

Accounting Standards Board

ASB Issues Report on Life Assurance

ASB PN 271

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The Accounting Standards Board (ASB) has today issued its 'Report to HM Treasury on Financial Reporting for Life Assurance'. This report, together with the new accounting standard FRS 27 'Life Assurance' issued in December 2004, completes the ASB's response to the request from the Financial Secretary to the Treasury asking for an urgent study into accounting for with-profits business by life insurers. This request followed the publication of the Penrose report into Equitable Life in March 2004.

The Report summarises the needs of different users of financial statements of life assurance entities, and the improvements introduced in FRS 27 to meet those needs. It also analyses key areas where further improvements may be made, including the measurement of liabilities, profit recognition, the distinction between equity and liabilities, and the role of embedded value methods.

Introducing the report, Ian Mackintosh, the ASB Chairman, said:

"In FRS 27 the Board made substantial improvements in life assurance accounting, both in the measurement of liabilities on a realistic basis and the introduction of disclosures relating to capital. However, there remain some more complex issues relating to life assurance accounting that could not be addressed in the timescale available, and which are best considered within the wider context of international insurance accounting that is being addressed by the IASB insurance project. Our report analyses some of the key issues that this project needs to address in relation to life assurance accounting, and we look forward to working with the IASB in developing solutions to these issues."

Notes to Editors

The ASB is an operating board of the Financial Reporting Council (FRC). The FRC is a unified, independent regulator. Its mission is to promote confidence in corporate reporting and governance. The FRC incorporates five operating boards: the ASB, the Auditing Practices Board, the Financial Reporting Review Panel, the Accountancy Discipline and Investigation Board and the Professional Oversight Board for Accountancy.

The role of the ASB is to issue accounting standards and reporting standards. The ASB collaborates with accounting standard-setters from other countries and the International Accounting Standards Board (IASB) both in order to influence the development of international standards and in order to ensure that its standards are developed with due regard to international developments.

The Report, together with FRS 27 'Life Assurance', represents the Board's response to a request received, in March 2004, from the Financial Secretary to the Treasury to initiate an urgent study into accounting for with-profits business by life insurers. The request was part of the Financial Secretary's response to Lord Penrose's Report of the Equitable Life Inquiry, which was critical of existing insurance accounting, citing both the opacity of the financial statements produced and the need for them to show a realistic view of a life insurer's financial position.

The Report, and the text of FRS 27, are available, free of charge, from the ASB's website at www.frc.org.uk/asb. Hard copies of FRS 27 are available, price £10.00 (post-free) from ASB Publications, 145 London Road, Kingston upon Thames, Surrey, KT2 6SR (020 8247 1264). Web: www.asbpublications.com.

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