

# CONSULTATION

## FINANCIAL REPORTING COUNCIL: FRED 54: DRAFT AMENDMENTS TO FRS 102 – BASIC FINANCIAL INSTRUMENTS

### INTRODUCTION

These comments are submitted by the Association of International Accountants (AIA).

### ABOUT AIA

The Association of International Accountants (AIA) is a global body for professional accountants. We aim to create world class accountants; through offering high-standard, relevant and innovative qualifications, and providing first-class, tailored and pertinent services for our members around the world.

AIA works in the public interest, ensuring that our members are appropriately regulated for the work that they carry out. AIA is a Prescribed Body under the Companies (Auditing and Accounting) Act 2003 in the Republic of Ireland and we also have supervisory status for our members under the UK Money Laundering Regulations 2007. The AIA professional qualification is currently recognised in over 30 countries worldwide.

In the UK, AIA is a Recognised Qualifying Body (RQB) for statutory auditors, and as such we are regulated by the Financial Reporting Council (FRC) and work closely with them to ensure that our auditors are of the appropriately high standard.

AIA also have recognition to operate in the Qualifications and Credit Framework (QCF) as an Awarding Body, the new framework for creating and accrediting qualifications in England, Wales and Northern Ireland, which takes a fresh look at qualifications, education and training.

AIA promotes and supports the advancement of the accountancy profession both in the UK and internationally. The AIA exams are based on international financial reporting and international auditing standards and are complimented by a range of variant papers applicable to local tax and company law in key jurisdictions together with an optional paper in Islamic accounting.

AIA members are professionally qualified to undertake accountancy employment in the public and private sectors.

## AIA RESPONSE

### SUMMARY

AIA is pleased to provide a response on the issue of accounting for basic financial instruments under FRS 102 The Financial Reporting Standard Applicable in the UK and Republic of Ireland.

In summary, AIA is pleased that the FRC is proposing some simplifications to the accounting treatment for certain basic financial instruments. The changes proposed will benefit those reporting entities with relatively straightforward financing arrangements, such as bank loans and other simple debt instruments, which without the changes proposed would have been classified as non-basic financial instruments, resulting in a disproportionately onerous accounting treatment. The proposals should result in less volatility in profit, as fair value accounting is required for far fewer financial instruments.

Given the current discussions around the potential withdrawal of the Financial Reporting Standard for Smaller Entities, AIA firmly believes that the requirements of FRS 102 in relation to all financial instruments may benefit from a further review, with the objective of simplifying accounting treatments applied by smaller entities as much as possible.

### QUESTION 1

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

AIA supports the proposal to amend the conditions of paragraph 11.9, and to therefore increase the range of financial instruments that may be accounted for as basic financial instruments. We consider that the original requirements of FRS 102 were too restrictive, and would have resulted in complex accounting treatments involving fair value measurements being applied to simple financial instruments such as bank loans and basic debt instruments.

### 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.**

In general, AIA does agree that under the amended conditions, debt instruments will be classified appropriately. The original classification criteria were very restrictive, and it is particularly important that under the amended conditions, the majority of simple financial liabilities such as bank loans will now be classified as basic financial instruments and measured at amortised cost. We are of the opinion that measuring such instruments at fair value, as per the original FRS 102 requirements would place an unfair financial reporting burden on reporting entities, in particular smaller entities.

### 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 provided in the Appendix to Section 11 are helpful, but we would also encourage the FRC to extend the range of examples that are provided, given the complex nature of many financial instruments and also given that for many reporting entities the first reporting period under FRS 102 will be the first time that the accounting treatment for financial instruments will be considered in much detail.

A particular area of concern for practitioners is where intercompany loans with a zero rate of interest exist. An example to illustrate and explain whether this type of financial instrument should be treated as basic or non-basic, and the methods that may be used to determine a market rate of interest would be welcomed as this is a very common situation for reporting entities of all sizes.

#### 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 over the proposed effective date; it is sensible for the effective date of the amendments is the same as the effective date of FRS 102.

#### 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?**

The AIA does not believe that any specific transitional provisions are necessary.

### FURTHER INFORMATION

The above replies represent our comments upon this consultation document. We hope that our comments will be helpful and seen as constructive. AIA will be pleased to learn of feedback, and to assist further in this discussion process if requested.

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