AmTrust International

Accounting and Reporting Policy team
Financial Reporting Council
8th Floor
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Submitted by email to: ukfrsperiodicreview@frc.org.uk

24 April 2023

Dear Sir/Madam

RE: Comments in response to Financial Reporting Exposure Draft (FRED) 82

We appreciate the opportunity to respond to FRED 82, an initiative that proposes a number of amendments to FRS 102 and other UK and Republic of Ireland financial reporting standards (FRSs).

AmTrust International (AI) Group

The AI Group is a division of AmTrust Financial Services Inc. (AFSI). AFSI is a privately held multinational insurance holding company headquartered in New York. The AI Group offers specialty property and casualty insurance products focusing on six core lines of business: warranty, medical malpractice, legal expenses, mortgage and credit, professional Indemnity and property.

The AI Group consists of subsidiaries in the EMEA, APAC and LATAM regions and was first established through its underwriting platform in Dublin in 2003. At present the Group has over 1500 employees in 38 offices across 17 countries, providing consistent, quality products and services in markets globally. Through strategic acquisitions and a keen focus on organic growth, the AI Group's gross written premiums (GWP) have grown to just over $1 billion in 2022. In total the AI Group has just under 70 legal entities.

Comments in response to questions

We commend your initiative to converge FRS 102 with IFRS, insofar as it is practicable. The simplifications availed appear reasonable and balanced which should, to an extent, assist companies with the implementation of Leases and Revenue accounting (see question 8 below).

Whilst on the whole we agree with the proposals, there are 3 specific areas we would like to bring to your attention. .

Question 4: Expected credit loss model (ECL)

We agree that the ECL model should be deferred pending issue of IFRS for SME's third edition.

We also agree with your view to require certain entities to apply an ECL model to their financial assets measured at amortised cost, but allow other entities to retain the incurred loss model.

We would however like to highlight the below for your further consideration:

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Scope

Where entities are brought into scope of ECL based on the nature of activities, it is key to understand the financial assets (at amortised cost) that would be brought into scope. This is particularly relevant for an entity that provides multiple services, some of which would qualify for the ECL model and others that would fall within the Incurred loss model. Clarity needs to be provided as to whether all financial assets (at amortised cost) should form part of the ECL model or only those that qualify. Either of these approaches would result in increased effort and cost to preparers and, in our view, extending the ECL model only to PIEs (to be defined) would be more appropriate, at least initially with possible extension of scope in future years.

Question 6: Leases

Low value leases

Section 20 Paragraph 20.9 of FRED 82 states '*... The assessment is performed on an absolute basis: leases of low-value assets qualify for this accounting treatment regardless of whether those leases are material to the lessee. The value of lease payments has no bearing on the assessment of whether an underlying asset is of low value.*'

Whilst the low value exemption is beneficial, the judgements, around what is low value, are somewhat subjective even after taking into account paragraphs 20.10 to 20.12. This is particularly so because low value cannot be referenced to size of the lessee per paragraph 20.9.

We propose the FRC consider defining low value by reference to size of the lease exposures in relation to size of the relevant company.

Question 8: Effective date and transitional provisions

Implementation date

FRED 82 proposes a 1 year timeline (assuming publication by end of 2023) with an implementation date of 1 January 2025. Entities that have a regulatory reporting requirement will therefore formally commence reporting externally effective Q1 2025.

In our view the 1 year implementation timeline will be onerous due to the following:

- IFRS 15 and 16 had a 3 year implementation timeline. Whilst FRED 82 proposes transitional provisions we do not consider these to be significantly beneficial compared to IFRS 15 and 16.
- The changes proposed in FRED 82 will require a change to processes and systems which will make the short implementation complex and costly.

In addition, Companies that apply FRS 102 range from small to large companies. Many of these companies will not have resources immediately available (unlike large IFRS adopters) to support a 1 year implementation and therefore the cost and effort will be prohibitive.

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As a result, it is our recommendation that the FRC consider granting more time for implementation of FRED 82. This would allow a more controlled and cost effective delivery. We would be supportive of an implementation date of 1 January 2027.

Simplifications

One of the simplifications available to adopters is to apply IFRS 16 opening balances. We would like to propose extending this to the users of US GAAP also. US GAAP Standards are globally recognised and Accounting Standards Codification (ASC) 842 Leases is conceptually similar. US GAAP adopters (non-public entities) adopted ASC 842 in 2022.

We hope you find the above useful as part of the development of the Exposure Draft/Standard. If you would like to discuss any of the aspects noted above, please feel free to contact us on [redacted]

Yours faithfully

[redacted]

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