

Susanne Pust Shah  
Financial Reporting Council  
Aldwych House  
London  
WC2B 4HN



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The Grange  
100 High Street  
Southgate  
London N14 6PW  
Tel: 020 3535 3000  
[www.metropolitan.org.uk](http://www.metropolitan.org.uk)

29<sup>th</sup> April 2014

Dear Susanne

### **Fred 54 – Draft Amendments to FRS 102:- Basic Financial Instruments**

In response to the invitation to comment on the proposed amendments to FRS 102 we have provided our answers to the questions posed below.

#### **Question 1**

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

Yes, we support the changes to make the requirements being less restrictive and results in more instruments being classified as basic and accounted for at amortised cost.

The original drafting resulted in too many instruments that were fundamentally basic in nature having to be accounted for at fair value.

There is still additional clarification needed as noted in response to questions below.

#### **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.**

To ensure correct and consistent accounting treatments where there could still be differing conclusions about particular, very commonly used instruments, where there is a variation in the return to the holder over the life of the instruments.

Two such instruments are known as Lender Options Borrower Option, "LOBOs" and Cancellable Embedded Hedges, "CEHs", we think it would be useful to include further guidance by way of example to make clear the accounting treatment that should be used for these instruments.

We are aware that some others have construed them as 'other' and not 'basic' as a result of differing interpretation of the wording. In our opinion both LOBOs and CEHs should be basic and appropriately measured at amortised cost. Our auditors and Treasury advisors have also concluded them to be basic.

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**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?**

Yes the examples are useful but additional examples as noted in response to Q2, for LOBOs and CEHs should be added.

**Question 4**

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

We have no reservations about the effective date.

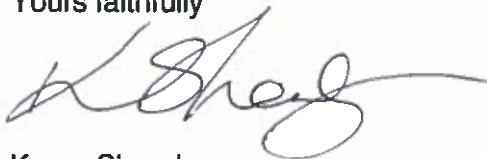
**Question 5**

**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?**

In our opinion no transitional provisions are needed.

If you would like more detail on our responses please do not hesitate to contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'K Sheedy', written in a cursive style.

**Karen Sheedy  
Treasury Manager**