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Dear Jennifer

RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS IRELAND

FREDs 46-48 THE FUTURE OF FINANCIAL REPORTING IN THE UK AND REPUBLIC OF IRELAND

The Accounting Committee (AC) of Chartered Accountants Ireland (CAI) welcomes the opportunity to respond to the ASB's proposals for "The Future of Financial Reporting in the UK and Republic of Ireland".

AC has identified below a number of areas, that were not explicitly addressed in the ASB's questions, but that AC believes are important to the overall proposals.

EU Proposals and Engagement with BIS and DJEI

AC agrees with the comment in the Part One: Explanation document that the outcome of the European Commission work on amending the Accounting Directives may result in the ASB amending the current proposals.

AC believes that the current European Commission proposals may have an impact on the following;

- the future of the Financial Reporting Standard for Smaller Entities (FRSSE),
- the size thresholds for determining small companies, with a consequent impact on the population of entities that would be entitled to use the draft FRS 102,
- disclosure exemptions in relation to related party transactions between wholly-owned members of a group, and
- the formats of primary statements.

For that reason AC urges the ASB to maintain close contact with the Department for Business, Innovation and Skills in the United Kingdom (UK) and the Department of Jobs, Enterprise and Innovation in the Republic of Ireland (ROI) in relation to both the content of the EU proposals for revising the Accounting Directives and status of these proposals.

AC also believes that the ASB should consider consulting as early as possible after any final Accounting Directives are published by the European Commission about the impact of the revised Accounting Directives on FRSs 100 to 102.

Income Taxes

AC acknowledges the ASB's conclusions that the 'timing difference plus' approach that is proposed in draft FRS 102 would;

> *"(a) provide useful information to users of financial statements;*
>
> *(b) be consistent with its objective of convergence to an IFRS-based framework; and*
>
> *(c) provide the simple solution preparers were looking for, which was close to current FRS and would give the same answers as IFRS in most cases."*

AC would prefer, however, the requirements in FRS 102 on accounting for income tax to be based on IAS 12 *Income Taxes*. AC believes that incorporating IAS 12 into FRS 102 would;

- achieve greater consistency with IFRS (and US GAAP); and
- obviate the need for the ASB to develop any additional guidance in relation to the proposed new model.

However, should the ASB decide to adopt the 'timing difference plus' model in FRS 102, AC believes that, as this is a new model of accounting for current and deferred tax in the UK and ROI, the ASB needs to provide some implementation guidance and illustrative examples supporting the guidance in section 29 of FRS 102.

Furthermore, AC questions how certain of the disclosures will work in practice and believes any implementation guidance should address the disclosure requirements, such as the requirement in;

- paragraph 29.27(b) to disclose *"an explanation of the significant differences in amounts presented in the statement of comprehensive income and amounts reported to the tax authorities"* given that reporting to the tax authorities for the financial year in question may not have taken place by the time the financial statements are approved.

- paragraph 29.27(c) to disclose *"a statement, for at least the next three years, of expected significant differences between the current tax charge and the standard rate of tax applied to reported profit or loss for the period and a brief explanation of the reasons for those differences"*.

AC also questions why there is no requirement to disclose a total for deductible timing differences, unused tax losses, and unused tax credits for which no deferred tax asset is recognised in the statement of financial position. AC believes that the level of unused tax losses and unused tax credits is useful and relevant information for users of accounts.

Principle of Realisation

AC notes that realised profits for the purpose of the Companies Act in the UK (section 853(4) of the Companies Act 1986) and ROI (section 72 of the schedule to the Companies Act 1986) are based on profits determined in accordance with generally accepted accounting principles. Therefore, AC believes that a principle of realisation, similar to that currently included in paragraph 28 of FRS 18, should be included in FRS 102.

Qualifying Entity and Reduced Disclosure Framework

AC has a number of comments in relation to the definition of 'qualifying entity' and the reduced disclosure framework and has included these in a separate Appendix (Appendix Two).

Charities SORP

AC notes the proposed definitions of Restrictions and Performance Conditions in the glossary of draft FRS 102. As set out in an article in the April 2012 edition of *Accountancy* magazine, by a member of the Charity SORP Committee, this may well change fundamentally the timing of income recognition for many charities. AC considers it is regrettable that this matter could not have been agreed between ASB and the SORP-making body, rather than having such a public disagreement between parties involved in providing guidance on accounting for the charity sector.

For this reason, AC is supportive of proactive liaison between the Charities Commission and the ASB in resolving any differences that might exist as part of the process of finalising the PBE aspects of FRS 102 and the accompanying Charities SORP.

IFRS 9, IFRS 10, IFRS 11, and IFRS 12

IFRS 9

AC agrees with the ASB that the current proposals will need to be updated in the future to incorporate the requirements and guidance of IFRS 9 when IFRS 9 is finalised by the IASB. However, AC urges the ASB to make every effort not to delay the effective date of the current project to accommodate IFRS 9.

IFRS 10, IFRS 11 and IFRS 12

AC believes that the relevant sections of FRS 102 will need to be updated in the future to reflect the requirements and guidance of IFRS 10, IFRS 11 and IFRS 12. In the meantime, AC asks the ASB to consider whether the definition of control in IFRS 10 should be incorporated into FRS 102 for the purpose of the current proposals in order to achieve a consistent definition of control between IFRS and FRS 102.

Language

AC notes that the following expressions have been used interchangeably throughout draft FRS 100, FRS 101 and FRS 102;

- statement of financial position and balance sheet;
- income statement and profit and loss account; and
- consolidated financial statements and group accounts.

AC suggests that the ASB reviews the proposed accounting standards to ensure that an appropriate expression for each of the above is used consistently throughout the final FRS 100, FRS 101 and FRS 102.

Changes to Company Law

Previous consultations identified areas of existing Company Law that will need to be amended to accommodate the ASB's proposals; such as expansion of the definition of 'relevant change in circumstances' in Company Law to include implementation of the ASB's proposals.

AC suggests that the ASB actively engages with the Department for Business, Innovation and Skills in the UK and the Department of Jobs, Enterprise and Innovation in ROI in relation to any necessary amendments to Company Law in both jurisdictions.

Wording

In Appendix Three, AC has included a number of wording issues identified in draft FRS 100, FRS 101 and FRS 102 which AC believes that the ASB should consider as part of its process of finalising the standards.

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Should you wish to discuss any of the views expressed, please feel free to contact me.

Yours sincerely

Mark Kenny
Secretary to the Accounting Committee

APPENDIX ONE

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?

AC considers that the proposals in FRED 46 to FRED 48 achieve the ASB's project objective.

AC believes the proposals in FRED 46 to FRED 48 represent an improvement in UK and Irish GAAP, for the following reasons;

- the FREDs put forward an accounting model for financial instruments that requires derivatives to be recognised on balance sheet by all but the smallest of entities.
- the FREDs introduce a reduced disclosure framework, which should act as an incentive to UK and Irish GAAP reporters to increase the level of use of an IFRS-based framework in the UK and ROI.

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?

AC has a strong preference for the approach proposed in FRED 47 whereby *"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"*.

As the ASB has identified financial institutions as entities that generate wealth from financial instruments, AC believes that to achieve the ASB's objective of providing the users of a financial institution's accounts with high-quality, understandable financial reporting, financial institutions should not be exempt from any of the disclosure requirements of IFRS 7 or IFRS 13.

One of the ASB's principles in developing the Reduced Disclosure Framework is 'Relevance' and whether a disclosure requirement provides information that is capable of making a difference to the decisions made by the users of financial statements. AC also notes that the importance of disclosures about a financial institution's exposure to risk was highlighted in a recent press release from the Financial Stability Board which states; *"Investors and analysts stressed that disclosure that enhances the transparency of risks and risk management practices helps to build confidence in the firm's management …"*

To that end, the objective of IFRS 7 is also focused on users of financial statements and IFRS 7, paragraph 1, states that the objective of the standard is to;

> *"require entities to provide disclosures in their financial statements that **enable users** (emphasis added) to evaluate:*
>
> *a) the significance of financial instruments for the entity's financial position and performance; and*
>
> *b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks".*

Furthermore, the International Accounting Standards Board (IASB) has also stated that one of its reasons for issuing IFRS 7 *'Financial Instruments: Disclosures'* was that it;

> "*believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Such information can influence a user's assessment of the financial position and financial performance of an entity or of the amount, timing and uncertainty of its future cash flows. Greater transparency regarding those risks allows users to make more informed judgements about risk and return"*.

In relation to IFRS 13 *Fair Value Measurement,* AC notes that one of the reasons for issuing the IFRS is to improve the comparability of disclosures about fair value measurements reported in financial statements. Similar to IFRS 7, the objective of the disclosure requirements in IFRS 13 is focused on users of financial statements and, to that end, AC notes that BC 185 of IFRS 13 states;

> *"The objective of the disclosures in IFRS 13 is to provide users of financial statements with information about the valuation techniques and inputs used to develop fair value measurements and how fair value measurements using significant unobservable inputs affected profit or loss or other comprehensive income for the period."*

AC believes that the reasons identified by the IASB in issuing IFRS 7, the objective of IFRS 7, and the objective of the disclosure requirements of IFRS 13 are persuasive in supporting the need for financial institutions to comply with IFRS 7 and IFRS 13 as a whole, to ensure that adequate disclosures about the significance of financial instruments, and the risks arising from financial instruments, are included in the financial institution's financial statements.

AC considers that some qualifying entities that are financial institutions may contend that it is too onerous to mandate all the disclosure requirements of IFRS 7 and IFRS 13. However, AC notes that not all the disclosure requirements of IFRS 7 and IFRS 13 will be relevant to all financial institutions and identifying disclosure requirements that are not applicable to it should not be an onerous exercise for a qualifying entity that is a financial institution.

As stated earlier, AC has a strong preference for qualifying entities that are financial institutions to comply with the disclosure requirements of IFRS 7 and IFRS 13. AC has also reviewed the specific disclosures identified for the second alternative in Question 2 and is unclear as to the rationale behind the ASB's choice of paragraphs identified for disclosure exemptions. While AC acknowledges that a number of the disclosures relate to situations that are likely to be rare in practice, AC does not believe that a specific exemption is necessary for such disclosures.

Furthermore, AC has identified the following disclosures which it believes would provide relevant and useful information to the users of the financial statements of a financial institution, and which it suggests should not be excluded from a financial institution's financial statements.

1. ***IFRS 7, paragraph 13 – Derecognition***

   "An entity may have transferred financial assets in such a way that part or all of the financial assets do not qualify for derecognition (see paragraphs 15–37 of IAS 39). The entity shall disclose for each class of such financial assets:

   a) *the nature of the assets;*

   b) *the nature of the risks and rewards of ownership to which the entity remains exposed;*

   c) *when the entity continues to recognise all of the assets, the carrying amounts of the assets and of the associated liabilities; and*

   d) *when the entity continues to recognise the assets to the extent of its continuing involvement, the total carrying amount of the original assets, the amount of the assets that the entity continues to recognise, and the carrying amount of the associated liabilities."*

Where financial institutions engage in securitisations or collateralisations, AC believes that the above disclosures would be relevant to the users of the financial statements.

2. ***IFRS 7, paragraph 14-15 – Collateral***

   "14. An entity shall disclose:

   a) *the carrying amount of financial assets it has pledged as collateral for liabilities or contingent liabilities, including amounts that have been reclassified in accordance with paragraph 37(a) of IAS 39; and*

   b) *the terms and conditions relating to its pledge.*

   15. When an entity holds collateral (of financial or non-financial assets) and is permitted to sell or repledge the collateral in the absence of default by the owner of the collateral, it shall disclose:

   a) *the fair value of the collateral held;*

   b) *the fair value of any such collateral sold or repledged, and whether the entity has an obligation to return it; and*

   c) *the terms and conditions associated with its use of the collateral."*

As the definition of a financial institution includes a bank or building society, AC believes that the disclosures required by IFRS 7 in relation to collateral held would be relevant to the users of the bank or building society's financial statements.

3. IFRS 7, paragraph 18-19 - Defaults and breaches

"18. For loans payable recognised at the end of the reporting period:

a) *details of any defaults during the period of principal, interest, sinking fund, or redemption terms of those loans payable;*

b) *the carrying amount of the loans payable in default at the end of the reporting period; and*

c) *whether the default was remedied, or the terms of the loans payable were renegotiated, before the financial statements were authorised for issue.*

19. If, during the period, there were breaches of loan agreement terms other than those described in paragraph 18, an entity shall disclose the same information as required by paragraph 18 if those breaches permitted the lender to demand accelerated repayment (unless the breaches were remedied, or the terms of the loan were renegotiated, on or before the end of the reporting period)."

AC believes that information about any defaults or breaches of loan agreements is relevant to understanding an entity's financial statements.

Likewise, having regard to the principle of relevance in developing a reduced disclosure framework, AC was unclear as to why a qualifying entity that is a financial institution that has elected to use to the Reduced Disclosure Framework would not be required to comply with;

- IFRS 7, paragraph 1 containing the objective of the standard;

- IFRS 7, paragraph 21 in relation to accounting policies;

- IFRS 7, paragraph 34(a) in relation to summary quantitative data about risk exposure; and

- IFRS 7, paragraph 42 in relation to a situation where the sensitivity disclosures are unrepresentative of the risk inherent in a financial instrument.

Separately, a number of entities that meet the definition of a financial institution are currently complying with either FRS 13 or FRS 29 in their financial statements and moving to a reduced level of IFRS 7 disclosure would be a backward step in terms of the transparency of reporting of financial instruments.

Notwithstanding AC's support for the proposal in FRED 47 that *"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"*, AC wishes to highlight to the ASB that this requirement creates an inconsistency in the level of disclosure required by financial institutions and non-financial institutions in relation to non-financial assets that are measured at fair value. AC suggests that the ASB should clarify whether it has considered this inconsistency and what conclusions it has reached.

Overall, AC believes that, for the reasons set out above, a qualifying entity that is a financial institution that elects to use the IFRS Reduced Disclosure Framework as its basis of preparation for its financial statements should be required to comply with all of the disclosure requirements of IFRS 7 and IFRS 13.

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.

AC agrees with the principle of cross-referencing to EU-adopted IFRS in the areas of;

- earnings per share;
- interim financial reporting;
- operating segments; and
- accounting for insurance contracts.

However, AC has identified some points of detail in relation to the areas of cross-reference.

Paragraph 3.25 – Presentation of information not required by this [draft] FRS

Paragraph 3.25 of draft FRS 102 states;

> "*This [draft] FRS does not address presentation of segment information, earnings per share, or interim financial reports. As set out in paragraphs 1.3 to 1.5, an entity applying this [draft] FRS and making such disclosures shall apply the relevant EU-adopted IFRS.*"

Firstly, the ASB has publicly stated that it aims to update the FRS every three years, in line with the IASB's timetable for updating the IFRS for SMEs. However, as a result of the IASB's annual improvement process and the IASB's work plan, IFRS 8, IAS 33 and IAS 34 may be updated more frequently than every three years. Therefore, for the avoidance of doubt, AC believes that it would be important for the ASB to specify that entities should cross-refer to the 'currently effective version' of IFRS 8, IAS 33 or IAS 34 (i.e. the version of IFRS 8, IAS 33 of IAS 34 that is effective when the financial statements or interim report is being prepared).

Secondly, AC believes that the ASB should consider the heading of paragraph 3.25, *"Presentation of information **not required by** this [draft] FRS"*. AC believes that paragraph 3.25 is intended to refer only to areas of cross reference to full IFRS based on paragraph 1.3 to 1.5 of draft FRS 102. However, AC believes that the title suggests that paragraph 3.25 might address presentation of any information that is not required by draft FRS 102 and that *"Presentation of information **not dealt with** in this [draft] FRS"* might be a more appropriate title.

Interim Financial Reporting

Paragraph 1.4 of FRED 48 states;

> *"An entity whose ordinary shares or potential ordinary shares are publicly traded, or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market, or an entity that chooses to prepare an interim financial report described as complying with IAS 34 Interim Financial Reporting, shall apply that standard (as adopted in the EU)."*

AC struggled to understand this paragraph. AC believes that the ASB should consider the wording of paragraph 1.4 and whether it captures all entities the ASB intended it to capture.

Firstly, AC notes that certain debt-listed entities which are required by the EU Transparency Directive to prepare a half-year report that gives a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer will be in scope of the [draft] FRS 102. Therefore, AC suggests that paragraph 1.4 of draft FRS 102 should be consistent with paragraph 1.5 of draft FRS 102 and should refer to "An entity whose debt or equity instruments are publicly traded, ...".

Secondly, there were mixed views among AC members in relation to preparation of an interim financial report by entities whose debt or equity instruments are not publicly traded and whether any entity that uses FRS 102 which presents financial information other than its annual financial statements should be required to comply with IAS 34. AC members were unclear as to whether the language used in paragraph 1.4 should be consistent with the language used in paragraph 1.3 and paragraph 1.5 and whether the words "described as complying with IAS 34" are necessary and whether paragraph 1.4 should read;

> *"An entity whose debt or equity instruments are publicly traded, or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market, or an entity that chooses to prepare an interim financial report described as complying with IAS 34 Interim Financial Reporting, shall apply IAS 34 Interim Financial Reporting that standard (as adopted in the EU)."*

In other words, is compliance with IAS 34 only to be required for voluntarily prepared interim financial reports that are described as complying with IAS 34, or would all interim financial reports have to comply?

Separately, AC raises the issue of whether inconsistencies might arise as a result of the proposed scoping and cross reference to IAS 34. For example, AC notes that the wording as proposed would see an AIM company that uses FRS 102 as its basis of preparation using IAS 34 to prepare its interim report. However, AC understands that an AIM group that prepares IFRS accounts (to comply with AIM rules) is not explicitly required to comply with IAS 34 in preparing its interim report.

Paragraph 1.7 of draft FRS 102

This paragraph states;

> *"References in IAS 33, IAS 34 and IFRS 8 are amended to refer to the relevant paragraph in this [draft] FRS."*

For clarity AC suggests that this should be "References in IAS 33, IAS 34 and IFRS 8 **to IFRSs** are amended to refer to the relevant paragraph **(or section)** in this [draft] FRS."

For example, IAS 34, paragraph 16(i) requires disclosure of the information required by IFRS 3 *Business Combinations* where an entity has completed a business combination in the interim period. As IAS 34, paragraph 16(i), does not refer to specific paragraphs of IFRS 3 AC suggests that paragraph 1.7 should refer to 'sections' of the [draft] FRS.

Listed but not traded on a regulated market

AC notes that in paragraph 3.18 of the Explanation to the Revised FREDs states;

> *"In developing the requirements proposed in FRED 48, two categories of entity were identified as being eligible to apply the draft FRS that, under the previous proposals, would have been considered publicly accountable. The two categories are 'listed but not traded on a regulated market' and 'financial institutions'."*

AC is not convinced that all entities which are 'listed but not traded on a regulated market' would be included in the proposed scope for areas of cross-reference to EU-adopted IFRS, as paragraphs 1.3, 1.4 and 1.5 all refer to instruments that are 'publicly traded'. AC notes that a number of Irish funds are listed on a public market but their particular listing do not allow any trading in their shares and that their shares are therefore 'listed' but not 'publicly traded' and, therefore, would not be captured by the wording in paragraphs 1.3, 1.4 and 1.5 which refer to debt or equity that are 'publicly traded'.

SSAP 25

AC notes that one of the consequences of the current proposals is that a number of large entities that currently provide segmental disclosures in compliance with SSAP 25 will no longer be explicitly required to disclosure segmental information. Given the importance of segment reporting to users, AC would like to clarify whether the ASB has considered this consequence of the current proposals.

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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.

AC suggests that the ASB should consider adopting an overriding principle based definition of a 'financial institution' (for example based on the principle that financial institutions are entities which generate wealth from financial instruments) which, for the avoidance of doubt, is accompanied by the currently proposed list-based/legalistic definition of a 'financial institution', which could be described as non-exhaustive.

Separately, as the ASB has adopted a list-based/legalistic approach to defining a financial institution, rather than a more generic definition based on the principle that a financial institution is an entity that generates wealth from financial instruments, AC believes that draft FRS 100 should include a definition of a financial institution for use in the UK and a definition (or equivalent legal references) of a financial institution for use in ROI, due to differences in legislation between the two jurisdictions.

To that end, AC suggests that the ASB liaises with the relevant legislative authorities in the ROI with a view to identifying equivalent legal references or identifying an appropriate definition of a financial institution for use in ROI.

AC does, however, have two other points of detail in relation to the definition of a financial institution.

Listed Entities

The Irish Stock Exchange has a significant number of debt-listed entities and is frequently used for listing special purpose vehicles (**SPV**s) that are used for structured finance transactions, including securitisation and asset repackaging transactions. Common examples of securitisations used include securitisation of receivables, mortgages and non-performing loans. As a large number of these entities are not required to prepare EU-IFRS accounts by the IAS Regulation, they would be entitled to prepare their accounts in accordance with FRS 102.

The business model of these entities means that they generally hold or manage significant financial assets with a view to generating a return for the debt-holders. AC suggests, therefore, that such entities are holding or managing financial instruments to generate wealth. However, AC considers that these entities may not be captured by the current definition of 'financial institution' and suggests that the ASB consider including such debt-listed entities in the definition of a financial institution.

Insurance Entities

AC considers that the definition of a financial institution included in draft FRS 100 may not include all regulated insurance entities. Section (c) of the definition is designed to scope insurance entities into the definition of financial institution.

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> *“(c) an entity that undertakes the business of effecting or carrying out insurance contracts, including general and life assurance entities...”*

According to IFRS 4 an **insurance contract** is;

> *“A contract under which one party (the insurer) accepts a significant **insurance risk** from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder”*

AC notes that in ROI many companies that are regulated insurance companies write contracts which under IFRS 4 do not meet the definition of an insurance contract, as they do not contain significant insurance risk e.g. a regulated life assurance company that writes investment type business where the insurance business is limited to 1% of the value of the invested assets. Based on the current definition of financial institution, it would appear that an insurance company which writes this type of business may fall outside of the definition of a financial institution, as in accordance with the IFRS 4 definition, they do not effect or carry out insurance contracts.

AC notes that, when FRS 26 was being scoped, companies that were regulated insurance companies under UK Companies Act Schedule 9A or the Irish equivalent i.e. European Communities (Insurance Undertakings: Accounts) Regulations, 1996 were scoped into that standard. We request that the ASB consider amending the definition of financial institution to include all regulated insurance entities, e.g. an entity that undertakes the business of effecting or carrying out insurance contracts or an entity that is regulated under European Communities (Non-Life Insurance) Regulations, 1976, the European Communities (Life Assurance) Regulations, 1984 or the European Communities (Reinsurance) Regulations, 2006 and prepares accounts in accordance with the European Communities (Insurance Undertakings: Accounts) Regulations, 1996. The ASB may wish to engage with the appropriate Irish regulatory authorities on the issue, perhaps through the Department of Jobs, Enterprise and Innovation (DJEI).

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?

AC does not believe that the proposals for agriculture activities are considered unduly arduous for the following reasons.

Firstly, AC believes that the fact that the proposals are consistent with EU-IFRS is important. AC understands that certain commentators may believe that the requirement to measure biological assets at fair value is unduly arduous; however AC supports measurement of such assets using a fair value model.

AC found paragraphs B14 and B15 of the Basis for Conclusions of IAS 41 persuasive in relation to the reasons why the IASB adopted a fair value model for biological assets and that these reasons support the inclusion of a fair value measurement requirement in FRS 102;

> *"Those who support fair value measurement argue that the effects of changes brought about by biological transformation are best reflected by reference to the fair value changes in biological assets. They believe that fair value changes in biological assets have a direct relationship to changes in expectations of future economic benefits to the entity."*
>
> *"Those who support fair value measurement also note that the transactions entered into to effect biological transformation often have only a weak relationship with the biological transformation itself and, thus, a more distant relationship to expected future economic benefits. For example, patterns of growth in a plantation forest directly affect expectations of future economic benefits but differ markedly, in timing, from patterns of cost incurrence. No income might be reported until first harvest and sale (perhaps 30 years) in a plantation forestry entity using a transaction-based, historical cost accounting model. On the other hand, income is measured and reported throughout the period until initial harvest if an accounting model is used that recognises and measures biological growth using current fair values."*

Secondly, AC believes that it is important to remember that [draft] FRS 102 allows that the fair value measurement model is not used where fair value cannot be measured reliably without undue cost or effort. AC therefore believes that an entity which has biological assets and believes that measurement of those biological assets at fair value is unduly arduous would be entitled to consider whether the entity is entitled to measure those biological assets at cost.

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

A majority of AC members believes that the proposals for service concession arrangements are sufficient to meet the needs of preparers and users, and that an appropriate level of guidance from IFRIC 12 *Service Concession Arrangements* has been included in the *IFRS for SMEs* and FRS 102 to meet the needs of preparers and users. Those members holding this view feel that, even though not explicitly required by FRS 102, preparers and users would be able to use additional guidance in IFRIC 12 if necessary.

A minority of AC members believes that the proposals pick up only the "bare bones" of IFRIC 12, and while in favour of a short, simple standard, does not want simplicity to render the accounting standard inoperable. IFRIC 12 includes much more guidance including some illustrative examples.

If the IFRIC 12 approach is to be followed, then further guidance should be added to section 34, in particular:

- expand the material on deciding what is within the scope of service concession arrangement accounting. Including the flow chart and table currently appended to IFRIC 12 as Information notes would be helpful;
- align the guidance on revenue (draft FRS 102 34.16) with paragraphs 12 and 13 of IFRIC 12 so that a preparer can apply Section 23 Revenue to this situation;
- include guidance on how to initially recognise the receivable when there are both financial asset and intangible asset elements to a single service concession contract; and
- provide guidance on how to account for borrowing costs incurred by the operator.

Additional guidance should also be provided on the transition process.

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?

On balance, AC believes that the proposals provide sufficient guidance for financial statements of retirement benefit plans, on the basis that more detailed guidance will be included in the SORP on Retirement Benefit Plans.

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

On balance, AC believes that the liability to pay pension benefits should be included in the statement of financial position of a retirement benefit plan. AC believes that the liability to pay pension benefits is extremely relevant and an important factor in the any decision-making by users of a retirement benefit plan's financial statements.

However, even though AC would prefer that the liability to pay pension benefits is included in the statement of financial position of a retirement benefit plan, AC accepts that disclosure of the liability is a practical expedient within the current process of revising the entire UK and Irish GAAP accounting framework.

Therefore, AC believes that the ASB should consider in its agenda of future projects a separate more comprehensive and fundamental review in relation to the financial statements of retirement benefit plans and, in particular, whether the liability to pay pension benefits should be included in the statement of financial position. AC considers that this review should take place after finalisation of its current priorities, namely the future of UK and Irish GAAP and the revising of SORPs for consistency with FRS 102.

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?

AC accepts the related party disclosure requirements in section 33 of draft FRS 102 on the basis that they meet the ASB's objective of not gold-plating in areas of financial reporting that are dealt with in Company Law. AC also believes that, if the exemption from disclosing related party transactions between wholly-owned subsidiaries is removed from the EU Accounting Directives, the equivalent exemption should also be removed from the current proposals.

AC agrees with the previous feedback received by the ASB, that disclosures about related party transactions provides important information when considering the provision of finance to an entity, and that users need to understand related party transactions, including those not at market value.

Question 8

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

Overall, AC agrees with the proposed effective date.

However, AC has three separate observations in relation to the effective date.

Periods beginning on or after

Paragraph 14 of draft FRS 100 states;

> "An entity shall apply this [draft] FRS, and [draft] FRS 101 or [draft] FRS 102 where applicable in accordance with paragraph 7, for accounting periods beginning on or after [1 January 2015]. Early application is permitted for accounting periods beginning on or after the date of issue of those standards, …".

AC believes that early application of the FRSs should not be restricted to accounting periods beginning on or after the date of issue of the standards. For example, were the new FRSs to be issued in January 2013, the effective date would mean that an entity with a 31 December year-end would not be entitled to apply the FRSs in its financial statements for the year ended 31 December 2013 and would have to wait to apply the FRSs until its financial statements for the year ended 31 December 2014. AC believes that all entities should be entitled to early apply the FRSs in financial statements for accounting periods ending on or after the date of issue of the FRSs.

IFRS Reduced Disclosure Framework

Paragraph 10 of draft FRS 101 states;

> "An entity may apply this [draft] FRS for accounting periods beginning on or after [1 January 2015]. Early application is permitted for accounting periods beginning on or after the date of issue of this standard, …"

As noted earlier, AC agrees that early application of FRS 101 should be permitted. AC would ask the ASB to consider whether the IFRS Reduced Disclosure Framework in draft FRS 101 should be seen as a separate project and issued as a stand-alone accounting standard sooner rather than later.

SORPS

Paragraph 1.14 of the draft FRS 102;

> "An entity shall apply this [draft] FRS for accounting periods beginning on or after [1 January 2015]. Early application is permitted for accounting periods beginning

> on or after the date of issue of this standard, subject to the additional requirement for a public benefit entity that it must also apply a public benefit entity SORP which has been developed in accordance with this [draft] FRS, [draft] FRS 100 and [draft] FRS 101."

As compliance with the effective date of 1 January 2015 by a number of entities is dependent on the SORPs being available for this date, following development of the related SORPs through an appropriate due process, we believe that there is an onus on the ASB and the SORP-making bodies to ensure that the SORPs are available well before the effective date of 1 January 2015.

QUESTION 9

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

AC does not support the alternative view.

AC does, however, agree with the comment in paragraph 1.1(a) of the alternative view which states that;

> *"Users' information needs for the entities that will be subject to FRED 48 primarily revolve around whether an entity has sufficient funding to remain a going concern and execute its business plan".*

It is for this reason that AC believes that, as explained in Appendix Two, the IFRS and FRS 102 *Reduced Disclosure Frameworks* should not provide an exemption to entities from disclosing;

- a cash flow statement which provides useful information about an entity's liquidity and quality of earnings;
- information about the terms and conditions of an entity borrowing arrangements; and
- information about defaults or breaches of covenants on borrowings during the period.

APPENDIX TWO

AC has a number of comments in relation to both the definition of 'qualifying entity' and the reduced disclosure frameworks proposed in FRS 101 and FRS 102.

Definition of 'qualifying entity'

The FREDs define a 'qualifying entity' as a;

> *"member of a group that prepares publicly available financial statements, which are intended to give a true and fair view, in which that member is consolidated".*

AC notes that the proposed definition does not include any restrictions in relation to the accounting framework used by the group that prepares the publicly available financial statements. AC believes that, not only should the disclosures included in consolidated financial statements be equivalent to those required by the relevant IFRS (for entities applying FRS 101) or FRS 102, the consolidated financial statements in their entirety should also have been prepared in a manner equivalent to IFRS or FRS 102.

Disclosure of exemptions adopted

AC notes that paragraph 8(c)(i) of FRS 101 requires disclosure by a qualifying entity in the notes to its financial statements of *"the relevant standard and paragraph references of the exemption adopted"*.

However, in line with the ASB's principle of the IFRS Reduced Disclosure Framework providing relevant information to users of financial statements, AC believes that a brief explanation of the disclosures from which exemption has been taken should be provided in the qualifying entity's financial statements, as such a brief explanation would be more meaningful for users of the entity's financial statements than a list of disclosure paragraph numbers.

Which parent?

The definition of 'qualifying entity' refers to a *"member of a group that prepares publicly available financial statements …"*. Paragraph 7(c)(ii) of FRS 102 refers to *"the name of the parent in whose consolidated financial statements its financial statements are consolidated …"*. Paragraph 8 of FRS 102 refers to consolidated financial statements in a number of instances. AC was unclear whether the parent referred to and the consolidated financial statements referred to are the same in each case.

For example, paragraph 8(a) of FRS 101 refers to *"equity instruments of an entity other than the parent"*. Does this reference to parent mean the same parent as was disclosed to comply with paragraph 7(c)(ii) of FRS 102? Likewise, paragraph 8(a) of FRS 101 refers to *"consolidated financial statements of the group"*. Does this reference to consolidated financial statements of the group mean the consolidated financial statements that were referred to in the disclosure required by paragraph 7(c)(ii) of FRS 102?

AC suggests that the ASB reviews the language and wording of FRS 101 to ensure that the expression parent and consolidated financial statements are used consistently to refer to the same parent and same set of consolidated financial statements throughout draft FRS 101.

The same comments apply to the reduced disclosure framework in FRS 102.

Cash flow statement and borrowing disclosures

As noted in our response to Question 9, AC believes that *"users' information needs for the entities that will be subject to FRED 48 revolve around whether an entity has sufficient funding to remain a going concern and execute its business plan"*. AC is unclear as to rationale for providing 'qualifying entities' with an exemption from presenting a cash flow statement and given the importance of financial statements providing information about an entity's 'quality of earnings' AC therefore believes that the IFRS reduced disclosure framework and the FRS 102 reduced disclosure framework should not exempt any entity from;

- presenting a cash flow statement; or
- disclosure of information required by Section 11.42 and 11.47 of FRS 102 in relation to terms and conditions of debt instruments and any defaults and breaches on loans payable during the period.

Furthermore, such information is very useful information to a wide variety of users of financial statements such as management, current and potential investors, lenders and regulators.

FRS 101 – Title

AC believes that the title of FRS 101 should be 'Reduced **IFRS** Disclosure Framework' or '**IFRS** Reduced Disclosure Framework'.

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APPENDIX THREE

Page Reference	Comment
Page 43	AC believes that the proposed amendment to paragraph 34 of IFRS 3 *Business Combinations* should be amended as follows; *"immediately below the intangible assets heading **or goodwill heading** as a negative assets, …… the net amount of the intangible assets**, the goodwill** and the negative asset ……"* as goodwill is not an intangible asset under IFRS.
Page 71	AC believes that paragraph 2.46 should be amended as follows; "At initial recognition, an entity shall measure assets and liabilities at ~~historical~~ cost unless this …" as **historical** cost is not relevant to initial recognition.
Page 75	Paragraph 3.9 of FRS 102 states that; *"When management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern, the entity shall disclose those uncertainties".* AC questions whether, in the current economic environment, such a disclosure is sufficient, and whether disclosure should be required not only of the uncertainties the cash doubt upon the entity's ability to continue as a going concern, but also give an indication of the reasons why it remains appropriate to adopt the going concern basis of accounting.
Page 98	Paragraph 9.18A(b) refers to "*the carrying amount as of the date of disposal, excluding the cumulative amount of any exchange differences that relate to a foreign subsidiary recognised in equity in accordance with Section 30 Foreign Currency Translation*". AC suggests that paragraph 9.18A(b) should specify what 'carrying amount' at the date of disposal.

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Page Reference	Comment
Page 131	AC notes that paragraph 13.20A states; *"When inventories held for distribution are distributed, the carrying amount of those inventories shall be recognised as an expense."* AC asks the ASB to consider whether the carrying amount of inventories that have been distributed should be recognised in equity as a distribution.
Page 135	AC notes that paragraph 14.14. requires disclosure of; *"For investments in associates accounted for by the equity method, an investor shall disclose separately its share of the profit or loss of such associates and its share of any discontinued operations of such associates."* AC suggests that the investor's share of other comprehensive income should also be disclosed.
Page 144	AC suggests that paragraph 17.15B should read; *"After **initial** recognition under the revaluation model ...".*
Page 149	Paragraph 18.10A states; *"The cost of an internally generated intangible asset for the purpose of paragraph 18.9 is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria in paragraph 18.4 and paragraph 18.16D."* AC suggests that this paragraph should also refer to the point at which capitalisation of expenditure ceases.
Page 152	AC believes that paragraph 18.18D should state; *"For the purpose of revaluations **of intangible assets** under this FRS, …".*
Page 155	AC believes the disclosure requirements of section 18 should include a requirement to disclose the accounting policy adopted for development expenditure.
Page 190	AC believes that the Appendix to Section 23 should include guidance in relation to determining whether an entity is acting as a principal or as an agent. AC believes that such guidance could be based on Illustrative Example 21 of IAS 18.