



Actuarial Profession: Financial Report Group (FRG)

- Cross practice working group established in June 2011, with remit to:
 - Consider proposed changes to financial reporting standards affecting insurers
 - Support UK FR representation on the International Actuarial Association
- Membership is made up of senior industry practitioners in the area of financial reporting, with a mixture of experience in life / non-life insurance and pensions. Also includes two chartered accountants and one sell-side equity analyst.

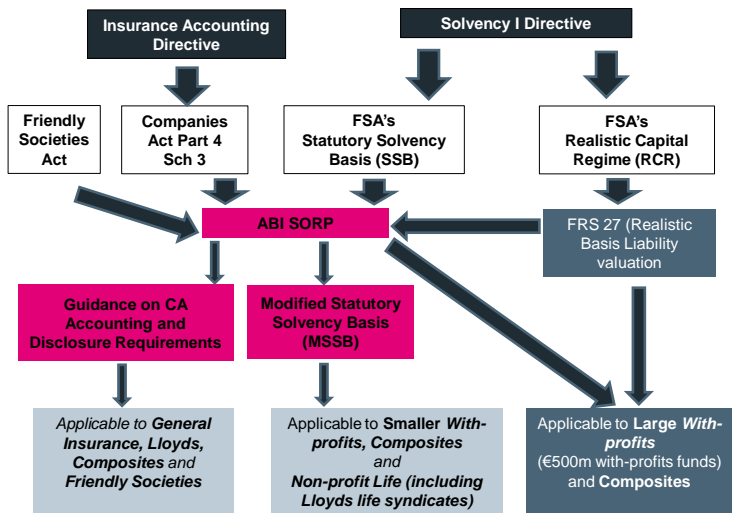
Members:

Anthony Coughlan	Gary Hibbard	Raymond Bennett
Christine Fairall	Kamran Foroughi (Chair)	Richard McPherson
Darren Clay	Martin Lowes	Richard Pereira
Derek Wright	Martin White	Simon Yeung
Erica Nicholson	Nigel Masters	Tony Silverman
Francesco Nagari	Peter Stirling	

Agenda

- Mind the UK GAAP – Problem and Options (Seema)
- FRG response to UK GAAP Insurance Discussion Paper (Kamran)
- Mind the UK GAAP – Looking Forwards (Seema)
- Discussion and questions

Current bases for financial reporting by UK insurers



UK Regulated insurance companies

Category	Total number	Accounting Regime before 2015	Accounting Regime after 2015
Listed Insurance Groups	16**	IFRS	IFRS
Insurance subsidiaries of Listed groups	50	UK GAAP/ IFRS	Reduced Disclosure Regime/ Full IFRS
Unlisted – shareholder owned insurers	300**	UK GAAP***	UK GAAP
Unlisted – Mutual insurers	50	UK GAAP***	UK GAAP
Unlisted – Friendly Societies	125	UK GAAP	UK GAAP
Total	541*		

* This is the total number of authorised UK insurers identified on the EIOPA's website (September 2012).

** The two Lloyd's listed insurers and around 190 Lloyd's syndicates not included in these numbers.

*** Although the vast majority of companies in these categories still produce financial statements under UK GAAP, some of the larger companies have adopted IFRS (per disclosures in their financial statements)

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Future of Financial Reporting in the UK

Accounting Standards Board published “Insurance Accounting – Mind the UK GAAP” (discussion paper) on 30 January 2012

- Why?
 - Introduction of Solvency II will render existing UK GAAP obsolete
 - Effective date of Solvency II likely to be before effective date of Proposed IFRS – hence a “gap”
 - Statutory accounts to be used for taxation of life insurers
- What?
 - Long and short term solutions proposed
 - Consultation on four possible short term approaches:

1. Current IFRS 4

2. Current UK GAAP

3. Solvency II

4. Early Adopt IFRS Phase 2

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Agenda

- Mind the UK GAAP – Problem and Options
- **FRG response to UK GAAP Insurance Discussion Paper**
- Mind the UK GAAP – Looking Forwards
- Discussion and questions

FRG Response to UK GAAP changes Agenda

- FRG deliberations
- FRG response
- Future activities for FRG

FRG Considerations

- Advantages and disadvantages of options
 - Consistency – between different reporters, over successive reporting periods and with regulatory changes
 - Interaction with other standards that also apply to insurers and reinsurers
 - Effort of implementing changes for reporting entities
 - Effort for the FRC to put the necessary changes in place
 - Uncertainty of the requirements
- Listed and unlisted companies
 - Extent of adoption of FRS 26
 - Accounting policies currently implemented for valuation of insurance contracts
 - User perspective

FRG Response

- FRG responded to consultation with views on questions asked by the ASB
- Long term solution: agreed – IFRS 4 Phase 2 should be incorporated into UK GAAP
- Short term solution – 4 options suggested by ASB:
 - FRG response short term solution should require minimum amount of change:



Mixed views in FRG – for many companies either 1 or 2 would amount to the same basis; hence it is the difference between the 2 bases that is important

FRG Response

1. Current IFRS 4

- ✓ Consistency between listed and unlisted
- ✓ Audit processes well established
- ✓ Flexibility to grandfather existing policies or align accounting policies with Solvency II or IFRS Phase II or parents accounting policies already introduced under IFRS
- ✗ Inconsistency between firms due to individual adoption of different accounting policies
- ✗ Work for insurers not currently reporting under FRS 26

2. Current UK GAAP

- ✓ Maintain status quo
- ✓ Minimum effort for existing UK GAAP reporters
- ✓ Audit review processes well established
- ✗ UK GAAP based on regulations due to be replaced by Solvency II for Life insurers
- ✗ Necessary to capture all relevant rules within UK GAAP

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FRG Response

3. Solvency II



- ✓ Consistency between financial and regulatory reporting but limited to those firms that have not adopted FRS 26
- ✗ However benefit of reporting investment contracts under Solvency II is not clear
- ✗ Designed for regulatory capital assessment – potential to identify many weakness as a basis for financial reporting
- ✗ Would require the development of an income recognition approach and presentation of performance – onerous to develop
- ✗ More complex valuation basis than for IFRS reporters
- ✗ Discounting of GI liabilities prohibited for less than 4 years mean term
- ✗ Requires two changes: short and long term solutions
- ✗ Uncertainty e.g. Level 2 text
- ✗ Audit review processes are not established
- ✗ Given disadvantages more may instead adopt IFRS reporting

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FRG Response

4. Early Adopt IFRS Phase 2



- ✓ Potential for insurers to go through only one accounting change ...
- ✗ ... but risk that draft standard available would be subject to significant changes creating further work for reporters
- ✗ Considerable implementation costs for the short term solution and may still result in further costs for the long term solution
- ✗ Non-level playing field as UK GAAP reporters would adopt IFRS Phase II before IFRS reporters
- ✗ Discounting of GI liabilities prohibited for less than 4 years mean term
- ✗ Audit review processes are not established
- ✗ Given disadvantages more may instead adopt IFRS reporting

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FRG future activities

- The FRG response to the ASB can be found via the following link:
<http://frc.org.uk/Our-Work/Publications/ASB/Revised-FRED-46,-47-48-The-Future-of-Financial-Rep/Responses-to-Revised-FRED/CL47-The-Actuarial-Profession.aspx>
- The FRG will continue to follow the proposed short term changes to UK GAAP and has offered to support the FRC staff providing comments on potential impact for reporters and users of UK GAAP financial statements.
- The FRG is reviewing the latest proposed changes for a future IFRS for Insurance Contracts, providing views to the IAA and directly to IASB staff.
- The FRG is aware that embedding a new IFRS for insurance contracts into UK GAAP will not be straightforward due to other differences e.g. the treatment of investment contracts and potential for artificial volatility due to accounting mismatch between assets and liabilities. The FRG plans to comment on proposals when they are developed.

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Agenda

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Summary of Responses

Respondents by category

Category	Sub-category	No. of responses
Preparer		
	IFRS Preparers	4
	UK GAAP Preparers	3
Preparer representative bodies		5
Accountants	Top 6	6
Accounting bodies		1
User representative bodies		0
Academics		0
Regulators & Government bodies		1
Individuals and other		0
Total		20

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Summary of Responses – Overall Messages

	Current IFRS Reporters and Representatives	Current UK GAAP Reporters and Representatives
Long-term solution	IFRS 4 Phase II	Adapt IFRS 4 Phase II for use in UK or UK Specific solution
Short-term solution	Option I (Current version of IFRS 4)	Option II (Embed relevant rules of FSA's Realistic Capital Regime into UK GAAP) Except for AFM – Option III (Update FRS 27 and ABI SORP for Solvency II requirements)

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Summary of responses – Respondent Priorities

IFRS Reporters

- Consistency of accounting policies between companies within the group
- Reduced disclosures for subsidiaries

UK GAAP Reporters

- Proportionate solutions given size
- Question relevance of IFRS

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Looking Forwards to an ED

FRC's Accounting Council (took over from the ASB after the FRC Reform) to advise on:

- Long-term direction for insurance accounting under UK GAAP – IFRS 4 Phase II (or adapted version)
- Issue exposure draft (ED) - best accounting solution under UK GAAP given all factors (IFRS 4 Phase II and Solvency II timelines, EU Directives, Tax legislation)
- Need for SORP?
- Final Solution to be issued in time for implementation of new UK GAAP – 1 January 2015

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Questions, comments, remarks?

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The Actuarial Profession
making financial sense of the future*

2012 UK Life Conference
Seema Jamil-O'Neill, Project Director, Financial Reporting Council,
and Kamran Foroughi (FRG)

Financial reporting (Part 2 of 2)

The future of UK GAAP

6 November 2012

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