

Please reply to:

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Dear Madam,

The Guernsey Society of Chartered and Certified Accountants (the "GSCCA") is a local society whose members determine and develop its services to provide relevant and effective support to accountants in Guernsey. It promotes the interests and concerns of accountants, acts as a voice for the industry and provides a forum for members working in Guernsey.

We write in response to the invitation to comment on the future of financial reporting in the UK and Republic of Ireland following the publication of Revised FREDs 46, 47 and 48 (together "the FREDs").

In general, we welcome the FREDs and support the ASB's aims especially in respect of ensuring the "financial reporting is proportionate to the size and complexity of the entity".

In 2010, the ASB proposed a tiered reporting structure and we are pleased to note that the changes proposed to the definition of public accountability have been removed from the FREDs and we believe that the new draft FREDs provide a simpler more coherent framework based on the Internal Accounting Standards Board's IFRS for SMEs as amended for use in the UK.

However, as previously noted in our response to the 2010 proposals, we still have significant concerns as to the impact of the decision to include IFRS 4 Insurance Contracts ("IFRS 4") by reference in the draft FREDs. This is likely to have significant impact on the captive insurers operating in Guernsey who, unlike mainstream insurers, do not provide services to a broad group of outsiders. This decision, in our opinion, will not result in "financial reporting is proportionate to the size and complexity of the entity" which is one of the aims of the ASB's proposals.

A captive insurer is defined by the International Association of Insurance Supervisors as "an insurance or reinsurance entity created and owned, directly or indirectly, by one or more industrial, commercial or financial entities, other than an insurance or reinsurance group entity, the purpose of which is to provide insurance or reinsurance cover for risks of the entity or entities to which it belongs, or for entities connected to those entities and only a small part if any of its risk exposure is related to providing insurance or reinsurance to other parties".

We note that the SMEIG has issued *Captive insurance subsidiaries Draft Q&A 2011/02* which concludes that, when considered alone, captive insurance companies should not be considered

publicly accountable, where its parent is not publicly accountable. As such it is able to apply IFRS for SMEs which does not make reference to IFRS 4 and hence there would be no requirement under this standard for the IFRS 4 disclosures to be made.

Further, the Guernsey regulator, the Guernsey Financial Services Commission ("GFSC"), issued The Insurance Business (Public Disclosure of Information) Rules, 2010 in March 2010. These rules state that the public disclosure requirements "do not apply to insurance companies that only insure, either directly or indirectly, the risks of their parent companies ("captive insurance companies")". Hence, this further concurs with the view that captive insurers are not publicly accountable.

As such, we would recommend that where a captive insurance company is involved solely in the insurance program, which self-insures the group (including involvement in reinsurance with other parties), and where there is not broad public accountability, it should be exempted in the FREDs from the requirement to comply with the full requirements of IFRS 4.

In addition we would recommend that the definition of a financial institution in 5(c) in draft FRS 100 and section 34.18 (c) of draft FRS 102 is also amended accordingly.

Other

We have included in Appendix 1 responses to other questions raised by the ASB which we feel are relevant to Guernsey industry.

Yours sincerely



John Clacy
President

Appendix 1

GSCCA comments on the proposals in the FREDs

Our comments are specific to the questions that we believe are of relevance to the Guernsey Industry users only and hence do not address every question listed by the ASB in the consultation paper.

Q1 The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

See comments below in respect of captive insurers and investment trusts regarding the objective to provide understandable financial reporting *proportionate to the size and complexity of the entity*.

Q2 The ASB has decided to seek views on whether:

As proposed in FRED 47:

A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or

Alternatively

A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).

Which alternative do you prefer and why?

We agree that a financial institution should not be exempted from the requirements of IFRS 7 on the basis that these entities have a broader accountability and users require this information.

That said, we refer you to our responses to other questions and also on the main body of our letter to the need to refine the definition of financial institutions specifically in respect of captive insurance companies where there is not broad public accountability and the requirements of IFRS 7 are, in our view, disproportionate to the requirements of the users of the financial statements of those entities.

In addition we would suggest that the requirements of the Statement of Recommend Practice ("SORP") in respect of Investment Trusts (and similar entities) already require significant disclosure requirements in relation to specific risks and uncertainties and hence they could be excluded from the definition of financial institution and the requirement to comply with the IFRS 7 disclosure requirements. However, should these entities not comply with the disclosure requirements of the SORP then there would be a requirement to comply with the requirements of IFRS 7 in full. That said, if the SORP is updated less frequently than the IFRS 7 guidance, which history suggests is likely, there is a risk that such Investment Trusts who have exempted themselves may lag behind those who are fully IFRS 7 compliant in terms of disclosures relating to financial instruments.

Q3 Do you agree with the proposed scope for the areas cross-referenced to EU adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why?

For entities listed but not traded on a regulated market, the ASB has identified the following areas where FRED 44 did not adequately address their accounting needs:

- (a) earnings per share;
- (b) interim financial reporting;
- (c) operating segments; and
- (d) accounting for insurance contracts.

In assessing how to address these areas, the ASB noted that it has applied its objective of promoting high-quality, understandable financial reporting, proportionate to the size and complexity of the entity, in the context of the *more extensive user needs* associated with this category of entity.

As a result of the decision to cross refer to IFRS 4 Insurance Contracts, the ASB would force captive insurance companies to comply with IFRS 4 in full. As set out in the covering letter, captive insurers do not have broad accountability and the “more extensive user needs” referred to by the ASB do not exist for these types of entities. The SMEIG has issued *Captive insurance subsidiaries Draft Q&A 2011/02*) which concludes that a captive would be able to apply IFRS for SMEs which does not make reference to IFRS 4 and hence there would be no requirement under this standard for the IFRS 4 disclosures to be made. We believe that the ASB should seek to ensure that a consistent approach is taken in this respect and hence exempt captive insurers in the proposed UK standards from these requirements.

Further, in our view, this does not meet the ASB’s objective of ensuring accounting treatment which is “proportionate to the size and complexity of the entity”.

As explained in the main body of the response, captive insurers have no broad accountability and the users of the accounts are limited (generally being the parent company and the local regulator). Hence the ASB’s “solution” results in onerous reporting requirements for these entities and not supported by user needs.

As noted above, we would suggest that captives should be excluded from the requirement to comply with IFRS 4.

Q4 Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

As referred to in the main body of our response, we believe that the definition of an insurance company should be narrowed to exclude captive insurance companies.

Whilst the ASB considered whether to require financial institutions to comply with IFRS 7 and concluded that these requirements would be unduly burdensome given the relative size of these entities (based on feedback from its consultation) and, as a consequence, it developed disclosures aligned with the principles that underlie IFRS 7 it has not considered the impact of IFRS on small insurance companies (such as captives).

Therefore we would suggest that exemptions should be provided to exempt captive insurers (or those insurers of small size and/or limited accountability) from the disclosure requirements of IFRS 7.

In addition see point 2 above in respect of Investment Trusts (and similar entities).