

Fred 54
Draft Amendments to FRS 102
Basic Financial Instruments
Submission from The Association of Investment
Companies

The Association of Investment Companies (AIC) welcomes the opportunity to respond to FRED 54, the FRC's draft amendments to FRS 102 Basic Financial Instruments.

The AIC is the trade body representing some 340 investment companies, managing assets of around £100 billion. Our members are closed-ended investment companies, most of which are listed on the London Stock Exchange. Their business is to invest in a diversified portfolio of shares and securities, property and other assets to provide returns for their shareholders.

Around 250 of the members are either investment trusts or venture capital trusts. The vast majority of these will prepare their financial statements in accordance with UK financial reporting standards and, in particular, FRS 102. The AIC is recognised by the FRC as a SORP-making body, and we recently published a SORP Exposure Draft ('SORP ED').

As our members tend to measure their financial instruments (even ones that meet the conditions to be classified as basic) at fair value, they are largely unaffected by the proposed amendments and, consequently, we have no comments.

However, there was one area of FRS 102 where we were hoping to see a proposed amendment. This concerns the fair value hierarchy set out in paragraph 11.27 and the requirement (set out in paragraph 34.22) for financial institutions to disclose for financial instruments held at fair value an analysis in accordance with the fair value hierarchy. Our members are financial institutions and will, therefore, have to make the disclosures.

The issue concerns the difference in the hierarchy to that required by IFRS (and also currently required by FRS 29). With regard to its SORP, the AIC has already proposed in the SORP ED disclosures over and above those required by FRS 102 to bring them more into line with IFRS requirements. However, judging by the responses we have received to the SORP ED and other comments, preparers and administrators are concerned about the additional resources needed and the requirement to develop additional systems to produce the FRS 102 tables. There are also concerns about the potential confusion caused to investors who might be familiar and understand the IFRS disclosures, but do not realise that the FRS 102 disclosures are different. The consensus is that the FRS 102 disclosures should be brought fully into line with those required by IFRS.

The AIC **recommends** that the FRC gives urgent consideration to aligning the requirements of FRS 102 with those of IFRS.

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To discuss the issues raised in this paper please contact:

John Stevens

Finance Director

E-mail: john.stevens@theaic.co.uk

Tel: 020 7282 5605