FRED 62: Draft amendments to FRS 102 – fair value hierarchy disclosures

RESPONSE FROM ICAS TO
THE FINANCIAL REPORTING COUNCIL

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Introduction

The ICAS Pensions Committee and the ICAS Accounting Standards Committee welcome the opportunity to respond to the Financial Reporting Council's 'FRED 62: Draft amendments to FRS 102 – fair value hierarchy disclosures' (November 2015).

Our CA qualification is internationally recognised and respected. We are a professional body for over 20,000 members who work in the UK and in more than 100 countries around the world. Our members represent different sizes of accountancy practice, financial services, industry, the investment community and the public and charity sectors.

Our Charter requires ICAS committees to act primarily in the public interest and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

Key points

ICAS supports the proposed changes to the fair value hierarchy disclosures in FRS 102 for financial institutions and retirement benefit plans and the proposed implementation timetable.

We would have preferred greater alignment between the fair value hierarchy in FRS 102 with the hierarchy in International Financial Reporting Standards (IFRS). However, we do not wish these proposed amendments to be delayed as we believe their impact will be positive in the short-term: the ability to early adopt will be beneficial to financial institutions and retirement benefit plans (pension schemes) with 31 December 2015 year-ends and 31 March 2016 year-ends.

Our engagement with this topic has largely been through our work with the Pensions Research Accountants Group (PRAG) Working party which develops the Pensions Statement of Recommended Practice (SORP). Therefore, our responses to the consultation questions which are set out below focus mainly on retirement benefit plans (pension schemes).

Any enquiries should be addressed to Christine Scott, Assistant Director, Charities and Pensions, at cscott@icas.com.

Responses to consultation questions

Question 1
Do you agree with the amendments proposed to FRS 102?

Response
We support the proposed amendments to FRS 102 which align the fair value hierarchy disclosures for financial institutions and retirement benefit plans with International Financial Reporting Standards (IFRS).

However, it is disappointing that the FRC introduced differences between the fair value hierarchy in FRS 102 and that of IFRS. The proposed amendments will only go some way to align the fair value hierarchy with IFRS as no changes are being proposed to the fair value determination or to the fair value disclosures for entities which are not financial institutions or retirement benefit plans (pension schemes).

The Pensions Research Accountants Group (PRAG) SORP working party which prepares the Pensions SORP on behalf of PRAG requested amendments to FRS 102 to align the fair value hierarchy with IFRS at the time the updated Pensions SORP was being prepared: the request was not accepted by the FRC.

As a consequence organisations such as global custodians, investment managers and pension scheme accounts preparers have already incurred costs preparing for the fair value hierarchy disclosures currently required by FRS 102. Had the FRC acted upon PRAG's request, costs would have been saved by these organisations and the Pensions SORP would have been able to deal with the proposed amendments at the time of its revision rather than subsequently.

One of the sub-objectives of the new accounting standards setting process, referenced on page 3 of FRED 62, is consistency with International Financial Reporting Standards (IFRS) unless an alternative would better meet the FRC's overriding objective around the delivery of high quality financial reporting. We note that the alignment of the fair value disclosures largely meets this sub-objective.

However, the determination of fair value under FRS 102 is not being amended at this time and will be reviewed as part of the FRS 102 triennial review. There is therefore an inconsistency between fair value determination and fair value disclosure but we are not pressing for further changes which could delay the approval of these proposed amendments.

Question 2
Do you agree with the proposed effective date for these amendments? If not, what alternative would you propose?

Response
We agree that proposed amendments to the fair value hierarchy disclosures should be effective for accounting periods commencing on or after 1 January 2017 and that early adoption should be available. The ability to early adopt will mitigate some of the difficulties which have arisen due to existing differences between the FRS 102 fair value hierarchy and the IFRS fair value hierarchy.

We would urge the Accounting Council and the FRC to approve the proposed amendments no later than March 2016, as referenced on page 6 of FRED 62, so that retirement benefit plans with 31 December 2015 year-ends and 31 March 2016 year-ends have the opportunity to benefit from the changes.

Pension scheme trustees must decide now whether to press ahead with the fair value hierarchy disclosures which are currently required by FRS 102 or prepare disclosures based on anticipated amendments. Therefore, meeting the intended timetable for approval would help avoid any unnecessary uncertainty for accounts preparers.

Question 3
In relation to the Consultation Stage Impact Assessment do you have any comments on the costs and benefits identified? Please provide evidence in support of your views of the quantifiable costs or benefits of these proposals.

Response
We believe the proposed amendments are a step in the right direction. The IFRS fair value hierarchy disclosures are well established and global custodians and investment managers are familiar with these disclosure requirements and will generally have reporting procedures in place for them. Removing the current FRS 102 fair value disclosure requirements will also reduce the confusion caused by having two different fair value hierarchy disclosure regimes.

We also believe that the proposed amendments will have a positive impact on the cost of complying with FRS 102. However, as mentioned in our response to question 1, it is regrettable that unnecessary costs have likely been incurred already in preparing for the current FRS 102 fair value hierarchy disclosures.