30 April 2012

Our ref: ICAEW Rep 64/12

Michelle Sansom
Accounting Standards Board
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Michelle

The Future of Financial Reporting in the UK and ROI

ICAEW is pleased to respond to your request for comments on *The Future of Financial Reporting in the UK and ROI*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

John Boulton

John Boulton ACA
Corporate Reporting Manager, Financial Reporting Faculty

T +44 (0)20 7920 8642
E john.boulton@icaew.com

ICAEW REP 64/12

ICAEW REPRESENTATION

THE FUTURE OF FINANCIAL REPORTING IN THE UK AND ROI

Memorandum of comment submitted in April 2012 by ICAEW, in response to ASB exposure draft *The Future of Financial Reporting in the UK and ROI*, published in January 2012.

Contents	**Paragraph**

INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the exposure draft, *The Future of Financial Reporting in the UK and ROI,* published by the ASB on 30 January 2012. ICAEW has also issued a separate response to the ASB's staff paper Insurance Accounting – Mind the UK GAAP (Rep 65/12), which supplements the material in this letter in relation to insurance accounting. References in this letter to the ASB extend to any successor body.

WHO WE ARE

2. ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter which obliges us to work in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 138,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

3. ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

4. The Financial Reporting Faculty is recognised internationally as a leading authority on financial reporting. The Faculty's Financial Reporting Committee is responsible for formulating ICAEW policy on financial reporting issues, and makes submissions to standard setters and other external bodies. The faculty also provides an extensive range of services to its members, providing practical assistance in dealing with common financial reporting problems.

MAJOR POINTS

The ASB has done an admirable job in compiling a new GAAP for the UK and Ireland

5. We appreciate the hard work the ASB has put into delivering a new GAAP for the UK. It has been a long and challenging journey to these final exposure drafts, but we are comfortable that the Board has now brought the debate to a position where the UK can move forward to adoption. In the pages that follow, we set out a number of improvements that the Board could make to the draft standards before they are finalised. For some specific sectors, for example public benefit entities, pension plans and agriculture, action is necessary to address potentially significant issues. But overall, we believe that the package of standards is fit for purpose for medium and large entities, and we urge the Board to take the final step to implementation as soon as possible.

6. Some commentators have questioned the value of changing the basis of accounting whilst economic conditions in the UK remain fragile. Given that transition to the new framework will for many entities involve little or even no substantive change to their accounting, it could be questioned whether the move is necessary at all. We disagree with this perspective. UK GAAP is now outdated and in places lacks coherence, and action to rectify the situation is long overdue. For example, certain financial instruments currently remain unrecognised for many entities. Side-stepping plans for revision would merely serve to highlight those areas where improvement and updating are unavoidable. Although there will be cost to business and others at the point of transition, introducing a more comprehensive and coherent framework should act to improve reporting and is likely to mean reduced costs in years to come.

The extension of draft FRS 102 to include 'publicly accountable' entities is an acceptable solution

7. We were initially sceptical about the Board's new approach of including some publicly accountable within the scope of a standard based on the IFRS for SMEs. However, we appreciate the challenges that the Board has faced and, on balance, we accept that the modifications made within draft FRS 102 to the basic IFRS for SMEs model are adequate to ensure that it can appropriately be applied by those publicly accountable entities now falling within its scope. In any event, if regulators do not approve of entities within their remit applying the new FRS (where the use of IFRS is not mandated), they could reconsider their own accounting requirements, as we discuss below in paragraph 21.

8. However, we do note that the definition proposed of 'financial institutions', while allowing a clear line to be drawn, could prove problematic in practice. For example, it would apply to all entities undertaking 'the business of effecting or carrying out insurance contracts' as well as to stockbrokers. For some of these entities, it may not be appropriate to require the additional disclosures set out in Section 34 (see our response below to Question 4). For pension plans, some of the disclosures may not be relevant, while others duplicate equivalent SORP disclosures.

We welcome the reduced disclosure framework

9. The reduced disclosure framework for subsidiaries was one of the more popular elements of the previous exposure draft among constituents and now that the exemptions have been extended to encompass the single entity accounts of parent undertakings, we detect an even greater appetite for their adoption. The full disclosure requirements of IFRS are often inappropriately complex for subsidiaries, and sometimes for parents too. This complexity has deterred many IFRS groups from switching to IFRS for their UK entities. The disclosure exemptions on offer address this long-standing issue and therefore we urge the Board to move ahead with their adoption.

10. We discussed as part of our due process whether all of the exemptions offered would necessarily be appropriate for all of the entities eligible to apply them, and whether in certain exceptional circumstances it may be necessary to include some of the exempted disclosures to ensure that the accounts show a true and fair view. Such instances are rare, and we concluded that they are already adequately addressed. Draft FRSs 101 and 102 apply to entities that are presenting a true and fair view and often relevant legislation (for example, the Companies Act) will mandate an overarching requirement to show a true and fair view.

11. Draft FRS 101 provides a complete exemption from all of the IFRS 13 disclosures, including those relating to financial instruments. We agree that financial institutions should not be exempt from the financial instrument elements of IFRS 13, but we do not see why they should not be able to benefit from an exemption from the remaining IFRS 13 disclosures. This point should be clarified.

Unwelcome developments in small company reporting

12. The Board's intention at the time of the 2010 FRED was, in introducing the new UK GAAP, for the FRSSE to remain in place while the new standards for larger entities bedded down. In our response to that FRED, ICAEW REP 52/11, we suggested that this was not an optimal solution, as creating a differential regime would complicate systems and training and could increase costs. We appreciate that the Board has acknowledged our view in paragraph 5.8 of Part 1 to the FREDs but feels that its hands are tied by developments in Brussels. The Board has committed to consult on the future of the FRSSE and is aware that reform will be necessary if the proposed new EU accounting directive is implemented with 'maximum harmonisation' for its simplified small company disclosure regime. At the time the FREDs were published the Board appears to have assumed that any micro entity accounting exemptions, which will also have a far-reaching effect on the FRSSE, would be introduced concurrently with the requirements of the new directive. We understand that the UK Government may wish to introduce the micro exemptions to an accelerated timetable, and the ASB should be prepared for this. Taken together with HMRC's proposals to simplify accounting for tax purposes, small companies could face three different accounting methodologies, with eligibility for each dependent on size.

13. In our view, the optimal solution here is for a single coherent set of principles to apply to all entities reporting under UK GAAP, and we believe that the introduction of FRS 102 would offer a route to achieving this. Some exemptions from FRS 102 would be necessary before it could be applied by small entities, for example from the requirement to prepare a cash flow statement, and we would expect these to be explored through further consultation. But in our view this concise and coherent, internationally-aligned standard could form an effective replacement for the FRSSE. We are therefore disappointed that it will not be possible for the ASB to proceed more quickly with the development of a replacement for the FRSSE based on draft FRS 102. We accept that the ASB's hands are tied until the outcome of the EU legal developments become clearer, as it would clearly not be in the interests of small companies or their advisers to face two rounds of financial reporting changes within a couple of years. However, we urge the ASB to liaise with BIS about the likely UK implementation of these EU developments and to consult publicly as soon as it is realistically possible to do so. It may still be possible to have the replacement for the FRSSE available for adoption in 2015, along with FRS 102.The ASB should strive to achieve this, as long as small companies have sufficient time to implement the changes. It would be most undesirable for a new GAAP for medium and large entities to become effective while the future accounting regime for small companies remained so uncertain.

Public benefit entities

14. Public benefit entities (PBEs) represent an important constituency for UK GAAP, and we appreciate the consideration the Board has given to the needs of the sector in developing the new framework. Most of the concerns and suggestions we raised in our response to last year's consultation, FRED 45 *FRS for PBEs*, have been addressed, and we welcome the Board's decision to incorporate the proposed separate standard into the main text of FRS 102. However, there remain a small number of issues that, unless resolved, render the new standard problematic for PBEs, and a few additional areas where further clarification is desirable. These issues are considered in the section *Public Benefit Entities* below.

Subsequent development of UK GAAP

15. The ASB has done an admirable job in delivering a new GAAP for the UK. However, it is not currently clear how the development of the framework will be handled in future. We question how the due process for amending UK GAAP will operate once the reform of the Financial Reporting Council is complete, and in particular we note that under the new FRC structure there appears to be no role for the UITF. This could potentially leave a void where there is either a need for interpretation of the new standard and/or where UK-specific issues arise that require authoritative standards, such as ESOPs or the changes to the calculation of pension liabilities covered in UITF 48. It is crucial that an appropriate structure is put in place to address this and to provide a channel to influence future debate on the IFRS for SMEs. Conversely, we are concerned that in cases of implementation difficulty, there may be calls for the ASB's successor body to publish guidance material. In general we are opposed to the use of guidance material to ease implementation difficulties; it is far preferable for appropriate judgment to be applied. Guidance material risks being interpreted as rules. However, if such material is to be published, then it needs to be subject to proper due process.

Consideration of the alternative view

16. We welcome the publication of an alternative view alongside the FREDs themselves. This demonstrates the Board's commitment to proper due process and provides a useful opportunity for discussion by constituents. However, we do not agree with the key conclusions reached in the alternative view. We do appreciate the importance of conducting thorough outreach with users and would urge the Board to consider any further useful research that might still be undertaken. But, given the late stage of the process and the general suitability of the FREDs for adoption, we do not believe it is in the public interest for the process to be delayed any further while this research is conducted. Ultimately, we are broadly content with the position of the Board on financial instruments, defined benefit pensions, deferred tax and equity-settled share-based payments, and we do not believe that a fundamental re-evaluation of these areas would be beneficial at the current time.

Additional observations and drafting points

17. In addition to these major points, and the answers to the Board's specific questions set out below, we also have a number of additional observations and drafting points which are set out in the latter part of this letter.

RESPONSES TO SPECIFIC QUESTIONS

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?

18. We agree. The Board has conducted an extensive programme of consultation, and in our opinion has developed a much improved and operable new GAAP for the UK. Constituents have waited long enough to implement improvements that have been under discussion for many years, and we therefore urge the Board to now take the draft standards across the finish line. Draft FRS 102 brings UK GAAP up-to-date and better aligns it with international practice, while at the same time providing more comprehensive and coherent accounting literature. In our opinion it offers a real improvement on the current state of affairs. Draft FRSs 100 and 101 also meet the project objective.

19. We accept the extension of the scope of draft FRS 102 to encompass 'publicly accountable' entities. We remain of the view that the IFRS for SMEs is unsuitable for application by entities with public accountability, as that standard has been prepared on a simplified basis for use by entities with a lower level of accountability. Therefore in response to the ASB's previous consultation, we agreed with the Board that the 'FRSME' was not suitable for use by publicly accountable entities, although we were sympathetic with the concerns of some of the smaller entities affected, for which EU-adopted IFRS might have been unduly onerous. We were also conscious that the definition of 'public accountability' may have proved difficult to interpret in some circumstances.

20. We therefore understand the reasons for the Board's decision to pull-back from extending the remit of EU-adopted IFRS. In our opinion, the additional requirements added to draft FRS 102 are adequate for the needs of financial institutions, for active and eligible aspirant publicly traded entities and for entities issuing insurance (or holding reinsurance) contracts. We acknowledge that transparency will be less than that offered by EU-adopted IFRS, in terms of fewer disclosures, but the IFRS elements specifically incorporated in FRS 102 are in our opinion those most likely to be of interest to users – for example, the IFRS 7 financial instruments disclosures for financial institutions. Entities may always choose to present additional disclosures if it is thought appropriate.

21. Nevertheless, there may still be cases where those regulating certain categories of entity feel that the rigours of EU-adopted IFRS would be beneficial to users or that the sector could benefit from comparability with entities using those standards. If this is deemed appropriate, then the regulator of that sector could opt to mandate EU-adopted IFRS. There is a precedent for this approach; AIM is not a 'regulated market' and therefore it is the LSE rather than EU law that mandates IFRS adoption for AIM companies in their consolidated accounts. We support this market-led model and therefore agree that the Board has made the right decision in pulling back from mandating IFRS.

22. It may have been possible to augment the FRS 102 disclosures by copying across the relevant elements of IFRS, rather than cross-referencing (as the Board has done). We would not support this; copying IFRS extracts into the new standard would have made it unnecessarily cumbersome and would risk it becoming inconsistent with the relevant IFRS if that standard changed. We therefore support the Board's approach. However, there is likely to be an appetite for a special, comprehensive edition of the standard, containing the additional referenced material (possibly as an appendix identifying the appropriate version of the standard that is being referred to). The Board or commercial organisations may therefore wish to consider publishing this. Where specific IFRS paragraphs are cross-referenced, these will still need to be updated to reflect relevant changes in IFRS, but we trust that the Board will ensure that the mechanisms are in place to enable such updates are reflected in UK GAAP on a timely basis, presumably as part of the normal three yearly update cycle.

23. In our previous comment letter we suggested that the Companies Act primary statement formats could usefully be included within the standard. We note that the IFRS for SMEs formats have been removed and we welcome this, as retention would only have led to confusion. However, the standard could be improved by including the statutory formats as an appendix, and we therefore urge the Board to re-consider their inclusion within FRS 102. This will particularly benefit entities that are not companies and may therefore not be familiar with company law. Also, we recommend that the ASB states positively that, particularly for such entities, it may be necessary to adapt the formats to the special nature of their activities. The appendix will naturally need to include a note alerting readers to the possibility that alternative formats may need to be followed by those falling within the scope of a SORP or other regulations. At present, the drafting suggests that all entities would need to follow the company law formats unless they conflict with 'any statutory framework' – as this may preclude the application of a SORP format, we suggest that the wording here should be revised.

24. Some FRS 101 preparers will undoubtedly wish to use IFRS formats for their primary statements, but as FRS 101 accounts are legally 'UK GAAP', it is not immediately apparent that this is permissible. Issues may particularly arise regarding the classification of long term trade receivables or payables. For example, under IFRS, certain trade payables may be part of the operating cycle and therefore presented as current liabilities. Under UK GAAP, they would need to be presented as long term if they are due after one year. We understand that this issue may be addressed in the forthcoming new accounting directive, although the publication timetable for this is unclear. We suggest that, if not otherwise resolved, the Board discusses the issue with BIS, Companies House and the Financial Reporting Review Panel to see if agreement can be reached that this would not be regarded as a material breach of the law, bearing in mind the Government's determination to cut 'red tape'. Failure to allow the use of IFRS formats could significantly impair the advantages of following the reduced disclosure framework.

25. In paragraphs 12 and 13 above we raise a number of concerns regarding the current, uncertain position of small company reporting. While we agree with question 1, it is unfortunate that small companies cannot currently look forward to the introduction of an improved new GAAP to a definite timetable as medium and large companies can. In our view a simplified version of FRS 102 could provide an effective GAAP for small companies. We urge the Board to give this option full consideration and in doing so endeavour to introduce the new small company regime to a consistent time-frame with medium and large UK GAAP.

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?

26. We believe that financial institutions should apply IFRS 7 and IFRS 13 (in relation to financial instruments) in full. We appreciate that IFRS 7 and IFRS 13 disclosures could be voluminous, and we are sympathetic toward small financial institutions for whom application of the requirements may prove onerous. However, these two standards have been developed specifically to address the real and specific risks associated with financial instruments, which make up the majority of the balance sheets of financial institutions. In paragraphs 30 and 31 below, we raise some concerns regarding the scope of the 'financial institution' definition. But in general for most financial institutions, we feel that these disclosures are particularly relevant and important. The alternative, for example applying only specific paragraphs of the standard, is problematic – not least in the need to update UK GAAP for IFRS changes - and we feel that these entities ought to have the higher level of transparency offered by applying these standards in full.

27. For all entities qualifying to apply FRS 101, except those that are financial institutions, the standard provides a complete exemption from IFRS 13. We assume that the exemption restriction placed on financial institutions should relate only to IFRS 13 disclosures concerning financial instruments, and that an exemption from the other elements of IFRS 13 should still apply. This point should be clarified.

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.

28. We agree with the scope of FRS 102 as set out in section 1. For the categories of entities mentioned in this section, we largely agree that the additional IFRS requirements referred to are necessary. However, we do question the scope defined for IAS 34 *Interim Financial Reporting.* The application of this standard is not even required for some 'publicly traded' entities that otherwise apply EU-adopted IFRS (AIM companies for example do not need to apply it), yet paragraph 1.4 would require any 'publicly traded' entities falling within its scope to apply it. That would lead to the anomalous situation whereby PLUS-quoted preparers applying UK GAAP would be required to apply IAS 34, while AIM preparers following IFRS would be exempt. We believe that requirements for interim reporting by publicly traded entities should be determined by their market regulators, not by the ASB. Therefore the paragraph should be simply rephrased to stipulate that entities with ordinary shares (or potential ordinary shares) that are publicly traded (or those entities in the process of filing) should follow the requirements for interim reporting of the relevant regulatory authority. There is no need to state that entities choosing to follow IAS 34 should apply that standard. That could be seen as a tautology.

29. We have commented on the interaction of FRS 102 and IFRS 4 in our separate response to the insurance staff paper.

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.

30. We broadly agree that the definition is appropriate. We welcome the Board's approach of publishing a list of the categories of entities included within the definition, as this helps to avoid doubt. At this stage, it would not be helpful to commence a major overhaul of these categories, and in particular we would be opposed to the addition of any additional categories. Nevertheless, we note that the list is not underpinned by a principle describing how entities have been selected for this group. This could be problematic as, in a few cases, there may not be an immediately apparent justification as to why a particular entity has been included. For example, all stockbrokers and insurance brokers are listed even though many will not hold any client assets, and all retirement benefit plans are included even though some of the smallest schemes contain few members. It may be useful for some explanatory text to be added to indicate why those industry groups have been deemed to be financial institutions and whether any exceptions would be permitted, such as stockbrokers or insurance brokers acting merely as agents.

31. We had some discussion with members about whether or not the definition of 'financial institution' ought to include retirement benefit plans or whether instead disclosures for these entities should be contained in a separate section. It should be noted that the needs of users of retirement benefit plan accounts are likely to be different to those of investors in a corporate entity. The returns that individual plan holders are entitled to may bear little or no resemblance to the overall asset performance of the plan. In the case of a defined benefit plan, returns are determined by the contract between the plan holder and the sponsoring employer; for a defined contribution plan, the returns of an individual member will depend upon the assets within his individual account. Nevertheless, plan holders may well bear some residual risk related to plan performance. Specifically in the case of a plan insolvency, members could ultimately be prejudiced, at least in part. Therefore, conceptually, we concluded that it was appropriate to include pension schemes within the definition of a financial institution and for incremental disclosures to apply. However, in setting those disclosure requirements, we do not agree that pension plans should simply be grouped together with other financial institutions. Some of the disclosures required in this section are not relevant for pension plans, others are already covered by the pensions SORP. Rather than simply requiring pension plans to make each of the disclosures in 34.17 to 34.30, it would be better for the requirement to be limited to selected items only. To achieve this, a statement could be added to FRS 102 setting out which of the financial institution disclosures should be made by pension plans. We suggest that the Board work with the Pensions Research Accountants Group to explore further which disclosures it is appropriate to require. It is also important to note that, were our suggestion to provide targeted exemptions adopted, a mechanism would need to be established to assess whether future amendments to financial institution disclosures would apply to pension plans. Our response to question 6 below considers further the extent of disclosure in paragraphs 34.31 to 34.46.

32. It is also unclear how the additional disclosures set out in section 34 will apply in a group situation; this may be a particular issue in situations where one or more subsidiary entities within a group are financial institutions, but the parent is not. It is not clear whether these disclosures would also be required in the consolidated accounts. For groups affected, this will be a significant consideration, and it is important that coherent guidance is provided on the correct treatment in a group context.

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?

33. We are concerned that mandating the use of fair value for biological assets will not result in improved information for users and that, while benefits are questionable, the fair value requirement will result in additional costs for SMEs in the sector. Fair value can of course be useful in some circumstances. For example, businesses writing complex financial instruments such as commodity forwards will be required to fair value these under the new standard. We support this and believe it will provide better information for users. However, requiring use of fair value for biological assets will not in our opinion achieve this result; both the quality of the information presented and comparability between businesses is likely to be impaired. In some cases, both the quantities of agricultural produce held in stock and the market value per unit are readily ascertainable; in other cases, estimation, costly valuation, or both may be necessary. Part of the problem is that agricultural stock is so diverse in nature; for example growing and harvested cereals, livestock production herds and livestock held for fattening, salmon, vines, standing timber. Each requires a different valuation approach. This complexity is likely to lead to different approaches and inconsistencies between categories of produce and individual businesses. The resulting information will not only cost more to produce, but will result in information that is less fairly presented. Accordingly, users are sceptical about the quality of this information. The main potential users of this information will be UK banks, who in our experience prefer to make lending decisions based upon cash flow and secure loans upon land holdings. Livestock or crops will be useful as security for lending only in marginal cases. For these purposes banks are interested in stable, reliable information, and the volatility inherent in fair value could in some cases detract from the usefulness of the financial statements in assessing cash flow. IAS 41 was designed for listed entities where users are making buy/sell/hold decisions. In these situations, short-term changes in fair value may be more relevant, but this is a long way away from the user base of the UK agriculture sector.

34. These consequences are made more significant by the pervasiveness of the issue. Agriculture is a large sector of the economy, comprised predominantly of small producers, many of them unincorporated. We are conscious that with the FRSSE remaining in place for the time being and with micro entity exemptions potentially prohibiting fair value, a large part of that sector will not initially need to apply the biological asset provisions of FRS 102. But this only makes matters worse; some parts of the industry will be applying fair value while others will continue valuing at cost. Certain farms may move cyclically between the two. This does not improve the accounting. Users may become confused as to which of the two measures has been used. We also note that many of those involved in this sector see themselves as engaged in a manufacturing activity and cannot understand why one type of manufacturing activity has been singled out and required to use fair value accounting.

35. We appreciate that this section merely mirrors the treatment in EU-adopted IFRS. We also appreciate the Board's desire to bring UK GAAP in line with international practice and to deviate as little as possible from the IFRS for SMEs. However, IAS 41 has been questioned by a number of commentators in the IASB's recent agenda consultation and change may be on the cards in this area. It would be most undesirable for some UK agricultural businesses (we estimate between 100 – 350 medium or large businesses) to have to undertake the costly transition to fair value only for it to later be repealed by the IASB. For all of these reasons, we suggest that the most appropriate solution would be for the Board to require disclosure of fair values in the notes where these were readily ascertainable, but to step back from requiring recognition of these amounts.

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

36. Not entirely; the treatment itself is acceptable, but more guidance material is needed for transition.

37. As drafted, the transitional provision offering an exemption for pre-existing service concession arrangements could be read as implying that current practice can only be maintained in the first year of application. This is a similar issue as to the transitional provisions for deferred tax; here again it appears that transitional relief is available in the first year but then would not apply in subsequent years. We suggest that the Board re-consider the wording in these sections to clarify that the exemptions can have continuing effect in subsequent financial statements.

38. We would add that, not only does this raise application difficulties, but if the exemption is taken to be only retrospective, continuing contracts would fall under two separate accounting regimes. Furthermore, paragraph 35.10(i) does not stipulate how exempted SCAs should be accounted for, merely that FRS 102 does not apply to them. They should be required to continue to apply previous GAAP (which might be FRS 5 Application Note F or IFRIC 12). The first point made in the previous paragraph arises because of the wording of the introduction to paragraph 35.10 which refers to exemptions 'in preparing its first financial statements that conform to this [draft] FRS'. This is therefore a wider issue than just service concession arrangements.

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?

39. Draft FRS 102 proposes the inclusion in the accounts of retirement benefit plans of a considerable amount of non-financial narrative information – for example, concerning investment strategy – that goes beyond the type of disclosure required by the standard by other entities. Also, some of the proposed disclosures duplicate requirements in the SORP and in pension scheme regulations for information to be included in the trustees' report. The Disclosure Regulations, Audited Accounts Regulations and the pension SORP cover much of the non-financial information required by FRS 102. A table comparing the non-financial disclosures required by FRS 102 for retirement benefit plans to the requirements of other regulations is attached as appendix 1 to this letter. We suggest that the Board seek to avoid duplication in this area and remove most, if not all, of the requirements for such non-financial information to be included in the accounts of retirement benefit plans.

40. Draft FRS 102 sets out requirements for retirement benefit plans' disclosures about financial instruments. It would be useful for these disclosures to reflect the differences between Defined Contribution (DC) and Defined Benefit (DB) plans, because these drive users' information needs. For DB plans, the members' main concern is whether their benefits will be paid, which is not wholly dependent upon the financial instrument risks, so the risk commentary could usefully be accompanied by information about the relationship between investments, plan liabilities and plan funding arrangements. It may be better for such additional information to be presented outside the accounts, in which case it would be covered by the provisions of the pension funds SORP rather than FRS 102. The SORP-making body might consider providing guidance in the SORP on how the employer covenant might be addressed in the trustees' report such that it enhances accounts disclosure of financial instrument risks.

41. It is also important to exclude regulators from the assessment of the needs of pension plan accounts users. Regulators of other financial institutions obtain the information they need about solvency risks from other sources, such as regulatory returns and Solvency II reports. If the pensions regulator requires any specific information to be disclosed, it should seek to receive this separately from the financial statements.

42. For DC plans, risk information is important because of its effect on the value of the fund, which may determine the amount of benefits to be paid, although as far as individual members are concerned, accounts for the plan as a whole are less relevant than the value of the individual's own fund. It should therefore be stated that these disclosures relate to plan level investment risks and not risks relating to individual member investment pots. Draft FRS 102 does not mention the allocation of assets in DC plans between member and unallocated funds and it would therefore be beneficial for this to be clarified.

43. Paragraphs 34.32 and 34.35 set out the objectives of financial reporting by DC and DB plans, but we do not currently believe this has been achieved satisfactorily. We suggest that the wording of these paragraphs be revisited. In doing so a reference could be made to distinguish between DC and DB arrangements.

44. More guidance could usefully be included about pension plans' accounting for subsidiaries, associates or joint ventures. We are conscious that these arrangements are relatively uncommon, but where they do exist, the effect of insufficient guidance could be considerable, since draft FRS 102 could be read as introducing significant change. Under existing UK GAAP, the SORP requires them to be consolidated or equity accounted, as they would be by any other parent or investor. FRS 102 paragraphs 9.9A, 14.4B and 15.9B may be interpreted as meaning that subsidiaries, associates or joint ventures held by retirement benefit plans as part of an investment portfolio, which most will be, should be carried at fair value as any other investment asset, rather than consolidated or equity accounted. If this is the ASB's intention, it should be clarified by the inclusion in section 34 of specific references to those other paragraphs. If this is not the ASB's intention, then the required other accounting should be set out in section 34.

45. Paragraph 34.39 requires the net assets available to pay benefits to be measured at fair value by specifically referring to the guidance in paragraphs 11.27 to 11.32. This does not appear to address the possibility that a pension plan may hold non-financial assets. It would be preferable for the cross-reference to be broadened to accommodate this (and this might also be where the treatment of subsidiaries, associates and joint ventures is addressed).

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

46. It would be better for information about the pension liability to be included in the trustees' report and therefore we believe that the requirement should be added to the SORP rather than being included within FRS 102.

47. We note that the FRED requires disclosure of the assumptions and methodology used to determine actuarial liabilities. We support these disclosures. We do not consider that including information about the actuarial present value of retirement benefits in DB plans is helpful without setting out the underlying actuarial assumptions. Although the assumptions are currently contained in the statement of funding principles for the plan, the information is contained across different reports, so that members need to refer to a series of documents. It would be better if all information were in a single statement.

48. However, in our opinion, rather than inclusion within the financial statements, the Summary Funding Statement (SFS) already sent to DB plan members, which is outside the scope of the audit, could be used to contain any additional information not covered by the current legislative requirements for the trustees' report. The SFS could be strengthened by inclusion of information about actuarial assumptions, investment risks and the employer covenant. The detailed application of these provisions would then be dealt with in the SORP rather than in FRS 102.

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?

49. Yes, we agree that the requirements are sufficient. We support the incorporation of the exemption for wholly owned subsidiaries. However, we note that at present the wording in this area differs between FRS 100, 101 and 102; it would be preferable to use consistent wording throughout. The terminology used in paragraph 33.1A of draft FRS 102 is based upon that in the Companies Act regulation (SI 2008/410), but it is inconsistent in some crucial regards. Firstly, FRS 102 paragraph 8(l) uses the expression 'by a member of that group' where the Regulations (and FRS 100 and FRS 101) use 'by such a member'. Paragraph 8(l) of FRS 102 should be made consistent with the Regulations. Secondly, there is a typo in 33.1A of FRS 102; 'are wholly owned' should be replaced by 'is wholly owned'.

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

50. We agree with the effective date proposed. However, the Board has not provided an adequate explanation of why it is prohibiting early adoption for periods <u>beginning</u> before the date of issue of the standard. We do not believe there is any reason to discourage early adoption for those entities with periods <u>ending</u> on or after the date of issue (even if the period did begin before issue), and if such reasons do exist they should be explained more clearly and why the introduction of this standard should be treated differently to any other previous standard.

51. Paragraph 14 of FRS 102 prohibits public benefit entities from early adoption until the relevant SORP has been developed. We support this restriction as it avoids potential problems. However, not all PBEs are within the scope of a SORP and therefore this requirement needs to be qualified.

52. Due to the widespread support for FRS 101, the Board should consider the accelerated introduction of this standard, so that it can be used for December 2012 year ends, although we recognise that changes to the law will be necessary to accommodate this.

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

53. We welcome the publication of the alternative view (AV) held by one Board member alongside the FREDs themselves. Publication of a dissenting view demonstrates strong due process and provides a valuable opportunity for further debate. We have reviewed in detail the arguments put forward in the AV, but on balance we do not support this perspective for the reasons explained below:

User focus

54. We acknowledge the focus in the AV on the primacy of users. We agree that user needs should rightly be the overriding consideration in devising a new financial reporting regime for the UK. It is essential that financial reporting has a clear objective and that this is focussed on the information needs of financial information consumers. Indeed, we would go further in specifically identifying ‘users’ as providers of equity or debt risk capital. The financial statements should be produced to provide understandable, relevant and reliable information to this primary user group.

55. We agree that it is useful to conduct research among users. Given the advanced stage that this project has reached, and the general suitability for adoption of the FREDs, we do not believe that extensive further fieldwork would be productive. But to the extent that the Board can engage in dialogue with users as it finalises the proposals, we would welcome this. There is clearly also a place for user consultation through the post-implementation review process.

56. However, we disagree with the assertion in the AV that the project does not currently achieve such a focus. As we understand it, the intention in AV section 2 is to focus simply on ‘user needs’ rather than attempting to infer what those needs might be in terms of financial statement attributes. We do not believe such an approach is helpful. As the AV states in paragraph 2.2(b), the desire of users to receive high quality and understandable financial information is not in question. It is therefore unclear why a framework aimed at providing relevant, reliable and understandable information would fail to meet user needs. This point becomes clearer when it is considered that AV section 2, while focusing on the project objective, omits to reference the objective of financial statements set out in draft FRS 102 2.2 & 2.3. FRS 102 establishes as its overriding objective the production of financial information ‘useful for economic decision-making by a broad range of users’. This demonstrates that user needs are at the heart of the new regime.

57. The AV then identifies four areas where the FREDs are felt to be deficient, either because the information presented is unduly complex, or because of the potential for variability between the balance sheet value and final realised cash flows. We disagree that FRS 102 is fundamentally deficient in any of the four areas and we address each in turn below.

Financial instruments

58. The AV criticises the model for financial instruments proposed in FRS 102 as being unduly complex and subject to inherent variability; AV paragraph 4.4(a) suggests that fair value for financial instruments produces 'spurious accuracy and may be misleading'. We accept that the year-end fair value of an asset or liability may not equal the amount for which it is eventually settled in cash and that in some cases there could be a wide range of possible final outcomes. But we do not agree that the natural susceptibility of certain asset or liability classes to variability or the fact that future events are uncertain means that already occurred value changes should be overlooked in the measurement approach. Financial reporting does not cause the underlying volatility - that is a function of the asset or liability itself. It may well be desirable to present with certainty the future cash flows from an asset or liability, but unfortunately such certainty is often unobtainable. In its absence, it is important that the financial statements present the best available information about assets and liabilities. Some degree of estimation is necessary in the preparation of accounts, and fair value is not unique in this. Draft FRS 102 already provides a safeguard against excessive variability in valuation, as it requires fair value only where it can be 'measured reliably', so if the range of estimates is too wide to give a meaningful answer fair value is not used.

Defined benefit pension schemes

59. We appreciate that the AV sets out only a selection of headline issues, and that further elaboration would be necessary if this line of inquiry was pursued. But beyond a general reduction in disclosure, it is unclear how the AV envisages pension accounting from operating. From elsewhere in the AV document, it appears that the main elements of a new approach might be an attempt to more closely correlate pension assets / liabilities with actual cash flows and to smooth volatility over time in the asset / liability presented. Quite apart from departing from well-established UK and international pensions accounting practice, inclining toward either of these two objectives is likely to reduce the reliability and relevance of the information presented. Given the long time period before final settlement, it is difficult to forecast actual cash flows, but inclusion of current asset and liability valuations serves as a best available proxy for these. The relevance and reliability of the information presented would be reduced if changes to asset values that had already occurred or updates to key metrics affecting expected future payments to pensioners failed to be recognised. As far as disclosure is concerned, for defined benefit schemes this can indeed be voluminous. But the extent of disclosure merely mirrors the materiality and complexity of the net underlying liability (or occasionally asset) that the business is exposed to. The accounts would be deficient without adequate disclosure in this area.

Deferred tax

60. The proposed treatment of deferred tax is criticised in the AV as being unduly complex. We have some sympathy with this view and welcome EFRAG’s current pro-active project to examine this topic. However, we note that the Board has already focused significant time in this area in devising a new UK approach within FRS 102. We are generally content with the solution the Board has proposed and in any case the door has been left open to further development in the future. Consequently, we do not believe it would beneficial at this time to undertake a more extensive re-evaluation of accounting for deferred tax.

Equity settled share-based payments

61. The AV is critical of the recognition of share-based payments in circumstances where there is potential model inaccuracy. We agree that obtaining a valuation for share-based payments can be difficult and subjective in some situations, despite the general availability of established valuation techniques. However, we do not accept that the response to such uncertainty should be non-recognition. In entities offering material share-based payments, these transactions are relevant to an assessment of performance and their inclusion therefore provides useful information.

ADDITIONAL OBSERVATIONS

Incorporation of IFRS 9

62. The Board is proposing to issue a supplementary exposure draft upon the finalisation of IFRS 9 with a view to updating sections 11 and 12 of FRS 102 for these new requirements. Given that IFRS 9 is being developed through an exhaustive due process in response to financial crisis issues, and in our opinion offers better accounting, it makes sense to introduce these principles as soon as possible into UK GAAP. We therefore support this approach and look forward to commenting on this separate exposure draft in due course.

63. However, we would not wish to see this process interfere with transition to the new UK framework. Once FRS 102 is published in final form, preparers need a period of stability and certainty that there will be no mandatory amendments affecting implementation. A period of at least eighteen months should be allowed between the publication of any amendments in final form and their mandatory implementation date. Early implementation may be permitted.

Period for assessing going concern

64. Section 3.8 remains unchanged from the IFRS for SMEs, and requires going concern to be assessed for 12 months from the reporting date. This is consistent with EU-adopted IFRS but not with the auditing standards or FRC guidance, which require the 12 month period to commence from the point at which the financial statements are approved. We appreciate that in practice auditors would in any case be required to press for their more stringent assessment period, but perpetuating the disparity between the two systems is unhelpful. In our opinion IFRS is deficient in this regard, and in our response to the Sharman inquiry (ICAEW REP 3/12) we urged the FRC to lobby the IASB for this to be changed. We therefore feel it is essential for the ASB to take the lead and make this change within FRS 102 to ensure consistency with material issued by the FRC.

Quoted bonds

65. Paragraph 11.5 (e) classifies bonds as basic financial instruments and thereby requires them to be valued at amortised cost. In some cases entities may hold quoted or otherwise actively traded bonds for which there is a readily ascertainable market price. It would appear inconsistent for these to be held at amortised cost when equity investments are fair valued and we therefore suggest that such instruments may be more appropriately included within the fair value requirement.

Section 29: Income Tax

66. We acknowledge the effort the Board has gone to in developing a new approach to income tax for UK GAAP. As we commented in the previous consultation, the income tax section in the IFRS for SMEs was not fit for purpose and the Board's interim solution of replicating IAS 12 in full was far from ideal. Therefore we welcome the Board's development of a different solution, and it may well be that this UK and Irish innovation ends up influencing international practice. However, we are also conscious that the IFRS for SMEs will need to be updated in due course and inevitably this will differ from the current text of FRS 102. Consequently, while we welcome the effective 'grandfathering' of UK GAAP (with some variation) as a temporary pragmatic solution by the ASB, it is an area that should be kept under review in order to try to minimise deviation from the eventual IFRS position.

67. There are however some transitional issues to consider. One such issue relates to the discounting of deferred tax balances. While we recognise that this is prohibited under IFRS, and we support the Board's commitment to IFRS consistency going forwards, it would be useful to provide some transitional relief here. In certain industries (for example manufacturers receiving industrial buildings allowance on a long life asset), the effect of discounting can be significant and, although it would have no cash effect, to unwind this on transition could materially impact post-tax profits and net assets at the point of transition. This may affect an entity's borrowing capacity and would therefore be undesirable in the current economic climate, particularly when it affects SMEs. We would therefore welcome targeted transitional relief in this area.

Insurance-related matters

68. The insurance contract exemptions currently available in EU-adopted IFRS, which scope out items such as revenue and intangible assets, should be included within FRS 102. On a similar point, section 11 scopes out insurance contracts and financial instruments with discretionary participating features (DPF). However, section 12 refers to 'rights under insurance contracts unless the insurance contract could result in a loss to either party as a result of contractual terms that are unrelated to (i) changes in the insured risk, (ii) changes in FX or (iii) default by one of the counter parties'. We are uncertain as to why this wording has been included and would have expected all DPF contracts to be scoped out and included in IFRS 4 as they are now under EU-adopted IFRS.

69. We are unclear how financial guarantees would be accounted for under the proposals, specifically whether it is envisaged that they are under IFRS 4 or part of section 12.

70. We discuss insurance accounting in more detail in our accompanying letter, Rep 65/12.

Extractive activities

71. Paragraph 34.11 could cause significant issues for companies in the extractive industries. It is current practice under both the oil and gas SORP and IFRS 6 to be able to capitalise exploration and evaluation expenditure, but it is unclear whether continuation of this practice is permitted by draft FRS 102. Paragraph 34.11 cross refers to sections 17 and 18 for 'assets for use in extractive industries' but it is unclear whether this embraces exploration assets or just those assets such as plant and machinery used in exploration.

SORPs

72. The Board may wish to clarify whether SORPs would apply for companies reporting under FRS 101. In our view, companies opting to apply this standard, and using EU-adopted IFRS except in those areas where exemptions are offered, will not benefit from the additional complication that SORP compliance would entail. We therefore suggest it be clarified that SORP compliance is not required by companies applying FRS 101. This is particularly important as the SORPs will then be interpreting a wholly different GAAP – FRS 102.

Consequential amendments to the FRSSE

73. Our general views on the future of the FRSSE are set out in paragraphs 12 and 13 above. In this section we comment specifically on the Board's proposed consequential amendments to the current FRSSE text.

74. We understand the rationale for the updating of FRSSE paragraph 5 to link to FRS 102 rather than withdrawn UK GAAP. But due to the conceptual differences between FRSSE and FRS 102, this link becomes more problematic than was previously the case. Despite the words 'not as a mandatory document', there are differing points of view about how persuasive the requirements of FRS 102 are when selecting a new accounting policy under the FRSSE. For example, significant concerns have been expressed over whether a new small farming entity would be obliged to account for biological assets at fair value. The ASB should make it unambiguously clear that this is not the case. It may be desirable to delete entirely the reference to FRS 102 from paragraph 5, particularly in view of the fact that the FRSSE has a limited lifespan (see paragraph 13 above).

75. Paragraph 6.13 of the FRSSE is amended to change the presumed useful life of goodwill from 20 to 5 years. This is a significant change that could have a considerable impact on the balance sheets and profit and loss accounts of affected entities. We appreciate that the Board has made this change to bring the FRSSE in line with EU law, but in this instance the Directive (and schedule 1, paragraph 22 of the Accounting Regulations in the UK), which is more equivocal in this respect, may have been over-interpreted. The Board may wish to revisit the wording in this area, as although 5 years may be an appropriate amortisation period in some cases, it would be undesirable if it were to become considered the default answer. It is curious that change has been considered here in any case, as the law has not changed. In practice, we do not expect many entities to feel the need to change already established useful economic lives as these are in any case an estimate, but again the implications for transition could be recognised more explicitly in the text of the FRSSE. This point also applies to FRS 102.

PUBLIC BENEFIT ENTITIES

76. Overall we welcome the progress made in developing the supplemental accounting requirements for public benefit entities under the new framework. A key objective of this process was to achieve greater consistency between the reporting by different types of PBE. Although this may not have been comprehensively achieved (and the final outcome may depend upon the development of the SORPs), the new framework does make a valuable step in this direction. We also welcome the Board's decision to include the text of what was FRED 45 within the body of the main standard, as this will make the overall framework more accessible for readers.

77. We do, however, have a number of more detailed observations below. Some of these matters mean that, as currently drafted, use of the new framework may not be operable for PBEs and therefore these require urgent attention.

78. In our opinion, the 2007 interpretation of the statement of principles developed for PBEs is a useful starting point when deciding upon the accounting requirements that should apply. In constructing the PBE sections of FRS 102, the Board does not seem to have taken the SoP as a starting point. This is unfortunate, as it would have led to a better answer in some places. In any revision of these sections, we suggest that the Board start from the SoP in devising a way forward.

Income recognition for charities

79. Our most significant concern relates to the various elements of the standard that determine income recognition for charities. Indeed, getting the definition and treatment of income recognition right is key to the success of the standard. We welcome the work the Board has done in attempting to simplify and consolidate the categories of income, but as currently drafted the requirements are not capable of application in practice. In particular, there is a problematic conflict between 'restricted' income and the 'performance conditions' that would determine income recognition under the standard. Draft FRS 102 explains that a performance condition is 'a requirement that specifies that the resource is either to be used by the recipient as specified, or if not so used, to be returned to the donor'. Such a definition would catch most restricted income and therefore preclude its recognition. It would be better to focus the definition of performance conditions on the supply of a particular level of service or units of output rather than focusing on repayment.

80. In addition, the FRED's definition of a 'restriction' needs updating, as it is not in line with charity law. Draft FRS 102 states that a restriction 'does not require that resource to be returned to the donor if the resource is not used as specified.' These words are unnecessary and inaccurate in the context of charity law. The key issue here would seem to be whether the condition is in substance within the control of the reporting entity – in most cases the entity is able to ensure that the money will be spent on the restricted purpose and so there is no obligation in substance to return it. But there may be instances where the restriction is unlikely to be able to be met and repayment is probable, in which case it would not be appropriate to recognise income.

81. The situation is then complicated by the location of PBE income recognition requirements in two different locations; grants and non-exchange transactions (and commercial revenue would form a third category under section 23). Conceptually, it may be hard to distinguish a grant from a donation, indeed the terms can be used interchangeably. The performance condition requirement for grants accounted for under the performance model may give rise to the same concerns as those noted in paragraph 79 above. Overall therefore we feel that the income recognition requirements need further thought. Conceptually, the charity sector currently distinguishes between:

- contractual arrangements
- performance related grants

- grants subject to conditions which are substantive
- grants subject to conditions which are insubstantial, eg the requirement to provide progress reports
- unconditional grants.

Although much of the detail in this regard might more appropriately be contained within the relevant SORP(s), at least FRS 102 might consider a distinction in this way. In doing so it is important to limit the application of section 24 to those grants that have performance conditions attached. This will mean that the options in this section cannot apply to un-conditional donations that may have been termed grants. In any re-drafting, it may be that some of the helpful definitions and guidance on income recognition contained within the Charity SORP could be considered as a basis. Further discussions with sector representatives could help in this exercise.

82. It is particularly important to many charities to recognise that grant proposals may contain a fair amount of detail about outputs, without being contractual. A grant proposal may contain targets in terms of schools to be built, wells to be dug and so on, as part of an overall education or sanitation programme, but without the payment of the grant being specifically linked to that number of outputs. It will also be important to ensure that other key sectors such as registered providers of social housing and education are content with any changes to the definitions and therefore it may be helpful to hold further discussions on these points with those sectors as well.

Non-exchange transactions

83. We welcome the progress made by the Board in developing the requirements in accounting for non-exchange transactions as this was one of the most problematic elements of FRED 45. We support the requirement in paragraph 34.71 to measure these transactions at fair value. However, it should be noted that this will entail a change to current practice in some areas and in applying the new requirements there is a degree of subjectivity in deciding upon the method for determining these fair values. This may be a particular issue for donated goods or services that an entity is prevented from selling on the open market. We therefore suggest that the Board give further thought to this area.

Funding commitments

84. In our response to the FRED 45 consultation, we suggested that this section be deleted as it is inconsistent with IAS 37 principles and diverges from current practice. We urge the Board to reconsider this suggestion, as the inclusion of this section will cause a number of practical problems. The fact that these requirements are no longer explicitly restricted to PBEs makes these concerns regarding inconsistency even more significant. We cannot understand why the rules for funding commitments should depart from those established for other provisions or from the definition of a liability. The easiest solution would be to simply delete the section. If this is not possible, then the Board may wish to consider the deletion of the last sentence in 34A.2 ‘Similarly, a promise to…’. The focus should instead be on whether the outflow of funds is probable.

PBE combinations

85. The requirements for PBE combinations require some clarification. Specifically, it is proposed that both the acquirer’s and acquiree’s pre-acquisition balance sheets would need to be disclosed. We do not agree it is necessary to disclose both balance sheets. For business combinations that are essentially a gift, the most important disclosures are those of the fair value of the assets gifted, therefore the split between pre and post-acquisition balance sheets may be unnecessary.

Grants

86. Paragraph 24.3 refers explicitly to income tax but it is not clear whether this requirement would also apply to indirect taxes. We suggest that this be clarified.

SUGGESTED DRAFTING IMPROVEMENTS

87. FRS 100 paragraph 8 requires that where an entity has omitted a SORP disclosure it gives 'brief details of the disclosure and the reason why it hasn't been provided'. It might be useful to clarify that such a disclosure would not be necessary where the departure related only to the omission of an immaterial disclosure.

88. The table in appendix paragraph A2.19 of draft FRS 100 omits the Friendly Societies Act 1992, attaching statutes to which (notably The Friendly Societies (Accounts and Related Provisions) Regulations 1994) determine the form and content of friendly society accounts.

89. Draft FRS 101 requires a list in the notes to the financial statements of the relevant standards and the paragraph references for any exemptions adopted (Draft FRS 101 7(b)). This risks becoming merely a boiler plate disclosure. Perhaps instead the preparation note could refer to the use of EU-adopted IFRS, adjusted as necessary, and that the disclosure exemptions in IFRS 101 have been applied to the extent comparable with giving a true and fair view (or some similar rubric).

FRS 102

90. It would be helpful if FRS 102 adopted a consistent approach throughout in referring to either the Balance Sheet (BS) or Statement of Financial Position (SoFP). For example, draft FRS 102 paragraph 4.1 states that the SoFP can be called the BS, but then in 4.2 and 4.3, one uses BS while the other uses SoFP. Given that the Companies Act uses the term 'balance sheet,' it may be easier for users were this terminology to be also used in FRS 102.

91. True and fair: there is an inconsistency between references to preparing accounts which show a true and fair view, and requiring 'fair presentation'. It would be better to use one term consistently, but at the very least reference should be made (perhaps in the legal appendix) to Counsel's opinion on the matter.

92. To aid the simplicity of use of the standard, consideration could be given to identifying within each section of the standard those disclosures to which the disclosure exemptions in paragraphs 1.8 to 1.13 might apply.

93. Paragraph 1.12(b) exempts qualifying entities from the requirement to provide the financial instruments disclosures in paragraphs 11.39-11.48. This includes the accounting policy disclosure in 11.40. We do not agree that the exemption should incorporate the accounting policy itself, as this is essential to users in understanding the accounting adopted in this area.

94. Section 9 does not refer to the consolidation exemption for small groups that is available in law. It would be useful if mention was made of this, perhaps as paragraph 9.3(f).

95. Paragraph 9.9B could usefully be clarified. A 'subsidiary excluded from consolidation' cannot 'select a policy of accounting in accordance with 9.26'. Presumably the parent of the subsidiary excluded from consolidation should select an accounting policy.

96. Paragraph 9.25 requires an entity that is not a parent to apply paragraphs 2.53 to 2.55 to employee share ownership plans. No equivalent requirement is given for the separate financial statements of an entity that is a parent; and no explanation is provided for this distinction. There are arguments for and against the 'look through' accounting currently required by UITF 38 as compared with treating the ESOP trust like any other subsidiary, which is permitted under IFRSs. However, it is difficult to understand why FRS 102 should mix the two approaches. The material at 2.53 to 2.55 is derived from UITF 32 and is not written with ESOP trusts in mind. This requires further thought.

97. It is unclear why the accounting policy choices available in respect of accounting for interests in associates and jointly controlled entities differ between the separate financial statements of a parent (paragraph 9.26) and the accounts of an entity that is not a parent (paragraphs 9.25, 14.4 and 15.9), i.e. why fair value through profit or loss is not available to non-parents but is available in the separate financial statements of parent entities. We suggest that the accounting policy choices either be aligned or an explanation given for the difference.

98. Paragraph 11.48A uses the term ‘financial instruments’; the ASB should consider whether it intends these requirements to apply only to financial liabilities which appears to be the intention. The question then arises as to the disclosures required under this section for interests in subsidiaries, associates or joint ventures. Company Law (SI 2008/410 schedule 1 paragraph 36) requires certain disclosures where such interests are measured at fair value, yet paragraph 11.48A, which appears to be aimed at financial liabilities, does not seem appropriate for this purpose.

99. Paragraph 12.18 (a) appears to include a drafting error in that it specifies certain instruments that can be designated as hedging instruments, but then includes 'a financial asset; or financial liability', which would allow any financial asset or liability to be designated as a hedging instrument.

100. Paragraph 13.4a applies to ‘inventories held for distribution’. We understand that this is intended to be relevant in a PBE context, but note that as drafted there is no indication that this provision is PBE specific. We question whether this ought to be clarified. Many businesses will hold stocks of items that will not specifically be sold for consideration (spare parts, samples, and so on). We do not believe that the Board’s intention was for all of these items to be revalued annually to replacement cost.

101. Paragraph 17.7 uses a bus as an example of plant or equipment where major inspections are performed. The costs likely to be incurred to maintain a bus are relatively trivial in comparison to those regularly incurred for the replacement of parts on large items of heavy machinery and therefore this example may be misleading. We would instead suggest an example such as a ship or aeroplane may be more appropriate.

102. The lessee operating lease disclosures set out in paragraph 20.16(c) of the IFRS for SMEs have been left out of draft FRS 102. This disclosure provides useful information for users and it would be useful if it could be reinstated.

103. Paragraph 27.28 has been amended to permit the reversal of an impairment loss for goodwill in certain circumstances, but 27.31 has not been amended to match. Consequently, reversals of impairment are allocated to the assets of the CGU 'except for goodwill'.

104. Paragraph 28.38 refers to group plans but does not appear to deal with either the liabilities or assets associated with such a plan. This needs to be clarified.

105. Income tax: It would be useful to include the definition of substantive enactment from paragraphs 40 and 41 of FRS 19. We also question the intended format of the disclosures required by paragraphs 29(b) and (c). To avoid doubt here it may be better to revert to the current wording of the disclosure requirements in FRS 19. In addition, under 29.10 it is not clear how the 'amount attributed for tax purposes' is to be determined – this may go beyond recognising deferred tax on fair value adjustments to a full IAS 12 balance sheet approach, for example when an asset is acquired for which tax relief will never be available in future. It is not entirely clear how 29.15 and 29.16 (which appear to reflect the forthcoming amendment to IAS 12 *Deferred Tax: Recovery of Underlying Assets*) are relevant to a 'timing differences' approach.

106. Paragraph 34.55-34.61 Funding commitments: the sub-heading 'funding commitments' needs to be underlined. Presumably the intention was also that these should be 'PBE paragraphs'. Otherwise it could be interpreted to include any commitment to provide resources, for example a commitment by a parent to provide working capital to a subsidiary or a commitment by an investor to provide additional funds if required. It may also conflict with the requirement to account for a commitment to make a loan in accordance with Section 12. The term 'funding commitments' requires careful definition and the scope of these paragraphs needs to be refined.

107. The comment on section 12 in Appendix 1 starting 'Paragraph 12.23…' is missing the word "not". Foreign exchange differences are not reclassified to profit or loss on disposal or partial disposal of a foreign operation per paragraph 12.23.

108. We also question whether Appendix 1 could be extended to encompass a few more of the significant text changes from the IFRS for SMEs as this may be useful to readers of this section. For example:

- Paragraph 27.6 treatment of an impairment of revalued assets, and
- Paragraph 27.28 where impairment of goodwill can be reversed

have both been amended from the IFRS for SMEs, yet neither is referred to in the appendix. It might be useful for these and equivalent changes to be referred to here.

109. Appendix II to draft FRS 102 suggests that the terms "Turnover" and "Revenue" are broadly equivalent. This is not correct. Turnover is defined in section 474 of the 2006 Act and relates only to amounts derived from the provision of goods and services. This is the amount that must be disclosed as a line item at the top of the profit and loss account. Revenue, as defined in the glossary to draft FRS 102, is a broader term and embraces items such as dividends and interest receivable. Turnover is therefore a sub-set of revenue (which is itself a sub-set of income). Chapter 23 of draft FRS 102 addresses the recognition and measurement of revenue in the broader sense. Appendix II should explain this distinction rather than stating that the terms are broadly equivalent. In addition, the Board may wish to consider deleting the term 'ordinary activities' within the glossary revenue definition given that FRS 102 paragraph 5.10 defines 'ordinary activities' as all-encompassing, therefore making the restriction redundant.

E john.boulton@icaew.com

APPENDIX 1: Comparison of the non-financial disclosures required by FRS 102for pension schemes to the requirements of other regulations.

FRED 48		**Extant provision**
Requirement	Paragraph reference	Reference / comment
A description of significant activities of the period and the effect of any changes relating to the plan, and its membership and terms and conditions	34.32 a) for DC, 34.35 a) for DB	SORP: Not mandatory but suggested content of Compliance or Trustee's Report
Statement reporting on the transactions and investment performance for the period and the financial position of the plan at the end of the period	34.32 b) for DC, 34.35 b) for DB	Investment performance: Schedule 3, para 14 c) of the Disclosure Regulations Transactions: para 7 of the Schedule to the Audited Accounts Regulations and SORP paras 2.14 – 2.16 Year end position: para 2 of the Schedule to the Audited Accounts Regulations SORP: para 2.18
A description of the investment strategies	34.32 c) for DC, 34.35 d) for DB	Schedule 3, para 12 of the Disclosure Regulations requires the trustees to include a statement that a SIP has been produced and that a copy is available on request. Schedule 3, para 14 a) requires that any deviations from the SIP are disclosed. Para 1.10 of the SORP encourages inclusion of investment strategy and policy.
A description of the funding policy shall be presented either, as part of the financial statements, or alongside the financial statements	34.34	No specific disclosure currently required but unclear as to what the reference to 'funding' means in the context of a DC scheme.
Actuarial information	34.35 c) (for DB schemes)	SORP: para 1.14 encourages inclusion of the Summary Funding Statement within annual report Regulation 6 of the Disclosure Regulations requires inclusion of the certification of the adequacy of contributions payable SORP: para 1.16 encourages the inclusion of the certification of the calculation of technical provisions.
Information regarding the actuarial present	34.37	Actuarial information required is as below:

value of promised retirement benefits shall be presented either, as part of the financial statements, or alongside the financial statements.		SORP: para 1.14 encourages inclusion of the Summary Funding Statement within annual report Regulation 6 of the Disclosure Regulations requires inclusion of the certification of the adequacy of contributions payable SORP: para 1.16 encourages the inclusion of the certification of the calculation of technical provisions.
Details of any single investment exceeding either 5% of the net assets available for benefits or 5% of any class or type of security	34.40 c)	Para 4 of the Schedule to the Audited Accounts Regulations and SORP para 2.194 require disclosure of exposures of over 5% of scheme net assets Schedule 3, para 16 of the Disclosure Regulations require disclosure of concentration of investment in the sponsoring employer. No current requirement to disclose any investment over 5% of any class or type of security.
Details of any investment in the employer	34.40 d)	At the year end - Schedule 3, para 16 of the Disclosure Regulations and para 5 of the Schedule to the Audited Accounts Regulations SORP: para 2.176 requires disclosure at any time during the period as well as at the year end.
The actuarial present value of promised retirement benefits, distinguishing between vested and non-vested benefits. The actuarial present value of promised retirement benefits shall be based on the most recent valuation which is prepared by the trustees	34.43 a)	Actuarial information required is as below although no distinction is required between vested and non-vested benefits. SORP: para 1.14 encourages inclusion of the Summary Funding Statement within annual report Regulation 6 of the Disclosure Regulations requires inclusion of the certification of the adequacy of contributions payable SORP: para 1.16 encourages the inclusion of the certification of the calculation of technical provisions.
The technical provisions ie the amount required to meet the actuarial liabilities and the actuarial estimate of the solvency of the plan	34.43 b)	SORP: para 1.14 encourages inclusion of the Summary Funding Statement within annual report
The significant actuarial assumptions made and the method used to calculate the actuarial	34.43 c)	Assumptions are not required to be disclosed by either the SORP or regulations. However, actuarial assumptions and

present value of promised retirement benefits.		method are included within the Statement of Funding Principles (SFP).
The date of the valuation	34.44 b)	Regulation 6 of the Disclosure Regulations requires inclusion of the certification of the adequacy of contributions payable. This will indicate the effective date of the valuation.
A retirement benefit plan shall disclose, either as part of the financial statements or alongside the financial statements, a description of its funding policy. The disclosure shall explain how the promised retirement benefits will be met through the investment strategy and funding policy.	34.45	SORP: para 1.14 encourages inclusion of the Summary Funding Statement within annual report. All the information required is included in the SFS, SFP and SIP, hence all the information noted is available although not necessarily included within the annual report.
The names of the employers and the employee groups covered	34.46 a)	Schedule 3, para 3 of the Disclosure Regulations requires disclosure of the scheme's professional advisers. The sponsoring employer is often included within this listing but does not have to be although this information is included in the SORP example trustees report. Employee groups covered are generally included although, again, this is not a formal requirement.
The number of participants receiving benefits and the number of other participants classified as appropriate	34.46 b)	Schedule 3, para 5 of the Disclosure Regulations
The type of plan – defined contribution or defined benefit	34.46 c)	This information is not specifically required but is often included in the trustees report or compliance report . It is included in the SORP example annual report but is not a requirement of the regulations.
A note as to whether participants contribute to the plan	34.46 d)	This information is not specifically required but is often included in the trustees report or compliance report
A description of the retirement benefits promised to participants	34.46 e)	This information is not specifically required but is often included in the trustees report or compliance report
Plan termination terms	34.46 g)	No current requirement to include such terms. For DB schemes, SORP: para 1.14 encourages inclusion of the Summary Funding Statement within the annual report and this will include buy out information.