

Susanne Pust Shah
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

ukfrs@frc.org.uk

30 April 2014

Dear Ms Pust Shah,

Consultation Paper FRED 54 – Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland: Basic financial instruments*

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to this consultation. Overall, we believe that the proposed changes will help and are an improvement on what exists now.

However, we are concerned that the FRC is still making changes to FRS 102 after the transition date has passed for many entities. This does not give companies either certainty in their accounting or confidence that FRS 102 is a high quality framework. In our opinion the need to make changes at this late stage indicates flaws in the process associated with bringing in the standard and we suggest that the FRC reviews its procedures to establish what could be improved in future consultations.

Responses to specific questions

Q 1: Do you support the proposal to amend the conditions of paragraph 11.9 and make the requirements less restrictive?

We agree with the proposed amendment and believe that this will result in more debt instruments being valued at amortised cost, which will better reflect the underlying economic reality.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

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We note that FRED 54 explicitly supports the continuation of using a rules-based approach for financial instruments. We continue to believe that accounting standards should be principles-based and we would encourage the FRC to consider further revisions in this area in the next review cycle, including providing greater conceptual justification for the circumstances in which assets and liabilities should be accounted for at amortised cost or fair value.

Q 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.

See our comments above.

Q 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 are helpful. However, it would be more helpful to consolidate all the examples in Section 11 into one place. Consequently, we suggest consolidating the proposed examples with the ones between 11.13 and 11.14.

Q 4: The proposed amendments would be effective from 1 January 2015. Do you have reservations concerning the proposed effective date?

We agree with the proposed effective date though, as noted above, are disappointed that the FRC is still making amendments to FRS 102 after the date of transition for many entities.

Q 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?

We have no comments on this.

If you would like to discuss any of our responses in more detail, we would be happy to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Joseph Archer	Crowe Clark Whitehill LLP
Edward Beale	Western Selection Plc
Anthony Carey	Mazars LLP
Ian Davies	Vislink PLC
Jack Easton	UHY Hacker Young
Bill Farren/Ian Smith	Deloitte LLP
David Gray	DHG Management
Matthew Howells	Smith & Williamson Limited
Shalini Kashyap	EY
Jonathan Lowe/Paul Watts/Nick Winters	Baker Tilly
Niraj Patel	Saffery Champness
Nigel Smethers	One Media IP Group plc
Chris Smith	Grant Thornton UK LLP