

Mr Peter Godsall  
Accounting Standards Board  
5<sup>th</sup> Floor, Aldwych House  
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London  
WC2B 4HN

28 January 2010

Dear Mr Godsall,

**Consultation Paper 'Policy Proposal – The future of UK GAAP'**

The Investment and Life Assurance Group (ILAG) welcomes the opportunity to comment on this Discussion Paper.

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.

**Overview**

The key benefits of convergence between UK GAAP and IFRS are well understood and depend on minimising the difference between the two. We advocate strongly that EU adopted IFRS should be adopted without modification. The regime for the UK should be neither more nor less onerous than that for other EU countries.

We concur with the principle that publicly accountable entities should be subject to the fullest level of disclosure. However, the proposed definition is too general to be targeted and too vague for consistent interpretation. In addition it involves a modification of the IFRS definition.

We would suggest that UK statutory regulators are best placed to determine the appropriate level of disclosure for the entities they regulate. Specifically the Financial Services Authority regulates all the types of entity cited in the proposed definition and equivalent regulators exist for other publicly accountable sectors.

The Accounting Standards Board ('The Board') can play a valuable and continuing role in advising these regulators on the application of IFRS and complementary disclosure requirements.

**Responses to questions**

Our responses to the questions posed in the Consultation Paper are set out in the appendix attached to this letter.

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If you would like to discuss our response in more detail we would be happy to do so.

Yours sincerely

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Administration Team

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**Responses and comments to 'Policy Proposal – The future of UK GAAP'****Question 1**

**Which definition of Public Accountability do you prefer: The Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?**

We consider that the current legal definitions are preferable to The Board's proposal. Their scope is clear, they are a legal requirement and they are already familiar to both preparers of accounts and auditors. In the case of EU directives they are consistent across the EU.

The Board's proposed definition is too open to interpretation to be useful. This is underlined by the need to bring 'deposit taking entities' explicitly within its scope. This in turn calls into question whether or not insurance companies, securities brokers/dealers, mutual funds and investment banks are automatically within the scope of the definition.

The Board's attention, and that of the IFRS, appears to be focused on financial institutions. However, the wording of the proposed definition (ie 'holds assets in a fiduciary capacity') would appear to encompass trusts, charities and other public bodies. We are not clear on The Board's intentions in this area.

The term 'broad group' is largely subjective, so it is likely that interpretation will diverge. The term 'one of its primary businesses' is again subjective; for example, would holding client money mean that an entity was considered publicly accountable.

**Question 2**

**Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?**

In practice, entities in the United Kingdom that operate in a fiduciary capacity are subject to statutory regulation by regulators that are specific to their sphere of operation. We consider that these regulators are best placed to determine which Tiers are appropriate to their members and the criteria that should be applied. Delegating authority to these regulators would result in a targeted, and by extension, proportionate regime.

The Board can play a valuable and continuing role advising these regulators on the application of IFRS and complementary disclosure requirements.

The principle that regulation should be proportionate leads us to conclude that size must be a factor when applying the definitions, even if this means that The Board believe the criteria should be set at comparatively low levels.

**Question 3**

**Do you agree with The Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?**

We agree with The Board's proposal on the basis that the benefits of consistency between accounts outweigh the costs of the disclosures in question.

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Wholly-owned subsidiaries are still separate legal entities with their own board of directors, and they are able to contract with third-parties in their own right. These stakeholders deserve the same standards of care regardless of the entity's ownership structure. Hence the disclosure requirements should be the same as those for any other publicly accountable entity.

#### **Question 4**

**Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.**

See response to Question 3.

#### **Question 5**

**Do you agree with The Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?**

We agree with The Board's proposal.

#### **Question 6**

**Do you agree with The Board's proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.**

We believe that the IFRS for SMEs should be adopted wholesale and unamended. The full benefits of convergence depend on minimising the differences between UK GAAP and EU adopted IFRS.

#### **Question 7**

**Do you agree with The Board's proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.**

Large non-publicly accountable entities should be permitted to adopt IFRS for SMEs, in accordance with the IASB's intentions. UK companies should not be disadvantaged by more onerous reporting requirements than equivalent foreign entities.

#### **Question 8**

**Do you agree with The Board that the FRSSE should remain in force for the foreseeable future?**

We believe that the FRSSE should remain in force pending an orderly transition to IFRS for SMEs. Indefinite use of the FRSSE would prevent the full benefits of convergence being realised.

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**Question 9**

**Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?**

We agree. The feedback received by The Board suggests that the IFRS for SMEs is well organised, easy to navigate and readable. In addition The Board's field testing suggests that IFRS for SMEs is not onerous. Again the full benefits of convergence will only be achieved once the FRSSE has been replaced.

**Question 10**

**Do you agree with The Board's current views on the future role of SORPs. If not, why not?**

Many of our members felt that UK entities should not be subjected to reporting requirements (or constructive obligations) that are more onerous than, or distinct from, those applying to equivalent entities reporting under EU adopted IFRS. Existing SORPs do not apply to UK entities that already report under EU adopted IFRS. These members do not believe that there should be any kind of obligation on these entities to apply existing or future SORPs.

However, some of our members felt that SORPs should be retained where IFRS is silent as SORPs help enhance comparability between entities with similar activities and provide valuable guidance.

**Question 11**

**Do you agree with The Board's proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?**

Our preference would be for The Board to direct its resources to working with the IASB to address the perceived shortcomings in IFRS, rather than the creation of a solution that is exclusive to UK GAAP.

**Question 12**

**If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs need to be supplemented for the public benefit entity sector?**

If a public benefit entity standard is to be developed, it should cover only those issues where IFRS or the IFRS for SMEs need to be supplemented for the public benefit sector. Care will be needed to avoid pronouncing on issues that are properly within the remit of IFRIC.

The dividing line between public benefits entities and profit-oriented entities is not clear cut. For example many charities own commercial subsidiaries. It would not be practical or desirable to develop a public benefit entity standard that covered all the requirements for every possible combination of this type.

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**Question 13**

**Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?**

No comment.

**Question 14**

**The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think The Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?**

On the assumption that The Board implements EU adopted IFRS without modification, the proposed Statement would be sufficient. However, should modifications exist, it would be very helpful if the Statement also confirmed that the guidance is consistent with IFRS, the IFRS for SMEs, (the FRSSE in the short term), and the proposed public benefit entity standard.

**Question 15**

**If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?**

No comment.

**Question 16**

**What are your views on the proposed adoption dates?**

The main issue for insurers is the implementation date of the new IFRS for Insurance Contracts. If this is issued as planned in 2011 and at least open to early adoption, The Board's adoption date of financial years beginning on or after 1 January 2012 would be challenging but achievable. It would coincide with the introduction of Solvency II, which will bring its own pressures on resources, but with enough notice, preparers should be able to run both projects alongside each other.

A problem arises if the new IFRS is not going to be available for adoption for financial years beginning on or after 1 January 2012. Insurers currently reporting under UK GAAP will not want the burden of converting to IFRS using the existing standard, IFRS 4, and then shortly afterwards having to implement the new IFRS for Insurance Contracts.

The Board should consider deferring the adoption date for a year, especially as there are other arguments, affecting companies generally, in favour of a delay.

*Ends*

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## ILAG Membership 2010

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