Grant Thornton
An instinct for growth™

Our Ref JG/KJM/1

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

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100
F +44 (0)20 7383 4715
DX 2100 EUSTON
www.grant-thornton.co.uk

30 April 2012

Dear Michelle,

The Future of Financial Reporting in the UK and Republic of Ireland

We are pleased to comment on the Accounting Standards Board's (the Board's) Financial Reporting Exposure Drafts 46 Application of Financial Reporting Requirements (Draft FRS 100), 47 Reduced Disclosure Framework (Draft FRS 101) and 48 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Draft FRS 102).

Overall support for the proposals

We continue to support the Board's proposals for the replacement of current UK Accounting Standards. We consider that the current draft standards represent the best solution to bring UK GAAP up to date and enhance consistency and comparability with international standards, as well as streamlining the requirements of UK accounting standards. A number of the amendments made in drafting FRS 102 compared to FRED 44, such as the treatment of deferred tax and the re-introduction of accounting treatment options, will reduce the impact of transition considerably. Therefore, although we have comments on the detail of some areas of the draft standards, we encourage the ASB to finalise and release them as soon as possible within the bounds of due process.

We view the introduction of FRSs 100, 101 and 102 as a significant step in the journey towards the international harmonisation of accounting. We believe that the ASB, and its successor, should continue to have an important role, not only in maintaining and updating FRSs 100, 101 and 102, but also in lobbying the IASB. For example, where issues exist in the application of the IFRS for SMEs, either those which have already been identified in the drafting of FRS 102 or those which may become apparent on implementation, the ASB can influence future revisions of the IFRS for SMEs. It is important that the UK retains the right to diverge from the IFRS for SMEs where there are aspects which are unsuitable for application in a UK context. Ultimately, as the IFRS for SMEs is revised and as we in the UK become more accustomed to the new accounting framework, we would expect to see the IFRS for SMEs and FRS 102 converge towards each other.

The option of IFRS recognition and measurement with reduced disclosures under draft FRS 101 has the potential to bring significant benefits, particularly for listed groups. However, we would like to see a bolder approach to the disclosure exemptions included. The principles set out for determining the disclosure exemptions have resulted in a relatively limited number of exemptions in the draft standard, and for many entities we anticipate that the volume of disclosure reductions will be small. We would encourage the ASB to consider whether additional exemptions could be included. We note that the Australian Accounting

Standards Board's (AASB's) Reduced Disclosure Regime applicable to all non-publicly accountable private sector entities includes more extensive disclosure reductions and the recent Institute of Chartered Accountants of Scotland (ICAS)/New Zealand Institute of Chartered Accountants (NZICA) report on 'Losing the excess baggage' also proposed approaches to reducing the level of disclosure while still providing sufficient information for users. However, notwithstanding our belief that the disclosure exemptions should go further, in our view this should not hold up the finalisation of the new standards.

We agree with the ASB that integrating the requirements for public benefit entities (PBEs) into FRS 102 will assist those entities in understanding their financial reporting requirements and limit the number of documents that preparers will need to refer to. We have a number of comments and concerns on the detailed requirements for PBEs, which are set out in our response to Question 5 and in Appendix B.

Effective date

We look forward to the release of the final standards in the near future, and agree that 1 January 2015 is an appropriate effective date. We urge the ASB to avoid further delay if at all possible, as any ongoing uncertainty will increase costs. Delays also risk lessening the level of engagement with the proposals, as the prospect of implementation appears to recede further into the future.

We continue to believe that permitting early adoption would be beneficial. This would allow early use of the reduced disclosure framework by qualifying entities, and also would allow entities to adopt FRS 102 early where this will be more efficient for them, such as those which grow beyond the small company limits before the mandatory effective date for the new UK standards. We note that the current proposals would allow early adoption only for accounting periods **beginning** on or after the date of issue of the standards. We suggest that FRS 102 should be available for early adoption for accounting periods **ending** on or after the date of issue at least, and question whether there is a need for any restriction on early adoption for FRS 101.

If you have any questions on our response, or wish us to amplify our comments, please contact Jake Green (jake.green@uk.gt.com or telephone 020 7728 2793) or Katherine Martin (katherine.j.martin@uk.gt.com or telephone 0116 257 5171).

Yours sincerely

Jake Green
Director of Financial Reporting
For Grant Thornton UK LLP

T 020 7728 2793
F 020 7728 2793
E jake.green@uk.gt.com

Appendix A

Grant Thornton responses to specific questions raised in the Financial Reporting Exposure Draft

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?

Yes, we agree that this is the best way forward. The current proposals balance the aims of consistency and comparability with a pragmatic assessment of costs and benefits, both on transition and thereafter.

We welcome the focus on the information needs of a range of users, which we consider to be more appropriate than the objective set out in the current Statement of Principles which focuses on investors as the defining class of user, given that the majority of preparers of accounts under FRS 102 are likely to be privately-held businesses without external investors.

We acknowledge that there will be a learning curve for users following the transition, as they will need to understand new terminology and, in some areas, new recognition and measurement. However, we consider that in the longer term the proposals will result in high-quality financial information and will also aid understandability for those who use both UK GAAP and IFRS accounts through better alignment of the underlying principles and consistent terminology.

Extension of FRS 102 to 'publicly accountable' entities

We understand why the ASB has decided to remove the previously proposed requirement for certain entities to apply EU-adopted IFRS and we welcome this change.

We observe that the IFRS for SMEs, on which the proposed FRS 102 is based, was not written with 'publicly accountable' entities in mind. In drafting the IFRS for SMEs, the IASB specifically did not take into account the needs of users of the financial statements of 'publicly accountable' entities. Hence, there are measurement differences and significant disclosure reductions compared to full IFRS. The proposals may lead to some full list entities measuring certain items differently to full list groups, for example goodwill, defined benefit pension schemes, deferred tax and biological assets.

We believe that it is important to consider the needs of the different users of the financial statements of, for example, publicly traded entities and different types of financial institution. The regulators of those entities are arguably better able to determine the information needs of these users and therefore the accounting framework and also any additional disclosures which should be mandated. Regulators will also be in a position to differentiate between the information that users obtain from 'general purpose' financial statements prepared in accordance with UK GAAP and the information provided for regulatory purposes. For example, for a small credit union, users are likely to rely on the regulator to ensure proper management of the credit union's financial resources and may not need sufficient information to be provided in the annual accounts for them to be able to make that assessment for themselves.

FRS 101 - IFRS with reduced disclosures

We continue to support the introduction of an option of 'IFRS with reduced disclosures'. We also support the extension of the scope of FRS 101 to include the individual company accounts of parent companies.

However, we would like to see the benefits of introducing this option increased by taking the concept further. Based on the current draft of FRS 101, for many entities the extent of the disclosure exemptions included is unlikely to make a significant impact on the volume of disclosure required. We would question whether the principles, in particular "Relevance: Does the disclosure requirement provide information that is capable of making a difference to the decisions made by the users of the financial statements?", have been interpreted too narrowly. We consider that a bolder approach, focussing on the information that users of subsidiary and parent company accounts require but cannot obtain from the consolidated accounts, would significantly increase the benefits to be obtained. We would encourage the ASB to revisit the Reduced Disclosure Regime published by the AASB which has more extensive disclosure reductions, as well as publications such as the recent ICAS/NZICA report on 'Losing the excess baggage'. However, notwithstanding our belief that the disclosure exemptions could go further, in our view this issue should not hold up the finalisation of the new standards.

We also question the appropriateness of removing the adjustment to the useful life of goodwill as one of the amendments to be made in order for FRS 101 to comply with UK company law, in particular the introduction of a 'true and fair override'. In our view, a true and fair override should only arise where there are very unusual circumstances. We see the routine use of a true and fair override as a failure of accounting standards. In particular, the invoking of a true and fair override in respect of the non-amortisation of goodwill under FRS 101 could be seen as a statement that the amortisation of goodwill under FRS 102 and the Financial Reporting Standard for Smaller Entities (FRSSE) does not result in a true and fair view. We acknowledge that the difference between IFRS and company law in this matter does cause an issue for entities wishing to apply FRS 101 which have undertaken a trade and assets acquisition for example, but do not consider a blanket true and fair override to be an appropriate solution.

FRS 102 - changes compared to FRED 44

We welcome the amendments made to FRS 102 in response to the comment letters on FRED 44. We have made some detailed comments in Appendix B. However, we would like to highlight some particular areas where we consider that further amendments should be made.

Formats for profit and loss account and balance sheet

We note that Sections 4 and 5 require entities which do not report under the Companies Act 2006 (the Act) to comply with the requirements of Statutory Instrument 2008/410 The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (the Regulations) "except to the extent that these requirements are not permitted by any statutory framework under which such entities report".

We consider that these requirements are excessively restrictive for entities which are not companies. Where there is a statutory framework in place, an entity may be required to attempt to comply with both that statutory framework and the Regulations. As the ASB has found in trying to reconcile the requirements of the Regulations and the formats set out in the IFRS for SMEs, this is not a straightforward task and could result in a presentation which is confusing for a user. Where there are formats set out in a SORP, for example for investment entities and retirement benefit plans, under FRS 102 as currently drafted these formats could not be used. Given that these industry-specific formats have been developed by the SORP-making bodies with the specific needs of users in mind, it is difficult to see what advantage would be gained by their removal.

We recommend that the requirements are amended such that an entity which does not report under the Act should comply with the requirements of FRS 102, except where they report in accordance with a SORP or another statutory framework, in which case they should follow the requirements set out by that SORP or that statutory framework.

Deferred tax
We agree that the requirements for accounting for deferred tax in the IFRS for SMEs are unsuitable, as they reflect now abandoned proposals for the replacement of IAS 12 Income Taxes. We also agree that incorporating the requirements of IAS 12 into FRS 102, even in a re-drafted form, may not represent the most effective solution if IAS 12 itself is to be replaced.

Therefore, we concur that requiring the recognition and measurement of deferred tax using the timing differences approach familiar to current UK GAAP users provides a suitable interim solution, until there is more clarity internationally on deferred tax accounting.

However, the disclosure requirements of Section 29 should be reviewed to ensure that they are sufficient and appropriate for the revised measurement requirements. The transitional provisions will also require amendment since they appear to be unchanged and refer to differences between the tax base and the carrying amount of assets and liabilities.

There are some areas of Section 29 where clarification is required. For example, on business combinations it is not clear whether deferred tax would be recognised on fair value acquisition adjustments only or on all differences between the 'tax base' (which is not a term consistent with a timing differences approach) and the acquisition date fair value. Likewise, it is not clear how determining deferred tax based on sale of the asset for revalued property, plant and equipment or investment property measured at fair value is consistent with a timing differences approach.

Government grants
We note that the revised Section 24 on government grants permits a free choice between the 'performance model' set out in the IFRS for SMEs and the 'accrual model' consistent with current SSAP 4 Accounting for government grants and IAS 20 Accounting for Government Grants and Disclosure of Government Assistance (although please see our comments below regarding the option to deduct a grant from the cost of an asset). We do not consider this to be an ideal solution as there is no clear underlying principle and it is likely to lead to diversity in practice, but understand that this is intended to be an interim solution until the IASB reconsiders government grant accounting. In the meantime, we consider that it would be beneficial for guidance to be provided by industry bodies and/or the ICAEW for different sectors to encourage consistency of approach. For example, in the agriculture sector the accounting treatment of the Single Farm Payment has a material impact on the accounts of many businesses and there is currently diversity as to whether it is recognised on an accruals basis over the term of the grant or on a performance basis when all conditions have been met.

We note that one change from current SSAP 4 is that there is no option to deduct the grant from the cost of the asset. As this option also exists in IAS 20, it does not appear consistent with the principle that changes to the IFRS for SMEs should be consistent with EU-adopted IFRS to remove it. Although company law does not permit grants to be deducted from the cost of an asset, we do not see why entities that are not companies should be prohibited from taking this option. We also note that in some sectors, notably housing associations, netting of government grants against the cost of the asset is considered to better represent the substance of the arrangement, and this is reflected in the requirements of the SORP for Registered Social Landlords.

Useful life of goodwill and intangible assets

The ASB has amended Section 19 of FRS 102 compared to the IFRS for SMEs to require that "If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be five years" (19.23(a)), compared to the IFRS for SMEs which states "If an entity is unable to make a reliable estimate of the useful life of goodwill, the life shall be presumed to be ten years". This change has been made to be "consistent with company law". The presumed useful life of intangible assets has also been reduced from ten years to five years "to be consistent" (18.20).

However, we note that UK company law does not specify a presumed life of five years for goodwill. Rather it states that the period chosen for the depreciation of goodwill "must not exceed the useful economic life of the goodwill in question" (SI2008/410 Sch 1, para 22(3)). This follows from the Member State option in the EC Accounting Directives. Article 37 of the Fourth Directive states that:

"The Member States may, however, permit companies to write goodwill off systematically over a limited period exceeding five years provided that this period does not exceed the useful economic life of the assets and is disclosed in the notes on the accounts together with the supporting reasons therefore."

We consider that this has a different meaning to the current wording in FRS 102. For example, if the useful economic life of the goodwill is less than five years, it would not be appropriate to use five years as a useful life. However, if no reliable estimate could be made of the useful life (only that it was less than five years) then FRS 102 would require five years to be used. We also suggest that it would be possible in some cases to determine that the useful life of goodwill exceeds five years without being able to make a reliable estimate. Both IFRS (for intangible assets, IAS 38.93) and UK GAAP (FRS 10.21-22) allow that the useful life can be uncertain, but that this does not preclude being able to make an estimate. Rather, the useful life is reassessed at each reporting date and revised as necessary.

We agree with the ASB that the requirements in the IFRS for SMEs regarding the useful life of goodwill require amendment to comply with company law. However, we consider that the current wording does not achieve this, and that it would be better to use the words from the statutory instrument instead. We also suggest that the ASB may wish to reconsider the requirements for the useful life of intangible assets, as there appears to be little logic to a presumed useful life of five years.

We note that a consequential amendment to the FRSSE has been proposed such that "if an entity is unable to make a reliable estimate of the useful life of goodwill or intangible assets, the life shall be presumed to be five years". For the reasons set out above, we propose that this amendment is reconsidered.

Financial instruments – compliance with company law

We welcome the amendment to paragraph 11.9(c) to clarify that clauses such as loan covenants which are designed to protect a loan holder from credit deterioration of the issuer do not cause an instrument to fail the conditions for classification as a basic instrument. However, we continue to hold the view that the requirements of FRS 102 would lead to the classification of certain types of financial liabilities as 'other' instruments and require measurement at fair value where this is prohibited by company law and the EC Accounting Directives, such as a loan with an interest rate set at LIBOR less 0.5%. We recommend that wording is included, potentially within the legal appendix, to clarify that where this is the case, the requirements of company law should be followed and the financial liability measured at amortised cost in accordance with Section 11.

Funding commitments

The drafting of paragraphs 34.55-34.61 requires reconsideration. Based on the current wording, the requirements are likely to have what we presume to be unintended consequences, mainly because it is not clear that these paragraphs are intended to apply only to public benefit entities. There is also no clear definition of a 'funding commitment'. Currently these paragraphs are likely to be interpreted as applying to commitments by a parent company to provide working capital funding to a subsidiary as required or to commitments by an external investor to provide additional investment when required. This would be a significant change to current practice. It is also not clear how these paragraphs would interact with the requirements to account for a commitment to make a loan in accordance with Section 12. We propose that the Board reconsiders how the requirements for the treatment of funding commitments are intended to be applied and to which situations, and revises the definition of a funding commitment and the scope of paragraphs 34.55-34.61 accordingly.

Proposed further changes to FRS 102 - IFRS 9

We are concerned by the ASB's proposals to amend Sections 11 and 12 for selected areas of IFRS 9 Financial Instruments prior to the implementation of FRS 102. Since these areas of IFRS 9 (hedge accounting and impairment) have not yet been finalised by the IASB, there is a considerable risk that this could delay the entire project. As we have set out elsewhere in our response, we consider that there is a significant cost associated with further uncertainty and delay, and we do not consider that Sections 11 and 12 as currently drafted are likely to give rise to problems sufficient to justify such a delay. In order to plan for transition, preparers and accounting professionals require certainty; currently the most significant area of change on transition is the most uncertain.

Even if the relevant sections of IFRS 9 are issued in time to avoid delays to FRS 102, the provisions of IFRS 9 are untested in practice. IFRS 9 will not be effective until 1 January 2015 (and in the UK this date will be dependent on EU-endorsement), the same time as FRS 102. It seems a high risk strategy for medium-sized privately-held businesses in the UK to be asked to implement new requirements on financial instruments without any prior experience from listed groups to guide them. It is also unclear whether, since only part of Sections 11 and 12 would be amended to align with IFRS 9, the resulting requirements would be internally consistent.

Our understanding of the reason for amending Section 11 on impairment is that the IFRS for SMEs is considered to incorporate the 'flaws' of IAS 39 Financial Instruments: Recognition and Measurement, principally the incurred loss model for impairments. However, we consider that for the vast majority of entities which would apply FRS 102, this would not be a significant factor. The main entities for which the use of the incurred loss model is an issue are financial institutions such as banks and building societies. FRS 102 currently includes an option to apply the recognition and measurement of IAS 39, which we would expect to be updated to refer to IFRS 9 once that standard has been adopted by the EU. Therefore, if the regulators of these financial institutions do not consider that the recognition and measurement of financial instruments under Sections 11 and 12 are appropriate for these types of entity, they can mandate that entities within their remit take the option to apply

IFRS 9 instead. Given that many building societies currently apply FRS 4 Capital Instruments, widely seen as an outdated and ineffective standard, it is hard to see that applying Sections 11 and 12 of FRS 102 as they currently stand would not be a step forward.

Regarding hedge accounting, our understanding is that the requirements of IFRS 9 are seen as a simplification. In some ways that is true, since the requirements for qualifying for hedge accounting are less onerous than current IFRS. However, the proposals for IFRS 9 are that once an instrument has been designated as a hedging instrument, hedge accounting must be used throughout the life of that instrument, even if it becomes less than highly effective. Hence, the calculation of the effective and ineffective portions of the hedging instrument becomes vitally important, and this calculation can be extremely complex to determine. Furthermore, any ineffectiveness can add significant volatility to the results of the entity. A simple model reflecting the economic decisions of the entity to hedge exposure, in our view, would be a better solution.

Our understanding of the purpose of the restriction in the IFRS for SMEs on the types of hedging instruments and hedged transactions which qualify for hedge accounting is to ensure that, provided the hedge is expected to be highly effective, the impact of any ineffective portion is unlikely to be significant. If the hedge is no longer expected to be highly effective, hedge accounting is discontinued, removing the requirement to determine the ineffective portion. These measures provide a level of protection against errors by less sophisticated entities for which calculating ineffectiveness would represent a major challenge. In our view, introducing the hedging provisions of IFRS 9 would in fact increase the complexity of hedge accounting under FRS 102 rather than simplify it, and would increase the likelihood of error. Instead, we would point out that, once IFRS 9 has been EU-adopted and the reference in paragraph 11.2 amended, any entity that so wished could choose to apply IFRS 9 and therefore the hedging provisions of IFRS 9 instead of Section 12.

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, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosures requirements except the disclosure objectives).**

Which alternative do you prefer and why?

We consider that it is for the regulators of different types of financial institution to determine whether and to what extent such entities should be permitted to take advantage of the disclosure exemption from presenting information about financial instruments and/or fair value measurement. This should be based on the regulator's assessment of the information needs of users of the individual accounts of these types of qualifying entities.

However, in our view financial institutions should not be exempt from any of the disclosure requirements of IFRS 7 Financial Instruments: Disclosure and IFRS 13 Fair Value Measurement, since it may not be possible to identify the disclosures relevant to the individual entity within the group accounts. For example, one subsidiary that is a financial institution may have very different risks relating to financial instruments and the measurement of those instruments compared to another subsidiary which either is not a financial institution or is a financial institution undertaking different types of transaction. The central importance of an understanding of the nature and extent of the risks arising from the use of financial instruments for a financial institution should be reflected in the disclosures made.

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 approach of introducing cross-references to the requirements of the relevant IFRS standards in bringing in additional disclosure requirements for publicly traded entities. This approach avoids introducing lengthy additional requirements that are irrelevant to the majority of users of FRS 102. We also agree that compliance with IFRS 8 Operating Segments and IAS 33 Earnings per Share should be required as a minimum for publicly traded entities, as reflected in the scope of these IFRSs. We also note that requiring the application of IFRS 8 and IAS 33 reflects the current UK GAAP requirements to apply SSAP 25 Segmental Reporting (the scope of which is actually wider than entities which have publicly traded debt or equity) and FRS 22 Earnings per Share.

However, as set out above, as well as omitting topics not relevant to non-publicly accountable entities, the IASB also used different criteria in determining the disclosure requirements in the rest of the IFRS for SMEs, reflecting the differing focus of users of these accounts compared to investors in capital markets. For example, the impairment disclosures in IAS 36 Impairment of Assets are extensive and aim to provide a user with information about the methods and assumptions used in the impairment tests. This allows a user to form an opinion about the reliability and sensitivity of management's assessment and the likelihood of future impairment. In contrast, the disclosure requirements of FRS 102, taken directly from the IFRS for SMEs, only provide the amount of impairment or reversal of impairment recognised in the period and no information is given which would allow a user to assess the methods and assumptions used or to form a view on the likelihood of future impairment.

We consider that it is for the appropriate listing authorities to determine whether additional requirements are needed in order for financial statements prepared in accordance with FRS 102 to provide sufficient information for users of the accounts of publicly traded entities.

We question the cross-reference to IAS 34 Interim Financial Reporting. Paragraph 1.4 can be interpreted in two different ways, and it should be clarified which of these was intended, if either. One reading is that all entities with publicly traded shares are required to prepare an interim financial report which complies with IAS 34. Such a requirement would go beyond the current requirements of the AIM Rules for example, which require the preparation of half-yearly reports but set out only limited requirements for such reports. If all entities with publicly traded shares were required to prepare IAS 34-compliant interim reports, this would be a significant increase in requirements.

Alternatively, this paragraph can be interpreted as not extending the requirement to prepare IAS 34-compliant interim financial reports, but rather requiring any interim report described as complying with IAS 34 to be prepared in accordance with IAS 34. This would appear a somewhat redundant requirement.

We suggest that the following wording may be more appropriate: "An entity that is required by legislation to prepare an interim financial report in accordance with IAS 34 Interim Financial Reporting shall do so. Any other entity may choose to prepare an interim financial report which complies with IAS 34."

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.
We agree that the entities included within the definition of a financial institution are those for which financial instruments are of central importance and therefore additional disclosures should be provided.

However, whilst we agree that retirement benefit plans should provide the additional financial instruments disclosures, we question whether the description 'financial institution' is appropriate for these entities. Please see our response to Question 6.

We would also welcome clarification of part (d) of the definition. It is not clear whether the definition applies to all stockbrokers or only to stockbrokers which hold positions on their own behalf. If the former, it is not clear why stockbrokers that only trade on behalf of their clients should be included within the definition.

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 agricultural activities are considered unduly arduous? What alternatives should be proposed?
(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

(a) Whether and, if so why, the proposals for agricultural activities are considered unduly arduous? What alternatives should be proposed?
The requirements in FRS 102 to measure biological assets at fair value and agricultural produce at fair value at the point of harvest derive directly from the IFRS for SMEs. This in turn is derived from the requirements of IAS 41 Agriculture. The reasons given by the IASB for rejecting measurement at cost for biological assets were that fair value is considered less burdensome to obtain and that "managers of most SMEs that undertake agricultural activities say that they manage on the basis of market prices or other measures of current value rather than historical costs" (IFRS for SMEs, Basis for Conclusions, BC146). However, feedback from the sector suggests that in the UK most businesses undertaking agricultural activity actually manage their business on a cost basis and consider that determining fair value would be more of a burden.

For example, the measurement of fair value of a young beast at a given point in its growth is highly subjective and there is a limited market from which to obtain the fair value information. This however is not the case for beasts at the expected point of sale, ie at the age for slaughter and entering into the food chain, for which there is a readily accessible market and fair value can be measured.

There are also issues in determining fair value for mature bearer assets which generally have a depreciating value over their productive life, however again there is a diminishing open market from which to obtain fair value. Additionally, there is an infrequency of sale in some types of mature bearer assets such that the market and thus the fair value is significantly influenced by other factors, such that it would be difficult to ascertain the fair value of the asset itself. An example would be mature grape vines, which would only be sold along with other assets such as the land and the value of which would be subject to variances such as soil type and location.

Under current UK GAAP, biological assets are generally recognised at cost and this does not appear to give rise to issues for users currently. Many agricultural businesses, for example individual farms, fall within the scope of the FRSSE as small companies and would therefore not be affected by the implementation of FRS 102, at least until the revision of the FRSSE takes place.

We also note that the IASB has received suggestions to revise IAS 41, in particular whether it is more appropriate to measure certain types of biological asset, such as 'mature bearer' biological assets, at cost rather than at fair value.

Given all of these factors, we propose that the ASB should introduce an option to measure biological assets and agricultural produce at cost as a pragmatic measure. The treatment of such assets may then be reconsidered as progress is made at an international level.

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

We acknowledge that the proposals for service concession arrangements include little guidance. However, this is consistent with the approach taken in other areas of FRS 102. We consider that sufficient guidance should be available elsewhere to enable preparers to apply the requirements of Section 34. The ASB may wish to consider providing educational material such as a worked example to assist with this.

Other 'specialist activities'

We would like to take this opportunity to comment on the requirements for some other 'specialist industries' covered by Section 34.

Extractive activities

The current paragraph 34.11 is somewhat ambiguous. It appears to require that Section 17 Property, Plant and Equipment and Section 18 Intangible Assets should be applied to expenditure on exploration and evaluation. However, such expenditure is unlikely to meet the recognition criteria set out in Section 17 or Section 18 since at the exploration and evaluation stage it is not probable that future economic benefits will flow to the entity from the expenditure. This is the reason for the existence of IFRS 6 Exploration for and Evaluation of Mineral Resources and the temporary exemption from IAS 8.11-12 set out in IFRS 6.10.

As currently drafted, FRS 102 would appear to prohibit the recognition of exploration and evaluation assets. Even if paragraph 34.10 is not considered to apply to exploration and evaluation stage expenditure, in the absence of other requirements an entity is required to look to paragraph 10.5, which refers back to the recognition criteria for an asset.

This would appear inconsistent with the transitional provision in paragraph 35.10(j) which allows previously recognised exploration and evaluation assets to be measured at the amount determined under the entity's previous GAAP.

We do not consider that it would be consistent with the ASB's principles for amending the IFRS for SMEs if entities in the extractive industries could no longer capitalise exploration and evaluation assets, in particular that "changes should be made to permit accounting treatments that exist in FRSs at the transition date that align with EU-adopted IFRS". We therefore propose that Section 34 is amended to allow the recognition of exploration and evaluation assets in line with the requirements of IFRS 6 and the UK Oil and Gas SORP.

Public benefit entities

We agree with the ASB that integrating the requirements for public benefit entities (PBEs) into FRS 102 will assist those entities in understanding their financial reporting requirements. However, there are a number of areas where concessions are made on cost-benefit grounds for PBEs which are not similarly extended to non-PBEs, for example in the measurement of concessionary loans at the amount payable or receivable rather than initial measurement at fair value followed by amortised cost. Therefore a large and sophisticated PBE making and receiving significant concessionary loans could elect to measure these at the amount payable or receivable, but a medium-sized commercial company making a below-market rate loan to a subsidiary would be required to measure that loan asset at fair value on initial recognition based on a market rate of interest, followed by amortised cost. We consider that where a simplification is considered appropriate on cost-benefit grounds, then this should be available to all entities applying FRS 102.

In relation to resources from 'non-exchange transactions', further consideration is required regarding the distinction between 'performance conditions' and 'restrictions' in determining the timing of recognition of income from donations. As currently defined, a 'restriction' on a donation cannot require "that resource to be returned to the donor if the resource is not used as specified". If there are any such repayment conditions, then the conditions would be defined as performance conditions meaning that the income could not be recognised until all conditions were met. For many donations which require that the funds are used for a particular purpose this may mean that the recognition of income would be deferred indefinitely. This would be a major change compared to current practice, and we do not think that this is what was intended. We therefore urge the ASB to reconsider these requirements and the definition of 'restrictions'. In our view, a better approach would be for a PBE to recognise income as it becomes entitled to receive it. This would provide the necessary distinction between a restriction which limits the use of a donation and conditions which must be met before the PBE is entitled to the donation.

We note that a number of areas relating to PBEs (for example regarding funding commitments and the distinction between grants and concessionary loans) continue to be somewhat unclear, and we have suggested a number of clarifications in Appendix B.

Investment entities

We welcome the decision of the ASB to include an exemption from consolidation where a holding is held exclusively with a view to subsequent resale as part of an investment portfolio. We consider that the measurement of such investments at fair value through profit or loss is a better reflection of the substance of the arrangement than consolidation as a subsidiary.

We note that the treatment of investments in bonds and other debt instruments would, under the current requirements, be an exception from the general practice for investment entities to measure their investments at fair value through profit or loss. Investments in subsidiaries, joint ventures and associates are or may be measured at fair value, and investments in equity instruments are measured at fair value provided this can be measured reliably. However, provided that investments in debt instruments meet the conditions to be a basic financial instrument under paragraph 11.9, there is no ability for an investment entity to elect to measure these at fair value. We consider that, in the same way that investments in subsidiaries which are held as part of an investment portfolio are measured at fair value, an option should be introduced to allow the designation of investments in debt instruments which are held as part of an investment portfolio as at fair value through profit or loss.

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

Any requirements for the preparation of accounts by retirement benefit plans (occupational pension schemes) need to take account of and be consistent with the legal framework including the Pensions SORP. This is due to the requirements in the relevant statutory instrument, SI 1996/1975 The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996. The Schedule to this Instrument requires that the accounts include "a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice, the guidelines ('Financial Reports of Pension Schemes') published by the Pensions Research Accountants Group or another organisation approved for this purpose by the Accounting Standards Board, current at the end of the scheme year to which the accounts relate and, if not, an indication of where there are any material departures from those guidelines" (paragraph 8).

We therefore consider that it would be beneficial for additional wording to be added to paragraph 34.31 of FRS 102 to make specific reference to the need to look to the Pensions SORP for guidance in interpreting FRS 102 for a retirement benefit plan.

The SORP and the Statutory Instrument also include formats for the accounts of a pension scheme. Compliance with the company law formats as required by FRS 102 would not, in our view, provide information that is useful to users of pension scheme accounts. Rather, we consider that paragraph 34.31 should make it clear that retirement benefit plans should follow the formats for the primary statements as set out in the Statutory Instrument and the SORP. The requirements for the formats provided in the SORP are designed to meet the information needs of users, based on the industry knowledge within the Pensions Research Advisory Group (PRAG), and we consider that they should be retained.

We would question whether it is appropriate to include retirement benefit plans within the definition of a 'financial institution'. In particular, given that Solvency II will introduce new requirements for 'financial institutions' it may cause confusion to include retirement benefit plans within a definition of a financial institution for the purposes of FRS 102 when they are not financial institutions under Solvency II. We agree that it is important for pension schemes to provide additional disclosures on financial instruments and the risks related to them. However, we consider that in order to provide meaningful information, it will be necessary for pension schemes to interpret the disclosure requirements set out in paragraphs 34.19-34.30 in the context of their particular circumstances. We propose the removal of retirement benefit plans from the definition of a financial institution, instead including a cross-reference to the relevant paragraphs (as already exists in paragraph 34.42) and an additional sentence to the effect that retirement benefit plans should look to the SORP for additional guidance in applying these disclosure requirements.

We also propose amendments to the disclosure requirements for actuarial information (paragraphs 34.43-46). According to paragraph 34.38 these disclosures are permitted to be provided either as part of the financial statements or as a separate report. It is current practice in the UK to provide this information in a separate actuary's report. If the information were provided as part of the financial statements this would bring it within the scope of the audit opinion, and to audit this information would have significant time and cost implications. Our preference would be not to allow a choice of presentation, but instead for current practice to be retained and the actuarial disclosures to be required to be presented in a separate report.

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?
Yes, we agree that the related party disclosure requirements in Section 33 are sufficient.

We note that the exemption from disclosing transactions with and between wholly owned subsidiaries is taken directly from company law, and we agree that the ASB should not seek to gold-plate company law in this respect. We note that this exemption was a Member State option in EU-law (the EC Accounting Directives), and it is not the role of the ASB to question why the government chose to bring the exemption across into UK law.

However, we note that the proposed amendments to the EC Accounting Directives would remove this exemption. If this change is implemented at EU-level, then UK company law will need to be amended. If and when this change is made, FRS 102 will need to be amended also.

Question 8 - Do you agree with the effective date? If not, what alternative date would you prefer and why?
Yes, we agree that 1 January 2015 is a suitable effective date. We consider that the most important consideration is to determine an effective date and not change it. Continually pushing back the implementation is, in our view, extremely damaging. Firstly, it threatens to undermine the credibility of the ASB and its image as an independent national standard setter. Secondly, for those who are less engaged with the project, there is a risk of complacency and a view that there is no need to engage with changes that are likely to continually be pushed further towards the horizon. This is likely to lead to a lack of preparedness when the proposals eventually do become effective. Finally, for those who are engaged and are beginning to plan for transition, further delays and changes incur additional expense as these plans and budgets have to be updated regularly and adjusted. Where management is planning now for a transaction that will still be in place in 2015, such as an earn-out agreement in a sale or purchase transaction, they need to know whether to consider the effects of transition to FRS 102 or whether such an exercise would be a waste of time and effort.

The provisions for early adoption require reconsideration. Our view is that the early adoption provisions for FRS 101 and FRS 102 should be considered independently, since they differ widely in their scope. In respect of FRS 101 we consider that the option of IFRS with reduced disclosures should be made available as soon as possible, so that qualifying entities can take advantage of the benefits without delay. For FRS 102 we appreciate that, as an entirely new accounting standard, there may be additional issues to resolve. However, given that early adoption is to be permitted, we consider that it should be available for accounting periods ending on or after the date of issue of the standard.

For PBEs, we consider that paragraph 1.14 requires redrafting to cover PBEs which are not within the scope of any SORP. Currently, any PBE may only adopt FRS 102 early when it also applies an updated SORP. However, not all entities that meet the definition of a public benefit entity will fall within the scope of a SORP. This restriction will also add to the importance of the SORP-making bodies making their best efforts to produce updated SORPs as soon as possible after the release of the standards by the ASB.

Question 9 - Do you support the alternative view, or any individual aspect of it?
We do not support the proposals set out in the alternative view.

We agree that the needs of users should be the primary focus in the development of accounting standards, as the provision of decision-useful information is the main purpose of the preparation of financial statements. Consultation with users is therefore an important aspect of the process. However, our view is that the ASB has sought the views of users throughout the duration of this project, and we do not agree that the project should be postponed for further consultation.

We consider that improvement of financial reporting requirements is an ongoing process, in which consultation with users is key. Therefore, as the new regime is implemented, we would encourage the ASB to involve users to the fullest possible extent in any post-implementation review as well as future revisions to the standards.

We do not agree that the ASB's objective does not result in financial statements that meet the needs of users. Without high quality financial reporting, information cannot provide an accurate representation of the transactions of an entity, and therefore cannot benefit a user. Our view is that the ASB's objective does provide sufficient focus on the preparation of financial statements which contain the information which users need, in an understandable and proportionate form.

The alternative view appears to suggest that information about past and future cash flows should take precedence over accruals accounting and the principle of substance over form. We consider accruals accounting and substance over form to be essential for a true and fair representation of transactions undertaken by an entity.

The alternative view states that "the recognition of a point value…which has a wide range of potential values can provide spurious accuracy and may be misleading". We observe that many numbers recognised in the financial statements are based on estimates, which could have a wide range of outcomes, including depreciation (estimates of useful life), provisions for doubtful debts (estimates of recovery), valuation of stock (estimates of net realisable value) and provisions (by nature, uncertain in timing or amount). A degree of estimation is essential in preparing financial statements and, where these estimates are significant, disclosure is provided so that the user is informed about the nature of the estimate. We note that FRS 102 in a number of places states that where a reliable estimate of fair value cannot be made, for example if the range of possible outcomes is too wide, then an alternative measurement basis such as cost is used.

We disagree that FRS 102 contains "rules written to prevent abuse" or that it constitutes an "extensive rule book". Our view is that, as a very short and streamlined standard, FRS 102 is very much principles-based and contains very few 'rules' as such. Indeed, we expect one of the challenges of the application of FRS 102 will be in applying judgement to the principles in order to put them into practice.

The proposals for accounting for financial instruments in the alternative view are unclear. We take the point that these are not intended to be fully developed proposals, but they do not appear to us to represent a simplification compared to FRS 102. The proposals in the alternative view appear to be rather more complex than FRS 102, with six categories of financial instrument (held as fixed assets, held as working capital, held for financing, derivatives used for hedging recognised assets and liabilities, non-derivatives used for hedging recognised assets and liabilities, held as hedges of items not recognised as assets and liabilities).

For defined benefit pension schemes, our understanding is that the alternative view proposes recognition and measurement of the surplus or deficit in the scheme based on a valuation for funding purposes. However, the aim of a funding valuation is to ensure that the scheme will have sufficient funds to pay to its members, and will generally use more conservative assumptions than an accounting valuation. This will tend to lead to an increased deficit (or reduced surplus). Since an increase in the pension deficit is treated as a realised loss for the purpose of determining distributable profits, overstating the deficit would lead to a dividend block. The recognition of a larger liability could deter investment in companies with defined benefit pension schemes and could even contribute to the closure of final salary pension schemes.

In relation to deferred tax, we consider that the aim of the revised requirements in FRS 102 is to provide information about items that will amend the tax payable in future years, in order to meet the needs of users. We also do not understand why the alternative view would appear to recommend the recognition of deferred tax only on the revaluation of assets, and not for factors such as capital allowances or carried forward losses.

On equity-settled share-based payment schemes, whilst we acknowledge that the current requirements for recognition and measurement of share-based payment arrangements are not perfect, we consider that it is still better to recognise an expense, even if this is an approximation, than to recognise no expense. For many entities, share-based payments represent a significant proportion of their employee remuneration package and not to recognise any expense for this would give rise to a misleading profit result when compared to entities which reward their employees entirely in cash. In particular where a significant proportion of the remuneration package of directors is made up in share options, information about the cost of these to the company is likely to be material to a user.

Appendix B

Detailed comments regarding draft FRSs 100, 101 and 102

This appendix sets out areas of the draft standards where we consider that clarification or amendment would be beneficial.

Draft FRS 100

- We consider that the use of the term 'reduced disclosure framework' in the context of a qualifying entity taking disclosure exemptions from FRS 102 is potentially confusing. The phrase 'reduced disclosure framework', being the title of FRS 101, is likely to be used to refer to compliance with FRS 101. Using the same phrase in a different context may lead to confusion. We would prefer reference to be made to the 'disclosure exemptions set out in' FRS 102.

- Under "consequential amendments to the FRSSE", paragraph 22(o) would amend the FRSSE to state that "early adoption [of the revised FRSSE] is permitted". This is inconsistent with the restrictions on early adoption of FRS 101 and FRS 102. However, as set out in our response to Question 8, we would prefer that the early adoption provisions in FRS 101 and FRS 102 were revised.

- Application Guidance I: 'The Interpretation of Equivalence' sets out a number of situations where the consolidated accounts of the parent would be considered to be 'equivalent' (paragraph AG6(b)). However, we note that the IFRS for SMEs is not listed. We would welcome clarification of whether consolidated accounts prepared in accordance with the IFRS for SMEs would be considered to be 'equivalent' for the purposes of permitting disclosure exemptions.

- A number of the terms used in the definition of a 'financial institution' are not defined, for example 'stockbroker' and 'authorised person'. We would welcome clarification of these terms, particularly as the term 'financial institution' may not intuitively apply to some of these.

- We note that references to the Charities Act 1993 will require updating to refer to the Charities Act 2011.

Draft FRS 101

- The definition of a qualifying entity requires that it is included within consolidated accounts that are 'publicly available'. However, no guidance is provided as to the meaning of the term 'publicly available'. We consider that this should include being available by post or on a company's website, as well as filed with Companies House or an equivalent. We would welcome clarification of this point.

- Paragraph 4 sets out the disclosures of IFRS 7 Financial Instruments: Disclosures which are required for financial liabilities measured at fair value which are neither held as part of a trading portfolio nor derivatives. We consider that IFRS 7.27B, being the paragraph which requires disclosure of the level in the fair value hierarchy in which the measurement is categorised, should be included in this list. We would also question whether the disclosures set out in IFRS 7.29 and 30 are relevant and necessary in this context.

- Paragraph 7(c)(i) requires disclosure of "the relevant standard and paragraph references of the exemptions adopted". It is unclear whether this refers to the paragraph reference in FRS 101 or whether it refers to the relevant IFRS. If the latter, we consider that listing all disclosures exemptions taken is unnecessary, and could be simplified whilst still informing users.

- We question whether the intention underlying the exemption from paragraph 45(b) of IFRS 2 Share-based Payment is clear. The intention of paragraph 8(a) of Draft FRS 101 appears to be to require disclosure if the company issues equity instruments, but to exempt disclosure in the subsidiary if the parent is issuing equity instruments. If this is the case, the paragraph could be reworded to make this clearer.

- The amendments required to IFRS 1 First-time Adoption of International Financial Reporting Standards' set out in AG1(a) and (b) are unclear. We propose re-wording these as follows:

  Paragraph D16 of IFRS 1 'First-time Adoption of International financial Reporting Standards'
  An associate, joint venture or subsidiary that applies this election must ensure that the measurement of its assets and liabilities is in compliance with the Act by applying the amendments set out in [draft] Financial Reporting Standard 101 'Reduced Disclosure Framework'.

  Paragraph D17 of IFRS 1 'First-time Adoption of International financial Reporting Standards'
  A qualifying entity that applies this election must ensure that the measurement of its assets and liabilities is in compliance with the Act by applying the amendments set out in [draft] Financial Reporting Standard 101 'Reduced Disclosure Framework'.

- The option to net government grants from the cost of an asset has been removed, through AG1(h) and (j). Whilst we agree that this is required for a company under the Act in order to comply with the EC Accounting Directives, we question whether it is necessary to remove this option for entities which are not companies.

Draft FRS 102

Section 1: Scope

- Paragraph 1.7 should be amended to clarify that references in IAS 33, IAS 34 and IFRS 8 **to other IFRSs** should be read as referring to the relevant section in FRS 102.

- Paragraph 1.12(b) allows exemption from all of the disclosure requirements of Section 11 and Section 12. However, we consider that paragraph 11.40 should not be included in the exemptions, ie qualifying entities should be required to disclose their accounting policies for financial instruments.

Section 3: Financial Statement Presentation

- Paragraph 3.25 could usefully be re-drafted to clarify that making disclosures in accordance with IAS 33 and/or IFRS 8 and interim reports in accordance with IAS 34 are voluntary unless mandated by paragraphs 1.3-1.5, but that if disclosures are made voluntarily which are described as 'earnings per share' or 'segment information' then they must comply with the requirements of IAS 33 and IFRS 8 respectively.

Section 4: Statement of Financial Position

- There should be consistency between the use of the terms 'statement of financial position' and 'balance sheet'.

- In paragraph 4.14, it is not clear what is meant by a 'major' disposal of assets, and whether the term 'major' is intended to differ from 'material' for example.

Section 5: Statement of Comprehensive Income and Income Statement

- Tax relating to an item recognised in other comprehensive income is also recognised in other comprehensive income, and this should be reflected in the list in paragraph 5.4(b).

- The disclosure requirements for discontinued operations exceed the requirements currently in FRS 3 Reporting Financial Performance or in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, in particular by requiring analysis between discontinued and continuing operations for each item of other comprehensive income. We are not clear as to why this level of disclosure is considered necessary, particularly for an entity which does not have publicly-traded securities, and we suggest that the Board should reconsider the requirements of paragraphs 5.7B and 7C and should not go beyond a requirement for an analysis of items recognised in profit or loss.

Section 6: Statement of Changes in Equity and Statement of Income and Retained Earnings

- In paragraphs 6.2 and 6.3, we consider that the term 'investments' should be amended to 'contributions' when referring to amounts provided by equity investors.

Section 7: Statement of Cash Flows

- The term 'pension funds' in paragraph 7.1A should be amended to 'retirement benefit plans' to be consistent with the rest of the standard.

- The exemptions from preparing a cash flow statement set out in paragraph 7.1A conflict with the requirement in 3.17 to include a statement of cash flows as part of a complete set of financial statements. We would welcome clarification that the exemption in Section 7 overrides the requirement in Section 3.

- The last two sentences of paragraph 7.2 should be split out as a separate paragraph or the sub-heading of 'cash equivalents' should be amended. Bank overdrafts are not 'cash equivalents' as they do not fit the definition. Rather, where they are an integral part of cash management, bank overdrafts are essentially considered to be cash.

Section 9: Consolidated and Separate Financial Statements

- Paragraph 9.3 should presumably include the exemption from preparing group accounts for small groups, set out in Section 399(1) of the Act.

- Paragraph 9.9B should be re-drafted, since it currently implies that a subsidiary excluded from consolidation should select a policy of accounting in accordance with paragraph 9.26. Presumably, it is the parent of a subsidiary excluded from consolidation which should select an accounting policy.

- We consider that the last part of paragraph 9.18A(b) is potentially confusing since it states that the calculation of the gain or loss on disposal is calculated "excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity". This may be read as requiring an adjustment to the carrying amount for cumulative foreign exchange differences. We do not believe that this is the intention and would welcome clarification of this sentence.

- Paragraph 9.26(c) permits a parent company to elect to account for its investments in subsidiaries, associates and jointly controlled entities at fair value with changes in fair value recognised in profit or loss. As noted in paragraph 9.27B, additional disclosures will be required where this option is taken. However, as currently drafted, we do not consider that the disclosure requirements of paragraph 11.48A are appropriate for these investments as they are geared towards financial liabilities. The disclosure requirements for investments in subsidiaries, associates and jointly controlled entities measured at fair value with changes in fair value recognised in profit or loss should be reconsidered.

- We note that the requirements of paragraph 9.31(a) appear to conflict with 9.18A(a), since they allow the measurement of any retained interest at its 'pre-transaction carrying amount' rather than at fair value. We propose that this should be amended to require measurement of a retained interest at fair value, consistent with 9.18A.

Section 11: Basic Financial instruments

- Paragraph 11.48A refers to additional disclosure requirements for "financial instruments at fair value that are not held as part of a trading portfolio and are not derivatives". However, in the Regulations, this phrasing relates only to financial **liabilities** that are not held as part of a trading portfolio and are not derivatives. For financial assets measured at fair value with changes in fair value recognised in profit or loss, the Regulations require additional disclosures for certain categories of asset only, which are specified in paragraph 36(3) of Schedule 1 to the Regulations. The disclosure requirements set out in paragraph 11.48A appear to relate specifically to financial liabilities measured at fair value. We propose that paragraph 11.48A should be amended to apply only to financial liabilities at fair value that are not held as part of a trading portfolio and are not derivatives. We then propose the insertion of an additional paragraph setting out the types of financial asset measured at fair value for which additional disclosures are required by the Regulations and specifying what additional disclosures should be made.

Section 12: Other Financial Instruments Issues

- Paragraph 12.3(d) includes certain types of insurance contracts within the scope of Section 12. It is not clear how this interacts with the requirement in paragraph 1.6 to apply IFRS 4 to insurance contracts.

- We presume that paragraph 12.18(a) contains a drafting error, since it sets out certain specific instruments which may be designated as hedging instruments, then includes the words "a financial asset; or financial liability". Presumably what was intended was for the requirement to read "a financial asset or financial liability which represents a hedge of a foreign exchange risk in the net investment in a foreign operation".

Section 13: Inventories

- We have concerns over the definition of 'inventories held for distribution' and the possible consequences of the requirements. We assume that the definition is intended to cover items which are donated to a PBE for distribution, however as currently drafted it could be interpreted as including items held to be given away as samples or free gifts, or items purchased at market price and then intended for distribution. It would not appear appropriate to re-measure such items to current replacement cost. We are also concerned that paragraph 13.4A would require the re-measurement of such inventory to current replacement cost at each reporting date rather than simply on initial recognition. This could mean that where a PBE holds such inventory over a significant period of time, it is re-measured to current replacement cost with a consequent impact on profit or loss. We propose that the ASB reconsiders the definition and requirements regarding inventories held for distribution.

Section 14: Investments in Associates

- There is currently an apparent conflict between paragraphs 14.4A and 14.4B as paragraph 14.4A requires the use of the equity method for all associates, without acknowledging that a different treatment is required by 14.4B.

- The requirement of 14.9 to measure an investment in an associate at the transaction price on initial recognition appears to conflict with the requirement in 9.18A to recognise a retained interest (including one which gives rise to an associate) at fair value when determining the gain or loss on disposal.

Section 15: Investments in Joint Ventures

- There is currently an apparent conflict between paragraphs 15.9A and 15.9B as paragraph 15.9A requires the use of the equity method for all joint ventures, without acknowledging that a different treatment is required by 15.9B.

Section 18: Intangible Assets other than Goodwill

- Paragraphs 18.10A and 18.10B do not appear to fit well in their current location, since they both relate to internally generated intangible assets, but paragraph 18.10 relates to separately acquired intangible assets and falls under the sub-heading 'Separate acquisition'. We suggest that paragraphs 18.10A and 18.10B are moved below 18.16G.

- We consider that the disclosures for intangible assets should distinguish between internally generated and other intangible assets, as required by IAS 38 Intangible Assets.

Section 19: Business Combinations and Goodwill

- The application of paragraphs 19.8 to 19.10 is likely to lead to some transactions being identified as 'reverse acquisitions'. However, no guidance is provided as to how to account for such a reverse acquisition. We consider that it would be beneficial to provide guidance similar to that in Appendix B to IFRS 3 (B20-B27) as educational material.

- We note that negative goodwill is referred to as both "so-called negative goodwill" and "sometimes referred to as negative goodwill". If negative goodwill is the term to be used in the standard, then there is no need to qualify that term.

- The current wording in paragraph 19.27 may be interpreted as implying that the use of merger accounting or the purchase method is a free choice for a business combination under common control where the conditions are met. However, we consider that it is still necessary to consider which method would best reflect the substance of the transaction, and would welcome clarification of this in the standard.

Section 20: Leases

- We note that the disclosure requirement in paragraph 20.16(c) of the IFRS for SMEs, requiring disclosure of a general description of the lessee's significant leasing arrangements, has been omitted from FRS 102. We consider this to be a valuable disclosure requirement and recommend its reinstatement. Its inclusion would also be consistent with the requirement in Section 410A of the Act to disclose off balance sheet arrangements.

Section 22: Liabilities and equity

- In the example in the Appendix, there appear to be errors in the formula for the calculation of the present value, since it includes a variable 'a' for which no explanation is provided and also a power of five, which is the number of years in the example. Presumably this should be '1' rather than 'a' and 'n' rather than '5', to give $1/(1+i)^n$ for the calculation of the discount factor.

Section 24: Grants

- The scope of this section has been extended to include grants other than those from government. However no definition of a 'grant' has been included, only a definition of a 'government grant'. Therefore the scope of this section is unclear.

- Some government grants may have no specified conditions attached to them. These appear to be scoped out of Section 24; however it is not clear how they should be accounted for.

Section 26: Share-based payment

- We consider that the requirements of 26.12 relating to the modification of a share-based payment will be extremely challenging to apply in practice without the relevant guidance. Therefore, we consider that it would be beneficial to provide guidance similar to that in Appendix B of IFRS 2/FRS 20 Share-based Payment (B42-B44) as educational material.

Section 27: Impairment of Assets

- We consider that paragraph 27.14B should be designated as a 'PBE paragraph' since it is unlikely to represent an appropriate accounting treatment for a commercial entity.

- Section 27 has been amended to permit the reversal of impairment losses on goodwill, where the conditions are met. However, paragraph 27.31 does not appear to have been updated, and does not permit the allocation of any reversal of impairment for a cash generating unit to goodwill.

Section 33: Related Party Disclosures

- We consider that it would be useful to include a definition of 'key management personnel' within the glossary. Currently this term is only defined in paragraph 33.6.

Section 34: Specialised activities

Financial institutions: Disclosures

- We note that the disclosure requirement for a maturity analysis in paragraph 34.28 goes beyond the equivalent disclosures in IFRS 7.39. Paragraph 34.28 requires that the maturity analysis should include all derivative liabilities, whilst IFRS 7.39 requires a separate maturity analysis for derivative liabilities but only where "contractual maturities are essential for an understanding of the timing of the cash flows".

- Paragraph 34.17 does not appear to address the situation where a parent company that is not a financial institution has a material subsidiary that is itself a financial institution. An example would be a retail chain that has a banking subsidiary. On a strict reading of paragraph 34.17, it appears that only the entity that is itself a financial institution, ie the subsidiary in this example, would need to give the additional disclosures required for financial institutions and that the parent would not need to give the additional disclosures in its group accounts. It may be helpful for the Board to clarify this point.

Concessionary loans

- The distinction between a grant and a concessionary loan remains unclear, particularly since the scope of Section 24 has been expanded to include grants other than from government. For example, is a loan from the government at a below market rate of interest in the scope of Section 24 or Section 34?

- There is an inconsistency between the definition of a concessionary loan in the glossary, which refers only to "a loan made by a public benefit entity", and paragraph PBE34.89 which refers to loans "made or received between a PBE and a third party". We suggest that the definition in the glossary should be amended.

- PBE34.93 could usefully be clarified in that, where a concessionary loan asset is considered to be impaired, the impairment loss represents the difference between the cash paid and the amount of cash expected to be received, without taking into account the time value of money through discounting.

Funding commitments

- The formatting for the heading 'Funding Commitments' appears incorrect. Presumably it should have an underline below it.

- Paragraph 34A.2 states that "a promise to provide cash conditional on the receipt of future income does not give rise to a liability". In practice, the majority of PBEs will have future income that is uncertain to some degree, and we are concerned that this could lead to the non-recognition of funding commitments due to such clauses being included in the terms and conditions of the commitment even though there is no reason to expect that the PBE will not have the income to satisfy their commitment. We therefore consider that this guidance should be reconsidered.

Incoming resources from non-exchange transactions

- We consider that 'non-exchange transactions' is a misleading term, since there often is an exchange involved although not of equal value. We are concerned that the use of the term 'non-exchange' may confuse both preparers and users.

- For legacies, paragraph PBE34B.5 states that the criteria for recognising a legacy "will normally be met following probate". However, sufficient certainty of receipt may often be determined before probate is granted and we consider that this should be reflected in the paragraph.

Section 35: Transition to this [Draft] FRS

- We consider that use of the term 'monetary amounts' in paragraph 35.6 is potentially misleading, since the term 'monetary' is used with a specific meaning in Section 30 in relation to the translation of foreign currency monetary items. We would prefer the use of a different term.

- Paragraph 35.10 states that the exemptions are permitted in the preparation of the "first financial statements". However, some of these are items will continue to be relevant in subsequent years, such as service concession arrangements. We would welcome clarification that, where these exemptions are taken, they continue to apply until the relevant asset or liability is de-recognised or the arrangement terminates.

- We suggest that the Board should consider including additional transition exemptions to cover, for example, intra-group borrowing arrangements and the treatment of government grants related to assets which have been netted against the cost of the asset under a previous GAAP.

Off-balance sheet arrangements

- We note that ASB Press Notice 328 of 30 June 2008 set out useful guidance on application of the requirement in section 410A of the Act to disclose off-balance sheet arrangements. We recommend that the ASB reviews this Press Notice and includes updated material in an appendix to FRS 102.