

AMENDMENT TO FRS 3

‘REPORTING FINANCIAL PERFORMANCE’:

INSURANCE COMPANIES

JUNE 1999



ACCOUNTING  
STANDARDS  
BOARD

*'Amendment to FRS 3 "Reporting Financial Performance": Insurance Companies - June 1999' is issued by the Accounting Standards Board in respect of its application in the United Kingdom and by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.*

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## **PREFACE**

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The Accounting Standards Board, on the basis of a review of limited scope, gives only a statement of negative assurance to industry Statements of Recommended Practice (SORPs). However, in its limited review of the SORP 'Accounting for Insurance Business' published by the Association of British Insurers on 8 January 1999, the Board decided that the recommendations on the treatment of investment returns of insurance companies and insurance groups would be acceptable only if applied as a package. The Board is therefore amending FRS 3 'Reporting Financial Performance' to include the main new recommendation of the SORP on investment returns and to require insurance companies and insurance groups to include both realised and unrealised gains and losses on investments held as part of their investment portfolios in the investment returns in their profit and loss accounts.

Requiring both realised and unrealised investment gains or losses to be included in the profit and loss account reflects the importance of investment returns to insurance companies and insurance groups. The principle that gains and losses on an investment portfolio should be reported together may be regarded as more widely applicable than to insurance companies and insurance groups. However, entities in other industries are at present mainly restricted by companies legislation from using the proposed treatment. A forthcoming Discussion Paper on reporting financial performance will consider the wider application of this principle. The effect of companies legislation will also need to be considered.

Insurance companies and insurance groups as defined in companies legislation were exempted in June 1993 from paragraphs 13 and 21 of FRS 3 for gains or losses arising on the holding or disposal of investments.

Paragraph 13

“All gains and losses recognised in the financial statements for the period should be included in the profit and loss account or the statement of total recognised gains and losses. Gains and losses may be excluded from the profit and loss account only if they are specifically permitted or required to be taken directly to reserves by this or other accounting standards or, in the absence of a relevant accounting standard, by law.”

Paragraph 21

“The profit or loss on the disposal of an asset should be accounted for in the profit and loss account of the period in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost (less any provisions made) or at a valuation.”

The exemption was granted because the Board concluded that, at the time, the cost of compliance would probably be greater than the benefit to users. At that time, implementation of the EC Insurance Accounts Directive was imminent and, if insurance companies and insurance groups had also been required to comply with FRS 3, they might have had to make significant changes to their accounting twice within a three-year period. Following implementation of the Directive in companies legislation\* in the UK and the Republic of Ireland, the exemption was left in place awaiting the outcome of work on accounting for investments, which is now reflected in the SORP ‘Accounting for Insurance Business’.

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\* In Great Britain, Schedule 9A to the Companies Act 1985.

In Northern Ireland, Schedule 9A to the Companies (Northern Ireland) Order 1986.

In the Republic of Ireland, the European Communities (Insurance Undertakings: Accounts) Regulations 1996.

The amendment removes the exemption of insurance companies and insurance groups from paragraph 13 of FRS 3, and insurance companies and insurance groups should now comply with its requirement. However, the Board has decided that, in the light of the other amendments made, it is not necessary to remove the exemption from paragraph 21. The effect of applying the requirement to include both realised and unrealised investment gains or losses in the profit and loss account will ensure that the same amount will be accounted for on disposal of an investment held as part of the investment portfolio as would be accounted for if paragraph 21 were applied.

An exposure draft proposing these amendments was published in March 1999 and received almost universal support from respondents. However, several respondents suggested that, for gains and losses arising on the holding or disposal of investments, insurance companies should be exempt from the requirement in paragraph 26 of FRS 3 to include a note of historical cost profits and losses. This exemption was suggested because the special reporting requirements for insurance companies and insurance groups require them to carry most of their investments at current value. The Board agreed and an exemption from paragraph 26 has been added to the Amendment accordingly.

## **STATEMENT OF STANDARD ACCOUNTING PRACTICE**

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- 1 In FRS 3 'Reporting Financial Performance', paragraph 31A is amended as follows:
  - (a) the references to "paragraphs 13 and 21" become references to "paragraphs 21 and 26".
  - (b) the following new sentence is added at the end of the paragraph:

"However, for insurance companies and insurance groups both realised and unrealised gains and losses on investments held as part of their investment portfolios should be included as part of the investment return in the profit and loss account."
- 2 This amendment is effective for financial statements relating to accounting periods ending on or after 23 August 1999. Earlier adoption is encouraged.



## **ADOPTION OF AMENDMENT TO FRS 3 BY THE BOARD**

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*‘Amendment to FRS 3 “Reporting Financial Performance”:  
Insurance Companies - June 1999’ was approved for issue by  
the ten members of the Accounting Standards Board.*

Sir David Tweedie (Chairman)  
Allan Cook (Technical Director)  
David Allvey  
Ian Brindle  
Dr John Buchanan  
John Coombe  
Raymond Hinton  
Huw Jones  
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