NATIONAL HOUSING FEDERATION

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Dear Michelle

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Revised Financial Reporting Exposure Drafts 46, 47 and 48

The national housing federations (the federations) of England, Scotland and Wales are pleased to respond to your request for comments on the revised Financial Reporting Exposure Drafts 46, 47 and 48 on behalf of the housing SORP Working Party. The Working Party includes representatives from the Council of Mortgage Lenders, the ICAEW, CIPFA, ACCA, the national housing regulators as well as the national housing federations.

Please do not hesitate to contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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NATIONAL HOUSING FEDERATION

Introduction

1. Thank you for the opportunity to respond to the revised Financial Reporting Exposure Drafts (FRED) 46, 47 and 48.

2. The federations are in general supportive of the ASB's work to harmonise the UK's financial reporting through convergence to IFRS and is pleased to respond to the exposure draft. We recognise that the revised proposals have addressed a number of our concerns following the issue of FREDs 43-45. We would very much like to thank the Board for taking the time to listen to these concerns and for the positive way in way in which these have been addressed.

Background

3. The federations represent some 1500 independent, not-for-profit housing providers. Their members include housing associations, co-ops, housing trusts and local authority transfer organisations. They develop and manage 3 million homes provided for affordable rent, supported housing and low-cost home ownership housing for over 5.5 million people, as well as delivering a wide-range of community and regeneration services.

4. Government has acknowledged both the scale of the shortage of affordable housing and the role that investment in the housing sector can play in helping to establish economic recovery. We share the Government's commitment to create neighbourhoods and communities that are sustainable in the longer term and deliver improved prosperity, opportunity and quality of life for their residents.

5. The role of housing associations extends far beyond the buildings they build, own and manage. The work they do contributes directly to the creation and maintenance of successful, sustainable neighbourhoods and communities which provide improved quality of life, increased opportunities and improved social mobility for their residents - delivering prosperity to many of the least well off in society.

6. Our members are experienced at stretching public funding by levering in substantial private sector resources. In England, since the late 1980s, housing associations have been the main provider of social homes and have used £43 billion of capital grant to attract a further £60 billion private finance to fund the development of new homes and communities. Government acknowledges the vital role housing associations play in achieving its objective of over 170,000 new homes between by 2015.

Detailed response

Q1: 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?

We agree the revised proposals recognise the concerns we raised in the initial consultation and specifically progress has been made for housing associations in achieving the overall aim through the following amendments:

The removal of publically accountable

The publically accountable requirement meant that a small number of housing associations were required to produce full EU based IFRS accounts, overly complicating their business reporting and making them inconsistent with the remainder of the sector. The removal of this requirement will improve the consistency of financial reporting in the sector.

Extension of the FRED 44 proposals

The limitations in the initial FRED 44 proposal posed a number of concerns for housing associations. The increased flexibility in key areas such as holding properties at valuation and capitalising interest costs will allow the sector to continue to report in a way that best models it business and its users needs without having to voluntarily adopt Tier 1.

The amendments made in these areas will allow all housing associations to adopt the FRS 102, allowing the readers of the accounts to draw comparisons on the financial performance of housing associations that in practice should be readily comparable. This will ultimately improve the understandability of the financial statements.

Continuance of the housing SORP

Consistency of financial reporting has been achieved for the housing sector through the application of the SORP 'Accounting by registered social housing providers Update 2010 (housing SORP) and the relevant accounting determinations published by the regulators of housing in the UK. This consistency is highly valued by the readers of the accounts, and particularly by the regulators and the lenders to the sector. The confirmation that the SORP will continue to play an important role for the preparation of accounts is considered to be a positive measure towards achieving the ASB's project objective.

There remain however, a few areas of concern for the sector:

Capital grants

We recognise the amendment made to allow capital grants to be held on the balance sheet and released to the income and expenditure account over the life of the assets as an improvement from the original proposal as we consider this better recognises the substance of the grant arrangement. It would be useful if the Board could make clear in its proposals whether the treatment proposed for capital grant is intended to be retrospectively applied. Our view would be that preparers should be allowed the option to apply this treatment prospectively only, to avoid potential difficulties complying with loan covenants.

Pensions

Many housing associations participate in the Social Housing Pension Scheme (SHPS) and under UK GAAP take the multi-employer exemption as they are not able to identify their own share of the underlying assets and liabilities of the scheme on a reasonable and consistent basis. The FRED currently uses the terms 'sufficient information' when considering whether it is appropriate to take the multi-employer exemption as described above. We consider that it would be helpful if the Board could clarify this wording in line with the requirements of IAS 19. It should also make clear the accounting requirements where a contractual agreement between the multi-employer plan and its participants exists that determines how much of the deficit in the plan will be specifically recovered from each of the participants.

Q2: 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?

No specific comment to make.

Q3: 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.

No specific comment to make.

Q4: Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

No specific comment to make.

Q5: 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?

No specific comment to make.

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

The proposals detail the accounting arrangements for the operator however they do not cover the requirements for the grantor. A number of housing associations have PFI type arrangements and, as this can be a complex area of accounting, we think the standard should be expanded to include the accounting requirements for the public sector body.

Q6: 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?

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

No specific comment to make.

Q7: 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?

Yes. We anticipate that the specific situations for housing associations, for example, in relation to the disclosure requirements for tenant board members or members who are local councillors will continue to be provided by the housing SORP.

Q8: Do you agree with the effective date? If not, what alternative date would you prefer and why?

Yes. The 18-month transition and early adoption is acceptable.

Q9: Do you support the alternative view, or any individual aspect of it?

Financial instruments

We agree that the financial instruments requirements could be further simplified. The majority of the users of housing association accounts will not benefit from overly complex language or accounting concepts.

In addition, there remains a concern that the accounting requirements may still result in volatility in associations' accounts which may adversely impact upon loan covenants.

Defined benefit disclosures

The current disclosures for defined benefit schemes are particularly lengthy and often complex. We agree that it would improve the understanding for the user if a more concise disclosure was agreed that included the information that was relevant to their needs however was sufficient to allow comparability between associations.