Linda Feeney

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Hi,

I hope all is well. I attended the presentation by Jenny last evening at GT and have some feedback. The presentational was very useful and condensed the take home key messages. It also helps to put into context the rationale for the proposed changes to UK GAAP rather than having to sift through pages of text.

In respect of FRED 67, I have some comments:

- Generally the changes proposed seem fine – clarifications and simplifications are always welcome
- On the proposed change to paragraph on paragraph 30.13, if I am reading it correctly this mean that where net investment hedging is applied in the consolidated statements, in the standalone entity where FX is arising on monetary items in the net investment, any gains are booked in OCI and losses in the income statement (currently all FX is treated in the income statement under current 30.13). Personally, I would prefer to keep the existing treatment (all FX goes to income statement) as:
    - Treating FX gain in OCI and FX loss in P&L seems arbitrary
    - Most GL systems revalue monetary balances and put the FX into one GL line – this would need manual intervention to separate out the FX gain
    - Monitoring cumulative gains and losses would be needed and adds complexity – for example if in year one, there was a gain of 100, but in year two there was a loss of 40 – presumably the 40 loss in year 2 would go into OCI as well rather than income statement?

A couple of areas on FRS 102 where I have some observations:

- Section 11 para 20. Say in the situation of a loan re-pricing where all terms and conditions are the same except for the reduction of the fixed coupon rate, we concluded this is the continuation of the same loan rather than an extinguishment and re-issuance. Under para 20 we would need to discount the actual and future cash flows under the original effective interest rate which means the new carrying value is lower and will result in an immediate gain. However as the loan principal hasn't changed, this means we take a gain immediately but then has a higher ongoing effective interest rate to build up the carrying value. This makes the interest charge complicated (management usually equate interest charge to interest on an accruals basis incorporating the impact of issuance costs) and as it probably isn't a realised gain for tax reasons or for distributable profits it adds complexity to maintaining books and records. The IFRS solution (for once!) may be more of a proportional solution i.e. where the loan is concluded to be the same instrument the ongoing interest impacts the ongoing effective interest rate but we don't need to modify the carrying value of the debt of instrument.
- Also the application of FRS 102 in loan re-pricing situation where it is concluded to be a continuation of the same instrument indicates we can't capitalise any new "issuance" costs but expensed – against the IFRS solution seems a preferable solution as it is allows the fees to be capitalised and captured in the ongoing effective interest rate calculation
- Section 19 for Group reconstructions. The glossary helpfully now includes the transfer of the business of one group entity to another as a Group reconstruction. Note that on discussion with our auditors it's still very

common to still apply “hybrid accounting” in instances where there has been the transfer of the business of one group entity to another whereby the “acquiring entity” acquires the assets and liabilities at book value but only record the income statement imapcts from point of “acquisition”. Currently para 19.30 is onerous in simple cases of business transfers from one Group entity to another and both entities still remain in the Group – having restated primary statements is particularly painful. Would it be possible to formalise the “hybrid” approach as another choice to account for group reconstructions?

If helpful to have follow up correspondence please let me know – contactable on my e-mail or landline.

Many thanks

K

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