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30 June 2017

Mei Ashelford
Financial Reporting Council
8th Floor
125 London Wall
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Our Ref: SJG/SR

Dear Ms Ashelford

FRED 67 Draft amendments to FRS 102: Triennial review 2017 – Incremental improvements and clarifications

We welcome the opportunity to comment on the FRC's FRED 67 – Draft amendments to FRS 102.

Overall, we are supportive of the proposals, which we consider to be pragmatic and proportionate. In particular we welcome the proposed simplifications in respect of:

- discounting loans from director-shareholders for small entities and
- separating goodwill and intangibles arising from business combinations.

We expect that these amendments will be welcomed by the vast majority of clients to whom they would be relevant.

We would encourage, however, the FRC to consider extending the exemption from discounting loans from shareholder-directors for small companies to other related party loans, including other shareholder loans and intercompany loans within small groups. We expect the benefits of such an extension would outweigh the costs.

In the following attachment you will find our response to the individual consultation questions.

Yours sincerely

Steve Gale
Head of Professional Standards
Crowe Clark Whitehill LLP

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Proposed options	Crowe Clark Whitehill comments
Question 1 Overall do you agree with the approach of FRED 67 being to focus, at this stage, on incremental improvements and clarifications to FRS 102? If not, why not?	Yes, we agree that this is a pragmatic approach.
Question 2 FRED 67 proposes to amend the criteria for classifying a financial instrument as 'basic' or 'other'. This will mean that if a financial instrument does not meet the specific criteria in paragraph 11.9, it might still be classified as basic if it is consistent with the description in paragraph 11.9A. Do you agree that this is a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments, which will allow more financial instruments to be measured at amortised cost, whilst maintaining the overall approach that the more relevant information about complex financial instruments is fair value? If not, why not?	Yes, we agree that this a proportionate and practical solution.
Question 3 FRED 67 proposes that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) can be accounted for at transaction price, rather than present value (see paragraph 11.13A). This practical solution will provide relief to small entities that receive non-interest-bearing loans from directors, by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value. Do you agree with this proposal? If not, why not?	Yes, we agree that this provides a practical solution that will be widely welcomed by our smaller clients. We encourage the FRC to consider extending the exemption to other related party loans, including other shareholder loans and intercompany loans within small groups. Whilst we accept that there are some theoretical and practical difficulties in introducing further measurement differences between small entities and large/medium entities under FRS 102, we feel these problems will be far outweighed by the benefit of reduced complexity for preparers of small entity accounts. We note that many of the practical issues referred to above can be addressed by providing specific guidance, within FRS 102, for entities that are transitioning out of the small regime.

Proposed options	Crowe Clark Whitehill comments
Question 4 FRED 67 proposes to amend the definition of a financial institution (see the draft amendments to Appendix I: Glossary), which impacts on the disclosures about financial instruments made by such entities. As a result, fewer entities will be classified as financial institutions. However, all entities, including those no longer classified as financial institutions, are encouraged to consider whether additional disclosure is required when the risks arising from financial instruments are particularly significant to the business (see paragraph 11.42). Do you agree with this proposal? If not, why not?	We welcome this as a proportionate and principle-based approach.
Question 5 FRED 67 proposes to remove the three instances of the 'undue cost or effort exemption' (see paragraphs 14.10, 15.15 and 16.4) that are currently within FRS 102, but, when relevant, to replace this with an accounting policy choice. The FRC does not intend to introduce any new undue cost or effort exemptions in the future, but will consider introducing either simpler accounting requirements or accounting policy choices if considered necessary to address cost and benefit considerations. As a result, FRED 67 proposes: (a) an accounting policy choice for investment property rented to another group entity, so that they may be measured at cost (less depreciation and impairment) whilst all other investment property are measured at fair value (see paragraphs 16.4A and 16.4B); and (b) revised requirements for separating intangible assets from the goodwill acquired in a business combination, which will require fewer intangible assets to be recognised separately. However, entities will have the option to separate more intangible assets if it is relevant to reporting the performance of their business (see paragraph 18.8 and disclosure requirements in paragraph 19.25B). Do you agree with these proposals? If not, why not?	*Investment property* We agree that an accounting policy choice is a simple and effective alternative to an 'undue cost or effort exemption' in this case. *Revised requirements for separating goodwill and intangibles* We welcome the proposal as a pragmatic and principle-based solution.

Proposed options	Crowe Clark Whitehill comments
Question 6 Please provide details of any other comments on the proposed amendments, including the editorial amendments to FRS 102 and consequential amendments to the other FRSs.	We welcome the clarifying amendments to section 19 in respect of the measurement of contingent deferred consideration. We would also welcome the inclusion of additional guidance on the disclosure of contingent deferred consideration within section 19. Our preference would to require disclosure of a description of the contingent arrangement including an estimate of the range of possible outcomes.
Question 7 FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not? Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.	*Current proposals* We agree that the proposed transitional provisions are appropriate. *Additional transitional provisions* If the exemption for discounting related party loans is extended as we suggest above, then the transitional provisions should also be extended. In particular, we believe additional transitional provisions will be required for small entities that become medium or large.
Question 8 Following a change in legislation the FRC is now required to complete a Business Impact Target assessment. A provisional assessment for these proposals is set out in the Consultation stage impact assessment within this FRED. The overall impact of the proposals is expected to be a reduction in the costs of compliance. In relation to the Consultation stage impact assessment, do you have any comments on the costs or benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.	We welcome the proposed changes and expect them to reduce the cost of compliance for our clients. We are not in a position to make specific comments on the quantification of the benefits, as we are yet to conduct additional research into such matters.