30 April 2014

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

Our Ref: SJG/AJC

Dear Ms Shah

FRED 54 Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Basic Financial Instruments

We welcome the opportunity to comment on the exposure draft of FRED 54.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

Alan Churchard

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

In our opinion the proposal to revise the conditions of Paragraph 11.9 are appropriate.

Question 2 - In your view, under the amended conditions will debt instruments be classified appropriately, i.e. 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 our opinion the amended conditions will provide a more appropriate allocation of financial instruments between those that are basic, or non-basic in nature.

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?

The illustrative examples provided are extremely helpful and clarify the application of the requirements.

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

In these particular circumstances the short period before the proposed effective date are appropriate as it will permit certain existing financial instruments to be classified as basic financial instruments. The date of adoption will avoid the requirement to restate financial instruments whose treatment will change under the adoption of these rules.

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 further transitional provisions are required.

Other issues: Fair Value Hierarchy for pensions accounting

We note that the fair value hierarchy required by FRS 102 is not consistent with the fair value hierarchy under IFRS. This inconsistency is expected to cause a number of problems, in particular:

- Users of financial statements may be confused by the different allocation of investments under FRS 102 or IFRS, in particular the requirement in FRS 102 for any investment using a valuation technique to be included in the lowest category may result in users to evaluate the quality of an investment portfolio under FRS 102 to be lower than the same portfolio accounted for under IFRS.

- Investment accounting providers will need to maintain two parallel reporting systems to deliver fair value hierarchy information under FRS 102 or IFRS. This will increase the costs of implementing FRS 102.

- In order to address this problem we note that draft SORPs affected by this issue recommend adaptions to the nature of reporting under FRS 102.

We strongly recommend that the FRC takes the opportunity of the amendments proposed in FRED 54 to amend FRS 102 to align its fair value hierarchy with IFRS. This would align FRS 102 more closely with IFRS in this area, reduce the cost of compliance with FRS 102 and eliminate the need for additional complexity to be included in the relevant SORPs to address this inconsistency.