Response to FRC FRED 54: Draft Amendments to FRS 102 - Basic financial instruments

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INTRODUCTION

ICAS welcomes the opportunity to comment on the FRED 54: Draft amendments to FRS 102 - Basic financial instruments.

The ICAS Charter requires its 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.

The ICAS Accounting Standards Committee has considered the Exposure Draft and I am pleased to forward their comments.

Any enquiries should be addressed to Amy Hutchinson, Assistant Director, Technical Policy.

RESPONSE TO THE EXPOSURE DRAFT

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

Overall, we agree with the proposal to amend the conditions of paragraph 11.9 and make the requirements less restrictive. We believe there is an argument in favour of making no changes to FRS 102 at present, and instead waiting until the three-year review process, as some entities will have already started the transition process and therefore will have obtained fair values for financial instruments at their transition date. There will be an unnecessary cost to these entities in obtaining fair values which are subsequently not required as a result of these amendments. However, we acknowledge that there is pressure on the FRC to implement these changes swiftly, as the proposals as originally drafted have not successfully captured all common 'basic' financial instruments. Therefore on balance, we agree with making the amendments at this time.

Question 2
In your view, under the amended conditions will debt instruments be classified appropriately, i.e. will the proposal have the effect that debts 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.

We agree with the proposed amendments and believe that overall, the correct types of debt instruments will now be treated as 'basic' and therefore measured at amortised cost. Whilst a rules-based accounting solution is not desirable, as it cannot address all possible situations, in this instance we agree with the approach taken by the FRC.

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?

We find the proposed examples helpful. While we recognise that the list of examples cannot be completely comprehensive, we believe one useful addition would be an example of an interest rate collar (a derivative that sets a cap and a floor to the interest rate). This is a common instrument which is generally understood to be within the scope of these amendments.

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

We agree with the proposed effective date, and believe that the amendments should also be available for early adoption, so that entities that have adopted FRS 102 early may also take advantage of these amendments.

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?

We do not think there is a requirement for specific transitional provisions.