

The Future of UK GAAP

Jenny Carter, Director of UK Accounting
Standards

John Instance, Interim Director, Actuarial
Policy

15 September 2015



Financial Reporting Council

Agenda

- The new UK GAAP – overview
- FRS 103
- The future

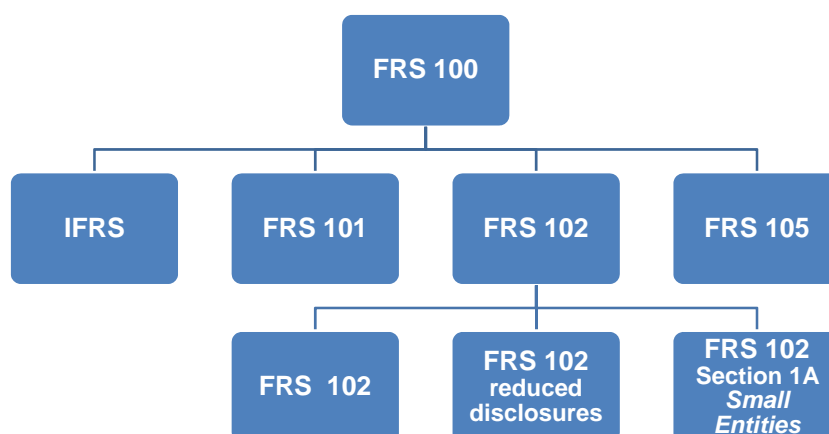


Financial Reporting Council

New UK GAAP

FRS	
100	Application of Financial Reporting Requirements
101	Reduced Disclosure Framework
102	The Financial Reporting Standard applicable in the UK and Republic of Ireland
103	Insurance Contracts
104	Interim Financial Reporting
105	The Financial Reporting Standard applicable to the Micro-entities Regime

FRS 100 – Framework



Question 1?

Which of the following are you expecting to be reporting under?

1. IFRS
2. FRS 101
3. FRS 102 and FRS 103



Financial Reporting Council

5

FRS 101 – Reduced Disclosure Framework

- Qualifying entities
- Recognition and measurement as EU-adopted IFRS
- Disclosures reduced
- ‘Companies Act accounts’



Financial Reporting Council

6

FRS 102

- Issued March 2013 – some amendments issued since
- Effective 1 January 2015
- Introduced a definition of an 'insurance contract'
- Entities with insurance contracts shall apply FRS 103 to those contracts



Financial Reporting Council

7

FRS 103 – Overall approach

- Issued March 2014
- Effective 1 January 2015
- Aims to consolidate existing accounting requirements
- Some modernisation and improvements consistent with FRS 102
- Based on IFRS 4, plus IAS 27 and ABI SORP
- Accompanied by non-mandatory implementation guidance



Financial Reporting Council

8

FRS 103

“We are issuing FRS 103 to fill a gap in UK and Irish accounting standards for those entities applying FRS 102 that have insurance contracts. We recognise that there are forthcoming changes to the regulatory framework for insurers, as well as on-going work internationally on financial reporting for insurance contracts, and as a result we are allowing entities, generally, to continue with their existing accounting policies for the time being. We expect to revisit this topic in a few years’ time, to consider whether changes to FRS 103 are desirable in response to regulatory or international accounting developments.”

Roger Marshall – FRC Board Member and Chair of the Accounting Council



9

FRS 103 issues

- Insurance contract and investment contract
- Embedded derivatives
- “Financial institution” disclosures
- Improvement of existing accounting policies



10

FRS 103 issues (1)

Insurance contracts v investment contracts

- Insurance contracts must expose the insurer to significant insurance risk
- Investment contracts use “deposit accounting” under which the “premium” and the “claim” go directly to the balance sheet and not through the revenue account
- No net bottom line effect
- Impact on readers of the financial statements
- Additional monitoring and reporting work

Question 2

Is this a material issue for your company?

1. Yes – explaining change to readers
2. Yes – additional work
3. Yes – explaining to readers and additional work
4. No
5. Don't know

FRS 103 issues (2)

Embedded derivatives

- Identify any separable embedded derivatives
- Account for separable embedded derivatives under FRS 102
- Exception for certain guaranteed surrender options

Question 3

Is this a material issue for your company?

1. Yes
2. No
3. Don't know

FRS 103 issues (3)

“Financial Institution” disclosures

- Requirement to disclose information about:
 - Credit risk
 - Liquidity risk
 - Timing of net cash outflows
 - Market risk



Financial Reporting Council

15

Question 4

Is this a material matter for your company?

1. Yes
2. No
3. Don't know



Financial Reporting Council

16

FRS 103 issues (4)

Improvement of existing accounting policies

- Consistent with IFRS 4
- Test – changed financial statements are:
 - More relevant and no less reliable; or
 - More reliable and no less relevant.
- Example of a potential more relevant and no less reliable basis
 - Uses current estimates and assumptions
 - Allows for a reasonable (but not excessively prudent adjustment to reflect risk and uncertainty
 - Reflects cost of embedded options and guarantees
 - Uses a current market discount rate
 - Attribute PVFP over different periods using a formula

Question 5

Are you considering changing your accounting policy on implementation of Solvency II

1. Yes – considering adopting Solvency II
2. Yes – considering a modified Solvency II basis deferring recognition of any day 1 profits
3. No
4. Don't know

The Future

- Solvency II
 - Review FRS 103
 - Definition of PRA realistic capital regime
 - Definition of statutory solvency basis
- IFRS 4 Phase II
 - 2020?

Definition – realistic capital regime

Measurement of with-profits liabilities and related assets

1. *Paragraphs 3.11 to 3.15 apply to with-profits business and with-profits funds of an entity that:*
 - *has, or had at any time since 31 December 2004, with-profits liabilities greater than £500 million; or*
 - *Chose to apply the Prudential Regulatory Authority's (PRA's) realistic capital regime prior to 1 January 2016*

or

2. *Paragraphs 3.11 to 3.15 apply to with-profits business and with-profits funds to which the Solvency II regulatory framework applies*

Definition – statutory solvency basis

Statutory solvency basis currently defined by INSPRU

- Change reference to that part of the PRA Handbook applying to non-directive insurers

Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenters.