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Dear Jenny

RESPONSE OF THE ACCOUNTING COMMITTEE OF CHARTERED ACCOUNTANTS IRELAND

FRED 62 - *Draft amendments to FRS 102 - The Financial Reporting Standard applicable in the UK and Republic of Ireland - Fair value hierarchy disclosures*

The Accounting Committee ('AC') of Chartered Accountants Ireland welcomes the opportunity to comment on the proposed amendments to the fair value hierarchy disclosures and encourages the FRC to issue the amendment and make it available for use as soon as possible so that entities can use the revised disclosure framework in their 2015 financial statements.

Question 1

Do you agree with the amendments proposed to FRS 102? If not, why not?

AC agrees with the amendment proposed to FRS 102.

As noted by the Accounting Council in its advice to the FRC, the hierarchy methodology for determining fair values in paragraph 11.27 has not been updated to bring it in line with the revised disclosures. This inconsistency could potentially create some confusion. For example, an item might have been valued using (c) in the methodology hierarchy but be disclosed as level 2 for the purposes of fair value hierarchy. However, there is no requirement to reconcile the methodology with the fair value disclosures and AC recognises that the FRC would need to consider any unanticipated impact on other sections of FRS 102 that refer to paragraphs 11.27 to 11.32 before amending those paragraphs. Therefore, as the benefits of consistent disclosure outweigh any potential confusion, AC agrees with the Accounting Council's recommendation of revising paragraph 11.27 as part of the first triennial review.

AC notes that the definition of **active market** in FRS 102 is not the same as in IFRS 13. Again this is unlikely to be a problem for most entities but AC acknowledges that defining an active market can be difficult under IFRS and having a slightly different definition in FRS 102 does not allow a direct comparison. AC suggests that this is another area to consider as part of the triennial review.

AC notes that the proposed description of observable inputs for the purposes of a Level 2 fair value measurement is described as “developed using market data”. AC considers that in the interests of aligning paragraphs 34.22 and 34.42 with the definition of ‘observable inputs’ in IFRS 13 that this description is expanded to say “developed using market data and reflecting assumptions that market participants would use when pricing the asset or liability”.

Question 2

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

AC agrees with the proposed effective date of the amendments being accounting periods beginning on or after 1 January 2017.

However AC notes that the majority of affected entities, particularly Asset Management entities, would like to early adopt this amendment. A significant number of financial statements (with year ended 31 December 2015) will therefore be impacted.

AC understands the FRC plans to publish the amendment in March 2016; however issuing the amendment in February 2016 would allow a significant number of financial statements signed prior to March and currently converting to FRS 102 to avail of early adoption.

This could have a noticeable effect on the FRS 102 conversion costs for those entities that applied FRS 26 and FRS 29 in the preparation of their 2014 financial statements, as it avoids restatement of the hierarchy numbers (in the current year and in the following year when the prior year fair value hierarchy will have to be restated again).

Question 3

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

AC welcomes the proposed amendment and considers that the amendment will bring a number of benefits including:

- The users and preparers of financial statements in the sectors likely to be affected are already familiar with the proposed fair value hierarchy.
- Comparability with US GAAP and IFRS will be enhanced in an area where there is no compelling reason for a GAAP difference.
- Preparers of financial statements are likely to have systems/processes/IT tools already in place to achieve compliance with the proposed hierarchy. Therefore

there is potential for significant time and cost savings for both small and large enterprises.

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