ILAG

Investment & Life Assurance Group
The Practitioner Voice

Jenny Carter
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

15th December 2016

Dear Ms Carter,

Consultation: Triennial review of UK and Ireland accounting standards

The Investment and Life Assurance Group (ILAG) is a trade body representing members from the Life Assurance and Wealth Management Industries.

ILAG members share and develop their practical experiences and expertise, applying this practitioner knowledge to the development of their businesses, both individually and collectively, for the benefit of members and their customers.

Our comments are limited to areas of relevance to our members, listed at the end of this submission.

General Comments

We broadly agree with the FRC's proposals, but would like to communicate our view that it is essential to look at any changes to FRS 102 in conjunction with planned changes to FRS 103. The FRC has said that it will investigate amending FRS 103 once the new IFRS for insurance contracts (IFRS 17) has been issued, which the IASB has recently announced will be effective from 1 January 2021.

The adoption of the requirements of IFRS 9 into FRS 102 is likely to introduce volatility for insurers reporting under UK GAAP. The IASB has permitted insurers reporting under IFRS to defer implementation of IFRS 9 until 2021, when IFRS 17 becomes effective.

We believe a similar deferral should be afforded to FRS 102 reporters, allowing them to defer adoption of IFRS 9 changes into FRS 102 until IFRS 17 changes in FRS 103 (or replacement standard) become effective (if after 01.01.2022).

Specific Consultation Questions

Q1 The FRC has reviewed its principles for developing succinct financial reporting standards for the UK and Republic of Ireland. As a result, limited changes have been made to the principles, to emphasise the need to balance improvement with stability and the need for proportionate solutions (see paragraph 1.11). Do you agree with the principles? If not, why not?

Yes we agree with the updated principles and have no additional feedback.

Q2 Significant changes in IFRS have been considered against the FRC's principles for developing succinct financial reporting standards for the UK and Republic of Ireland; see Section 3 Changes in IFRS – Detailed analysis. Do you agree with the proposals for updating FRS 102 as result of changes in IFRS as part of this triennial review? If not, please provide alternative suggestions.

We agree with the proposals from a technical perspective, but feel that any changes to FRS 102 should be looked at, in aggregate, with changes to FRS 103. Paragraph 1.3(c) notes that it is expected that FRS 103 will be reviewed again, once the IASB has completed its project on insurance accounting.

In particular, it is proposed (para 1.20) that the more significant changes to FRS 102 (including those stemming from IFRS 9) will be effective from 1 January 2022. To the extent that any changes arising from the review of FRS 103 (eg incorporating some, or all, of the new insurance contracts standard, IFRS 17, into UK GAAP) have a different effective date, this could pose practical issues for insurers.

The IASB has recognised this issue by allowing insurers an option to delay the application of IFRS 9, until the new insurance contracts standard is expected to be effective. For insurers, the FRC should consider a similar deferral of the changes to FRS 102 relating to IFRS 9, if the changes arising from the review of FRS 103 will be effective after 1 January 2022.

Q3 In relation to the impairment of financial assets, the FRC proposes to amend FRS 102 in order to incorporate an expected loss model. Paragraph 3.13 sets out three options for how this may be achieved, with the FRC favouring option (b). Which option would you prefer, and why?

Do you have any suggestions for how the simplified approach to impairment losses for trade receivables, contract assets and lease receivables in IFRS 9 might be developed into a suitable model for entities applying FRS 102 (other than financial institutions, or a sub-set such as banks and building societies)?

Option (b) would appear to be a sensible and proportionate option. Nevertheless, it clearly results in inconsistency across industries. The expected loss model is generally seen as an improvement in financial reporting. The FRC should explain why the detailed requirements of IFRS 9 are expected to have a significant and disproportionate impact on entities not meeting the definition of a financial institution, thus necessitating a simplified approach for such companies.

Q4 Presently, in paragraph 11.2 (and paragraph 12.2), FRS 102 permits an accounting policy choice in relation to financial instruments, allowing an entity to choose the recognition and measurement requirements of FRS 102, IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments (and elements of IAS 39 as amended by IFRS 9). The FRC proposes to retain the option to choose IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102 (ie for all accounting periods beginning before 1 January 2022). From 1 January 2022 the FRC proposes that the available options will be the requirements of FRS 102 or IFRS 9. Do you agree? If not, why not?

We would support the option to use IAS 39 to recognise and measure financial assets, continuing in effect after IAS 39 has ceased, to be available as part of EU-endorsed IFRS (noting that this may require a drafting change to FRS 102 given that it currently refers to IAS 39 as endorsed for use in the EU). For insurers, we suggest that consideration is given for this option being available, until such time as the changes resulting from the review of FRS 103 take effect.

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Q5 Do you have any suggestions for how the requirements of IFRS 16 Leases might be developed into a suitable model for entities applying FRS 102? In particular, do you have any suggestions relating to the application of the short-term lease exemption or the exemption for leases when the value of the underlying asset is low?

We have no comments to make in this area.

Q6 The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 Consolidated Financial Statements. Company law specifies when consolidated financial statements are prepared, and any changes would supplement these existing requirements by providing further guidance on what is meant by 'control'. Are you aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements?

In most situations, any changes to the definition of control in FRS 102 will have no impact in practice. However, in other cases entities may be consolidated for the first time or cease to be consolidated. Do you have any information about how significant the practical impact may be and the circumstances in which it might occur?

We have no comments to make in this area.

Q7 Do you have any comments on the cost-effectiveness of the requirements for share-based payments, currently set out in Section 26 Share-based Payment of FRS 102? If you consider that alternative requirements would be more cost-effective, please provide details of how you would adapt the current requirements whilst still providing useful information to users.

We have no comments to make in this area.

Q8 Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?

Yes, subject to our response to question two.

Q9 Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?

We have no other comments to make.

Q10 The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

We have no further comments at this stage.

Yours sincerely

Steve Leese
ILAG Management Team

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