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Dear Ms Carter

FRED 62 - Draft amendments to FRS 102 Fair value hierarchy disclosures

Introduction

Ernst & Young LLP welcomes the opportunity to comment on FRED 62 issued by the Financial Reporting Council ('the FRC').

Overall comments on FRED 62

We agree with these limited amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland,* subject to the limited observations highlighted below. In our view, an inconsistency in the definition of the fair value hierarchy used for disclosure purposes by financial institutions between financial statements prepared under FRS 102 and those prepared under FRS 101 – *Reduced Disclosure Framework* and EU-adopted IFRS is unnecessary and unhelpful to users and preparers of those financial statements. These amendments would improve the comparability of FRS 102 financial statement disclosures of financial institutions compared with those prepared by financial institutions under FRS 101 and EU-adopted IFRS.

We propose a couple of minor amendments to align the proposed fair value hierarchy wording to agree with the equivalent wording in IFRS 13 *Fair value measurement* and also to clarify the dates relating to early adoption of these amendments.

In addition, as described in our response to Question 1, we agree with the Accounting Council's rationale for not amending the fair value hierarchy definition in paragraph 11.27 of FRS 102.

If you have any matters arising concerning the content of our response, please contact me on 0207 951 2250.

Yours sincerely

Tony Clifford
Partner,
Financial Reporting Group

Responses to FRC questions

FRED 62 Draft amendments to FRS 102 Fair value hierarchy disclosures

Question 1

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

We agree with the amendments proposed to paragraphs 34.22 and 34.42 of FRS 102 subject to the following:

The definition of the fair value hierarchy in paragraphs 34.22 and 34.42 is intended to mirror the definition in IFRS 13. Therefore, we believe that the wordings should be aligned as far as practicable. To that end, we believe that the terms 'observable inputs' and 'unobservable inputs' (as defined in the IFRS glossary) should be added to the FRS 102 glossary and the words 'observable' and 'unobservable' in draft paragraphs 34.22 and 34.42 should be bolded. When that is done the wording in brackets in the Level 2 and Level 3 definitions can be removed. Alternatively, the FRC should consider adding the wording in paragraph 82 of IFRS 13 to the Level 2 definition and the wording in paragraph 89 of IFRS 13 to the Level 3 definition.

As identified in paragraph 17 of the Accounting Council's advice, no amendments have been made to the definition of the fair value hierarchy in paragraph 11.27 of FRS 102 and this therefore creates a potential inconsistency between the fair value hierarchy disclosures required for a financial institution and the definition of the fair value hierarchy used for measurement. A financial instrument may, for example, be valued using a valuation technique according to paragraph 11.27(c) but be disclosed as a level 2 instrument as required by paragraphs 34.22 or 34.42. Although this is not entirely satisfactory, we recognise that this inconsistency arises because the definition of fair value used by FRS 102 is different from that used by FRS 101 and EU-adopted IFRS. Therefore, we agree that any change in FRS 102's definition of fair value to align with the definition in FRS 101 and EU-adopted IFRS should not be done without careful consideration and should not be within the scope of these limited amendments.

Question 2

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

We agree that these amendments should be effective for accounting periods beginning on or after 1 January 2017, with early adoption permitted. We believe that many entities will want to apply these amendments as early as possible (to avoid the costs of having to prepare the disclosures on one basis on their first adoption of FRS 102 and then on a different basis in the future) and therefore we urge the FRC to approve these amendments expeditiously.

However, we believe that the proposed amended wording to paragraph 1.16, as drafted, is ambiguous and that, for clarity, we believe that the last sentence should be altered to read:

"If an entity applies these amendments <u>for an accounting period beginning before 1 January 2017</u> it shall disclose that fact."

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.

For the reasons stated in our covering letter, we believe that these amendments will have a positive impact on financial reporting and reduce the costs of compliance.