

30 April 2012

Ms Michelle Sansom
Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

Dear Ms Sansom

CONSULTATION ON THE FUTURE OF FINANCIAL REPORTING IN THE UK AND IRELAND ("the Consultation")

Kreston UK appreciates the opportunity to respond to the Consultation on the Future of Financial Reporting as detailed in FREDs 46, 47 and 48.

Kreston UK represents the 10 UK member firms of Kreston International. Kreston International Limited is a global network of independent accounting firms, currently ranking as the 13th largest accounting network in the world. Kreston UK has 39 offices in the UK providing a resource of over 1600 professional and support staff and, as a combined organisation, would rank in the top 13 UK firms. Our member firms deal with a wide range of clients, from owner managed businesses to fully listed entities.

Key points

Our detailed responses to the questions are contained in Appendix 1. We draw attention to the following key points.

- We are supportive of the changes made to clarify the application of the financial reporting standards.
- It is important that sufficient time is allowed to address training and transition issues.
- Consideration does need to be given to how entities effectively communicate to users their business plan and their ability to execute that plan.

If you have any questions please contact Andrew Collier (andrew.collier@kreston.com).

Yours faithfully
For and on behalf of Kreston UK



Andrew Collier
Director of Quality and Professional Standards – Kreston International
+44 (0)7900 264275 (mobile)

QUESTION 1

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

The proposals should enable users of accounts to receive high- quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

However, we are concerned with the level of complexity of having possibly four differing accounting frameworks in force in the UK, the three envisaged by the ASB's proposals along with those for micro-entities currently being consulted upon by the Department for Business, Innovation and Skills. With such complexity are cost implications such as training and systems development.

We would welcome efforts being taken to ensure that the FRSSE is fully updated so that it is not in conflict with the requirements of FRED48/FRS102 in time for the proposed implementation date of 1 January 2015. This would help to reduce complexity, and ease the transition to the new financial reporting regime. We would see this as being beneficial in reducing the cost of training staff for these changes and ensuring continued compliance, as well as in educating our clients of these changes.

The implementation of the proposed standards will be important and entities should be encouraged to use the opportunity to ensure disclosures are both concise and clear. The concept of materiality in financial reporting is important and the new standards should give an opportunity to reduce unnecessary disclosures.

QUESTION 2

The ASB has decided to seek views on whether:

As proposed in FRED 47

A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or

Alternatively

A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).

Which alternative do you prefer and why?

We would favour the option that a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13. Financial instrument disclosures are central to understanding the financial reporting of a financial institution. Although the financial institution is a

qualifying entity and disclosure will be made at the group level the position of the individual entity may be significant in meeting the information needs of users as it may be possible for the qualifying entity to be separated from the rest of the group.

QUESTION 3

Do you agree with the proposed scope for the areas cross-referenced to EU adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

We agree with the proposed scope for the areas cross-referenced to EU adopted IFRS.

QUESTION 4

Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

The definition of a financial institution appears reasonable.

QUESTION 5

In relation to the proposals for specialist activities, the ASB would welcome views on:

(a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?

The use of the term “without undue cost or effort” when requiring use of the fair value model introduces a significant degree of subjectivity and is likely to reduce the comparability between financial reports.

An alternative proposal would be to use the cost model until produce has been harvested. An option to apply the fair value model could be allowed where the information required in paragraph 34.6 is readily available.

(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

We have no comments in respect of these proposals.

QUESTION 6

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?

The proposals provide sufficient guidance.

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

The proposed disclosures regarding the liability to pay pension benefits are appropriate. A specific requirement to explain the benefits to be paid by a defined contribution scheme should be disclosed.

QUESTION 7

Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

The disclosures required in respect of related party transactions are sufficient to meet the needs of preparers and users.

QUESTION 8

Do you agree with the effective date? If not, what alternative date would you prefer and why?

The effective date of accounting periods commencing on or after 1 January 2015 is appropriate and should enable sufficient time to address any transition issues. This is dependent on the final standards being issued on a timely basis.

Of primary concern is ensuring that accounts preparation software suppliers are able to provide updated software in good time for transition. We note that early adoption is being encouraged by the ASB, but this will not be possible in practice until such time as systems are in place to enable the production of financial statements in accordance with the new framework in a cost effective manner. We are pleased to see that following the previous consultation the differences between existing UK GAAP and the new proposals have been reduced, and we would hope that this will enable software suppliers to meet user needs.

We would also note that in order for the transition to the new framework to pass smoothly it is imperative that Statements of Recommended Practice for entities such as charities, pension schemes and LLPs are updated and brought into line with FRS102 in accordance with the same timetable, otherwise there will be considerable confusion as to what the necessary reporting requirements are for such entities.

QUESTION 9

Do you support the alternative view, or any individual aspect of it?

Although we do not agree with the alternative view, we would consider it beneficial if FRED48/FRS102 could be amended beyond that currently provided by paragraphs 3.8 and 3.9 in order to give more prescriptive guidance on the meaning of what constitutes significant doubt on an entity's ability to continue as a going concern, and of the nature of the disclosure of going concern issues. Under present UK GAAP it is necessary to look outside of the core body of standards to ascertain best practice in this area, such as to the Financial Reporting Council's Guidance issued to company directors issued in October 2009. The lack of any similar guidance being included within FRS102 will require such external guidance to be necessary, and the confusion that this creates as to what disclosure requirements are necessary leads to a range of approaches being taken. Member firms of Kreston UK as auditors have experience of this confusion leading to unwarranted problems for clients who have attempted to comply with best practice, particularly with the reaction of credit rating agencies, and a more level playing field would be welcomed.