



March 2018

FRS 103

Insurance Contracts

Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts

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March 2018

FRS 103

Insurance Contracts

Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts

FRS 103 *Insurance Contracts* is an accounting standard. It is issued by the Financial Reporting Council, as a prescribed body, in respect of its application in the United Kingdom and the Republic of Ireland.

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Overview

- (i) The FRC's overriding objective in setting accounting standards is 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.

FRS 103 *Insurance Contracts*

- (ii) Entities that are applying FRS 102, whether or not they are 'insurance companies', shall also apply this FRS to insurance contracts (including reinsurance contracts) that the entity issues and reinsurance contracts that the entity holds, and to other financial instruments that the entity issues with a discretionary participation feature.
- (iii) This FRS (and the accompanying non-mandatory Implementation Guidance) consolidated the financial reporting requirements and guidance for insurance contracts that existed when it was developed. The requirements in this FRS (and the guidance in the accompanying non-mandatory Implementation Guidance) are based on the International Accounting Standards Board's (IASB) IFRS 4 *Insurance Contracts* extant in 2013 (except to the extent that it was amended by IFRS 13 *Fair Value Measurement*), the requirements of FRS 27 *Life Assurance* (prior to its being withdrawn by this standard) and elements of the Association of British Insurers' *Statement of Recommended Practice on Accounting for Insurance Business* (the ABI SORP) (published in December 2005 and amended in December 2006). FRS 103 has since been updated for changes in the regulatory framework.

Organisation of FRS 103

- (iv) This FRS is set out in Sections 1 to 6, the Glossary (Appendix I) and the Definition of an Insurance Contract (Appendix II). Terms defined in the Glossary are in **bold type** the first time they appear in each section or Appendix II.
- (v) FRS 103 is accompanied by non-mandatory Implementation Guidance providing guidance on applying:
 - (a) the requirements of FRS 103;
 - (b) the requirements or principles of FRS 102 by entities with general insurance business or long-term insurance business; and
 - (c) the requirements of Schedule 3 to the Regulations.
- (vi) The elements of the ABI SORP that have been included are largely set out in Section 2 *Guidance for entities with general insurance business or long-term insurance business* of the Implementation Guidance.
- (vii) This edition of FRS 103 issued in March 2018 updates the edition of FRS 103 issued in February 2017 for the following:
 - (a) *Triennial review 2017 amendments* issued in December 2017;
 - (b) the deletion of Appendix III *Tables of concordance between FRS 103, FRS 27 and the ABI SORP*; and
 - (c) some minor typographical or presentational corrections.

FRS 103
Insurance Contracts

Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts

Section 1 Scope

Scope of this Financial Reporting Standard

- 1.1 This FRS applies to financial statements prepared by an entity that applies FRS 102 and that are intended to give a true and fair view of a reporting entity's financial position and profit or loss (or income and expenditure) for a period.
- 1.2 An entity that applies FRS 102 shall apply this FRS to:
- (a) **insurance contracts** (including **reinsurance contracts**) that it issues and reinsurance contracts that it holds; and
 - (b) **financial instruments** (other than insurance contracts) that it issues with a **discretionary participation feature** (see paragraph 2.30).
- 1.3 This FRS applies to entities with insurance contracts and financial instruments with discretionary participation features within the scope of paragraph 1.2 as follows:
- (a) Section 1 *Scope*, Section 2 *Accounting Policies, Recognition and Measurement*, Section 4 *Disclosure* and Section 6 *Transition to this FRS* apply to all entities applying this FRS.
 - (b) Section 3 *Recognition and Measurement: Requirements for entities with long-term insurance business* and Section 5 *Disclosure: Additional requirements for with-profits business* only apply to entities with **long-term insurance business**.
 - (c) Appendix II *Definition of an insurance contract* applies to all entities.

The **Regulations** (or other legal framework that applies to the entity) may set out requirements in addition to those within this FRS.

- 1.4 The Implementation Guidance accompanying this FRS provides additional guidance for applying:
- (a) the requirements of this FRS;
 - (b) the requirements or principles of FRS 102 by entities with **general insurance business** or long-term insurance business; and
 - (c) the requirements of Schedule 3 to the Regulations.

In particular the Implementation Guidance may be relevant as follows:

- (a) Section 1: *Guidance for entities with long-term business* provides guidance on applying Section 3 of this FRS.
 - (b) Section 2: *Guidance for entities with general insurance business or long-term business* provides guidance for all entities applying this FRS.
 - (c) Section 3: *Guidance on capital disclosures for entities with long-term insurance business* provides guidance for entities with long-term insurance business.
- 1.5 Paragraph 2.3 permits entities to change their **accounting policies**, either on adoption of this FRS or subsequently, providing the new accounting policies meet certain criteria. Entities that are setting accounting policies in relation to insurance contracts, or other financial instruments with discretionary participation features, for the first time, shall for long-term insurance business either:
- (a) first consider the requirements of Section 3, the Regulations and any relevant parts of FRS 102 as a benchmark before assessing whether to set accounting

policies that differ from those benchmark policies in accordance with paragraph 2.3; or

- (b) establish accounting policies that are based on the rules under the **Solvency II Directive** for the recognition and measurement of technical provisions, and any relevant requirements of this FRS, the Regulations and FRS 102. In doing so an entity shall make appropriate adjustments to the Solvency II rules to ensure that the accounting policies result in information that is relevant and reliable.

The Implementation Guidance accompanying this FRS also provides guidance.

- 1.6 This FRS does not address other aspects of accounting by **insurers**, such as accounting for **financial assets** held by insurers and **financial liabilities** issued by insurers (see Sections 11 *Basic Financial Instruments*, 12 *Other Financial Instruments Issues* and 34 *Specialised Activities* of FRS 102), except in paragraph 1.8 and in the transitional provisions in paragraph 6.4.
- 1.7 An entity shall not apply this FRS to:
 - (a) product warranties issued directly by a manufacturer, dealer or retailer (see Sections 21 *Provisions and Contingencies* and 23 *Revenue* of FRS 102);
 - (b) employers' assets and **liabilities** under employee benefit plans (see Sections 26 *Share-based Payment* and 28 *Employee Benefits* of FRS 102) and retirement benefit obligations reported by defined benefit retirement plans (see Section 34 of FRS 102);
 - (c) contractual rights or contractual obligations that are contingent on the future use of, or right to use, a non-financial item (for example, some licence fees, royalties, contingent lease payments and similar items), as well as a lessee's residual value guarantee embedded in a finance lease (see Sections 18 *Intangible Assets other than Goodwill*, 20 *Leases* and 23 of FRS 102);
 - (d) **financial guarantee contracts** unless the issuer has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, in which case the issuer may elect to apply either Section 21 of FRS 102 or this FRS to such financial guarantee contracts. The issuer may make that election contract by contract, but the election for each contract is irrevocable;
 - (e) contingent consideration payable or receivable in a **business combination** (see Section 19 *Business Combinations and Goodwill* of FRS 102); or
 - (f) **direct insurance contracts** that the entity holds (ie direct insurance contracts in which the entity is the **policyholder**) (for which an accounting policy shall be selected in accordance with the principles of FRS 102). However, a **cedant** shall apply this FRS to reinsurance contracts that it holds.
- 1.8 Some contracts that have the legal form of an insurance contract do not meet the definition of an insurance contract in this FRS. Paragraph A2.19 provides examples of items that are not insurance contracts, and paragraphs A2.20 to A2.24 provide further information on accounting for contracts that are not insurance contracts.
- 1.9 For ease of reference, this FRS describes any entity that issues an insurance contract as an insurer, whether or not the issuer is regarded as an insurer for legal or supervisory purposes.
- 1.10 A reinsurance contract is a type of insurance contract. Accordingly, all references in this FRS to insurance contracts also apply to reinsurance contracts.

Date from which effective and transitional arrangements

- 1.11 An entity shall apply this FRS for accounting periods beginning on or after 1 January 2015. Early application is permitted provided that if an entity applies this FRS before 1 January 2015 it shall:
- (a) also apply FRS 102 from the same date and is not subject to the transitional arrangements in paragraph 1.14 of FRS 102 relating to entities within the scope of a SORP; and
 - (b) disclose the fact that it has applied this FRS before 1 January 2015.
- 1.11A In May 2016 amendments were made to this FRS, to update it for changes in the regulatory framework. An entity shall apply these amendments for accounting periods ending on or after 1 January 2016.
- 1.11B In December 2017 amendments were made to this FRS as a result of the triennial review 2017. An entity shall apply the amendments to this FRS as set out in the *Triennial review 2017 amendments* for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all the amendments to this FRS are applied at the same time.

Compliance with this FRS

- 1.12 An entity whose financial statements comply with this FRS shall, in addition to its statement of compliance with FRS 102 (made in accordance with paragraphs 3.3 to 3.6 of FRS 102), make an explicit and unreserved statement of compliance with this FRS in the **notes to the financial statements**.

Withdrawal of FRS 27

- 1.13 FRS 27 *Life Assurance* is superseded on the early application of this FRS. FRS 27 will be withdrawn for accounting periods beginning on or after 1 January 2015.

Consequential amendment to FRS 101 *Reduced Disclosure Framework*

- 1.14 The consequential amendment made to **FRS 101** has been reflected in the August 2014, and subsequent, editions of FRS 101.

Section 2

Accounting Policies, Recognition and Measurement

Scope of this section

- 2.1 This section sets out the requirements for selecting and applying the **accounting policies** used in the **recognition** and measurement of **insurance contracts** when preparing **financial statements**. Entities with **long-term insurance business** shall also apply the requirements of Section 3 *Recognition and Measurement: Requirements for entities with long-term insurance business* in selecting accounting policies for long-term insurance business.

Changes in accounting policy

- 2.2 Paragraphs 2.3 to 2.11 apply both to changes made by an **insurer** that already applies this FRS and to changes made by an insurer adopting this FRS for the first time.
- 2.3 As an exception to paragraph 10.8 of **FRS 102** an insurer may change its accounting policies for insurance contracts if, and only if, the change makes the financial statements more relevant to the economic decision-making needs of users and no less reliable, or more reliable and no less relevant to those needs. An insurer shall judge relevance and reliability by the criteria in paragraph 10.4 of FRS 102 and the qualitative characteristics of information in financial statements set out in Section 2 *Concepts and Pervasive Principles* of FRS 102.
- 2.3A One basis for changing accounting policies might be to enable them to be more consistent with the rules under the **Solvency II Directive** for the recognition and measurement of technical provisions. In doing so an entity shall make appropriate adjustments to the Solvency II rules to meet the requirements of paragraph 2.3.
- 2.4 To justify changing its accounting policies for insurance contracts, an insurer shall show that the change brings its financial statements closer to meeting the criteria in paragraph 10.4 of FRS 102, but the change need not achieve full compliance with those criteria. The following specific issues are discussed below:
- (a) current market interest rates (paragraph 2.5);
 - (b) continuation of existing practices (paragraph 2.6);
 - (c) prudence (paragraph 2.7);
 - (d) future investment margins (paragraphs 2.8 to 2.10); and
 - (e) shadow accounting (paragraph 2.11).

Current market interest rates

- 2.5 An insurer is permitted, but not required, to change its accounting policies so that it remeasures designated **insurance liabilities**¹ to reflect current market interest rates and recognises changes in those **liabilities** in **profit or loss**. At that time, it may also introduce accounting policies that require other current estimates and assumptions for the designated liabilities. The election in this paragraph permits an insurer to change its accounting policies for designated liabilities, without applying those policies consistently to all similar liabilities as Section 10 *Accounting Policies, Estimates and Errors* of

¹ In this paragraph, insurance liabilities include related deferred acquisition costs and related intangible assets, such as those discussed in paragraphs 2.27 and 2.28.

FRS 102 would otherwise require. If an insurer designates liabilities for this election, it shall continue to apply current market interest rates (and, if applicable, the other current estimates and assumptions) consistently in all periods to all these liabilities until they are extinguished.

Continuation of existing practices

- 2.6 An insurer may continue the following practices, but the introduction of any of them does not satisfy paragraph 10.8(b) of FRS 102:
- (a) unless otherwise required by the **Regulations** (or other legal framework that applies to the entity), measuring insurance liabilities on an undiscounted basis.
 - (b) measuring contractual rights to future investment management fees at an amount that exceeds their **fair value** as implied by a comparison with current fees charged by other market participants for similar services. It is likely that the fair value at inception of those contractual rights equals the origination costs paid, unless future investment management fees and related costs are out of line with market comparables.
 - (c) as an exception to paragraph 9.17 of FRS 102, using non-uniform accounting policies for the insurance contracts (and related **deferred acquisition costs** and related **intangible assets**, if any) of subsidiaries, except as permitted by paragraph 2.5. If those accounting policies are not uniform, an insurer may change them if the change does not make the accounting policies more diverse and also satisfies the other requirements in this FRS.

Prudence

- 2.7 An insurer need not change its accounting policies for insurance contracts to eliminate excessive prudence. However, if an insurer already measures its insurance contracts with sufficient prudence, it shall not introduce additional prudence.

Future investment margins

- 2.8 An insurer need not change its accounting policies for insurance contracts to eliminate future investment margins. However, there is a rebuttable presumption that an insurer's financial statements will become less relevant and reliable if it introduces an accounting policy that reflects future investment margins in the measurement of insurance contracts, unless those margins affect the contractual payments. Two examples of accounting policies that reflect those margins are:
- (a) using a discount rate that reflects the estimated return on the insurer's assets; or
 - (b) projecting the returns on those assets at an estimated rate of return, **discounting** those projected returns at a different rate and including the result in the measurement of the liability.
- 2.9 Provided it is permitted by the Regulations an insurer may overcome the rebuttable presumption described in paragraph 2.8 if, and only if, the other components of a change in accounting policies increase the relevance and reliability of its financial statements sufficiently to outweigh the decrease in relevance and reliability caused by the inclusion of future investment margins. For example, suppose that an insurer's **existing accounting policies** for insurance contracts involve excessively prudent assumptions set at inception and a discount rate prescribed by a regulator without direct reference to market conditions, and ignore some embedded **options and guarantees**. The insurer might make its financial statements more relevant and no less reliable by switching to a comprehensive investor-oriented basis of accounting that is widely used and involves:

- (a) current estimates and assumptions;
 - (b) a reasonable (but not excessively prudent) adjustment to reflect risk and uncertainty;
 - (c) measurements that reflect both the intrinsic value and time value of embedded options and guarantees; and
 - (d) a current market discount rate, even if that discount rate reflects the estimated return on the insurer's assets.
- 2.10 In some measurement approaches, the discount rate is used to determine the **present value** of a future profit margin. That profit margin is then attributed to different periods using a formula. In those approaches, the discount rate affects the measurement of the liability only indirectly. In particular, the use of a less appropriate discount rate has a limited or no effect on the measurement of the liability at inception. However, in other approaches, the discount rate determines the measurement of the liability directly. In the latter case, because the introduction of an asset-based discount rate has a more significant effect, it is highly unlikely that an insurer could overcome the rebuttable presumption described in paragraph 2.8.

Shadow accounting

- 2.11 In some accounting models, realised gains or losses on an insurer's assets have a direct effect on the measurement of some or all of (a) its insurance liabilities, (b) related deferred acquisition costs and (c) related intangible assets, such as those described in paragraphs 2.27 and 2.28. An insurer is permitted, but not required, to change its accounting policies so that a recognised but unrealised gain or loss on an asset affects those measurements in the same way that a realised gain or loss does. The related adjustment to the insurance liability (or deferred acquisition costs or intangible assets) shall be recognised in other comprehensive income if, and only if, the unrealised gains or losses are recognised in other comprehensive income. This practice is sometimes described as 'shadow accounting'.

Exemption from some requirements of FRS 102

- 2.12 Paragraphs 10.4 to 10.6 of FRS 102 set out how an entity's management shall use its judgement in developing and applying an accounting policy if no FRS applies specifically to a transaction, other event or condition. However, this FRS exempts an insurer from the considerations in paragraphs 10.4 to 10.6 of FRS 102 in relation to its accounting policies for:
- (a) insurance contracts that it issues (including related **acquisition costs** and related intangible assets, such as those described in paragraphs 2.27 and 2.28, and paragraphs 3.16 to 3.18); and
 - (b) **reinsurance contracts** that it holds.
- 2.13 Nevertheless, this FRS does not exempt an insurer from some implications of the considerations in paragraphs 10.4 to 10.6 of FRS 102. Specifically, an insurer:
- (a) unless otherwise required by the regulatory framework that applies to the entity, shall not recognise as a liability any provisions for possible future **claims**, if those claims arise under insurance contracts that are not in existence at the end of the **reporting period** (such as **catastrophe provisions** and **equalisation provisions**). The presentation of any such liabilities shall follow the requirements of the Regulations (or other legal framework that applies to the entity);
 - (b) shall carry out the **liability adequacy test** described in paragraphs 2.14 to 2.18;

- (c) shall remove an insurance liability (or a part of an insurance liability) from its **statement of financial position** when, and only when, it is extinguished – ie when the obligation specified in the contract is discharged or cancelled or expires;
- (d) shall not offset:
 - (i) **reinsurance assets** against the related insurance liabilities; or
 - (ii) income or expense from reinsurance contracts against the expense or income from the related insurance contracts; and
- (e) shall consider whether its reinsurance assets are impaired (see paragraph 2.19).

Liability adequacy test

- 2.14 An insurer shall assess at the end of each reporting period whether its recognised insurance liabilities are adequate, using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities (less related deferred acquisition costs and related intangible assets, such as those discussed in paragraphs 2.27 and 2.28) is inadequate in the light of the estimated future cash flows, the entire deficiency shall be recognised in profit or loss.
- 2.15 If an insurer applies a liability adequacy test that meets specified minimum requirements, this FRS imposes no further requirements. The minimum requirements are the following:
- (a) The test considers current estimates of all contractual cash flows, and of related cash flows such as claims handling costs, as well as cash flows resulting from embedded options and guarantees.
 - (b) If the test shows that the liability is inadequate, the entire deficiency is recognised in profit or loss.
- 2.16 If an insurer's accounting policies do not require a liability adequacy test that meets the minimum requirements of paragraph 2.15, the insurer shall:
- (a) determine the carrying amount of the relevant insurance liabilities² less the carrying amount of:
 - (i) any related deferred acquisition costs; and
 - (ii) any related intangible assets, such as those acquired in a **business combination** or **portfolio transfer** (see paragraphs 2.27 and 2.28). However, related reinsurance assets are not considered because an insurer accounts for them separately (see paragraph 2.19); and
 - (b) determine whether the amount described in (a) is less than the carrying amount that would be required if the relevant insurance liabilities were within the scope of Section 21 *Provisions and Contingencies* of FRS 102. If it is less, the insurer shall recognise the entire difference in profit or loss and decrease the carrying amount of the related deferred acquisition costs or related intangible assets or increase the carrying amount of the relevant insurance liabilities.
- 2.17 If an insurer's liability adequacy test meets the minimum requirements of paragraph 2.15, the test is applied at the level of aggregation specified in that test. If its liability adequacy test does not meet those minimum requirements, the comparison described in paragraph 2.16 shall be made at the level of a portfolio of contracts that are subject to broadly similar risks and managed together as a single portfolio.

² The relevant insurance liabilities are those insurance liabilities (and related deferred acquisition costs and related intangible assets) for which the insurer's accounting policies do not require a liability adequacy test that meets the minimum requirements of paragraph 2.15.

- 2.18 The amount described in paragraph 2.16(b) (ie the result of applying Section 21 of FRS 102) shall reflect future investment margins (see paragraphs 2.8 to 2.10) if, and only if, the amount described in paragraph 2.16(a) also reflects those margins.

Impairment of reinsurance assets

- 2.19 If a **cedant's** reinsurance asset is impaired, the cedant shall reduce its carrying amount accordingly and recognise that impairment loss in profit or loss. A reinsurance asset is impaired if, and only if:
- (a) there is objective evidence, as a result of an event that occurred after initial recognition of the reinsurance asset, that the cedant may not receive all amounts due to it under the terms of the contract; and
 - (b) that event has a reliably measurable impact on the amounts that the cedant will receive from the **reinsurer**.

Embedded derivatives

- 2.20 An entity applying this FRS shall determine whether it has any **separable embedded derivatives**. Subject to paragraphs 2.21 and 2.22, if the separable embedded derivative is not itself an insurance contract, the entity shall separate the **embedded derivative** from the host contract and account for it in accordance with Sections 11 *Basic Financial Instruments* and 12 *Other Financial Instruments Issues* of FRS 102 (or, either IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, depending on the entity's accounting policy choice) as if it is a **financial instrument**. For an entity that is a **financial institution** the disclosure requirements of paragraphs 34.17 to 34.33 of FRS 102 also apply to any separable embedded derivatives.
- 2.21 As an exception to the requirements in paragraph 2.20, an insurer need not separate, and measure at fair value, a **policyholder's** option to **surrender** an insurance contract for a fixed amount (or for an amount based on a fixed amount and an interest rate), even if the exercise price differs from the carrying amount of the host insurance liability. However, the requirements in paragraph 2.20 do apply to a put option or cash **surrender option** embedded in an insurance contract if the surrender value varies in response to the change in a financial variable (such as an **equity** or commodity price or index), or a non-financial variable that is not specific to a party to the contract. Furthermore, those requirements also apply if the holder's ability to exercise a put option or cash surrender option is triggered by a change in such a variable (for example, a put option that can be exercised if a stock market index reaches a specified level).
- 2.22 Paragraph 2.21 applies equally to options to surrender a financial instrument containing a **discretionary participation feature**.

Unbundling of deposit components

- 2.23 Some insurance contracts contain both an insurance component and a **deposit component**. In some cases, an insurer is required or permitted to **unbundle** those components:
- (a) Unbundling is required if both the following conditions are met:
 - (i) the insurer can measure the deposit component (including any embedded surrender options) separately (ie without considering the insurance component); and
 - (ii) the insurer's accounting policies do not otherwise require it to recognise all obligations and rights arising from the deposit component.

- (b) Unbundling is permitted, but not required, if the insurer can measure the deposit component separately as in (a)(i) but its accounting policies require it to recognise all obligations and rights arising from the deposit component, regardless of the basis used to measure those rights and obligations.
- (c) Unbundling is prohibited if an insurer cannot measure the deposit component separately as in (a)(i).

2.24 The following is an example of a case when an insurer's accounting policies do not require it to recognise all obligations arising from a deposit component. A cedant receives compensation for losses from a reinsurer, but the contract obliges the cedant to repay the compensation in future years. That obligation arises from a deposit component. If the cedant's accounting policies would otherwise permit it to recognise the compensation as income without recognising the resulting obligation, unbundling is required.

2.25 To unbundle a contract, an insurer shall:

- (a) apply this FRS to the insurance component; and
- (b) apply Section 11 or 12 of FRS 102 (or, either IAS 39 or IFRS 9, depending on the entity's accounting policy choice) to the deposit component.

Reporting foreign currency transactions in the functional currency

2.26 Paragraph 30.9 of FRS 102 requires an entity, at the end of each reporting period, to translate foreign currency monetary items using the closing rate and non-monetary items using the exchange rate at the date of the transaction or the date when fair value was determined (for non-monetary items measured at fair value). For the purposes of applying the requirements of Section 30 *Foreign Currency Translation* of FRS 102 an entity shall treat all assets and liabilities arising from an insurance contract as monetary items.

Insurance contracts acquired in a business combination or portfolio transfer

2.27 To comply with Section 19 *Business Combinations and Goodwill* of FRS 102, an insurer shall, at the acquisition date, measure at fair value the insurance liabilities assumed and **insurance assets** acquired in a business combination. However, an insurer is permitted, but not required, to use an expanded presentation that splits the fair value of acquired insurance contracts into two components:

- (a) a liability measured in accordance with the insurer's accounting policies for insurance contracts that it issues; and
- (b) an intangible asset, representing the difference between (i) the fair value of the contractual insurance rights acquired and insurance obligations assumed and (ii) the amount described in (a). As an exception to Section 18 *Intangible Assets other than Goodwill* of FRS 102, the subsequent measurement of this asset shall be consistent with the measurement of the related insurance liability.

2.28 An insurer acquiring a portfolio of insurance contracts may use the expanded presentation described in paragraph 2.27.

2.29 The intangible assets described in paragraphs 2.27 and 2.28 are excluded from the scope of Sections 18 and 27 *Impairment of Assets* of FRS 102. However, Sections 18 and 27 of FRS 102 apply to customer lists and customer relationships reflecting the expectation of future contracts that are not part of the contractual insurance rights and contractual insurance obligations that existed at the date of a business combination or portfolio transfer, when recognised separately.

Discretionary participation features

Discretionary participation features in insurance contracts

- 2.30 Some insurance contracts contain a discretionary participation feature as well as a **guaranteed element**. The issuer of such a contract:
- (a) may, but need not, recognise the guaranteed element separately from the discretionary participation feature. If the issuer does not recognise them separately, it shall classify the whole contract as a liability. If the issuer classifies them separately, it shall classify the guaranteed element as a liability;
 - (b) shall, if it recognises the discretionary participation feature separately from the guaranteed element, classify that feature as either a liability or a separate component of equity (where this is permitted by the Regulations). The issuer may split that feature into liability and equity components and shall use a consistent accounting policy for that split. The issuer shall not classify that feature as an intermediate category that is neither liability nor equity;
 - (c) may recognise all premiums received as revenue without separating any portion that relates to the equity component. The resulting changes in the guaranteed element and in the portion of the discretionary participation feature classified as a liability shall be recognised in profit or loss. If part or all of the discretionary participation feature is classified in equity, a portion of profit or loss may be attributable to that feature (in the same way that a portion may be attributable to **non-controlling interests**). Where legislation permits the discretionary participation feature to be classified as a component of equity, the issuer shall recognise the portion of profit or loss attributable to any equity component as an allocation of profit or loss, not as expense or income (see Section 5 *Statement of Comprehensive Income and Income Statement* of FRS 102);
 - (d) shall, if it has made an accounting policy choice in accordance with FRS 102 to apply the recognition and measurement provisions of either IAS 39 or IFRS 9, and the contract contains an embedded derivative within the scope of IAS 39 or IFRS 9, apply IAS 39 or IFRS 9 to that embedded derivative; and
 - (e) shall, in all respects not described in paragraphs 2.13 to 2.19 and 2.30(a) to (d), continue its existing accounting policies for such contracts, unless it changes those accounting policies in a way that complies with paragraphs 2.2 to 2.11.

Discretionary participation features in financial instruments other than insurance contracts

- 2.31 The requirements in paragraph 2.30 also apply to a financial instrument other than an insurance contract that contains a discretionary participation feature. In addition:
- (a) If the issuer classifies the entire discretionary participation feature as a liability, it shall apply the liability adequacy test in paragraphs 2.14 to 2.18 to the whole contract (ie both the guaranteed element and the discretionary participation feature). The issuer need not determine the amount that would result from applying IAS 39, IFRS 9 or Sections 11 and 12 of FRS 102 (depending on the entity's accounting policy choice) to the guaranteed element.
 - (b) If the issuer classifies part or all of that feature as a separate component of equity, the liability recognised for the whole contract shall not be less than the amount that would result from applying IAS 39, IFRS 9 or Sections 11 and 12 of FRS 102 (depending on the entity's accounting policy choice) to the guaranteed element. That amount shall include the intrinsic value of an option to surrender the contract, but need not include its time value if paragraph 2.22 exempts that option from measurement at fair value. The issuer need not disclose the amount that would

result from applying IAS 39, IFRS 9 or Sections 11 and 12 of FRS 102 (depending on the entity's accounting policy choice) to the guaranteed element, nor need it present that amount separately. Furthermore, the issuer need not determine that amount if the total liability recognised is clearly higher.

- (c) Although these contracts are financial instruments, the issuer may continue to recognise the premiums for those contracts as revenue and recognise as an expense the resulting increase in the carrying amount of the liability.
- (d) Although these contracts are financial instruments, an issuer shall disclose the total interest expense recognised in profit or loss, but need not calculate such interest expense using the **effective interest method**.

Recognition in the Income Statement for entities required to maintain a non-technical account

Exchange gains and losses

- 2.32 Where Section 30 of FRS 102 requires entities to include exchange differences within profit or loss, these differences shall be dealt with through the **non-technical account** except for long-term insurance business where exchange differences shall be recognised in the **technical account** for long-term business. In respect of paragraph 30.18(c) of FRS 102 in the case of the long-term insurance business, where appropriate, entities may recognise the resulting exchange differences in the **fund for future appropriations (FFA)**.

Employee benefits

- 2.33 In applying paragraph 28.23(b) of FRS 102 the net interest on the net defined benefit liability during the reporting period shall be recognised, as appropriate, in the technical account for long-term insurance business or the non-technical account.
- 2.34 As an exception to paragraph 28.23(d) of FRS 102 the remeasurement of the net defined benefit liability which is not attributable to **owners** shall be treated as an amount, the allocation of which, either to policyholders or to owners, has not been determined by the **reporting date**. It shall be included as a separate line in the technical account for long-term insurance business immediately above the line for transfer to or from the fund for future appropriations, and reflected in that transfer. The impact shall be disclosed separately in the **notes to the financial statements**.

Section 3

Recognition and Measurement: Requirements for entities with long-term insurance business

Scope of this section

- 3.1 This section sets out the requirements for entities applying this FRS that are carrying out **long-term insurance business**:
- (a) Paragraphs 3.3 to 3.9 and 3.16 to 3.18 apply to all long-term insurance business.
 - (b) Paragraphs 3.10 to 3.15 apply to **with-profits business** and with-profits funds, to which the **Prudential Regulatory Authority (PRA)** realistic capital regime (as set out in section 1.3 of **INSPRU** as at 31 December 2015) was being applied, either voluntarily or compulsorily, prior to 1 January 2016.
- 3.1A This section sets out the benchmark for setting **accounting policies** for long-term insurance business as at 1 January 2015. Entities are permitted to change their accounting policies in accordance with paragraph 2.3. Entities that are setting accounting policies for the first time may apply this benchmark in accordance with paragraph 1.5(a) or are permitted to set alternative policies in accordance with paragraph 1.5(b).
- 3.2 Where an entity has changed its accounting policies in accordance with paragraph 2.3 or adopted accounting policies in accordance with paragraph 1.5(b), and its accounting policies are not consistent with this section, the requirements of this section that are not consistent with the entity's accounting policies need not be applied.

Gross premiums written

- 3.3 Premiums, including those for inwards reinsurance business, shall be recognised when due for payment. Where the amount due is not known, for example with certain pensions business, estimates should be used. For **linked business** the due date for payment may be taken as the date when the **liability** is established.
- 3.4 Reinsurance outwards premiums shall be recognised when paid or payable.

Claims recognition

- 3.5 **Claims** payable on maturity shall be recognised when the claims become due for payment and claims payable on death shall be recognised on notification. Where a claim is payable and the policy or contract remains in force, the relevant instalments shall be recognised when due for payment. There should be consistent treatment between the **recognition** of the claim in the **technical account** for long-term business and the calculation of the long-term business provision and/or the provision for linked liabilities as appropriate.
- 3.6 Surrenders shall be included within **claims incurred** and recognised either when paid or at the earlier date on which, following notification, the policy ceases to be included within the calculation of the long-term business provision and/or the provision for linked liabilities.

Deferred acquisition costs

- 3.7 Except as required by paragraph 3.10, **acquisition costs** shall be deferred except to the extent that:
- (a) the costs in question have already been recovered (for example where the design of the policy provides for the recovery of costs as incurred);
 - (b) the net **present value** of margins within the **insurance contracts** is not expected to be sufficient to cover **deferred acquisition costs** after providing for contractual liabilities to **policyholders** and expenses; and
 - (c) the receipt of future premiums or the achievement of future margins is insufficiently certain based on estimates of future expected discontinuance rates or other experience.
- 3.8 Advertising costs shall not be deferred unless they are directly attributable to the acquisition of new business.
- 3.9 Deferred acquisition costs that are carried forward shall be amortised over a period no longer than one in which, net of any related **deferred tax** provision, they are expected to be recoverable out of margins on related insurance contracts in force at the **reporting date**, and in a similar profile to those margins.
- 3.10 Acquisition costs shall not be deferred for with-profits funds.

Measurement of with-profits liabilities and related assets

- 3.11 The established accounting treatment for long-term insurance business is to measure liabilities for policyholder benefits under the modified statutory solvency basis (MSSB). This FRS requires with-profits funds to use the realistic value of liabilities as the basis for the estimated value of the liabilities to be included in the financial statements.
- 3.12 For with-profits funds:
- (a) liabilities to policyholders arising from with-profits business shall be stated at the amount of the realistic value of liabilities adjusted to exclude the shareholders' share of projected future **bonuses**;
 - (b) **reinsurance recoveries** that are recognised shall be measured on a basis that is consistent with the value of the policyholder liabilities to which the reinsurance applies;
 - (c) an amount may be recognised for the **present value** of future profits on **non-participating business** written in a with-profits fund if the determination of the realistic value of liabilities in that with-profits fund takes account, directly or indirectly, of this value;
 - (d) where a with-profits life fund has an interest in a subsidiary or associate and the determination of the realistic value of liabilities to with-profits policyholders takes account of a value of that interest at an amount in excess of the net amounts included in the entity's consolidated accounts, an amount may be recognised representing this excess; and
 - (e) adjustments to reflect the consequential tax effects of (a) to (d) above shall be made.

Adjustments from the MSSB necessary to meet the above requirements, including the recognition of an amount in accordance with paragraph 3.12(c) or 3.12(d), shall be included in **profit or loss**. An amount equal and opposite to the net amount of these

adjustments shall be transferred to or from the **fund for future appropriations (FFA)** and also included in profit or loss.

- 3.13 In the case of a mutual, an FFA or retained surplus account is maintained that represents amounts that have not yet been allocated to specific policyholders. For such entities, the adjustments required by paragraph 3.12 will be offset within profit or loss by a transfer directly to or from this FFA or retained surplus account, with the result that overall profit or loss for the year will be unchanged.
- 3.14 The realistic value of liabilities shall exclude the amount which represents the shareholders' share of future bonuses. Similar adjustments shall be made if other amounts due to shareholders would otherwise be included in the realistic value of liabilities.
- 3.15 An entity is permitted to recognise the excess of the market value of a subsidiary over the net amounts included in the consolidated financial statements as a deduction from the sub-total of the FFA and liabilities to policyholders in the same way as the **value of in-force insurance business (VIF)** described in paragraph IG1.3 of the Implementation Guidance.

Value of in-force life assurance business

- 3.16 Banking and other non-insurance entities with insurance subsidiaries sometimes account for the insurance business in their consolidated financial statements on an **embedded value** or similar basis under which, in addition to the value of the retained surplus in the insurance subsidiary, an asset is recognised for the VIF. This FRS permits the continuation of such a practice only if the valuation policy is amended, if necessary, to exclude from the measurement of the value of the future profit to shareholders any value attributable to future investment margins.
- 3.17 No value shall be attributed to in-force long-term insurance business other than:
- (a) in accordance with paragraphs 3.12(c), 3.12(d) or 3.16 above; or
 - (b) amounts recognised as an **intangible asset** as part of the allocation of **fair values** under acquisition accounting in accordance with paragraph 2.27.
- 3.18 Where the value attributable to a VIF asset recognised under paragraph 3.16 or paragraph 3.17(b) includes an amount in relation to non-participating business for which the entity also recognises an amount under paragraph 3.12(c) or 3.12(d), the amount recognised under paragraph 3.12(c) or 3.12(d) shall be reduced to exclude the amount that is included in relation to that business under paragraph 3.16 or paragraph 3.17(b).

Section 4 Disclosure

Scope of this section

- 4.1 This section sets out the disclosures to be provided by **insurers** in addition to the disclosure requirements of **FRS 102**.
- 4.2 In accordance with paragraph 8.5 of FRS 102, an entity shall disclose, in its significant **accounting policies**, in relation to both **insurance contracts** and **financial instruments** that it issues with a **discretionary participation feature**:
- (a) the measurement basis (or bases) used; and
 - (b) the other accounting policies used that are relevant to an understanding of the **financial statements**.
- 4.3 Insurers that have **liabilities** arising from **with-profits business** shall also apply Section 5 *Disclosure: Additional requirements for with-profits business* of this FRS.

Explanation of recognised amounts from insurance contracts

- 4.4 An insurer shall disclose information that identifies and explains the amounts in its financial statements arising from insurance contracts.
- 4.5 To comply with paragraph 4.4 an insurer shall disclose:
- (a) the recognised assets, liabilities, income and expense (and, if it presents its statement of cash flows using the direct method, cash flows) arising from insurance contracts. Furthermore, if the insurer is a **cedant**, it shall disclose:
 - (i) gains and losses recognised in **profit or loss** on buying reinsurance; and
 - (ii) if the cedant defers and amortises gains and losses arising on buying reinsurance, the amortisation for the period and the amounts remaining unamortised at the beginning and end of the period;
 - (b) the process used to determine the assumptions that have the greatest effect on the measurement of the recognised amounts described in (a). When practicable, an insurer shall also give quantified disclosure of those assumptions;
 - (c) the effect of changes in assumptions used to measure **insurance assets** and **insurance liabilities**, showing separately the effect of each change that has a material effect on the financial statements; and
 - (d) reconciliations of changes in insurance liabilities, **reinsurance assets** and, if any, related **deferred acquisition costs**.
- 4.6 Schedule 3 to the **Regulations** requires disclosure of the total amount of commissions for direct business including acquisition, renewal, collection and portfolio management. For this purpose, commission shall exclude payments made to employees of the undertaking.

Nature and extent of risks arising from insurance contracts

- 4.7 An insurer shall disclose information that enables users of its financial statements to evaluate the nature and extent of risks arising from insurance contracts.

- 4.8 To comply with paragraph 4.7, an insurer shall disclose:
- (a) its objectives, policies and processes for managing risks arising from insurance contracts and the methods used to manage those risks;
 - (b) information about **insurance risk** (both before and after risk mitigation by reinsurance), including information about:
 - (i) sensitivity to insurance risk (see paragraph 4.9);
 - (ii) concentrations of insurance risk, including a description of how management determines concentrations and a description of the shared characteristic that identifies each concentration (eg type of **insured event**, geographical area, or currency); and
 - (iii) actual **claims** compared with previous estimates (ie claims development). The disclosure about claims development shall go back to the period when the earliest material claim arose for which there is still uncertainty about the amount and timing of the claims payments, but need not go back more than ten years. An insurer need not disclose this information for claims for which uncertainty about the amount and timing of claims payments is typically resolved within one year;
 - (c) information about **credit risk, liquidity risk and market risk** that, as a **financial institution**, Section 34 *Specialised Activities* of FRS 102 would require if the insurance contracts were within the scope of Sections 11 *Basic Financial Instruments* and 12 *Other Financial Instruments Issues* of FRS 102. However:
 - (i) an insurer need not provide the maturity analyses required by paragraph 34.28 of FRS 102 if it discloses information about the estimated timing of the net cash outflows resulting from recognised insurance liabilities instead. This may take the form of an analysis, by estimated timing, of the amounts recognised in the **statement of financial position**;
 - (ii) if an insurer uses an alternative method to manage sensitivity to market conditions, such as an **embedded value** analysis, it may use that sensitivity analysis to meet the requirement in paragraph 34.29 of FRS 102. Such an insurer shall also provide the disclosures required by paragraph 34.30 of FRS 102; and
 - (d) information about exposures to market risk arising from **embedded derivatives** contained in a host insurance contract if the insurer is not required to, and does not, measure the embedded derivatives at **fair value**.
- 4.9 To comply with paragraph 4.8(b)(i), an insurer shall disclose either (a) or (b) as follows:
- (a) A sensitivity analysis that shows how profit or loss and **equity** would have been affected if changes in the relevant risk variable that were reasonably possible at the end of the **reporting period** had occurred; the methods and assumptions used in preparing the sensitivity analysis; and any changes from the previous period in the methods and assumptions used. However, if an insurer uses an alternative method to manage sensitivity to market conditions, such as an embedded value analysis, it may meet this requirement by disclosing that alternative sensitivity analysis and the disclosures required by paragraph 34.30 of FRS 102.
 - (b) Qualitative information about sensitivity, and information about those terms and conditions of insurance contracts that have a material effect on the amount, timing and uncertainty of the insurer's future cash flows.

Financial instruments, other than insurance contracts, containing discretionary participation features

- 4.10 An insurer that has financial instruments, other than insurance contracts, that it issues with a discretionary participation feature shall, in relation to those financial instruments, disclose:
- (a) the carrying amount of those financial instruments at the **reporting date**, in total, either in the statement of financial position or in the **notes to the financial statements**; and
 - (b) the information required by paragraphs 11.42 and 11.48 of FRS 102.

Section 5

Disclosure: Additional requirements for with-profits business

Scope of this section

- 5.1 This section sets out the disclosures to be provided by **insurers** that have liabilities arising from **with-profits business**, in addition to the disclosure requirements of **FRS 102** and Section 4 *Disclosure* of this FRS.
- 5.2 Where an entity has changed its **accounting policies** in accordance with paragraph 2.3, and its new accounting policies are no longer consistent with policies on which the disclosure requirements of this section are based, the requirements of this section that are no longer consistent with the entity's accounting policies need not be applied.

Disclosure and presentation relating to with-profits business

- 5.3 Amounts recognised under paragraph 3.12(c) or 3.12(d) shall be presented in one of the following ways:
- (a) Where it is possible to apportion the amount recognised between an amount relating to liabilities to **policyholders** and an amount relating to the **fund for future appropriation (FFA)**, these portions shall be presented in the **statement of financial position** as a deduction in arriving at the amount of liabilities to policyholders and the FFA respectively.
 - (b) Where it is not possible to make a reasonably approximate apportionment of the amount recognised, the amount shall be presented in the statement of financial position as a separate item deducted from a sub-total of liabilities to policyholders and the FFA.
 - (c) Where the presentation under paragraph 5.3(a) or 5.3(b) does not comply with statutory requirements for balance sheet presentation applying to the entity, the amount recognised under paragraph 3.12(c) or 3.12(d) shall be recognised as an asset.
- 5.4 The **FFA** shall be disclosed separately in the statement of financial position, and not combined with technical provisions or other liabilities. Entities that consolidate interests in an entity carrying on **long-term insurance business** on a basis that combines the FFA and technical provisions into a single amount of liabilities to policyholders are required to show these elements separately.
- 5.5 Where the balance on the FFA of a with-profits life fund is negative, as a result of the transfer made in accordance with paragraph 3.12 or otherwise, the entity shall include in the **notes to the financial statements** an explanation of the nature of the negative balance and the circumstances in which it arose, and why no action to eliminate it has been considered necessary.

Section 6

Transition to this FRS

Scope of this section

- 6.1 The transitional provisions in paragraphs 6.3 and 6.4 apply to both an entity that is already applying **FRS 102** when it first applies this FRS and an entity that applies both FRS 102 and this FRS together for the first time.
- 6.2 Section 35 *Transition to this FRS* of FRS 102 also applies to a first-time adopter of FRS 102.

Disclosure

- 6.3 In applying paragraph 4.8(b)(iii), an entity need not disclose information about **claims** development that occurred earlier than five years before the end of the first financial year in which it applies this FRS. Furthermore, if it is impracticable, when an entity first applies this FRS, to prepare information about claims development that occurred before the beginning of the earliest period for which an entity presents full comparative information that complies with this FRS, the entity shall disclose that fact.

Re-designation of financial assets

- 6.4 If an **insurer** changes its **accounting policies** for **insurance liabilities**, it is permitted, but not required, to reclassify some or all of its **financial assets** as a financial asset at **fair value** through **profit or loss** provided those assets meet the criteria in paragraph 11.14(b) of FRS 102 (or the relevant requirements of either IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments*, depending on the entity's accounting policy choice) at that date. This reclassification is permitted if an insurer changes accounting policies when it first applies this FRS and if it makes a subsequent policy change permitted by paragraph 2.3. The reclassification is a change in accounting policy and Section 10 *Accounting Policies, Estimates and Errors* of FRS 102 applies.

Appendix I Glossary

This appendix is an integral part of this FRS.

accounting policies	The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements .
acquisition costs	Costs arising from the conclusion of insurance contracts including direct costs and indirect costs connected with the processing of proposals and the issuing of policies. Further details are set out in note 6 of the Notes on the Profit and Loss Account format in Schedule 3 to the Regulations .
Act	The Companies Act 2006
amortised cost (of a financial asset or financial liability)	The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability.
bonuses	Amounts allocated to policyholders under with-profits contracts whose existence but not size is specified in the contract. Bonuses may be regular, occasional or terminal.
business combination	The bringing together of separate entities or businesses into one reporting entity.
catastrophe provision	Amount recognised over reporting periods between catastrophe events to provide contingency against future catastrophe claims .
category of business	Groupings of general insurance business with similar characteristics (such as patterns of risk, claims incurrence and settlement patterns, and setting of premiums).
cedant	The policyholder under a reinsurance contract .
claim	The amount payable under an insurance contract arising from the occurrence of an insured event .
claims incurred	A claim is incurred when the event giving rise to the claim occurs. Claims incurred include paid claims and movements in outstanding claims.
claims outstanding	In relation to general insurance business : The amounts provided to cover the estimated ultimate cost of settling claims arising out of events which have occurred by the reporting date , including incurred but not reported (IBNR) claims and claims handling expenses, less amounts already paid in respect of those claims. In relation to long-term insurance business : The amounts provided to cover the estimated ultimate cost of settling claims arising out of events, which have been notified by the reporting date being the sums

	due to beneficiaries together with claims handling expenses, less amounts already paid in respect of those claims.
credit risk	The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
deferred acquisition costs	<p>Costs arising from the conclusion of insurance contracts that are incurred during a reporting period but which relate to a subsequent reporting period and are carried forward to subsequent reporting periods.</p> <p>In relation to general insurance business: Costs relating to the unexpired period of risk of contracts in force at the reporting date.</p> <p>In relation to long-term insurance business: Costs relating to contracts in-force at the reporting date in the expectation that they will be recoverable out of future margins within insurance contracts after providing for contractual liabilities.</p>
deferred tax	Income tax payable (recoverable) in respect of the taxable profit (tax loss) for future reporting periods as a result of past transactions or events.
delegated authority	Agreement for another entity (eg a broker) to underwrite business in the entity's own name.
deposit component	A contractual component that is not accounted for as a derivative under Sections 11 and 12 of FRS 102 and would be within the scope of FRS 102 if it were a separate instrument.
derivative	<p>A financial instrument or other contract with all three of the following characteristics:</p> <p>(a) its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the 'underlying'), provided in the case of a non-financial variable that the variable is not specific to a party to the contract;</p> <p>(b) it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and</p> <p>(c) it is settled at a future date.</p>
deterministic approach	A method which calculates the value of a policy under a defined scenario and a single set of assumptions.
direct insurance contract	An insurance contract that is not a reinsurance contract .
discontinued operation	<p>A component of an entity that has been disposed of and:</p> <p>(a) represented a separate major line of business or geographical area of operations;</p> <p>(b) was part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or</p> <p>(c) was a subsidiary acquired exclusively with a view to resale.</p>

discounting	The reduction to present value at a given date of future cash flows at an assumed date by the application of an appropriate discount factor reflecting the time value of money.
discretionary participation feature	A contractual right to receive, as a supplement to guaranteed benefits , additional benefits: <ul style="list-style-type: none"> (a) that are likely to be a significant portion of the total contractual benefits; (b) whose amount or timing is contractually at the discretion of the issuer; and (c) that are contractually based on: <ul style="list-style-type: none"> (i) the performance of a specified pool of contracts or a specified type of contract; (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or (iii) the profit or loss of the company, fund or other entity that issues the contract.
earned premium	For general insurance business , earned premium is the proportion of written premiums (including where relevant those of previous reporting periods) attributable to the risks borne by the insurer during the reporting period .
effective interest method	A method of calculating the amortised cost of a financial asset or a financial liability (or a group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.
embedded derivative	A component of a hybrid (combined) instrument that also includes a non-derivative host contract – with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative . A derivative that is attached to a financial instrument but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument .
embedded value	A measure of the consolidated value of shareholder’s interests in the business, calculated as free surplus plus required capital plus the value of in-force life assurance business (VIF) . Different approaches are adopted in terms of methodology and valuation basis, with most entities tending to adopt either the CFO Forum’s EEV or MCEV principles.
equalisation provisions	As defined in the relevant regulatory framework.
equity	The residual interest in the assets of the entity after deducting all its liabilities .
EU-adopted IFRS	IFRS that have been adopted in the European Union in accordance with EU Regulation 1606/2002.

existing accounting policies	The accounting policies adopted by a reporting entity in its last annual financial statements before adoption of this FRS.
fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction. In the absence of any specific guidance provided in the relevant section of this FRS, the guidance in the Appendix to Section 2 <i>Concepts and Pervasive Principles</i> of FRS 102 shall be used in determining fair value.
financial asset	Any asset that is: <ul style="list-style-type: none"> (a) cash; (b) an equity instrument of another entity; (c) a contractual right: <ul style="list-style-type: none"> (i) to receive cash or another financial asset from another entity; or (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity; or (d) a contract that will or may be settled in the entity's own equity instruments and is: <ul style="list-style-type: none"> (i) a non-derivative for which the entity is or may be obliged to receive a variable number of the entity's own equity instruments; or (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.
financial guarantee contract	A contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
financial institution	Any of the following: <ul style="list-style-type: none"> (a) a bank which is: <ul style="list-style-type: none"> (i) a firm with a Part 4A permission³ which includes accepting deposits and: <ul style="list-style-type: none"> (a) which is a credit institution; or (b) whose Part 4A permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to

³ As defined in section 55A of the *Financial Services and Markets Act 2000* or references to equivalent provisions of any successor legislation.

	<p>banks, but which is not a building society, a friendly society or a credit union;</p> <p>(ii) an EEA bank which is a full credit institution;</p> <p>(b) a building society which is defined in section 119(1) of the Building Societies Act 1986 as a building society incorporated (or deemed to be incorporated) under that Act;</p> <p>(c) a credit union, being a body corporate registered under the Co-operative and Community Benefit Societies Act 2014 as a credit union in accordance with the Credit Unions Act 1979, which is an authorised person;</p> <p>(d) custodian bank or broker-dealer;</p> <p>(e) an entity that undertakes the business of effecting or carrying out insurance contracts, including general and life assurance entities;</p> <p>(f) an incorporated friendly society incorporated under the Friendly Societies Act 1992 or a registered friendly society registered under section 7(1)(a) of the Friendly Societies Act 1974 or any enactment which it replaced, including any registered branches;</p> <p>(g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); or</p> <p>(h) [deleted]</p> <p>(i) any other entity whose principal activity is similar to those listed above but is not specifically included in that list.</p> <p>A parent entity whose sole activity is to hold investments in other group entities is not a financial institution.</p>
financial instrument	A contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.
financial liability	<p>Any liability that is:</p> <p>(a) a contractual obligation:</p> <p>(i) to deliver cash or another financial asset to another entity; or</p> <p>(ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or</p> <p>(b) a contract that will or may be settled in the entity's own equity instruments and is:</p> <p>(i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments; or</p> <p>(ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose the entity's own equity instruments do not include instruments that are themselves contracts for the future receipt or delivery of the entity's own equity instruments.</p>

financial position	The relationship of the assets, liabilities and equity of an entity as reported in the statement of financial position .
financial reinsurance	Where a reinsurance contract is intended, either in whole or in part, to mitigate the requirement to establish prudent provisions, and/or to provide an element of financing, the identifiable elements of the contract which do not transfer significant insurance risk are considered to be financial reinsurance.
financial risk	The risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.
financial statements	Structured representation of the financial position , financial performance and cash flows of an entity.
FRS 101	<i>FRS 101 Reduced Disclosure Framework</i>
FRS 102	<i>FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>
fund for future appropriations (FFA)	The balance sheet item required by Schedule 3 to the Regulations to comprise all funds the allocation of which, either to policyholders or to shareholders, has not been determined by the end of the reporting period .
general insurance business	Insurance contracts (including reinsurance) falling within one of the classes of insurance specified in Part I of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).
gross premium method	<p>A form of actuarial valuation of liabilities arising under long-term insurance contracts where the premiums brought into account are the full amounts receivable under the contract. The method includes explicit estimates of cash flows for:</p> <ul style="list-style-type: none"> (a) premiums, adjusted for renewals and lapses; (b) expected claims and for with-profits business future regular but not occasional or terminal bonuses; (c) costs of maintaining contracts; and (d) future renewal expenses. <p>Cash flows are discounted at the valuation interest rate. The methodology may be set out in the relevant regulatory framework. The discount rate is based on the expected return on the assets deemed to back the liabilities. This will be adjusted to reflect any further risks although, under this method, most of the key risks will be reflected in the modelling of the cash flows. For linked business, allowance may be made for the purchase of future units required by the contract terms and credit is taken for future charges permitted under those terms.</p>
guaranteed benefits	Payments or other benefits to which a particular policyholder or investor has an unconditional right that is not subject to the contractual discretion of the issuer.

guaranteed element	An obligation to pay guaranteed benefits , included in a contract that contains a discretionary participation feature .
IFRS (International Financial Reporting Standards)	Standards and interpretations issued (or adopted) by the International Accounting Standards Board (IASB). They comprise: (a) International Financial Reporting Standards; (b) International Accounting Standards; and (c) Interpretations developed by the IFRS Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC).
income statement	Financial statement that presents all items of income and expense recognised in a reporting period , excluding the items of other comprehensive income (referred to as the profit and loss account in the Act).
INSPRU	See Prudential sourcebook for insurers (INSPRU) .
insurance asset	An insurer's net contractual rights under an insurance contract .
insurance contract	A contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. (See Appendix II for guidance on this definition.)
insurance liability	An insurer's net contractual obligations under an insurance contract .
insurance risk	Risk, other than financial risk , transferred from the holder of a contract to the issuer.
insured event	An uncertain future event that is covered by an insurance contract and creates insurance risk .
insurer	The party that has an obligation under an insurance contract to compensate a policyholder if an insured event occurs.
intangible asset	An identifiable non-monetary asset without physical substance. Such an asset is identifiable when: (a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability ; or (b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.
investment contract	Contract that has the legal form of an insurance contract but does not expose the insurer to significant insurance risk , for example life insurance contracts in which the insurer bears no significant mortality risk.
investment return	Comprises all investment income, realised investment gains and losses and movements in unrealised investment gains and losses . It also includes investment expenses and charges and, if appropriate, interest payable.

liability	A present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits.
liability adequacy test	An assessment of whether the carrying amount of an insurance liability needs to be increased (or the carrying amount of related deferred acquisition costs or related intangible assets decreased), based on a review of future cash flows.
linked business	Long-term insurance business where the benefits payable to policyholders are wholly or partly to be determined by reference to the value of, or the income from, property of any description or by reference to fluctuations in, or in an index of, the value of property of any description.
liquidity risk	The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset .
longer term rate of investment return	An estimate of the long-term trend investment return for the relevant category of investments having regard to past performance, current trends and future expectations.
long-term insurance business	Insurance contracts (including reinsurance) falling within one of the classes of insurance specified in Part II of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544).
market risk	<p>The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.</p> <p>Interest rate risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.</p> <p>Currency risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.</p> <p>Other price risk – the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.</p>
modified statutory solvency basis (MSSB)	<p>The basis for determining insurance liabilities which is the statutory solvency basis adjusted for the following items:</p> <p>(a) to defer new business acquisition costs incurred where the benefit of such costs will be obtained in subsequent reporting periods; and</p> <p>(b) to treat investment, resilience and similar reserves, or reserves held in respect of general contingencies or the specific contingency that the fund will be closed to new business, where such items are held in respect of long-term insurance</p>

	business , as reserves rather than provisions. These are included, as appropriate, within shareholders' capital and reserves or the fund for future appropriations (FFA) .
mutual	As defined in the PRA Rulebook.
net premium method	An actuarial valuation of liabilities arising under long-term insurance contracts where the premium brought into account at any valuation date is that which, on the valuation assumptions regarding interest, mortality and disability, will exactly provide for the benefits guaranteed. A variation of the net premium method involves zillmerisation . The detailed methodology for UK companies is included in regulations contained in the PRA Rulebook as at 31 December 2015.
non-controlling interest	The equity in a subsidiary not attributable, directly or indirectly, to a parent .
non-participating business	Long-term insurance business where policyholders are not entitled to share in the surplus of the relevant long-term business.
non-technical account	The section of the income statement (referred to as the profit and loss account in the Act) prescribed by Part 1 of Schedule 3 to the Regulations in addition to the technical accounts for general and long-term insurance business .
notes (to financial statements)	Notes contain information in addition to that presented in the statement of financial position , statement of comprehensive income, income statement (if presented), combined statement of income and retained earnings (if presented), statement of changes in equity and statement of cash flows. Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for recognition in those statements.
options and guarantees	Features of life assurance contracts that: (a) confer potentially valuable guarantees underlying the level or nature of policyholder benefits; or (b) are options to change these benefits exercisable at the discretion of the policyholder . For the purposes of this FRS, the term is used to refer only to those options and guarantees whose potential value is affected by the behaviour of financial variables.
owners	Holders of instruments classified as equity .
pipeline premiums	Premiums written but not reported to the undertaking by the reporting date .
policyholder	A party that has a right to compensation under an insurance contract if an insured event occurs.
portfolio claims	Amounts payable by one insurer to another in consideration for a contract whereby the latter agrees to assume responsibility for the unpaid claims incurred by the former prior to a date specified in the contract.

portfolio premiums	Amounts payable by one insurer to another in consideration for a contract whereby the latter agrees to assume responsibility for the claims arising on a portfolio of in-force business written by the former from a future date until the expiry of the policies.
portfolio transfer	The bulk transfer of contracts or risks to another entity.
present value	A current estimate of the present discounted value of the future net cash flows in the normal course of business.
principles and practices of financial management (PPFM)	The statement that the Financial Conduct Authority requires each with-profits life fund to make available to its policyholders containing, inter alia, a description of the fund's investment management and bonus distribution policies.
profit or loss	The total of income less expenses, excluding the components of other comprehensive income.
Prudential Regulatory Authority (PRA)	The division of the Bank of England responsible for the prudential regulation and supervision of banks, building societies, credit unions, insurers and major investment firms in the UK.
Prudential sourcebook for insurers (INSPRU)	The section of the PRA Rulebook detailing the prudential rules for insurers , including capital requirements, credit, market and liquidity risk for periods ending before 1 January 2016.
realised investment gains and losses	(a) For investments included in the financial statements at fair value , the difference between the net proceeds on disposal and their purchase price. (b) For investments included at amortised cost , the difference between the net proceeds on disposal and the latest carrying value (or if acquired after the last reporting date , the purchase price).
realistic value of liabilities	That element of the amount defined by rule 1.3.40 of INSPRU as at 31 December 2015, excluding current liabilities falling within the definition set out in rule 1.3.190 of INSPRU as at 31 December 2015 that are recognised separately in the statement of financial position .
recognition	The process of incorporating in the statement of financial position or statement of comprehensive income an item that meets the definition of an asset, liability , equity , income or expense and satisfies the following criteria: (a) it is probable that any future economic benefit associated with the item will flow to or from the entity; and (b) the item has a cost or value that can be measured with reliability.
Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)
regulatory capital resources	An entity's capital resources as calculated in accordance with the regulatory framework.

reinsurance assets	A cedant's net contractual rights under a reinsurance contract .
reinsurance contract	An insurance contract issued by one insurer (the reinsurer) to compensate another insurer (the cedant) for losses on one or more contracts issued by the cedant . Retrocession is the reinsurance outwards of risks previously accepted by an insurer as reinsurance inwards. The recipient is known as the retrocessionaire.
reinsurance recovery	The amount recoverable or recovered from a reinsurer (or retrocessionaire) under a reinsurance contract .
reinsurer	The party that has an obligation under a reinsurance contract to compensate a cedant if an insured event occurs.
reporting date	The end of the latest period covered by financial statements or by an interim financial report.
reporting period	The period covered by financial statements or by an interim financial report.
restructuring	A restructuring is a programme that is planned and controlled by management and materially changes either: (a) the scope of a business undertaken by an entity; or (b) the manner in which that business is conducted.
run-off deviation	For general insurance business , the difference (before any reduction in respect of discounting) between: (a) the provisions made at the beginning of the reporting period for outstanding claims incurred in previous reporting periods; and (b) the payments made during the reporting period on account of claims incurred in previous reporting periods and the claims provision at the end of the reporting period for such outstanding claims.
separable embedded derivative	An embedded derivative where: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative ; and (c) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in profit or loss . The guidance in IAS 39 and IFRS 4 shall be used in determining whether an embedded derivative is separable.
significant insurance risk	An insured event or risk which could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance.

Solvency II Directive	Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), as amended by Directive 2013/58/EU, and as implemented in the United Kingdom and Republic of Ireland.
statement of financial position	Financial statement that presents the relationship of an entity's assets, liabilities and equity as of a specific date (referred to as the balance sheet in the Act).
statutory solvency basis	The basis of determination of insurance liabilities in accordance with rule 1 of INSPRU as at 31 December 2015.
structured settlement	An arrangement by consent between the parties concerned or under a Court Order whereby damages in the form of a lump sum are replaced by a smaller lump sum and a series of periodic payments. These are also referred to as Periodic Payment Orders or PPOs.
surrender	To cease paying premiums such that the insurance contract ceases to have effect.
surrender option	The option to surrender an insurance contract in return for some form of reduced claim .
technical account	In relation to general insurance business : The section of the income statement (referred to as the profit and loss account in the Act) for recording insurance business within the classes specified in Part I of Schedule 1 to the Regulated Activities Order which must be prepared in accordance with the format prescribed in Part I of Schedule 3 to the Regulations . In relation to long-term insurance business : The section of the income statement (referred to as the profit and loss account in the Act) for recording insurance business within the classes specified in Part II of Schedule 1 to the Regulated Activities Order, which must be prepared in accordance with the format prescribed in Part I of Schedule 3 to the Regulations .
unbundle	To account for the components of a contract as if they were separate contracts.
unearned premiums provision	For general insurance business , the proportion of written premiums relating to periods of risk after the reporting date , which are deferred to subsequent reporting periods .
unexpired risks provision	The excess of the estimated value of claims and expenses likely to arise after the end of the reporting period from contracts concluded before that date, insofar as their estimated value exceeds the provision for unearned premiums (after deduction of any acquisition costs deferred), and any premiums receivable under those contracts.
unrealised investment gains and losses	The difference between the fair value at the reporting date of investments held on that date and their purchase price. Movements in unrealised investment gains and losses comprise: (a) the increase/decrease in the reporting period in the value of investments held at the reporting date; and

	(b) the reversal of unrealised investment gains and losses recognised in earlier reporting periods in respect of investment disposals of the current period.
value of in-force life assurance business (VIF)	The net present value of the shareholders' interest in the expected after tax cash flows from long-term insurance business , on the assumption that all assets backing the business will be distributed over time to in-force policyholders and/or shareholders. The calculation of VIF should allow for uncertainties associated with the assessment of future cash flows, as well as for the time value of money. VIF includes both the shareholders' interest which is expected to arise in the form of cash flows over the lifetime of current in-force contracts and the interest in the surplus assets which, in practice, is not expected to be distributed over this period.
with-profits business	Long-term insurance business which provides benefits through eligibility to participate in discretionary distributions based on profits arising from the insurer's business or from a particular part of the insurer's business. A with-profits contract is an example of a contract with a discretionary participation feature .
written premiums	In relation to general insurance business : Premiums, which an insurer is contractually entitled to receive from the insured in relation to contracts of insurance. These are premiums on contracts entered into during the reporting period and adjustments arising in the reporting period to premiums receivable in respect of contracts entered into in previous reporting periods . In relation to long-term insurance business : Premiums to which the insurer is contractually entitled becoming due for payment in the reporting period.
zillmerisation	A variation of the net premium method which increases the future premiums valued to take account of acquisition costs incurred.

Appendix II

Definition of an insurance contract

This appendix is an integral part of this FRS.

- A2.1 This appendix gives guidance on the definition of an **insurance contract** in Appendix I. It addresses the following issues:
- (a) the term 'uncertain future event' (paragraphs A2.2 to A2.4);
 - (b) payments in kind (paragraphs A2.5 to A2.7);
 - (c) **insurance risk** and other risks (paragraphs A2.8 to A2.17);
 - (d) examples of insurance contracts (paragraphs A2.18 to A2.24);
 - (e) **significant insurance risk** (paragraphs A2.25 to A2.31); and
 - (f) changes in the level of insurance risk (paragraphs A2.32 and A2.33).

Uncertain future event

- A2.2 Uncertainty (or risk) is the essence of an insurance contract. Accordingly, at least one of the following is uncertain at the inception of an insurance contract:
- (a) whether an **insured event** will occur;
 - (b) when it will occur; or
 - (c) how much the **insurer** will need to pay if it occurs.
- A2.3 In some insurance contracts, the insured event is the discovery of a loss during the term of the contract, even if the loss arises from an event that occurred before the inception of the contract. In other insurance contracts, the insured event is an event that occurs during the term of the contract, even if the resulting loss is discovered after the end of the contract term.
- A2.4 Some insurance contracts cover events that have already occurred, but whose financial effect is still uncertain. An example is a **reinsurance contract** that covers the direct insurer against adverse development of **claims** already reported by **policyholders**. In such contracts, the insured event is the discovery of the ultimate cost of those claims.

Payments in kind

- A2.5 Some insurance contracts require or permit payments to be made in kind. An example is when the insurer replaces a stolen article directly, instead of reimbursing the policyholder. Another example is when an insurer uses its own hospitals and medical staff to provide medical services covered by the contracts.
- A2.6 Some fixed-fee service contracts in which the level of service depends on an uncertain event meet the definition of an insurance contract in this FRS but are not regulated as insurance contracts. One example is a maintenance contract in which the service provider agrees to repair specified equipment after a malfunction. The fixed service fee is based on the expected number of malfunctions, but it is uncertain whether a particular machine will break down. The malfunction of the equipment adversely affects its owner and the contract compensates the owner (in kind, rather than cash). Another example is a contract for car breakdown services in which the provider agrees, for a fixed annual fee, to provide roadside assistance or tow the car to a nearby garage. The latter contract could meet the definition of an insurance contract even if the provider does not agree to carry out repairs or replace parts.

A2.7 Applying the FRS to the contracts described in paragraph A2.6 is likely to be no more burdensome than applying FRS 102 if such contracts were outside the scope of this FRS:

- (a) There are unlikely to be material liabilities for malfunctions and breakdowns that have already occurred.
- (b) If Section 23 *Revenue* of FRS 102 applied, the service provider would recognise revenue by reference to the stage of completion (and subject to other specified criteria). That approach is also acceptable under this FRS, which permits the service provider to continue its **existing accounting policies** for these contracts unless they involve practices prohibited by paragraph 2.13.
- (c) If this FRS did not apply to these contracts, the service provider would apply Section 21 *Provisions and Contingencies* of FRS 102 to determine whether the contracts are onerous.

Distinction between insurance risk and other risks

A2.8 The definition of an insurance contract refers to insurance risk, which this FRS defines as risk, other than **financial risk**, transferred from the holder of a contract to the issuer. A contract that exposes the issuer to financial risk without significant insurance risk is not an insurance contract.

A2.9 The definition of financial risk in Appendix I *Glossary* includes a list of financial and non-financial variables. That list includes non-financial variables that are not specific to a party to the contract, such as an index of earthquake losses in a particular region or an index of temperatures in a particular city. It excludes non-financial variables that are specific to a party to the contract, such as the occurrence or non-occurrence of a fire that damages or destroys an asset of that party. Furthermore, the risk of changes in the **fair value** of a non-financial asset is not a financial risk if the fair value reflects not only changes in market prices for such assets (a financial variable) but also the condition of a specific non-financial asset held by a party to a contract (a non-financial variable). For example, if a guarantee of the residual value of a specific car exposes the guarantor to the risk of changes in the car's physical condition, that risk is insurance risk, not financial risk.

A2.10 Some contracts expose the issuer to financial risk, in addition to significant insurance risk. For example, many life insurance contracts both guarantee a minimum rate of return to policyholders (creating financial risk) and promise death benefits that at some times significantly exceed the policyholder's account balance (creating insurance risk in the form of mortality risk). Such contracts are insurance contracts.

A2.11 Under some contracts, an insured event triggers the payment of an amount linked to a price index. Such contracts are insurance contracts, provided the payment that is contingent on the insured event can be significant. For example, a life-contingent annuity linked to a cost-of-living index transfers insurance risk because payment is triggered by an uncertain event – the survival of the annuitant. The link to the price index is an **embedded derivative**, but it also transfers insurance risk. If the resulting transfer of insurance risk is significant, the embedded derivative meets the definition of an insurance contract (which need not be separated and measured at fair value).

A2.12 The definition of insurance risk refers to risk that the insurer accepts from the policyholder. In other words, insurance risk is a pre-existing risk transferred from the policyholder to the insurer. Thus, a new risk created by the contract is not insurance risk.

- A2.13 The definition of an insurance contract refers to an adverse effect on the policyholder. The definition does not limit the payment by the insurer to an amount equal to the financial impact of the adverse event. For example, the definition does not exclude 'new-for-old' coverage that pays the policyholder sufficient to permit replacement of a damaged old asset by a new asset. Similarly, the definition does not limit payment under a term life insurance contract to the financial loss suffered by the deceased's dependants, nor does it preclude the payment of predetermined amounts to quantify the loss caused by death or an accident.
- A2.14 Some contracts require a payment if a specified uncertain event occurs, but do not require an adverse effect on the policyholder as a precondition for payment. Such a contract is not an insurance contract even if the holder uses the contract to mitigate an underlying risk exposure. For example, if the holder uses a **derivative** to hedge an underlying non-financial variable that is correlated with cash flows from an asset of the entity, the derivative is not an insurance contract because payment is not conditional on whether the holder is adversely affected by a reduction in the cash flows from the asset. Conversely, the definition of an insurance contract refers to an uncertain event for which an adverse effect on the policyholder is a contractual precondition for payment. This contractual precondition does not require the insurer to investigate whether the event actually caused an adverse effect, but permits the insurer to deny payment if it is not satisfied that the event caused an adverse effect.
- A2.15 Lapse or persistency risk (ie the risk that the counterparty will cancel the contract earlier or later than the issuer had expected in pricing the contract) is not insurance risk because the payment to the counterparty is not contingent on an uncertain future event that adversely affects the counterparty. Similarly, expense risk (ie the risk of unexpected increases in the administrative costs associated with the servicing of a contract, rather than in costs associated with insured events) is not insurance risk because an unexpected increase in expenses does not adversely affect the counterparty.
- A2.16 Therefore, a contract that exposes the issuer to lapse risk, persistency risk or expense risk is not an insurance contract unless it also exposes the issuer to insurance risk. However, if the issuer of that contract mitigates that risk by using a second contract to transfer part of that risk to another party, the second contract exposes that other party to insurance risk.
- A2.17 An insurer can accept significant insurance risk from the policyholder only if the insurer is an entity separate from the policyholder. In the case of a **mutual** insurer, the mutual accepts risk from each policyholder and pools that risk. Although policyholders bear that pooled risk collectively in their capacity as **owners**, the mutual has still accepted the risk that is the essence of an insurance contract.

Examples of insurance contracts

- A2.18 The following are examples of contracts that are insurance contracts, if the transfer of insurance risk is significant:
- (a) Insurance against theft or damage to property.
 - (b) Insurance against product liability, professional liability, civil liability or legal expenses.
 - (c) Life insurance and prepaid funeral plans (although death is certain, it is uncertain when death will occur or, for some types of life insurance, whether death will occur within the period covered by the insurance).
 - (d) Life-contingent annuities and pensions (ie contracts that provide compensation for the uncertain future event – the survival of the annuitant or pensioner – to assist

the annuitant or pensioner in maintaining a given standard of living, which would otherwise be adversely affected by his or her survival).

- (e) Disability and medical cover.
- (f) Surety bonds, fidelity bonds, performance bonds and bid bonds (ie contracts that provide compensation if another party fails to perform a contractual obligation, for example an obligation to construct a building).
- (g) Credit insurance that provides for specified payments to be made to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due under the original or modified terms of a debt instrument. These contracts could have various legal forms, such as that of a guarantee, some types of letter of credit, a credit derivative default contract or an insurance contract. However, although these contracts meet the definition of an insurance contract, they also meet the definition of a **financial guarantee contract** in FRS 102 and are within the scope of Section 21 of FRS 102, not this FRS (see paragraph 1.7(d)). Nevertheless, if an issuer of financial guarantee contracts has previously asserted explicitly that it regards such contracts as insurance contracts and has used accounting applicable to insurance contracts, the issuer may elect to apply either Section 21 of FRS 102 or this FRS to such financial guarantee contracts.
- (h) Product warranties. Product warranties issued by another party for goods sold by a manufacturer, dealer or retailer are within the scope of this FRS. However, product warranties issued directly by a manufacturer, dealer or retailer are outside its scope, because they are within the scope of Sections 21 and 23 of FRS 102.
- (i) Title insurance (ie insurance against the discovery of defects in title to land that were not apparent when the insurance contract was written). In this case, the insured event is the discovery of a defect in the title, not the defect itself.
- (j) Travel assistance (ie compensation in cash or in kind to policyholders for losses suffered while they are travelling). Paragraphs A2.6 and A2.7 discuss some contracts of this kind.
- (k) Catastrophe bonds that provide for reduced payments of principal, interest or both if a specified event adversely affects the issuer of the bond (unless the specified event does not create significant insurance risk, for example if the event is a change in an interest rate or foreign exchange rate).
- (l) Insurance swaps and other contracts that require a payment based on changes in climatic, geological or other physical variables that are specific to a party to the contract.
- (m) Reinsurance contracts.

A2.19 The following are examples of items that are not insurance contracts:

- (a) **Investment contracts** that have the legal form of an insurance contract but do not expose the insurer to significant insurance risk, for example life insurance contracts in which the insurer bears no significant mortality risk (such contracts are non-insurance **financial instruments** or service contracts, see paragraphs A2.20 and A2.21).
- (b) Contracts that have the legal form of insurance, but pass all significant insurance risk back to the policyholder through non-cancellable and enforceable mechanisms that adjust future payments by the policyholder as a direct result of insured losses, for example some **financial reinsurance** contracts or some group contracts (such contracts are normally non-insurance financial instruments or service contracts, see paragraphs A2.20 and A2.21).
- (c) Self-insurance, in other words retaining a risk that could have been covered by insurance (there is no insurance contract because there is no agreement with another party).

- (d) Contracts (such as gambling contracts) that require a payment if a specified uncertain future event occurs, but do not require, as a contractual precondition for payment, that the event adversely affects the policyholder. However, this does not preclude the specification of a predetermined payout to quantify the loss caused by a specified event such as death or an accident (see also paragraph A2.13).
- (e) Derivatives that expose one party to financial risk but not insurance risk, because they require that party to make payment based solely on changes in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (see FRS 102).
- (f) A credit-related guarantee (or letter of credit, credit derivative default contract or credit insurance contract) that requires payments even if the holder has not incurred a loss on the failure of the debtor to make payments when due.
- (g) Contracts that require a payment based on a climatic, geological or other physical variable that is not specific to a party to the contract (commonly described as weather derivatives).
- (h) Catastrophe bonds that provide for reduced payments of principal, interest or both, based on a climatic, geological or other physical variable that is not specific to a party to the contract.

A2.20 If the contracts described in paragraph A2.19 create **financial assets** or **financial liabilities**, they are within the scope of Sections 11 *Basic Financial Instruments* and 12 *Other Financial Instruments Issues* of FRS 102. Among other things, this means that the parties to the contract use what is sometimes called deposit accounting, which involves the following:

- (a) one party recognises the consideration received as a financial liability, rather than as revenue; and
- (b) the other party recognises the consideration paid as a financial asset, rather than as an expense.

A2.21 If the contracts described in paragraph A2.19 do not create financial assets or financial liabilities, Section 23 of FRS 102 applies. Under Section 23 of FRS 102, revenue associated with a transaction involving the rendering of services is recognised by reference to the stage of completion of the transaction if the outcome of the transaction can be estimated reliably.

Examples of revenue recognition under the principles in Section 23 of FRS 102

A2.22 Examples 15, 17 and 17A in the appendix to Section 23 of FRS 102 are relevant to the **recognition** of revenue for the types of contract described in paragraph A2.19.

A2.23 Where the consideration for a contract meeting the definition of an investment contract comprises both a fee for the origination and an ongoing charge for the provision of (eg investment management) services, the insurance undertaking shall record the origination fee as revenue on the date on which it becomes entitled to it where it can be demonstrated that the undertaking has no further obligations in respect of the fee.

A2.24 Incremental costs that are directly attributable to securing an investment management contract are recognised as an asset if they can be identified separately and measured reliably and if it is probable that they will be recovered. The asset represents the entity's contractual right to benefit from providing investment management services and is amortised as the entity recognises the related revenue. If the entity has a portfolio of investment management contracts, it may assess their recoverability on a portfolio basis.

Significant insurance risk

- A2.25 A contract is an insurance contract only if it transfers significant insurance risk. Paragraphs A2.8 to A2.21 discuss insurance risk. The following paragraphs discuss the assessment of whether insurance risk is significant.
- A2.26 Insurance risk is significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance (ie have no discernible effect on the economics of the transaction). If significant additional benefits would be payable in scenarios that have commercial substance, the condition in the previous sentence may be met even if the insured event is extremely unlikely or even if the expected (ie probability-weighted) **present value** of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.
- A2.27 The additional benefits described in paragraph A2.26 refer to amounts that exceed those that would be payable if no insured event occurred (excluding scenarios that lack commercial substance). Those additional amounts include claims handling and claims assessment costs, but exclude:
- (a) The loss of the ability to charge the policyholder for future services. For example, in an investment-linked life insurance contract, the death of the policyholder means that the insurer can no longer perform investment management services and collect a fee for doing so. However, this economic loss for the insurer does not reflect insurance risk, just as a mutual fund manager does not take on insurance risk in relation to the possible death of the client. Therefore, the potential loss of future investment management fees is not relevant in assessing how much insurance risk is transferred by a contract;
 - (b) Waiver on death of charges that would be made on cancellation or **surrender**. Because the contract brought those charges into existence, the waiver of these charges does not compensate the policyholder for a pre-existing risk. Hence, they are not relevant in assessing how much insurance risk is transferred by a contract;
 - (c) A payment conditional on an event that does not cause a significant loss to the holder of the contract. For example, consider a contract that requires the issuer to pay one million currency units if an asset suffers physical damage causing an insignificant economic loss of one currency unit to the holder. In this contract, the holder transfers to the insurer the insignificant risk of losing one currency unit. At the same time, the contract creates non-insurance risk that the issuer will need to pay 999,999 currency units if the specified event occurs. Because the issuer does not accept significant insurance risk from the holder, this contract is not an insurance contract;
 - (d) Possible **reinsurance recoveries**. The insurer accounts for these separately.
- A2.28 An insurer shall assess the significance of insurance risk contract by contract, rather than by reference to materiality to the **financial statements**⁴. Thus, insurance risk may be significant even if there is a minimal probability of material losses for a whole book of contracts. This contract-by-contract assessment makes it easier to classify a contract as an insurance contract. However, if a relatively homogeneous book of small contracts is known to consist of contracts that all transfer insurance risk, an insurer need not examine each contract within that book to identify a few non-derivative contracts that transfer insignificant insurance risk.

⁴ For this purpose, contracts entered into simultaneously with a single counterparty (or contracts that are otherwise interdependent) form a single contract.

- A2.29 It follows from paragraphs A2.26 to A2.28 that if a contract pays a death benefit exceeding the amount payable on survival, the contract is an insurance contract unless the additional death benefit is insignificant (judged by reference to the contract rather than to an entire book of contracts). As noted in paragraph A2.27(b), the waiver on death of cancellation or surrender charges is not included in this assessment if this waiver does not compensate the policyholder for a pre-existing risk. Similarly, an annuity contract that pays out regular sums for the rest of a policyholder's life is an insurance contract, unless the aggregate life-contingent payments are insignificant.
- A2.30 Paragraph A2.26 refers to additional benefits. These additional benefits could include a requirement to pay benefits earlier if the insured event occurs earlier and the payment is not adjusted for the time value of money. An example is whole life insurance for a fixed amount (in other words, insurance that provides a fixed death benefit whenever the policyholder dies, with no expiry date for the cover). It is certain that the policyholder will die, but the date of death is uncertain. The insurer will suffer a loss on those individual contracts for which policyholders die early, even if there is no overall loss on the whole book of contracts.
- A2.31 If an insurance contract is **unbundled** into a **deposit component** and an insurance component, the significance of insurance risk transfer is assessed by reference to the insurance component. The significance of insurance risk transferred by an embedded derivative is assessed by reference to the embedded derivative.

Changes in the level of insurance risk

- A2.32 Some contracts do not transfer any insurance risk to the issuer at inception, although they do transfer insurance risk at a later time. For example, consider a contract that provides a specified **investment return** and includes an option for the policyholder to use the proceeds of the investment on maturity to buy a life-contingent annuity at the current annuity rates charged by the insurer to other new annuitants when the policyholder exercises the option. The contract transfers no insurance risk to the issuer until the option is exercised, because the insurer remains free to price the annuity on a basis that reflects the insurance risk transferred to the insurer at that time. However, if the contract specifies the annuity rates (or a basis for setting the annuity rates), the contract transfers insurance risk to the issuer at inception.
- A2.33 A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Appendix III

Note on legal requirements

Introduction

- A3.1 This appendix provides an overview of how the requirements in FRS 103 address United Kingdom company law requirements. It is therefore written from the perspective of a company to which the Companies Act 2006 applies. Appendix IV contains the Republic of Ireland legal references.
- A3.2 Many entities that are not constituted as companies apply accounting standards promulgated by the FRC for the purposes of preparing financial statements that present a true and fair view⁵. A brief consideration of the legal framework for some other entities can be found at A3.3.
- A3.2A Paragraph 52(3) of Schedule 3 to the Regulations requires an insurance company to have 'due regard to the actuarial principles laid down in Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)' when computing its long-term business provision. The Department for Business, Energy and Industrial Strategy (BEIS) has confirmed that this reference should not be interpreted to mean that insurance companies are now required to change their accounting basis to one consistent with Solvency II, and that Solvency II shall only be considered when it is relevant to the accounting basis applied in the company's accounts.

Entities not subject to company law

- A3.3 Many entities that apply FRS 103 are not companies, but are nevertheless required by their governing legislation, or other regulation or requirement to prepare financial statements that present a true and fair view of the financial performance and financial position of the reporting entity. However, the FRC sets accounting standards within the framework of the Act and therefore it is the company law requirements that the FRC primarily considered when developing FRS 103. Entities preparing financial statements within other legal frameworks will need to satisfy themselves that FRS 103 does not conflict with any relevant legal obligations.

The FRC notes the following:

Legislation	Overview of requirements
Friendly Societies Act 1992	<p>Every society shall prepare a balance sheet and an income and expenditure account for each financial year giving a true and fair view of the affairs of the society and its income and expenditure for the year.</p> <p>The Friendly Societies (Accounts and Related Provisions) Regulations 1994 (as amended) make further requirements about the form and content of friendly society accounts, which do not generally appear inconsistent with the requirements of FRS 102 and FRS 103. However, for a non-directive society (as defined in the regulations) the regulations set out a different required format.</p>

⁵ More information about the 'true and fair' concept can be found on the FRC website.

Legislation	Overview of requirements
Co-operative and Community Benefit Societies Act 2014	The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008 require every society that is an insurance undertaking to prepare its financial statements substantially as though it were a company registered under the Companies Act 2006.
Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008	In respect of each syndicate managing agents shall prepare accounts on an underwriting year basis that give a true and fair view of the results of that underwriting year.

Appendix IV

Republic of Ireland legal references

Introduction

A4.1 The table below outlines the provisions of the Companies Act 2014 and the European Union (Insurance Undertakings: Financial Statements) Regulations 2015 (S.I. No. 262 of 2015), as amended by the European Union (Insurance Undertakings: Financial Statements) (Amendment) Regulations 2016 (S.I. No. 213 of 2016) (Insurance Undertakings Regulations 2015 (as amended)) which correspond to the provisions of UK company law referred to in this FRS.

References to the Companies Act 2014 in this FRS, including in this appendix, are to the Companies Act 2014, as amended by the Companies (Accounting) Act 2017 and the Companies (Amendment) Act 2017.

A4.2 The following Irish legislation is also referenced in the table below:

- European Union (Insurance and Reinsurance) Regulations 2015 (S.I. No. 485 of 2015), as amended by the European Union (Insurance and Reinsurance) (Amendment) Regulations 2017 (S.I. No. 384 of 2017) (S.I. No. 485 of 2015 (as amended)) – (Solvency II firms);
- European Communities (Non-life Insurance) Framework Regulations 1994 (S.I. No. 359 of 1994), as continued for the purposes set out in Finance (Miscellaneous Provisions) Act 2015 (No. 37 of 2015) – (Firms outside the scope of Solvency II);
- European Communities (Life Assurance) Framework Regulations 1994 (S.I. No. 360 of 1994), as continued for the purposes set out in Finance (Miscellaneous Provisions) Act 2015 (No. 37 of 2015) – (Firms outside the scope of Solvency II);
- The Building Societies Act, 1989;
- The Credit Union Acts 1997 to 2012;
- The Central Bank Act, 1971;
- The Friendly Societies Acts 1896 to 2014; and
- The Industrial and Provident Societies (Amendment) Act, 1978 (as amended).

A4.3 Throughout this FRS, general references are made to ‘the Regulations’, which are defined in the Glossary as the [UK] ‘Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)’. Schedule 3 and Schedule 6 to those Regulations apply to UK insurance companies preparing Companies Act individual accounts and Companies Act group accounts respectively. General references are also made in this FRS to ‘the Act’, which is defined in the Glossary as the [UK] ‘Companies Act 2006’. Such general references to ‘the Regulations’ and ‘the Act’ in this FRS are not included in the table below. In an Irish context, reference should be made to the relevant provisions of the Irish legislation outlined above.

Other notes

Financial Institution

A4.4 A financial institution is defined in the Glossary to this FRS. With regard to the UK legal references included in the definition, the table below is intended as a reference guide to the corresponding or similar provisions in Irish law and does not purport to be complete.

It should be noted that not all Irish legal provisions are equivalent to the corresponding UK legal provisions and reference should be made to Irish law for an understanding of the relevant requirements.

Glossary to FRS 103	UK references	Rol references
'financial institution' and footnote 3	Part 4A permission; Section 55A of the Financial Services and Markets Act 2000	There is no equivalent legislation in Ireland to the Financial Services and Markets Act 2000. Banks in Ireland are licensed under Section 9 of the Central Bank Act, 1971.
'financial institution'	Section 119(1) of the Building Societies Act 1986	Section 2(1) of the Building Societies Act, 1989
'financial institution'	Co-operative and Community Benefit Societies Act 2014 and Credit Unions Act 1979	Credit Union Acts 1997 to 2012
'financial institution'	Friendly Societies Act 1992; section 7(1)(a) of the Friendly Societies Act 1974	Friendly Societies Acts 1896 to 2014

Other

A4.5 The following tables are intended to serve as a general reference guide to the corresponding or similar provisions in Irish legislation and do not purport to be complete. As such, it may be necessary to make reference to other Irish law as appropriate. It should be noted too that not all Irish legal provisions are equivalent to the corresponding UK legal provisions and reference should be made to the Irish legislation for an understanding of the relevant requirements. It should also be noted that various sections and paragraphs referenced may have been amended by legislation subsequent to the issuing of this FRS, and reference should be made to such amended text where applicable.

A4.6 Furthermore, the tables do not address the regulatory aspects of accounting for insurance contracts. Where this FRS makes reference to the Rulebook, regulations or guidance of the UK Prudential Regulatory Authority (PRA), reference should be made in an Irish context to the regulatory requirements and guidance of the Central Bank of Ireland as well as legislation applicable to insurance undertakings. Of particular relevance in this regard are S.I. No. 359 of 1994 (Firms outside the scope of Solvency II), S.I. No. 360 of 1994 (Firms outside the scope of Solvency II) and S.I. No. 485 of 2015 (Solvency II firms), as noted above. It should also be noted that there are some differences between the UK and Irish regulatory requirements.

Overview

Paragraph	UK Reference	Rol Reference
(v)	Schedule 3 to the Regulations	Insurance Undertakings Regulations 2015 (as amended)

Section 1 Scope

Paragraph	UK Reference	RoI Reference
1.4	Schedule 3 to the Regulations	Insurance Undertakings Regulations 2015 (as amended)

Section 4 Disclosure

Paragraph	UK Reference	RoI Reference
4.6	Schedule 3 to the Regulations	Insurance Undertakings Regulations 2015 (as amended)

Appendix I Glossary

Paragraph	UK Reference	RoI Reference
'acquisition costs'	Note 6 of the Notes on the Profit and Loss Account format in Schedule 3 to the Regulations	Note 6 of the Notes on the profit and loss account formats in Section B of Part II of Schedule 1 to the Insurance Undertakings Regulations 2015 (as amended)
'financial institution' and Footnote 3	Part 4A permission; Section 55A of the Financial Services and Markets Act 2000	There is no equivalent legislation in Ireland to the Financial Services and Markets Act 2000. Banks in Ireland are licensed under Section 9 of the Central Bank Act, 1971. Refer also to A4.4 in the Introduction to this Appendix.
'financial institution'	Section 119(1) of the Building Societies Act 1986	Section 2(1) of the Building Societies Act 1989 Refer also to A4.4 in the Introduction to this Appendix.
'financial institution'	Co-operative and Community Benefit Societies Act 2014 and Credit Unions Act 1979	Credit Union Acts 1997 to 2012 Refer also to A4.4 in the Introduction to this Appendix.
'financial institution'	Friendly Societies Act 1992; section 7(1)(a) of the Friendly Societies Act 1974	Friendly Societies Acts 1896 to 2014 Refer also to A4.4 in the Introduction to this Appendix.
'fund for future appropriations (FFA)'	Schedule 3 to the Regulations	Insurance Undertakings Regulations 2015 (as amended)
'general insurance business'	Part I of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)	Schedule 1 to S.I. No. 485 of 2015 (as amended) or Annex 1 of S.I. No. 359 of 1994, as appropriate
'long-term insurance business'	Part II of Schedule 1 to the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001/544)	Schedule 2 to S.I. No. 485 of 2015 (as amended) or Annex 1 of S.I. No. 360 of 1994, as appropriate

Paragraph	UK Reference	Rol Reference
'non-technical account'	Part 1 of Schedule 3 to the Regulations	Section B of Part II of Schedule 1 to the Insurance Undertakings Regulations 2015 (as amended)
'technical account'	Part I of Schedule 1 to the Regulated Activities Order	Schedule 1 of S.I. No. 485 of 2015 (as amended) or Annex 1 of S.I. 359 of 1994, as appropriate
'technical account'	Part II of Schedule 1 to the Regulated Activities Order	Schedule 2 of S.I. No. 485 of 2015 (as amended) or Annex 1 of S.I. 360 of 1994, as appropriate
'technical account'	Part I of Schedule 3 to the Regulations	Section B of Part II of Schedule 1 to the Insurance Undertakings Regulations 2015 (as amended)

Appendix III Note on legal requirements

Paragraph	UK Reference	Rol Reference
A3.2A	Paragraph 52(3) of Schedule 3 to the Regulations	Paragraph 57(4) of Part IV of Schedule 1 to the Insurance Undertakings Regulations 2015 (as amended)
A3.3	Friendly Societies Act 1992	Friendly Societies Acts 1896 to 2014
A3.3	Co-operative and Community Benefit Societies Act 2014	The Industrial and Provident Societies (Amendment) Act, 1978 (as amended)
A3.3	Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008	There is no equivalent legislation in Ireland.

Basis for Conclusions

Paragraph	UK Reference	Rol Reference
10, 26, 28	Schedule 3 to the Regulations	Insurance Undertakings Regulations 2015 (as amended)

Approval by the FRC

FRS 103 *Insurance Contracts* was approved for issue by the Financial Reporting Council on 5 March 2014.

Amendments to FRS 103 Insurance Contracts – Solvency II was approved for issue by the Financial Reporting Council on 19 May 2016.

Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications was approved for issue by the Financial Reporting Council on 6 December 2017.

Basis for Conclusions

FRS 103 Insurance Contracts

This Basis for Conclusions⁶ accompanies, but is not part of, FRS 103 Insurance Contracts and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRS 103.

Feedback from a number of exposure drafts and consultation documents has been considered in the development of FRS 103 (see Table 1 at the end of this Basis for Conclusions). Unless otherwise stated, respondents to the consultations supported the proposals made; detailed feedback statements to all consultations are available on the FRC website.

The effective dates and any transitional arrangements for FRS 103, and any amendments to it, are set out in the FRS.

- 1 FRS 103 *Insurance Contracts* and the accompanying non-mandatory implementation guidance consolidate existing financial reporting requirements and guidance for insurance contracts and are based on IFRS 4 *Insurance Contracts* extant in 2013 (except to the extent that it was amended by IFRS 13 *Fair Value Measurement*), the requirements of FRS 27 *Life Insurance* and elements of the Association of British Insurers' *Statement of Recommended Practice on Accounting for Insurance Business* (the ABI SORP).
- 2 An entity applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, whether or not it is an insurance company, shall also apply FRS 103 to insurance contracts (including reinsurance contracts) that it issues and reinsurance contracts that it holds, and to other financial instruments that it issues with a discretionary participation feature.

Objective

- 3 In developing financial reporting standards, the overriding objective of the FRC is 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.
- 4 In achieving this objective, the FRC aims to provide succinct financial reporting standards that:
 - (a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
 - (b) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;
 - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;
 - (d) promote efficiency within groups; and
 - (e) are cost-effective to apply.

⁶ This Basis for Conclusions replaces the Accounting Council's Advice and the Corporate Reporting Council's Advice included in previous editions of FRS 103.

Original development of FRS 103

- 5 FRS 103 provides a financial reporting framework for entities with insurance contracts that allows them to generally continue with their existing accounting policies, whilst consolidating and modernising the relevant accounting requirements. FRS 103 was also deregulatory in some areas, for example, by permitting entities to improve their accounting policies and by including best practice guidance that will allow entities some flexibility in how they comply with the disclosure principles.
- 6 FRS 103 was developed so that it is not more restrictive than EU-adopted IFRS, unless this was necessary for compliance with company law.
- 7 In seeking an IFRS-based solution, IFRS 4 was used as a basis for FRS 103 (one of the options previously considered, but rejected, was including a requirement in FRS 102 for entities with insurance contracts to apply IFRS 4). However, it was noted that IFRS 4 does not set specific requirements for the underlying recognition and measurement of insurance contracts, reflecting the fact that it was an interim standard issued by the IASB to facilitate harmonisation between jurisdictions pending completion of the second phase of its insurance contracts project. Therefore in developing FRS 103, the text of IFRS 4 was supplemented with some of the existing requirements and practice in accounting for insurance contracts in the UK and Republic of Ireland.
- 8 As a result, much of FRS 27⁷ was incorporated into the standard or the accompanying Implementation Guidance, along with elements of the ABI SORP providing guidance on applying the requirements of FRS 27 and company law applicable to insurance companies.
- 9 FRS 103 and the accompanying Implementation Guidance consolidated all relevant, existing accounting requirements and guidance applicable to entities with insurance contracts, other than company law and the requirements of the PRA Handbook.
- 10 FRS 27 and the ABI SORP were reviewed, with material incorporated as follows:
 - (a) requirements that were included as a core part of the standard;
 - (b) material that provided important guidance for applying the requirements of FRS 103 or FRS 102 and was included as Implementation Guidance; or
 - (c) material that was guidance in nature, but was either repeating other requirements (including the PRA Handbook and Schedule 3 to the Regulations), or concerned matters where diversity in practice was unlikely to arise, which was not incorporated into FRS 103.
- 11 Paragraphs that were sourced from the ABI SORP, and to a lesser extent those from FRS 27, were revised when they needed updating, for example, to reflect new legislative requirements or for consistency with FRS 102; changes in language for consistency with FRS 102 were not intended to result in a change in meaning. In relation to taxation in entities with long-term insurance business, where a new taxation regime was introduced on 1 January 2013, new guidance was drafted and incorporated into Section 2 *Guidance for entities with general insurance business or long-term insurance business* of the Implementation Guidance.
- 12 FRS 27 and the ABI SORP were withdrawn by the FRC and the ABI, as SORP-making body, respectively on 1 January 2015, the date FRS 103 became effective.

⁷ FRS 27 was issued by the Accounting Standards Board (ASB) after Lord Penrose's Report of the Equitable Life Inquiry.

Definition of an insurance contract

- 13 FRS 102 includes a definition of an insurance contract, which requires entities to assess whether their contracts meet the definition of insurance (and therefore fall within the scope of FRS 103) or do not meet the definition and therefore fall within Section 11 *Basic Financial Instruments* or Section 12 *Other Financial Instruments Issues* of FRS 102.
- 14 The definition in FRS 102 was expanded upon in Appendix II *Definition of an Insurance Contract* of FRS 103. It includes examples of contracts that are, and are not, insurance contracts.

Continuation of existing accounting policies

- 15 Notwithstanding the need for insurers to make a distinction between insurance and investment contracts, FRS 103 largely permitted insurers to continue with their existing accounting policies for insurance contracts; it was considered that a period of stability in financial reporting for insurance contracts, in advance of the expected regulatory changes from Solvency II and the future new accounting standard from the IASB, was required. There were a small number of exceptions to this principle.

Improvement of existing accounting policies

- 16 IFRS 4 permitted entities to improve their accounting policies for insurance contracts in certain circumstances, provided they continued to comply with any other relevant legal or regulatory requirements. The majority of respondents agreed that FRS 103 should not be more restrictive than EU-adopted IFRS or FRS 101, however some respondents raised concerns. Those disagreeing highlighted the potential to reduce consistency of reporting between entities in the insurance industry and that it would be easier to change accounting policies for insurance contracts than FRS 102 would permit for other transactions. However, some respondents acknowledged that these concerns may not have a significant effect in practice because there is limited evidence of UK entities applying IFRS 4 taking advantage of this option, and therefore it was not clear that it would be widely used by entities applying FRS 103.
- 17 Therefore this option was included in FRS 103 to ensure that entities applying FRS 103 have the same flexibility as those entities applying EU-adopted IFRS and FRS 101. In addition, Section 3 *Recognition and Measurement: Requirements for entities with long-term insurance business* and Section 5 *Disclosure: Additional requirements for with-profits business* (which are based on the requirements of FRS 27 and the ABI SORP) note that entities that have improved their accounting policies do not have to comply with the requirements of those sections when the requirements are no longer consistent with their accounting policies.

New entrants

- 18 It was noted that new entrants to the insurance market would not have existing accounting policies for insurance contracts. To provide new entrants with the same benchmark accounting policies and the same flexibility to make improvements, new entrants must first consider the sections of FRS 103 based on the requirements of FRS 27 and the ABI SORP, as a means of establishing current practice before considering whether to 'improve' those benchmark accounting policies.
- 19 As part of the Solvency II amendments made in May 2016, the requirements for new entrants were amended (see paragraphs 51 to 53).

Entities that are not legally constituted as insurance providers

- 20 Some entities that are not legally constituted as insurance providers may be issuing contracts meeting the definition of an insurance contract in FRS 103. Examples include appliance servicing agreements, and some product warranty arrangements. Although such contracts are within the scope of FRS 103, an entity previously applying an accounting policy based on FRS 12 *Provisions, contingent liabilities and contingent assets* or some other method, can continue to apply a similar policy based on Section 21 *Provisions and Contingencies* of FRS 102. However, an entity may, alternatively, choose to apply the recognition and measurement requirements of FRS 103.
- 21 Although an entity with such contracts should generally be able to continue to apply its previous accounting policies to such contracts on first-time application of FRS 103, it will need to consider other requirements of FRS 103, for example the liability adequacy test and may need to provide additional disclosures to those provided in the past.

Excessive prudence

- 22 Paragraph 95 of the ABI SORP explained that claims provisions should be set such that there is no adverse run-off deviation. It was noted that this may lead to provisions containing excessive prudence – an issue acknowledged by paragraph 2.7 of FRS 103 which allows the practice to continue, but prevents it being introduced or extended. Excessive prudence is contrary to Section 2 *Concepts and Pervasive Principles* and Section 21 of FRS 102, and as such paragraph IG2.10 of the Implementation Guidance prevents excessive prudence being applied where a new accounting policy is introduced.

Embedded derivatives

- 23 Entities applying FRS 103 will also be applying FRS 102. FRS 102 does not require entities to identify separable embedded derivatives, but instead, as a simplification from full IFRS, a contract with certain non-typical features shall be measured at fair value. A similar approach to insurance contracts was considered, but it was noted that for insurance contracts more relevant information will be provided to users if separable embedded derivatives are recognised and measured separately from the host contract (unless the embedded derivative is itself an insurance contract).

Insurance contracts denominated in foreign currencies

- 24 Some respondents identified a further area where compliance with FRS 102, for entities that had not previously applied FRS 26, would lead to a change from existing accounting policies. This relates to insurance contracts held in a foreign currency, which are not held by an overseas subsidiary. Some of the assets and liabilities recognised in relation to an insurance contract would be monetary and some would be non-monetary items. This results in an accounting mismatch in the income statement as monetary items are retranslated at the reporting date.
- 25 Consequently, FRS 103 requires that all assets and liabilities arising from an insurance contract are treated as monetary items for the purposes of reporting foreign currency transactions in the functional currency.

Compliance with company law

- 26 There are a small number of areas where IFRS 4 conflicts with the requirements of Schedule 3 to the Regulations, and therefore in developing FRS 103 amendments were made to the text from IFRS 4 to ensure compliance with company law. The three principal examples are:

- (a) Equalisation provisions – provisions for future claims arising under insurance contracts that are not in existence at the end of the reporting period are prohibited under IFRS 4, but may be a requirement under a regulatory framework that applies to the entity (for example paragraph 1.4 of the Prudential sourcebook for insurers (INSPRU) as at 31 December 2015), with separate presentation required by the Regulations. An amendment was made to paragraph 2.13(a) to reflect these legal and regulatory requirements. In addition, a consequential amendment to FRS 101 was made to ensure consistent accounting by insurers applying either FRS 101 or FRS 103.
 - (b) Equity treatment for discretionary participation features – IFRS 4 gives entities options for the presentation of the discretionary participation feature of a contract, if it is separated. However, the Regulations specifically prevent presentation as part of equity and paragraph 2.30(c) reflects this.
 - (c) Discounting – IFRS 4 permits an entity to continue measuring insurance liabilities on an undiscounted basis but does not allow an entity to choose a new policy without discounting. However, the Regulations state when discounting is permitted or prohibited. An amendment was made in paragraph 2.6 to reflect this legal requirement and would not restrict a new entrant's ability to apply discounting when it is required by the Regulations.
- 27 Following the implementation of Solvency II, many entities will no longer be required to recognise an equalisation provision (see paragraph 56).

Applicability to insurance contracts and to insurance companies

- 28 It was acknowledged that there were challenges in bringing the texts of IFRS 4, FRS 27 and the ABI SORP together into one standard as a result of each being written at different times (and therefore potentially using different language) for different purposes:
- (a) IFRS 4 applies to insurance contracts, as defined in the standard;
 - (b) FRS 27 applied to all entities that have a life assurance business; and
 - (c) the ABI SORP applied to insurance companies and groups that are subject to the requirements of Schedule 3 to the Regulations.
- 29 FRS 103 applies to insurance contracts, but where requirements from FRS 27 or the ABI SORP have been incorporated their application was restricted in the scope of each section, when necessary, to avoid extending those requirements to all entities with insurance contracts unnecessarily.

Disclosure

- 30 The disclosure principles set out in FRS 103 require entities to disclose the amounts recognised in the financial statements, and the related risks and uncertainties with those balances. These provisions are complementary to the disclosure requirements of Section 11 and the Financial Institutions sub-section of Section 34 *Specialised Activities* of FRS 102.
- 31 For financial instruments, other than insurance contracts with discretionary participation features, IFRS 4 does not contain disclosure requirements, because they are within the scope of IFRS 7 *Financial Instruments: Disclosures*. Therefore, FRS 103 requires entities to provide the relevant disclosures from Section 11 of FRS 102. This will maintain consistency with the requirements of EU-adopted IFRS for these instruments, but implemented in a proportionate manner.
- 32 IFRS 4 includes a requirement that entities present claims development information over a 10-year period; disclosure of this information is also required by the Regulations but not

over a 10-year period. As this does not contradict the Regulations and respondents confirmed that the information should generally be available to management, the requirement was included in FRS 103 for consistency with IFRS.

Captive insurers

- 33 Some respondents noted that there were no disclosure exemptions proposed for captive insurers and considered that it might be appropriate to provide some, given that there would often be limited interest outside the relevant group in the financial statements of a captive insurer. A captive insurer is one that provides insurance cover for other entities in the group to which it belongs, and only a small part, if any, of its risk exposure relates to entities outside the group.
- 34 It was noted that an insurer is a financial institution (as defined in FRS 102). Financial institutions are not permitted to apply reduced disclosures in relation to financial instruments under FRS 101 and FRS 102 because the instruments are a significant part of their business. This reasoning also holds for captive insurers, especially because equivalent disclosures will not always be given in the consolidated financial statements; at group level the relevant risks will not be reported as insurance risks. Therefore it is important that the insurance risk taken on by the captive insurer is appropriately disclosed in its individual financial statements. Therefore no disclosure exemptions were permitted for captive insurers in relation to insurance contracts (or other financial instruments).

Capital

- 35 Prior to FRS 102 there were no specific capital disclosure requirements for entities with general insurance business unless they applied FRS 26, in which case some general requirements were contained in FRS 29 (IFRS 7) *Financial Instruments: Disclosure*. For entities with long-term insurance business, there were capital and liability disclosure requirements in FRS 27.
- 36 FRS 102 requires all financial institutions (including insurance companies) to make the disclosures regarding capital set out in paragraphs 34.31 and 34.32 of FRS 102. In addition, the Implementation Guidance accompanying FRS 103 includes best practice guidance in Section 3: *Guidance on capital disclosures for entities with long-term insurance business* for entities with long-term insurance business on meeting this requirement in relation to life assurance capital and liability. These disclosures were previously required by FRS 27. This provides entities with some flexibility over how they meet the requirements, and a reduction in the usefulness of the information disclosed was not expected.
- 37 The expansion of the applicability of the long-term insurance business capital disclosures to all insurers was considered, but was rejected as being unduly onerous on entities with general insurance business. Respondents' views on whether the guidance in Section 3 of the Implementation Guidance should be considered best practice for other financial institutions were invited. The feedback was that this should be considered in the context of a review of FRS 102, not the development of FRS 103, and that some modification would be necessary in order for this to be applicable to other financial institutions.
- 38 The following changes were made to the requirements of FRS 27 when incorporated into FRS 103:
- (a) 90% subsidiary exemptions – To maintain the consistency with FRS 101 and FRS 102, the disclosure exemptions for 90% subsidiaries in paragraph 31 of FRS 27 have not been brought into FRS 103, because FRS 102 does not permit qualifying entities that are financial institutions exemptions from disclosures relating to financial instruments. Whilst this will change the level of disclosures needed by subsidiaries, it

was considered that these disclosures are useful, and that the information will be readily available as a result of the associated regulatory reporting to the PRA.

- (b) Disclosures on requirements and targets – Paragraph 45(a) of FRS 27 gave an option for entities to disclose information on the capital requirements or capital targets set by management. In developing the Implementation Guidance ‘or’ was changed to ‘and’ so that disclosure of both the requirement and management’s targets is best practice. This was effectively required by paragraph 45(d) of FRS 27, and so is a clarification of a pre-existing requirement.

Implementation Guidance accompanying draft FRS 103

- 39 The Implementation Guidance accompanying FRS 103 is not mandatory. Section 2 of the Implementation Guidance contains material originally in the ABI SORP which provides useful guidance on the application of the requirements of FRS 102, FRS 103 and company law.
- 40 The Technical Actuarial Standards issued by the FRC⁸ apply to a wide range of actuarial work and may be relevant when implementing aspects of FRS 103.

Memorandum of Understanding concerning FRS 27 Life Assurance

- 41 In December 2004 a Memorandum of Understanding concerning FRS 27 *Life Assurance* was entered into by the Accounting Standards Board, the Association of British Insurers and certain entities with life assurance activities concerning the application of the requirements of FRS 27 in financial statements prepared in accordance with EU-adopted IFRS.
- 42 As this was relevant only at a particular point in time and FRS 27 was withdrawn on 1 January 2015, the Memorandum of Understanding was also withdrawn once FRS 103 became effective.

Solvency II Directive (May 2016)

- 43 The Solvency II Directive (Solvency II) became effective from 1 January 2016 and limited amendments were made to FRS 103 to reflect the changes in the regulatory regime. No other changes to FRS 103 were made.
- 44 Prior to these amendments, FRS 103 made a number of references to the PRA realistic capital regime, which was replaced by Solvency II from 1 January 2016. In addition, it referred to the Prudential sourcebook for insurers (INSPRU), which was replaced from the same date. As these references are out of date, amendments were required to FRS 103.
- 45 In considering the amendments that were required, it was concluded that entities would be permitted to continue to apply established accounting practices in their financial statements, if they choose to do so. FRS 103 already included the ability for an insurer to change its accounting policies for insurance contracts if it judges certain criteria are met, and therefore there was no need to introduce specific new accounting policies relating to Solvency II.
- 46 In response to suggestions from respondents, FRS 103 was amended to make it clearer that one basis for changing accounting policies might be in order to achieve greater alignment with Solvency II. This was reflected in paragraph 2.3A.

⁸ In the Republic of Ireland, the guidance issued by the Society of Actuaries in Ireland in ASP LA-1, ASP LA-3 and ASP LA-7 may be relevant.

Scope of Section 3 Recognition and Measurement: Requirements for entities with long-term insurance business of FRS 103

- 47 Prior to these amendments, paragraph 3.1(b) of FRS 103 described the circumstances in which the requirements for with-profits liabilities and related assets apply, which were based on those to which the PRA realistic capital regime applied. The following two options for revising the description of the scope of these requirements were considered:
- (a) describe more fully the current scope; or
 - (b) describe the scope by reference to Solvency II.
- 48 It was noted that describing the scope by reference to Solvency II may extend the application of the relevant requirements of FRS 103 to entities not previously within their scope. Given that the aim was to limit the amount of change in accounting policies that would be required, the existing definition was retained but it was qualified to note that entities are within the scope of the requirements if they applied the realistic capital regime prior to 1 January 2016.

Revised definitions

- 49 Some of the key definitions within FRS 103 were based, either directly or indirectly, on INSPRU. INSPRU was replaced by Solvency II for many insurers and therefore these definitions were reviewed. The following proposals were made:
- (a) a new defined term, the 'established method of accounting for long-term insurance business', should replace the 'modified statutory solvency basis';
 - (b) the definition of 'established method of accounting for long-term insurance business' and the definition of the 'realistic value of liabilities' should be principles-based; and
 - (c) in applying these definitions entities shall maintain consistency with the accounting policies applied in periods ending before 1 January 2016.
- 50 Respondents noted that the proposed definitions described features that could be attributed to many bases and included the term 'appropriate' without further guidance. Some respondents suggested that retaining the current definitions, but clarifying that the references to INSPRU were to INSPRU as at 31 December 2015, would be a preferable solution. It was noted that however the phrases were defined, in practical terms entities would need to refer to INSPRU as at 31 December 2015 in order to continue with their existing accounting policies. Therefore the existing definitions of the 'modified statutory solvency basis' and the 'realistic value of liabilities' were retained and amended to refer to INSPRU as at 31 December 2015. The PRA Rulebook can be accessed 'as at' a certain date, and therefore this is a practical solution.

New entrants

- 51 Some of the respondents noted that paragraph 1.5 of FRS 103 required new entrants establishing accounting policies for insurance contracts for the first time to consider the requirements of Section 3 of FRS 103 as a means of establishing current practice as a benchmark before assessing whether to 'improve' those policies. They noted that this might now be unduly burdensome as new entrants would be required to assess their accounting policies against a benchmark which they would not need to consider for regulatory reporting purposes.
- 52 The framework that should apply to new entrants might include both entirely new entities and new entities established within an existing group or business, as a result of a business reorganisation. Section 3 of FRS 103 was developed from previous UK accounting practice, and did not have an equivalent in IFRS. As a result, some respondents

suggested that Section 3 of FRS 103 could be deleted, which would be consistent with IFRS and have little, or no, practical effect on existing entities.

- 53 However, it was concluded that a benchmark should be retained, in order to maintain a consistent starting point for insurers selecting their accounting policies for insurance contracts for the first time. It was noted that, although existing entities are not required to change their accounting policies, the change in regulatory regime may be a trigger for some entities to 'improve' their accounting policies, in order to make them more consistent with the new regulatory framework. As a result, 'current practice' may be evolving. Therefore, in light of the fact that the current benchmark is based on the previous regulatory regime, and the possible changes in current practice, two alternative starting points for new entrants are permitted, being:
- (a) the requirements of Section 3 of FRS 102; and
 - (b) to establish policies that are consistent with the relevant requirements of the Solvency II Directive, subject to any appropriate adjustments.

Accounting policies based on the requirements of Solvency II

- 54 It was considered whether aspects of the rules under Solvency II might need amendment for use in measuring liabilities for financial reporting purposes. Paragraphs 1.5(b) and 2.3A of FRS 103 were amended to highlight that appropriate adjustments may be necessary in order to ensure that the financial statements meet the qualitative characteristics of information in financial statements (as set out in Section 2 *Concepts and Pervasive Principles* of FRS 102).
- 55 It was noted that items to consider, when determining whether and to what extent appropriate adjustments are required, might include the following:
- (a) transitional adjustments that may be made for regulatory purposes;
 - (b) the volatility adjustment to the discount rate that is made for regulatory purposes;
 - (c) the risk margin that is applied for regulatory purposes; and
 - (d) 'surplus funds' when these reflect contractual obligations of cash flows to policyholders.

Regulatory framework

- 56 Not all entities applying FRS 103 will be subject to the same regulatory framework. In some instances the regulatory framework will set requirements relating to amounts to be recognised in the financial statements. When FRS 103 refers to a requirement of the regulatory framework, an entity shall apply the requirements of the regulatory framework that applies to it. This may result in differences in accounting between some entities. For example, most entities will not be required by the regulatory framework to recognise an equalisation provision from 1 January 2016.

Future development of FRS 103 – IFRS 17 Insurance Contracts

- 57 In May 2017, the IASB issued IFRS 17 *Insurance Contracts* with an effective date of 1 January 2021. The FRC will review the requirements of FRS 103 in light of this new IFRS, however the timing of this review is yet to be determined.

Table 1**Exposure drafts and consultation documents**

Feedback to the following exposure drafts and consultation documents has been considered in the development of FRS 103.

More detailed information on the early development of the new UK and Republic of Ireland accounting standards can be found on the FRC website.

Exposure draft		Date of issue	Finalised as	Date of issue
Staff discussion paper	<i>Insurance Accounting – Mind the UK GAAP</i>	Apr 2012	FRS 103 <i>Insurance Contracts</i>	Mar 2014
FRED 49	<i>Draft FRS 103 Insurance Contracts</i>	Jul 2013		
FRED 64	<i>Draft amendments to FRS 103 Insurance Contracts – Solvency II</i>	Dec 2015	<i>Amendments to FRS 103 Insurance Contracts – Solvency II</i>	May 2016
Request for information	<i>Request for comments on the implementation of FRS 102 in order to inform the future development of FRS 102</i>	Mar 2016	<i>Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications</i>	Dec 2017
FRED 67	<i>Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications</i>	Mar 2017		

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