



LONDON SOCIETY
OF CHARTERED
ACCOUNTANTS

30 April 2012

Jenny Carter
ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Ms Carter

**The Future of Financial Reporting in the UK and Republic of Ireland
Revised Financial Reporting Exposure Drafts 46, 47 & 48**

With a membership of in excess of 32,000, the London Society of Chartered Accountants (LSCA) is the largest of the regional bodies which form the Institute of Chartered Accountants in England & Wales (ICAEW). London members, like those of the Institute as a whole, work in practice or in business. The London Society operates a wide range of specialist committees including Technical (accounting and auditing), Tax, Regulation and Ethics Review and Financial Services and Insolvency, which scrutinise and make representations to bodies such as yourselves.

GENERAL COMMENTS

The LSCA welcomes the opportunity to comment on the revised proposals set out in the ASB's Revised Financial Reporting Exposure Drafts ("FREDs") 46, 47 and 48 on the Future of Financial Reporting in the UK and Republic of Ireland.

We share many of the views expressed in the response of the ICAEW (Ref: ICAEW REP 64/12). We do not repeat the ICAEW comments below but add emphasis to certain matters noted in the ICAEW response letter and provide some of our own examples.

- **Overall impression**

The LSCA continues to endorse the ASB's proposal to replace current UK GAAP. The LSCA believes that the revised FREDs are a marked improvement on the previous FREDs and is pleased to note that the ASB has incorporated a number of the key comments made during the previous round of consultations. We note that the revised proposals are now much closer to current UK GAAP and represent a not insignificant departure from the IASB's "pure" version of the IFRS for SMEs. We believe that such a departure is necessary and does not impair the quality of the revised accounting framework, although we acknowledge that some of the international comparability will be lost.

In our opinion the revised accounting framework represents a modern, coherent and coordinated set of accounting rules. We therefore encourage the ASB to progress with the replacement of current UK GAAP without undue delay.

- **Reduced disclosure framework**

We welcome the proposed extension of the reduced disclosure framework to qualifying parents as well as subsidiaries. This should, subject to decisions taken on account formats, (see ICAEW REP 64/12 paragraph 23), encourage entities to adopt IFRS recognition and measurement requirements throughout a group. However, unlike the ICAEW, for clarity we suggest that an express requirement is written into the standard to ensure that in instances where, under the reduced disclosure requirements, financial statements would not show a true and fair view, additional disclosures must be made (provided the entities are reporting under a true and fair principle). Accordingly, we suggest that the ASB adds, “unless the omission of such disclosures would distort the truth and fairness of the financial statements” at the end of the first sentence in paragraph 8 in FRS 101 and at the end of the first sentence in paragraph 1.12 in FRS 102.

- **Small entities**

In our view it would be ideal if the revised FRSSE could be introduced at the same time as the new FRSs, but we appreciate that the ASB’s hands are tied and it has to await the relevant European developments.

- **Comprehensive edition of accounting standards**

We believe it is absolutely necessary for the ASB to publish a complete set of all accounting standards, including all cross-referenced material from IFRS. Although we do not disagree with the ASB's proposal to make cross references, we believe that, in the absence of a binding full text publication, uncertainties will emerge over whether the revised or old version of an IFRS is applicable once a relevant IFRS has been changed.

- **Future role of UITF**

We believe that guidance material determining the accounting for specific transactions or addressing particular implementation difficulties should be avoided where possible, to allow preparers to apply their own professional judgement. Nevertheless, we also believe that there will be a need for a body similar to that of the current UITF. The role of that body would be to address issues that arise specifically in the UK but are not relevant in other areas of the world where the IFRS for SMEs is applied.

- **Influencing the IASB**

We hope that the ASB (or its successor) will play an active part in influencing the future development of the IFRS for SMEs. For instance, once the taxation chapter has evolved (it currently diverges from both UK GAAP and IFRS), the wording within it may be appropriate for use in the IFRS for SMEs.

- **Suggested drafting improvements**

We also draw your attention to the appendix to this letter and to paragraphs 76 to 97 in the ICAEW’s comment letter, in which a number of additional drafting points on the text of the standard are listed. While many of these points are individually minor, we feel that they are significant in aggregate and addressing them will significantly improve the clarity of the final proposals.

DETAILED COMMENTS

Specific questions

We set out below our comments on the specific questions raised in the ED:

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?

We agree with the ICAEW response. Although we too were sceptical about removing the public accountability concept, we support the consequence that the respective regulators should determine the GAAP that is most appropriate to their regulated entities. In addition, the revised UK GAAP now seems more robust and sufficiently sophisticated to be used by those entities that were previously determined to be publicly accountable.

**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?

We support the application of IFRS 7 in full by financial institutions. We are not convinced that the second alternative will work well in practice.

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.

We would emphasise that the application of IAS 34 should only be mandated where regulators require its use or where entities actually choose to adopt it.

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.

We would like to see the ASB underpin its selection of financial institutions with a governing principle so that preparers can be clear as to whether they fall within the definition.

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?

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

We agree with the ICAEW response here. Whilst there is, perhaps, no technical argument to allow agricultural entities to avoid fair valuing their biological assets, the concept could be arduous. This is especially so as we do not believe that it will be possible to justify the cost benefit exemption very often.

On service concession entities, we strongly believe that the accounting requirements need to be expanded, especially on transition.

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?

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

We agree with the ICAEW response on this question.

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?

We agree with the ICAEW's proposal to use the Companies Act 2006 definition.

Question 8: Do you agree with the effective date? If not, what alternative date would you prefer and why?

We agree with the proposed effective date but disagree with the general prohibition on early adoption.

We also believe that the last sentence of paragraph 3.61 (in Part One: Explanation) could be removed as a SORP should already interpret an accounting standard in the way most relevant to the sector. It seems unnecessary to prevent preparers from adopting FRS 102 as soon as it is issued even when a revised SORP is expected so long as FRS 102 is not inconsistent with the existing SORP. Admittedly, preparers may be faced with two changes when the revised SORP is finally issued but we do not believe entities should be denied the chance to early adopt.

Question 9: Do you support the alternative view, or any individual aspect of it?

No.

Additional observations

Incorporation of IFRS 9

We agree with the ICAEW that the introduction of requirements based on IFRS 9 should not delay the transition to the new UK GAAP framework. Whilst we would not discourage discussion around revisions to financial instrument accounting in the form of an ED, we do not believe that this should be introduced other than as part of the three yearly revision of the whole standard. This is because there could always be arguments to introduce "updated accounting" on certain areas. Although financial instrument accounting is an important area, introducing changes on this topic midway through the normal process, could set an unwelcome precedent when it comes to other areas.

Section 9: Consolidated and separate financial statements

We would draw attention to the fact that, under the current scope exemptions of paragraph 9.3 in FRS 102, small groups would not be exempt from producing group accounts (even though the Companies Act grants that exemption). We would, therefore, strongly request that the suggestion made in paragraph 57 of the response of the ICAEW (Ref: ICAEW REP 64/12) is incorporated into the final standard.

Section 24: Grants

Under paragraph 15 of SSAP 4 'Accounting for government grants', housing associations which are not companies are permitted to deduct the amount of the grant from the purchase price of the related asset with a consequent reduction in the annual charge for depreciation. Conversely, paragraph 24.5F of section 24 says that, under the accruals model, "grants relating to assets shall be recognised in ... income on a systematic basis" and paragraph 24.5G continues to say that "where part of a grant relating to an asset is deferred it shall be recognised as deferred income and not deducted from the carrying value of the asset". There is no possibility of offsetting grants received under the performance model mentioned in paragraph 24.5B either. We would encourage the ASB to reconsider this position for those housing associations that are not companies as we understand that the offsetting option was frequently taken advantage of under SSAP 4.

We trust you find our comments helpful in the consultation process and please do not hesitate to contact our Chairman, Edward Haygarth on +44 (0)20 7391 9556 if you wish to discuss any of our comments further.

Yours sincerely

A handwritten signature in black ink, appearing to read 'E Haygarth', with a long horizontal flourish extending to the right.

Edward Haygarth
LSCA Technical Committee Chairman

APPENDIX - SUGGESTED DRAFTING IMPROVEMENTS

In the table below we highlight some drafting points on the text of the standard which we urge the Board to consider. They are in addition to the suggested drafting improvements set out in paragraphs 76 to 97 in the ICAEW's comment letter that we refer to above.

FRS 100 paragraph	Observation
3	This says that certain items are explained in the glossary and then proceeds to repeat the text in the glossary for "qualifying entity", "financial institution" and "public benefit entity". Although these items are important, do they really need to be defined in two places? A simple reference to the glossary from para 3 should be sufficient and would also avoid the need to update more than one area should the definitions change in future.

FRS 102 paragraph	Observation
1.8	We believe the wording could be improved here. The first sentence would read better if it said "...applying.." rather than "apply". The last sentence seems to be missing an "it" before "must".
7.1A	It appears that a parent will be required to prepare its own cash flow statement (as if IFRS requirements apply). Is this really the intention? If not, para 7.1A could be amended to include an exemption for the parent where either a consolidated cash flow is presented that includes the parent or, if preferred, the parent is presented together with consolidated accounts within which it is included.
[7.19]	Why has para 7.19 from the IFRS for SMEs not been included?
9.3(e)	This refers to entities being "permitted" to be excluded from consolidated accounts by para 9.9 which suggests a choice but surely para 9.9 requires exclusion?
9.16	This states that the financial statements of subsidiaries used in the preparation of the consolidated financial statements shall be prepared as of the same reporting date. It then explains what period may be used if the reporting date differs. If the word "shall" is used without any qualifying language the subsequent text should not be included. It would seem preferable to include the same words that are used at the end of the first sentence in the IFRS for SMEs, ie "...reporting date unless it is impracticable to do so." This approach would also be consistent with para 14.8(f).
12.8A	As a disclosure related paragraph, 12.8A would sit better with the other disclosures at the end of the section rather than between two paragraphs that deal with the subsequent measurement of financial instruments.
14.8(g)	Where it is impracticable to adjust the associate's accounting policies in line with the investor's for the purposes of equity accounting the associate, it would be helpful if a simple statement was added noting that policies differ and explaining the areas affected.
18.10B(b)	This refers to "costs of employee benefits (as defined in section 28) arising from the generation of the intangible asset". The term "incurred in" would be better than "arising from" as employee costs are not generated from the asset but incurred in its creation.
19.24(b)	This shows that the treatment of "negative goodwill" will be based on the "old" UK GAAP requirements of FRS 10 para 49 rather than the treatment used in the IFRS for SMEs. We assume that this is intentional but are not aware of the basis of this decision.
20.1(e)	As in the IFRS for SMEs, there is a closing bracket required at the end of the sentence.
21	We believe that the inclusion of examples 3, 11 and 11A from FRS 12 would be helpful.

FRS 102 paragraph	Observation
24.5F	This says that “grants relating to assets shall be recognised in <i>the</i> income on a systematic basis...”. Either the word “the” should be removed or the word “statement” added after “income”.
25.2	The last sentence should read “..capitalising borrowing costs, all borrowing costs shall be recognised as..”
25.2B	This could be worded much more clearly. Alternatively, the text from para 12 of IAS 23 could be used.
26.11(b)	A rogue “(a)” has crept into this bullet and should be removed.
27.31	Given that the (Draft) FRS, unlike the IFRS for SMEs, permits the reversal of an impairment loss for goodwill, why can no reversal be allocated to goodwill?
28.20	Whilst we appreciate that the ASB does not want to make actuarial valuation requirements too onerous for entities, para 28.20 could actually be very unhelpful from an audit perspective.
29.24	The word “when” after “...deferred tax liabilities,..” should be removed.
29.27(c)	This is a new requirement and exceeds what has previously been required under UK GAAP and what is in either the IFRS for SMEs or IFRS. In our view, it would appear to be a step too far for an unlisted entity.
33.1A	The word “disclosures” may be more appropriate than “requirements”. Can this paragraph clarify whether “transactions” means only transactions or transactions and balances?
33.14	As for para 33.1A, can this paragraph clarify whether “transactions” means only transactions or transactions and balances?
34.17	This states that a financial institution shall also make the disclosures required by paras 34.18 to 34.30. It should be noted that para 34.18(g) includes a retirement benefit plan as a financial institution, ie it must therefore comply with 34.18 to 34.30. Para 34.42 then requires a retirement benefit plan to give the disclosures required by paras 34.17 to 34.30 and, therefore, seems to duplicate what is already required by 34.17 and 34.18, and, in both instances, the disclosures are in paras 34.19 to 34.30.
34.31	Para 34.31 has the word paragraphs spelt as “paragraghs”.
34.32	It is not clear whether this is a requirement or just a discussion of what a pension plan may, usually, include in its financial statements.
34.47	Should the para references also include 34.54?
34.48	Should this refer to paras 34.53 and 34.54?
34.49	Should the para references be to 34.50 to 34.52?
34.52	The word “new” in the final sentence does not add anything. We suggest it simply says “...or doubts arise as to its authenticity.”