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Accounting Standards Board
5th Floor Aldwych House
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Re: The future of financial reporting in the UK and Republic of Ireland and Insurance Accounting – Mind the UK GAAP

Dear Sirs

Prudential plc is an international insurance and asset management group with significant operations in Asia, the US and the UK. We serve over 26 million customers and have £351 billion of assets under management (at 31 December 2011). We are listed on stock exchanges in London, Hong Kong, Singapore and New York. We are pleased to have the opportunity comment on two recent proposals from the Accounting Standards Board (ASB), namely:

- The future of financial reporting in the United Kingdom and Ireland; and
- Insurance Accounting – Mind the UK GAAP

We very much welcome the ASB's revised proposals on the future of UK GAAP reporting in the UK and Ireland. In particular, we fully support the ASB's decision to introduce FRED 47. This will enable subsidiaries of parents who prepare IFRS consolidated accounts to use an IFRS measurement basis for assets and liabilities but with a reduced level of disclosure, similar to that available to UK subsidiaries currently. This will greatly reduce the cost and effort to a UK Group managing its subsidiary reporting. The disclosures which would not be required to be produced under FRED 47 are generally not reported by such subsidiaries now and this is not perceived as a significant flaw in current UK reporting. We note that implicitly entities of this option would apply the current version IFRS 4 until the adoption of IFRS 4 Phase 2.

In respect of FRED 48, which sets out UK GAAP applicable to companies not reporting under FRED 47 or the Financial Reporting Standard for Small Entities (FRSSE), we very much support the current proposal that it should refer to the current IFRS 4 for insurance contracts and in the longer term adopt IFRS 4 Phase II when effective under EU-adopted IFRS.

We note the issues raised in the paper "Insurance Accounting – Mind the UK GAAP", in particular the adoption of a new basis of regulatory reporting (Solvency II) in 2014 prior to the finalisation and application of IFRS 4 Phase II. However, we do not believe an optimal solution exists for UK GAAP measurement of insurance contracts in the intermediary period. We believe reference to IFRS 4 in its current form is the most appropriate in the circumstances. Taking each of the other options in turn;

a) *Embed the realistic rules of the FSA's Realistic Capital regime into UK GAAP*

This would maintain the status quo but is incredibly rigid and does not allow entities any flexibility in moving towards either Solvency II or IFRS Phase 2. We note that this option would put companies applying UK GAAP at a disadvantage to those applying IFRS.
In our view entities may instead wish to make some small incremental changes towards the likely IFRS 4 phase 2 solution as a practical expedient when Solvency II is introduced. We believe that such improvements should be permitted but not required as different companies may wish to manage the cost and transition to IFRS 4 Phase 2 in different ways depending on their circumstances.

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b) Update FRS 27 and the ABI SORP for Solvency II requirements

We believe that it would be possible to update the ABI SORP to consider the effect of Solvency II, but we do not believe that it would be appropriate to adopt Solvency II wholesale into financial reporting, not least, as the ASB's paper sets out, because Solvency II is a balance sheet driven regulatory measure which may not be helpful to investors' seeking to understand a company's financial performance. It will therefore take significant effort by the ABI, the ASB and industry representatives to agree an adjusted measurement basis that is acceptable to all. Furthermore, given that IFRS 4 Phase II will be finalised/implemented in a similar timeframe, this is unlikely to be a priority activity for many companies who will wish to use their technical resource to understand and implement IFRS 4 Phase II over the next 3 or 4 years. We therefore see significant practical hurdles in achieving this in the short term. We note also that the window for issuing revised guidance is incredibly short if there is to be sufficient time to alter systems and processes prior to 2014 reporting.

c) Incorporate IFRS 4 Phase II into UK GAAP

We believe this is both impractical and unrealistic. The IASB continue to debate the Phase 2 standard and hence there remains a great deal of uncertainty as to what the final model will be. This is likely to lead to the ASB introducing into UK GAAP a model which could vary significantly with that eventually required under IFRS, resulting in two material accounting changes in the short term. Furthermore, we believe there is already insufficient time for companies to alter systems to allow for a 2104 implementation date. This is without allowing for the fact that it is likely to take several months before any final guidance is issued on the requirements under UK GAAP in 2014.

In contrast with the three options above, adopting IFRS Phase 4 in its current form into UK GAAP is:

- Straight-forward and simple to achieve;
- Provides flexibility for entities to manage the transition to Solvency II and IFRS 4 Phase 2 in a manner that is most suitable to their individual circumstances and investor base;
- Provides entities reporting under UK GAAP with the same options and choices as those entities that have chosen to report under IFRS. Indeed we note that one of the concerns about such an option is that it will lead to reduced comparability. This situation already exists across Europe where all listed entities are applying the same standard but with different grandfathered GAAP. Indeed even within the UK there could be differences between entities applying IFRS and those applying a more prescribed UK GAAP. IFRS 4 Phase 2 is the only option that will truly achieve comparability but it is a complex project which must be given sufficient time to be brought to conclusion.

We are more than happy to discuss any of the comments above with members of the ASB and are keen to offer to support to ensuring a suitable solution is found to insurance accounting in the UK for the period between Solvency II and IFRS 4 Phase II implementation.

Yours faithfully

David Martin

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