subsidiaries operating in the UK and the Republic of Ireland.

We acknowledge the level of resource that the ASB has committed to this project and in particular the time that has been dedicated to indentifying the specific issues facing insurance companies and proposing solutions for our industry. We provide specific feedback on the particular issues affecting insurance companies in our response to "Insurance Accounting – Mind the GAAP".

We generally support the changes introduced since the earlier exposure drafts, and in particular the retention of the existing criteria for indentifying those entities required to apply full IFRS. In the case of our subsidiary insurance companies, we believe that the industry specific requirements developed under the Solvency II process will provide the most relevant information for policyholders and for other uses of the financial information. Consequently, we believe that the mandatory extension of "full IFRS" to such companies would be an unnecessary additional burden on these companies.

We do not support the requirements for qualifying entities that are also insurance companies to apply the full disclosure requirements of IFRS 7 and IFRS 13. We believe that the requirements of their stakeholders will be met by the disclosures required by those that have been developed specifically for such purpose under the Solvency II regime.

We have spent time in reviewing the fair value rules under the Companies Act and have comments on the application of these rules to certain classes of asset. We acknowledge that the ASB has identified the issues (and the consequent impact for disclosures) in respect of financial liabilities but we are not certain that the specific problems related to certain classes of financial assets have been fully addressed. We cover these issues in our responses to questions 1 and 2 and under the heading of "Other Issues".



We trust that you will find our comments helpful in the development of the final standards and if you require any clarification of the issues raised in this response, please do not hesitate to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read "DL", with a long horizontal stroke extending to the right.

Doug Logan
Director, Group Technical Accounting

**FINANCIAL REPORTING IN THE UK AND REPUBLIC OF IRELAND – REVISED
FINANCIAL REPORTING EXPOSURE DRAFTS
Responses to the questions upon which questions are invited**

QUESTION 1

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?

For RSA, the continuing use of UK GAAP has relevance for the UK and Irish subsidiaries within the Group.

We agree that generally the ASB has achieved the correct balance when determining the level of application of IFRS, either through the reduced disclosure regime or through the adaption of the IFRS for SMEs.

In the case of the Group's insurance company subsidiaries, we believe that the full adoption of IFRS 7 and IFRS 13 is likely to go beyond the needs of users of the financial statements and we explain this comment more fully in our response to question 2.

For insurance company subsidiaries there are specific issues arising from the need to comply with the Companies Act's requirements in respect of the formats. In particular, schedule 3 to the regulations specifies a "three part profit and loss account" which cannot readily be accommodated by the formats required by IAS 1. We note that the ASB has provided a more general solution to the problem of the mandatory formats within the text of [draft] FRS 102, but that no such solution exists for companies applying [draft] FRS 100 and [draft] FRS 101. We believe that a similar solution should be available for these companies.

We remain unconvinced that the IAS 27 and the [draft] FRS 102 permitted policies for the valuations of subsidiaries provides a more useful solution than is provided by current UK GAAP. Existing UK GAAP permits these investments to be valued using "a value determined on any basis which appears to the directors to be appropriate in the circumstances of the company" under schedule 1 and schedule 2 and a "current value" basis ("a basis which has prudent regard to the likely realisable value") under schedule 3. We believe that valuing investments at net asset value provides more useful information to the user than valuing such investments at cost. The alternative method of valuation permitted under IAS 27 and under [draft] FRS 102 is fair value but we believe that this could prove too costly to implement for each intermediate holding company within a Group. We note that the ASB has amended the IFRS for SMEs in the [draft] FRS 102 to allow an alternative (equivalent to the current 'available for sale') treatment. We therefore ask the ASB to reconsider whether to make another change to the IFRS for SMEs in allowing an exception to the IFRS valuation basis for these investments.

In addition, we are unclear as to whether the ASB is able to allow the fair value option for the valuation of subsidiaries under the Companies Act. The requirements of paragraph 36(3)(c) of schedule 1 of the regulations prohibit the use of fair value accounting unless paragraph 36(4) is satisfied. The standard allowing the use of fair values in force at 5 September 2006 was the old version of IAS27 which was later withdrawn and replaced by the new version of IAS 27. Hence there is no current IAS meeting the condition in paragraph 36(4).

Alternatively, if the superseding version of IAS 27 is deemed to meet the conditions in paragraph 36(4) the use of the fair value option would require companies to make all of the disclosures required under IFRS (i.e. the disclosure required by IFRS 7 and IFRS 13). This issue is raised in paragraph A1.7 of the Note of Legal Requirements attached to [Draft] FRS 101, although the draft standard only refers to liabilities and not to assets. It could however again be argued that the disclosures do not include those included in IFRS 13 as this standard was definitely not adopted at 5 September 2006.

QUESTION 2

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 respond to this question from the perspective of our UK and Irish insurance subsidiaries. These subsidiaries will be each be subject to the pillar 3 disclosure requirements under solvency II. These requirements, in respect of financial assets and financial liabilities, are both extensive and specifically geared to provide for the needs of the policyholders and other users of the financial information. We believe that there is therefore no justification in providing a further set of information, based upon the non-industry focussed requirements set out in IFRS 7 and IFRS 13. Indeed, it is in some ways perverse that while insurers would be required to report similar information under two regimes (under solvency II and under UK GAAP), other reporting entities, who may be exposed to identical risks arising from holding identical financial assets and financial liabilities, would not be required to make any such public disclosures.

As noted in our response to question 1, we are unclear whether the otherwise blanket exemption for the non disclosure under both of IFRS 7 and under IFRS 13 is permitted in the case where a voluntary revaluation is undertaken by an entity in accordance with paragraph 36(4) of schedule 1 to the Regulations. An example of this would be the valuation of the investment in a subsidiary at fair value, which under paragraph 36(3)(c) of schedule 1 may not otherwise be valued at fair value.

It appears that the ASB favours extending the disclosure regime for financial institutions as a consequence of their increased exposures to financial instruments. IFRS 13 applies to non financial assets (for example land and buildings) and it unclear why financial institutions would be required to apply this standard to these classes of assets when other companies (e.g. property companies) would not be required to comply with the standard.

The less burdensome requirements of the alternative proposal would be favoured over the full IFRS disclosures.

QUESTION 3

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.

We agree with the references to IFRS 4 in respect of insurance contracts, but have no comments on the other cross references within section 1.

QUESTION 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.

We have already explained our position in respect of insurance companies within our response to question 2. We have no other comments in this area.

QUESTION 5

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

We have no comments on these areas.

QUESTION 6

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

We have no comments on this area.

QUESTION 7

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?

We have no comments on this area.

QUESTION 8

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

We agree with the choice of the effective date.

QUESTION 9

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

We have no comments on the alternative view relating to FRED 48.

Other Issues:

We noted in our responses to questions 1 and 2, concerns regarding the valuation of investments in subsidiaries at fair value in accordance with paragraph 36 to schedule 1 of the Regulations.

There is one further item in sub-paragraph (3)(e) in respect of contracts for contingent consideration in a business combination for which this issue may also cause a problem. Under IFRS 3 paragraph 58(b)(i), such consideration is required to be valued at fair value, but sub-paragraph (3)(e) prevents this treatment and, in this case, a literal reading of sub-paragraph (4) would also prevent this treatment as in this case the fair value treatment is mandatory under IFRS 3. It could be argued that this would not apply in the individual financial statements of a parent company (as no business combination has occurred) but the issue could in any event apply if a non incorporated business is acquired.