

Ms Michelle Sansom
Accounting Standards Board
5th Floor
Aldwych House
79-91 Aldwych
London WC2B 4HN

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26 April 2012

Dear Michelle

**Consultation response – Revised Financial Reporting Exposure
Drafts 46-48 on The Future of Financial Reporting in the UK and
Republic of Ireland**

ACCA (the Association of Chartered Certified Accountants) is pleased to comment on the above.

INTRODUCTION AND SUMMARY

We support the ASB' s strategy of re-exposing its proposals, in view of the scale of the changes made, and consequently we appreciate this opportunity to comment further. As part of the process of formulating

the responses below, ACCA consulted with UK and Ireland-based members of its Corporate Reporting Global Forum, and also its Charities and Housing Association Panels. Our comments on the impact of the ASB' s proposals on Public Benefit Entities therefore reflect the views of the two sectors represented by these Panels.

ACCA' s Pensions Panel has been asked for its views on the provisions for retirement benefit plans as they currently stand in the proposed FRS 102 (Question 6 (a) below). These will be forwarded to you as soon as they are received.

Our response to Question 1 includes our views on the proposals generally. It also includes more specific comments on areas not covered by the remaining Questions 2 to 9. ACCA is generally more in agreement with the ASB on the specific questions which it poses (Questions 2 to 8) than on certain aspects of the overall framework. In particular, we view the revised proposals as being, to some extent, a missed opportunity to progress further towards international convergence.

Our preferred approach would be for the ASB to work with the IASB to produce a revised and updated IFRS for SMEs. This greater step towards convergence, compared to the current proposals, will make UK and Irish financial statements more readily understandable on a

global basis, and further reduce the costs of training in more than one accounting regime.

In addition, ACCA does not believe that the removal of the “publicly accountable” tier of entities is either desirable or necessary. Our view is that EU-adopted IFRS are appropriate for many entities of this nature. We do agree that the definition of publicly accountable needs to be made more precise, in order that full IFRS would only be adopted by appropriate types of entities. We believe that a suitable definition could be established with the use of clear criteria, for example relating to the size of an entity.

ACCA would also like to see a timetable for the proposed removal of the FRSSE, and the bringing of smaller entities within the scope of the proposed Standards. We envisage that this would be achieved through exemptions which reflect the simpler accounting practices for such entities, including those set out in company law. We do acknowledge that these changes need to be co-ordinated with those emanating from the proposed EU Accounting Directive.

Finally, whilst ACCA supports the implementation date for entities not subject to a SORP, those which are subject to a SORP which is due to be revised may well find that they have insufficient time to prepare. These entities will need to wait until their SORP has been revised, then

will require a period to establish comparative figures before implementation of the new Standards becomes compulsory. We anticipate that the revision process for the SORPs will involve the additional task of considering whether and how the Public Benefit Entity provisions in the proposed FRS 102 should be amended for particular sectors.

RESPONSES TO THE ASB' S QUESTIONS

Question 1

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

(a) ACCA does not support the removal of a category of entities considered to be publicly accountable. We previously expressed

concerns about the vagueness of the definition of public accountability within the ASB' s previous proposals. Consequently, we believe that a better solution would have been to retain the “publicly accountable” category, whilst improving its definition and considering the setting of limits, for example by reference to the size of assets. In this way only those entities with a potentially significant economic impact would be included within the definition.

(b) We continue to believe that in the longer term, the most sustainable and understandable system for the UK and Ireland will be based as far as possible on the IFRS for SMEs, with amendments only being made to address any inconsistent requirements in company law. The benefits of such a system include international comparability, and minimising the time spent training preparers and users in two accounting regimes. FRED 48 does not follow such a framework in several respects:

- i. It provides options permitted in full IFRS and UK / Irish Standards, but which are excluded from the IFRS for SMEs on the grounds of simplification;
- ii. There is the use of terminology adopted in the UK / Ireland for the primary financial statements;

- iii. The proposals in FRED 48 are not fully derived from the same source, being based on both the IFRS for SMEs and to a lesser extent, certain EU-adopted IFRS. In addition, the section on income tax is based primarily on current UK / Irish GAAP, with one international addition in respect of the deferred tax on revaluations.

We believe that it would be preferable for the IASB to lobby the IASB to amend the IFRS for SMEs when, as in i. above, respondents have stated that they wish to have a choice of accounting.

- (c) ACCA has previously expressed the view that the ASB's focus should be to work with the EU, with the aim of making appropriate amendments so that the IFRS for SMEs can be adopted in the UK and Ireland. A separate country-specific Financial Reporting Standard, such as FRS 102, would not then be necessary. Under the circumstances, we now believe that the ASB should support a Member State option for the IFRS for SMEs to be adopted in full.
- (d) Small entities will continue to be subject to the FRSSE, which will be revised. In order to promote the convergence of all entities with internationally-based Standards, ACCA continues to believe that the FRSSE should not continue in the longer-term, and that small

entities should be subject to the proposed FRS 102 with appropriate exemptions, and also amendments to reflect the proposed EU Accounting Directive. An additional relevant point is that whilst the FRSSE is currently extensively used in the UK, it is adopted infrequently in Ireland.

(e) A number of specific issues arise with respect to Public Benefit Entities (PBEs):

- i. Donations: most donations are made on the basis that if they are not spent for the purpose specified, they should be returned to the donor. In the light of certain paragraphs in FRED 48 (nos 34.57-34.58, PBE34.65 and the definitions of performance conditions and restrictions), it now appears that such donations would be recognised as income only when spent. This treatment is later than current practice allows (as set out in the Charities SORP), and so we do not see it as an improvement in financial reporting by charities.
- ii. Land banks: these can be a substantial part of the assets of entities which develop property, including Housing Associations. Depending on circumstances, the land may be held for several years, and may be sold on without

further development. A clarification would be helpful as to whether in certain situations, land banks should be treated as an investment property (section 16 of FRED 48) rather than within property, plant and equipment (section 17).

- iii. Concessionary loans , donated services and heritage assets: ACCA believes that the ASB should consider requiring a more consistent treatment between entities and between similar items.

Para. PBE34.90 allows a choice of two accounting treatments for concessionary loans. ACCA believes that only the second more straightforward treatment should apply.

Para. PBE34B.11 does not allow for the recognition of volunteer time, on the grounds that it cannot reasonably be quantified. ACCA believes that it might not necessarily be a particularly difficult process to value volunteer time, although it may be more complicated to establish a commonly-accepted method for doing so. We would also point out that PBEs sometimes need to value volunteer time when applying for matched funding, but the

proposed FRS102 would prohibit them from doing so in their financial statements.

In view of the differing proposed accounting treatments for volunteer time and donated services, we also draw attention to our previous response on this matter. We expressed the concern that it would be difficult to separate volunteer time from other donated services, thereby raising the question of whether disclosure only may be appropriate for all donated services.

ACCA maintains its view that all heritage assets should be disclosed but not recognised. Para. 34.51 proposes recognition for just those assets which have been recently acquired, already capitalised, or whose cost or value can otherwise be determined without undue expense or effort. We do not feel that this selective method is as satisfactory or consistent as our preferred approach.

- iv. Statements of Recommended Practice (SORPs): as far as possible, provisions for PBEs should be included within the relevant SORP, leaving the only the most general PBE provisions within the proposed FRS 102.

- v. International comparability: in addition to commercial entities, international comparability is also of benefit to Housing Associations which are looking to raise funds on international markets, and are currently attracting interest from overseas investors such as pension schemes.

The questions below mainly deal with particular areas, and assume that the remainder of the FREDs, especially FRED 48, are accepted. We have at times followed this assumption, in order that our responses below can be informative in the context of each question. However, such responses would still need to be read in the context of the general views which we express above.

Question 2

The ASB has decided to seek views on whether:

As proposed in FRED 47

A qualifying entity that is a financial institution should not be exempt from

**any of the disclosure requirements in either IFRS 7 or IFRS 13;
or**

Alternatively

A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).

Which alternative do you prefer and why?

Any qualifying entity must be assumed to have users who look primarily to those financial statements alone, and for whom the consolidated financial statements may be less relevant. The reduced disclosure framework has to balance the needs of these users for high quality financial information about the particular qualifying entity with the costs of preparation, given the inclusion in the consolidated accounts. Some disclosures make little sense at the qualifying entity level because some business issues are carried out at a group level (for example, banks and pension schemes).

In the case of financial institutions which are qualifying entities, to omit all disclosures from IFRS7 would omit significant information about their principal assets and key aspects of their business. In consolidated accounts, materiality in a group context might omit significant items relevant to an individual qualifying entity. For these reasons we prefer the second alternative of retaining a minimum of IFRS7 disclosures. Furthermore we would add to the list certain disclosures which provide appropriate analysis of balance sheet items – namely paragraphs 8 (carrying amounts by IAS39 category), 14 and 15 (effects of collateral), and 25-27 on fair values.

Question 3

Do you agree with the proposed scope for the areas cross-referenced to EU-adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer, and why.

(a) As mentioned in our response 1 (a) above, ACCA supports the retention of a “publicly accountable” category. In this event, the entities about which the above question is concerned would, in any case, apply in full the four EU-adopted International Standards mentioned (being IAS 33 ‘Earnings per Share’ , IAS 34 ‘Interim Financial Reporting’ , IFRS 8 ‘Operating Segments’ and IFRS 4 ‘Insurance Contracts’).

- (b) If, on the other hand, the “publicly accountable” category is not reinstated, we note that FRED 48 does not cover these areas itself, and that the entities concerned will be referred to the International Standards, which are to be applied in full.

In general, ACCA agrees with the ASB’ s reasoning that the above proposal reflects the more extensive user needs of the entities concerned, as well as their larger size and complexity. Furthermore, the entities concerned will be better-resourced than others to refer to the full text of certain International Standards. The reference to EU-adopted IFRS, rather than the inclusion of detailed disclosure requirements in FRED 48, is also practical in view of the relatively small number of entities involved.

However, each EU-adopted Standard which is to be referred to, should be looked at individually by the ASB, in order to assess its suitability. Some Standards have experienced greater problems in practice than others, and are consequently more likely to be amended in the future.

Question 4

Do you agree with the definition of a financial institution? If not, please provide your reasons, and suggest how the definition might be improved.

Sometimes for historical reasons, certain entities falling within the definition of a financial institution do not provide financial services, and were established for an entirely different purpose (for example, certain working men's clubs and agricultural co-operatives). ACCA believes that these should be excluded from the definition and consequently, should not be subject to the additional accounting and disclosure requirements for financial institutions.

As ACCA would prefer the category of publicly accountable entities to be reinstated, many financial institutions would not be subject to the proposed FRS 102. For those which are within its scope, and are providing financial services, we consider the related disclosure requirements to be adequate.

Question 5

In relation to the proposals for specialist activities, the ASB would welcome views on:

- (a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?**

(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

- (a) ACCA does not anticipate that the proposals for agricultural activities will be unduly arduous to apply. Fair value for assets and produce can be established in a number of instances without undue cost or effort; otherwise, a depreciated cost basis can be used. In view of the cost and effort involved, we believe that the depreciated cost basis is likely to be routinely adopted in certain areas, such as for bearer biological assets.
- (b) With respect to service concessions, ACCA does not envisage a problem due to the reported lack of guidance mentioned in the ASB' s Explanation document. Whilst the section on service concessions is quite short in FRED 48, there is further relevant material in IFRIC 12 'Service Concession Arrangements' , on which it is based.

It may, therefore, be the case that certain respondents would prefer more content from IFRIC 12 within the proposed FRS 102, or are requesting guidance additional to the content in FRED 48 and IFRIC 12. ACCA does not believe that the role of the ASB is to provide additional interpretive guidance, and consequently,

our view is that the ASB only needs to refer the users of the proposed FRS 102 to the content of IFRIC 12.

Question 6

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

- (a) Do you consider that the proposals provide sufficient guidance?**
- (b) Do you agree with the proposed disclosures about the liability to pay pension benefits?**

(a) As mentioned in our response 1 (a) above, ACCA supports the retention of a “publicly accountable” category, with possible exemptions, such as for entities with total assets below a certain size.

In this scenario, retirement benefit plans would be required to apply EU-adopted IFRS. Plans which are exempt from the “publicly accountable” category would then be subject to the proposed FRS 102. The disclosures in FRS 102 would need to be appropriate to such plans.

Notwithstanding our overall view above, ACCA's Pensions Panel has been asked for its views on the provisions for retirement benefit schemes as they currently stand in the proposed FRS 102. Comments will be forwarded to the ASB as soon as they are received.

- (b) We note that the proposed requirement to disclose the liability for promised retirement benefits is consistent with a requirement in IAS 26 'Accounting and Reporting by Retirement Benefit Plans'. For the sake of clarity, it would be helpful if the proposed Standard would, as IAS 26 does, confirm that the disclosure does not require actuarial valuations to be performed more frequently than is legally necessary.

We also draw attention to a minor drafting point in the proposed Standard. As para. 34.31 deals with both defined contribution and defined benefit plans, the heading 'Defined contribution plans' should follow this paragraph, rather than precede it.

Question 7

Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

ACCA mainly supports the related party disclosure requirements in section 33 of the proposed FRS 102. Except as set out in the following paragraph, we also believe that the ASB' s proposals are consistent with foreseeable changes in company law (as set out in the EU' s draft Directive on financial statements).

ACCA supports some basic disclosure of intragroup transactions in the financial statements of a wholly-owned subsidiary. We note that the exemption in the proposed Standard may need to be amended in the future in any event, as a consequence of changes in company law.

The ASB is proposing additional disclosure requirements to those in current company law, including those which are existing requirements (such as the identity of the Ultimate Controlling Party) and those which are new (such as the compensation of key management personnel). ACCA does not view these requirements as unduly burdensome for the preparers of financial statements, and regards them as being relevant to the users of those financial statements. We do however, believe that a total for all compensation of key management provides insufficient information, and would prefer some further analysis to be given, similar to the requirements in IAS 24 Related Party Disclosures.

The FRSSE still requires the names of related parties to be disclosed where, for example, there have been transactions with them. There is no specific requirement to provide names in either the proposed FRS 102 or EU- adopted IFRS. ACCA believes that the FRSSE should be amended to be consistent with these other accounting frameworks, but notes that no proposal to do this is set out in FRED 46.

QUESTION 8

Do you agree with the effective date? If not, what alternative date would you prefer and why?

ACCA believes that the effective date is practical for most entities (but not all entities, as explained in the next paragraph). Once the proposed Standards are finalised in late 2012, the effective date will encourage entities to become familiar with them at an early stage, but will still leave time for the establishment of comparative figures, and for discussions with their auditors and advisors.

With respect to Public Benefit Entities (PBEs):

- i. We anticipate that there may be inadequate time for SORPs to be exposed and finalised, in time to perform all of the above

preparatory work during the comparative period before the proposed FRS 102 comes into effect in 2015.

- ii. We also note that a PBE, though not other entities subject to a SORP, will only be able to adopt FRS 102 early once the SORP applicable to it has been amended. We agree that the revised public benefit SORP and FRS 102 should be applied at the same time by a PBE, and so it would be beneficial for the gap between the issue of FRS 102 and of the revised SORPs to be as short as is practicable.
- iii. Consequently, we would encourage the ASB and SORP Committees to work together with the aim of reissuing the SORPs as soon as is possible, whilst following due process.

Furthermore, ACCA's view is that it would avoid confusion amongst the users of financial statements if FRS 101 and 102 are subject to the same provisions for early implementation.

Finally, whilst we would prefer the publication of FRS 102 not to be delayed unduly, we are aware that the ASB will need to consider the changes being proposed in the EU's Accounting Directive.

QUESTION 9

Do you support the alternative view, or any individual aspect of it?



ACCA supports the removal of unnecessary disclosure from financial statements, but generally does not agree with the alternative view expressed of the proposed Standards. Our principal reasons for our position in this respect are as follows (in a number of respects, we are amplifying our responses to Question 1):

- (a) ACCA supports a Standard based as far as possible on the IFRS for SMEs. This would not be feasible if the principal aim in drafting the proposed FRS 102 is to reduce disclosures to a minimum.
- (b) Certain smaller entities within the scope of the proposed Standard may have a particular focus on cash or going concern, but this will not be the case for many entities within the scope of the proposed Standard.
- (c) The smaller types of entity described in the alternative view can then be accommodated by the inclusion of disclosure reductions in the proposed FRS 102. For practical reasons, these reductions would also reflect the finalised EU Accounting Directive.

As noted in our response 1 (d) above, ACCA does not support the continuation of a separate FRSSE, as a means of setting out the simplified disclosure framework for smaller entities.

If there are any matters arising from the above on which you would like further clarification, please let me know.

Yours sincerely

A handwritten signature in black ink that reads 'P Cooper'.

Paul Cooper
corporate reporting manager

Paul.Cooper@accaglobal.com