

From: [Edward Beale](#)
To: [UKFRS](#)
Subject: FRED 54 Consultation Response
Date: 29 April 2014 10:10:05

Dear Susanne

I am writing on behalf of Western Selection plc, an investor in small quoted and unquoted companies. Please find below our comments on FRED 54.

General comments:

- a) We would prefer UK GAAP accounts to produce information that is readily understandable, even if this means divergence from full IFRS or IFRs for SMEs. Relevance and understandability are significantly more important to us than comparability. When considering possible accounting treatments the FRC appears to limit itself to considering whether the approach adopted by the IASB is adequate, or might be adequate after minor amendment (FRED 54 Accounting Council Advice to the FRC para. 16/17). If the FRC considers itself to be at the forefront of thought leadership, the FRC needs to broaden its horizons and seek the best possible solution, whether or not this is comparable with IFRS.
- b) FRED 54 is an admission by the FRC that the consultation on FRS 102 was inadequate and that FRS 102 should not have been approved by the FRC Board. The points raised by preparers and their auditors that have led to FRED 54 should have been identified at the consultation stage. The dissenting view on FRS 102 highlighted the issue of lack of input from users of accounts. We are concerned that there are further, as yet unrecognised, problems with FRS 102 that will warrant additional changes to FRS 102. We highlighted some of these in our responses to FREDs 43/44 and FREDs 46-48. The FRC should defer implementation of IFRS 102 until it is clear that there has been adequate consultation and that all necessary revisions have been made to FRS 102 to incorporate the views of those people, such as ourselves, who will be using accounts produced under UK GAAP.
- c) We note that FRED 54 has been prepared after outreach with preparers their representative bodies and advisers (Advice to the FRC para. 10). This appears to be a continuation of a policy of not consulting users, despite the fact that accounts are prepared to inform users. We again urge the FRC to ensure that users of accounts, their key constituency, are fully involved in the preparation of, and changes to, accounting standards.
- d) FRS 102 should be based on clear principles about when assets and liabilities should be revalued, and how changes in value should be reflected in the accounts. FRS 102 follows the poor example of full IFRS and IFRS for SMEs in not having this clear foundation on principles, and as a result requiring extensive rules.
- e) As a result of the above we think that the purpose of FRED 54 set out in paragraph (v) of the introduction is too restrictive. As users of accounts we are seeking information about past and future cash flows. Neither amortised cost nor fair value provides this information clearly and without generating clutter. We consider settlement value to

typically be the most appropriate measure for financial liabilities, and historic cost for financial assets. Current values, where relevant, can be provided in the notes to the accounts. We think that the FRC should be focussed on the best possible solution, and that a focus on closer alignment with the moving target that is IFRS 9 is not appropriate.

- f) The abbreviated length of the consultation period, and low level of publicity directed at users of accounts means that the FRC is highly unlikely to receive adequate consultation responses from users of accounts, their key constituency, within the consultation period. Without adequate consultation, the FRC should not proceed to adoption of the changes proposed in FRED 54.

Responses to Questions

Question 1

Do you support the proposal to amend the conditions of paragraph 11.9 and make the requirements less restrictive?

We do not support the amendments. As noted above we do not think that that the changes go far enough in producing relevant information for users of accounts. The FRC still needs to clearly identify the information sets that users find useful in relation to financial instruments, and then to set out clear principles regarding valuation and treatment of changes in valuation. Sections 11 and 12 require significant redrafting to produce the best balance of costs and benefits.

Question 2

In your view, under the amended conditions will debt instruments be classified appropriately, ie will the proposal have the effect that debt instruments that are basic in nature are measured at amortised cost and debt instruments that are non-basic in nature are measured at fair value?

If you have reservations, please specify the financial instruments that you believe would not be measured appropriately under the proposed requirements.

No. See above comments. Derivatives should be accounted for at historic cost with information about possible future cash flows disclosed in the notes to the accounts. Financial liabilities should typically be accounted for at settlement value, and financial assets should be accounted for at historic cost, with market values where available disclosed in the notes.

Question 3

It is proposed that the Appendix to Section 11 Basic Financial Instruments will contain some illustrative examples. In your view, are the proposed examples helpful?

If not, what other examples would you suggest should be included instead?

The examples proposed should be consolidated with the examples between 11.13 and 11.14. It does not make sense having examples in more than one place.

Question 4

The proposed amendments would be effective from 1 January 2015. Do you have reservations concerning the proposed effective date?

Yes. The acknowledged lack of adequate consultation regarding FRS 102 needs to be remedied before FRS 102 becomes effective. Such a remedy should ensure proper consultation with users of accounts, including full consideration of accounting treatments not consistent with IFRS, but which produce clearer information.

Question 5

The exposure draft does not contain specific transitional requirements and the requirements of Section 35 Transition to this FRS of FRS 102 will therefore apply. In your view, are any specific transitional provisions in relation to the proposed amendments necessary? If so, please tell us what transitional provisions you would suggest and why?

N/A

If you would like to discuss any of this further, please do not hesitate to contact me.

Kind regards
Edward Beale

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