



By email to: asbcommentletters@frc-asb.org.uk

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

30 April 2012

Dear Michelle

THE FUTURE OF FINANCIAL REPORTING IN THE UK AND REPUBLIC OF IRELAND

We welcome the opportunity to comment on the revised proposals in FREDs 46 to 48 (also referred to in this letter as FRSs 100 to 102).

We support the proposals to develop a new accounting framework and we welcome the fact that the ASB has taken account of comments on the previous exposure drafts in developing the revised proposals. In particular we support:

- The changes to restrict the scope of application of EU-adopted IFRS by removing the reference to public accountability. This is in line with our response on the earlier proposals in FRED 44.
- The amendments to retain certain accounting policy choices that exist in current UK GAAP, including revaluation of properties and capitalisation of interest and development costs.
- The expansion of the reduced disclosure framework to include parent entities.
- The inclusion of requirements for public benefit entities in the new FRS 102, rather than in a separate standard.
- Moving the mandatory effective date to accounting periods beginning on or after 1 January 2015 while allowing early adoption. However, we do not believe that this should be restricted to accounting periods beginning on or after the date of issue of the new standards.

We do not consider that the ASB has clearly articulated why it believes that all financial institutions should give the additional disclosures in section 34 of FRED 48. We question why all financial institutions are required to give this additional disclosure and why this disclosure only appears to be required in the individual entity financial statements and not within any relevant FRS 102 consolidated financial statements.

PricewaterhouseCoopers LLP, 80 Strand, London WC2R 0AF
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 4652, www.pwc.co.uk



Our answers to your specific questions are included in the attached Appendix 1. We have made a number of other detailed comments in Appendix 2, including some comments on the new deferred tax section. We previously commented that the ASB should take time to simplify the measurement and disclosure guidance in respect of deferred taxes in keeping with the rest of the chapters of the new standard. We note that the new section on deferred tax has been simplified, but we consider further review of this section is needed to remove some inconsistencies between wording derived from a timing difference approach in FRS 19 and from a temporary difference approach in IFRS.

Our response to the ASB in respect of the Insurance discussion paper is being sent in a separate letter. We have included some insurance-specific comments in relation to the proposals in FRS 102 within Appendix 2.

Minor drafting comments are noted in Appendix 3.

Please contact Peter Holgate or Iain Selfridge if you would like to discuss the contents of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read "PricewaterhouseCoopers LLP", written in a cursive, stylized script.

PricewaterhouseCoopers LLP



Question 1

The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

We have commented previously that we consider the adoption of the IFRS for SMEs as the foundation for the new FRS is a much preferable option than the use of full IFRS as a starting point as this embodies the 'think small first' and 'minimum gold plating' principles for those entities that do not need the complexity of full IFRS. However, we agree that the ASB should make changes to the IFRS for SMEs to permit existing accounting treatments in UK GAAP that are aligned with EU-adopted IFRS.

We support the revised proposals and welcome the fact that the ASB has taken comments on the previous exposure drafts into account in developing the revised proposals. We support the changes to restrict the scope of application of EU-adopted IFRS, the amendments to retain accounting policy choices that exist in current UK GAAP and the expansion of the reduced disclosure framework to include parent entities.

We note that, as FRS 102 is based on the IFRS for SMEs which excludes insurance, none of the scope exemptions related to insurance contracts present in IFRS are included within FRS 102. We comment on this further in the section on insurance in Appendix 2.

We agree with the ASB's proposal to update FRS 102 for the final version of IFRS 9 as an off-cycle amendment (that is, not part of the proposed 3 year cycle for updating). This seems sensible as the changes are expected to be beneficial for the financial reporting of financial instruments.

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?

For those qualifying entities that are required to make financial instrument disclosures in accordance with FRS 101, we prefer the use of the alternative proposal that limits disclosures to the principles of IFRS 7. This would provide some consistency with the disclosures required by FRS 102 for financial institutions. We note that there are differences between the alternative view for FRS 101 disclosures and the disclosures under FRS 102. We believe that if exemption from financial instrument disclosures is not available for financial institutions (under either of the standards), then the ASB should align the requirements of the two proposed standards (for example, FRS 101 requires IFRS 7 para 27A disclosure, whereas FRS 102 para 34.22 has the equivalent of IFRS 7 para 27B).

We have the following comments on disclosures by financial institutions under FRS 102, which are also relevant for the exemption available under the reduced disclosure framework in FRS 101. We do not consider that the ASB has clearly articulated why it believes that all financial institutions should give the additional disclosures in section 34 of FRED 48. This seems to be driven by a desire to make relevant disclosures for entities that create wealth via financial instruments (even though this might not be the case for all financial institutions, for example, motor insurers) and the current focus on financial instruments arising from the financial crisis. However, we question why all financial institutions are required to give this additional disclosure.

Furthermore, it is not clear how the definition of a financial institution (and the related additional disclosures) will apply in a group situation (see our response to question 4 below). If the additional disclosures are in the consolidated financial statements, we believe there should be an exemption from the additional financial instrument disclosures at the subsidiary level.

Therefore, we consider that:

- Consolidated financial statements applying FRS 102 should provide Section 34 disclosures if relevant.
- If consolidated financial statements present disclosures under Section 34 of FRS 102 or in compliance with EU-adopted IFRS, we question why it is necessary for a subsidiary to provide financial instrument disclosures. Reduced financial instrument disclosures should be allowed for qualifying entities on the basis that equivalent disclosures are included in the group's financial statements. Similarly, the reduced disclosure framework in FRS 101 should be amended to cover this point.

Question 3

Do you agree with the proposed scope for the areas cross-referenced to EU adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

We agree with the cross-references to EU-adopted IFRS (for earnings per share, interim financial reports, and operating segments) for listed entities. We also agree with the cross reference to IFRS 4 for insurance contracts. No need for additional cross-references to IFRS has been identified.

We note that compliance with IAS 34, 'Interim financial reports', is not required by that standard itself. However, the effect of the cross-reference in paragraph 1.4 of FRS 102 is that entities with publicly traded shares that report in accordance with FRS 102 and prepare interim financial reports will be required to apply IAS 34. This will be a change for listed entities that do not apply IFRS. Is this the ASB's intention?

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.

As noted in our response to question 2, our main concern is that the ASB has not clearly articulated why it believes that all financial institutions should give the additional disclosures in section 34 of FRED 48. This in turn makes it difficult to determine whether the definition of financial institution is appropriate. We recommend that the ASB includes a rationale and a principle for what it is trying to capture by the term financial institution. We also believe that the additional disclosures required by section 34 of FRED 48 are unlikely to be relevant to all financial institutions, however defined.

If on reflection the ASB wishes to require additional disclosures by financial institutions we have the following observations with regard to defining such entities:

We note that in the section on development of the standards, the ASB says that it thinks a list approach is best for determining which entities should provide additional disclosures for financial instruments, but it has not clearly explained how the list has been determined. We also note that because there is no principle and no clear link to laws or regulations, the definition of a financial institution may not be easy to apply and may not be 'future proof'. For example, we understand that new structures are being proposed that might be similar to those under paragraph 5(d) of FRED 46, but which are not captured by the definition, such as co-ownerships.

Therefore, in addition to a principle, we consider that it would be helpful to refer to source legislation for the components of the definition of a financial institution. Otherwise the ASB should explain clearly how the definition has been determined and how it will be changed when new vehicles come into use. The definition could be improved through reference to definitions used within regulatory regimes or as set out within the Companies Act. For instance:

- For mutual funds, unit trusts and OEICs, reference can be made to the definition of Regulated Collective Investment Scheme as defined by the FSA rules which are enacted under FSMA.
- The current definition of an insurance entity cross references through to the IFRS 4 definition of an insurance contract; as such this may bring non-insurance entities into the definition of a financial institution. We do not believe that this was the intention of the board and instead suggest that a definition based upon the Companies Act would be more suitable. For example, *"The company law definition of an insurance company in Section 1165 of the Act; including entities that are not companies but otherwise meet the definition"*, as used within section 5 of FRS 102.
- For banks, credit unions, building societies, incorporated friendly societies and registered friendly societies, reference can be made to the definition of these terms in the FSA rules which are enacted under FSMA.

In addition further guidance is needed on the following:

- The term 'stockbroker', which is used in paragraph 5(d) of the definition in FRED 46, is not defined in any regulation. Therefore further guidance will need to be included to ensure that all the entities carrying out broker dealer activities are included within this category of entities if that is the ASB's intention.

- The term 'custodian bank', is not defined in any regulation. Some funds hold assets in custody for their customers but are not a bank. Does the definition cover such entities?

Also, as noted in our response to question 2, it is not clear from the exposure draft how the definition of a financial institution (and the related additional disclosures) applies in a group situation, as the definition only considers the individual entity. If a group has a subsidiary that is a financial institution, the ASB should clarify whether the whole group needs to give the section 34 disclosures at the group level. This could be achieved by expanding the definition to cover financial institution groups, namely where a significant element of the group's business is covered by the financial institution definition.

Question 5

In relation to the proposals for specialist activities, the ASB would welcome views on:

(a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?

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

(a) We understand that valuations of immature livestock and crops are relatively straight forward to obtain and so in our view applying fair value to biological assets will not be unduly onerous. We do note that a potential consequence of applying fair value rather than cost will be to accelerate cash tax payments although this will depend on the timing of an entity's year end and the life cycle of the relevant biological asset.

(b) Service concessions are covered in paras 34.12 to 34.16 of FRED 48, but as this is based on IFRIC 12 it only covers operator accounting. Both housing and education public benefit entities may however act as the grantor. Given the complexity of this type of accounting and range of contract types, guidance should be considered in respect of grantor accounting – in particular whether the asset should be on or off balance sheet. A starting point for any guidance might be the guidance on accounting for public private partnership arrangements (including PFI contracts) for public sector entities in the Government Financial Reporting Manual. IPSAS 32, "Service concession arrangements: Grantor", may also be helpful. If the intention is for grantor accounting to be dealt with in individual SORPs, it will be necessary to ensure that there is consistency in accounting for similar arrangements.

We also consider that greater clarity is needed regarding what constitutes a service concession given that contracts are highly complex and vary greatly.

Question 6

The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?

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

(a) We consider that, subject to the following observations, the proposals in FRED 48 for the financial statements of retirement benefit plans provide sufficient high-level guidance for clarity of broad principles, bearing in mind that there will be a revised SORP to give further guidance on points of detail. Our specific observations are as follows:

- **Annuity policies:** Legislation and the 2007 SORP permit annuity policies that provide all the benefits in respect of particular members to be included in the financial statements of retirement benefit plans at a nil valuation. As drafted, the FRED would appear to propose all such policies to be included at fair value. We agree with this proposal; it has the advantage of ensuring visibility of all assets being available to pay benefits and to support the calculation of the Pension Protection Fund levy, but this will result in an additional cost in arriving at a suitable valuation for inclusion of these assets.
- **Related party definition:** *"If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity."* (page 280). We believe the definitions would benefit from clarification that, as per the current SORP, other entities in the sponsor's group and other retirement benefit plans with common trustees would also be considered to be related parties of the plan.
- **Disclosure of funding policy:** It is not sufficiently clear what is meant by "funding policy" when applied in para 34.34 for a defined contribution plan. The definition in para 34.45 is written firmly in terms of defined benefit provision.
- **Format of fund account:** We presume that the list included in para 34.41 represents a list of requirements and can be presented in a different order. We note that the present SORP format, which puts investment income (c) alongside changes in value of investments (i), reflects more closely how the investment portfolio is managed and reported in the majority of cases.

(b) We believe that the proposed disclosures for pension liabilities are a big improvement on the 2007 SORP. However, the potential time difference between the availability of triennial valuation information and the accounting period end may undermine the relevance (FRED 48 para 2.5) of this information. This is probably more a matter for the SORP, but consideration should be given to updating an existing valuation on a regular basis, similar to the requirements for defined benefit pension accounting by corporates.

Also, we consider that paras 34.43 and 34.44 could be better expressed. In particular the term "technical provisions" has a different meaning from "solvency liabilities". Our suggestions to improve the text are set out in Appendix 2.

Question 7

Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

We agree that, under current legislation and subject to our comment on this section noted in Appendix 2, the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users. Any subsequent relevant changes to legislation regarding related party disclosure exemptions should be dealt with when they occur.

Question 8

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

We agree with the effective date of accounting periods beginning on or after 1 January 2015.

We agree that entities should be allowed to early adopt the new standards but question why early adoption is proposed to be restricted to accounting periods beginning on or after the date of issue of the new standards. We suggest that early adoption of the new standards (that is FRS 100, FRS 101 and FRS 102) is permitted once the standards have been issued. This could apply to accounting periods ending on or after the date of issue of the new standards, but we would go further and permit this for any open accounting period once the standards have been issued. Early adoption in this way would enable IFRS groups to take advantage of the reduced disclosure framework as soon as BIS amends the law permitting a change from IFRS financial statements to Companies Act financial statements.

For public benefit entities that have to apply a SORP which has been developed in accordance with the new standards, it would be helpful if the ASB would provide updates on progress and expected timing of the updated SORPs, or request that the appropriate SORP making bodies do this.

Question 9

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

We do not support the alternative view.



Part 1 – Explanatory note

1. The ASB has devised principles with regard to the future development of the RDF, one of which (in para 3.11 of Part 1) is relevance. However, if a disclosure does not make a difference to the decisions a users would make, there would seem to be a more fundamental question as to why FRS 102 would require the disclosure in the first place.
2. The guidelines for amending the IFRS for SMEs in para 3.26(b) of Part 1 differ from the objective in para 1.11, which allows for use of an alternative (to IFRS) if it clearly better meets the overriding objective

FRED 46/FRS 100

3. Para AG6(b) of FRED 46 deals with five situations, compared with 6 in UITF 43. FRED 46 does not deal with the specific guidance for US GAAP, which says that consolidated accounts of the higher parent will normally meet the test of equivalence with the Seventh Directive subject to consideration of some specific areas. This has been useful guidance in the past and assisted in judging whether US GAAP was equivalent. It may be that this is addressed via AG7 and the reference to ESMA but we think that the ASB should consider reinstating the specific guidance.
4. In the final sentence of para A2.13 of FRED 46, it refers to a company that previously prepared accounts using EU-adopted IFRS being allowed to change to use either FRS 101 or FRS 102 – should this also refer to the FRSSE?

FRED 47/ FRS 101

5. The definition of a qualifying entity in para 4 of FRS 100 is *“a member of a group that prepares publicly available financial statements, which are intended to give a true and fair view, in which that member is consolidated”*. It would be helpful if the definition of a qualifying entity was also included in FRS 101, as it is key to the scope of that standard.
6. Para 2 says *“This [draft] FRS applies to the financial statements of a qualifying entity, as defined in the glossary to [draft] FRS 100 ‘Application of Financial Reporting Requirements’, that are intended to give a true and fair view of a reporting entity’s financial position and profit or loss (or income and expenditure) for a period”*. It would be clearer if the scope paragraph also referred to the fact that the FRS applies to qualifying entities that apply the recognition and measurement requirements of IFRS. This is referred to in the summary and the objective, but not the scope paragraph.
7. Para 4 of FRED 47 refers to para 27A of IFRS 7. In IFRS 7, para 27A cross-refers to para 27B which contains the disclosure requirements for the fair value hierarchy. However, para 4 of FRED 47 does not include para 27B and so it is not clear if these disclosures apply under the RDF.
8. Para 6 of FRED 47 says that the exemptions do not apply in consolidated financial statements and so it would be more appropriately positioned in the scope section.
9. Para 8(a) of FRED 47 applies to *“the requirements of paragraphs 45(b) and 46-52 of IFRS 2 ‘Share based Payment’, except for a group arrangement involving equity instruments of an entity other than the parent...”*. We do not understand why group arrangements involving non-parent equity

are singled out for disclosure given that apart from the nature of the equity instrument the IFRS 2 disclosures would be identical to those for parent equity.

10. In para 8(b) of FRED 47, there is no exemption from IFRS 3 paras 59 to 63.

- (i) Para 60 of IFRS 3 refers to paragraphs B64–B66, but this will be subject to the exemptions in the RDF. Does this need to be clarified?
- (ii) Para 62 says “To meet the objective in paragraph 61, the acquirer shall disclose the information specified in paragraph B67”. However, there is an exemption from para B67 under the RDF and so an exemption is needed from para 62 of IFRS 3.
- (iii) Para 63 says “*If the specific disclosures required by this and other IFRSs do not meet the objectives set out in paragraphs 59 and 61, the acquirer shall disclose whatever additional information is necessary to meet those objectives*”. If there is an exemption from most of the disclosures then consider if this is needed/appropriate under the RDF.

11. In para AG1(g) of FRED 47, in respect of extraordinary items consider using the wording ‘extremely rare’ as in the explanation (para 48) to FRS 3.

FRED 48

- 12. No reference is made to a cash flow statement in para 1.1 of FRED 48, but in other paragraphs such as para 3.2 cash flow statements are referred to with regard to a true and fair view.
- 13. Para 16 of the summary in FRED 48 says that all paragraph of the FRS have equal authority. This means that chapter 2 (statement of principles) has the status of a standard, which seems to make it more authoritative than at present under UK GAAP. Is this the ASB’s intention?
- 14. Para 2.50 of FRED 48 differs from the IFRS for SMEs in that subsection (a) referring to investments in associates and joint ventures that an entity measures at fair value has been deleted. Should this be reinstated given that sections 14 and 15 (14.4B and 15.9B) have been amended to include an option for an investor that is not a parent to account for its investments in associates and joint ventures using a fair value model.
- 15. Paras 2.53-56 of FRED 48 regarding intermediate payment arrangements summarises UITF 32 and para 5.16 of part 3, Section I explains that UITF 38 has not been incorporated. However, not all of the text in UITF 32 para 19 has been included in para 2.55 of FRED 48 with the result that the clarity in UITF 32 (that is, an entity includes as its own assets and liabilities any of the intermediary’s assets and liabilities that it controls) is missing. In addition, the key point in UITF 38, that where an intermediary holds the entity’s shares these are included not as assets but as a deduction from equity, has been lost. The examples in UITF 38 were also good practical guidance. We suggest para 2.55 is aligned with para 19 of UITF 32 and that the following text added “Until such time as the entity’s equity shares held by an intermediary are no longer under the control of the entity they are presented as a deduction from equity”.
- 16. When evaluating going concern, FRS 18 requires management to consider future events for periods of at least 12 months from the date of approval of the financial statements, whereas para

3.8 of FRED 48 only proposes an assessment for the 12 months from the balance sheet date. We recommend that the FRS 18 time period is included in FRS 102 as this will maintain current practice by UK reporters and auditors.

17. FRS 18 contains specific guidance on realisation which is not covered in FRED 48. This relates to the requirement in companies legislation that only profits realised at the balance sheet date are included in the profit and loss account. Para 28 of FRS 18 says that “... *it is generally accepted that profits shall be treated as realised, for these purposes, only when realised in the form either of cash or of other assets the ultimate cash realisation of which can be assessed with reasonable certainty*”. This guidance, together with the related guidance on special reasons for departure, can be useful in practice (in addition to that in the ICAEW’s technical release on distributable profits (Tech 02/12)) and so we suggest that the ASB considers including similar guidance in section 2, ‘Concepts and pervasive principles’.
18. As there is no longer a definition of current assets (paras 4.4-6 of FRED 44 were deleted), should the FRS refer to the definition of fixed assets in section 853 of the Act to give guidance on classification (or alternatively include the same definition in the FRS)?
19. We agree with the removal of the balance sheet and income statement formats based on those in the IFRS for SMEs, as it is simpler to use the formats in the company law regulations. It would be helpful, particularly for entities that do not use company law, to include the formats, and the main principles governing these, in an appendix.
20. Sections 4 and 5 (balance sheet and income statement) say that all entities, whether or not they report under the Companies Act, should comply with the formats in the company law regulations, except to the extent that these requirements are not permitted by any statutory framework under which such entities report. For the avoidance of doubt as to whether formats can be adapted for retirement benefit plans, LLPs, investment trusts and unincorporated charities, for instance, should this also refer to any relevant SORP guidance, in addition to statutory framework?
21. Para 5.4(b) of FRED 48 specifies five types of other comprehensive income. Given that under company law, only realised profits can be included in the profit and loss account, there could be other unrealised gains that may need to be included in OCI.
22. In the appendix to section 5 of FRED 48, the analysis of discontinued for each item of OCI seems to go beyond that required by current UK GAAP, IFRS (and IFRS for SMEs)? Is that the ASB’s intention?
23. Para 7.8(b) of FRED 48 says that under the indirect method, profit or loss is adjusted for the effects of non-controlling interest (NCI) (same as IFRS for SMEs). This seems to differ from IFRS (NCI is not included in para 20 of IAS 7) and UK GAAP. It is not clear why profit would be adjusted for NCI to get to operating cash – it seems to assume a reconciliation from a post-NCI profit, which would not normally be the case and which is not consistent with the economic entity method indicated by para 22.19 of FRS 48. It would be preferable to remove the reference to NCI.
24. A reference to weighted average rates has been added to para 7.11 of FRED 48, but not to para 7.12. Use of an average rate would be consistent with IFRS and current UK GAAP.

25. We note that for legal reasons, the ASB has used an 'investment portfolio' approach in section 9, which applies to all entities, rather than limiting the exemption from consolidation to 'investment entities'. The implications of this wider approach need to be considered by the ASB, as it could lead to trading groups arguing for non-consolidation of start-up or newly acquired subsidiaries. We suggest the ASB considers restricting this to investing type entities, including retirement benefit plans, if that is the intention.
26. The held for sale exemption in para 9.9(b) of FRED 48 only applies to subsidiaries that have not previously been consolidated in the consolidated financial statements. We assume that consolidation prior to transition to FRS 102 does not count, clarification of this would be helpful.
27. IAS 39 suggests that intra-group financial guarantees are a derivative, but gives these special treatment. There is no special treatment in the proposed FRS. Our view is that intra-group financial guarantees should be excluded from the scope of the financial instruments sections. It could be costly for group companies to value these guarantees with little corresponding benefit.
28. The scope of section 12 does not exclude all contracts with discretionary participation features. We would expect the scope of section 12 to be the same as the scope of section 11 in respect of insurance contracts and contracts with discretionary participation features (as per para 11.7 f and g), and for all such contracts to be scoped out and covered by the cross-reference to IFRS 4.
29. Para 12.18(a) of FRED 48 has been amended to say that a hedging instrument is "... or a hedge of a foreign exchange risk in a net investment in a foreign operation; a financial asset; or financial liability that is expected to be highly effective in offsetting a risk identified in paragraph 12.17 that is designated as the hedged risk". We understand that the reason for amending the wording was because the IFRS for SMEs does not permit net investment hedging with a loan. However, the revised wording is unclear as it seems circular to say that a "hedging instrument is ... a hedge ..." and a net investment itself cannot be a hedging instrument so there seem to be some words missing. This could be reworded along the lines of "... or any other instrument providing a hedge of a foreign exchange risk in a net investment in a foreign operation, All hedging instruments need to be expected to be highly effective....". It is also unclear whether the addition of "financial asset; or financial liability" is intended to mean that these can be hedging instruments, or whether it is instruments hedging these financial items that are the hedging instruments and so we suggest that this is clarified.
30. Section 13 on inventories includes new guidance on inventories held for distribution. These are defined with a key characteristic of being distributed or consumed for "no or nominal consideration in the ordinary course of operations." Para 13.4A requires these inventories to be measured at current replacement cost, adjusted for any loss of service potential. These inventories differ from those acquired through non-exchange transactions which are dealt with in para 13.5A. It is not clear why this guidance has been added and why these items are required to be remeasured to current replacement cost and so this could be explained by the ASB in the section on the development of the standard.
31. Para 19.6 says that combinations of entities or businesses under common control may be accounted for by using the merger accounting method. Para 19.7 contains criteria that have to be met before merger accounting can be used. These include that the ultimate equity holders remain the same with their rights unchanged and that no non-controlling interest in the group's net assets is altered by the transfer. Our reading of this is that merger accounting cannot be used for

common control transactions where there is a change in the non-controlling interest – that is the proposals are similar to current UK GAAP in FRS 6, rather than the accounting for common control transactions in IFRS 3. However, the definition of ‘combinations of entities or businesses under common control’ uses a mix of IFRS 3 and FRS 6. Some parts of the definition require the equity holders to be the same before and after the transaction, but this is not necessarily common control. It is not clear if the ASB is intending the definition to be the same as the definition of ‘group reconstruction’ in FRS 6 or if it is now more restrictive because of the overlay of common control. Per para 5.15 of the development of the standard, it seems that the ASB’s intention was to retain the requirements in FRS 6, but it is not clear that this has been achieved.

32. Para 19.29 the impact of the EU’s proposal to amend the accounting directives to remove merger accounting has implications for group reconstructions and certain public benefit entity combinations. We recommend that the ASB makes representations against this proposed change, rather than waiting to update FRS 102 to reflect the EU’s changes.
33. In para 19.30 of FRED 48, the guidance on merger accounting says that comparatives should be restated by including the results for all the combining entities for the previous period and their balance sheet for the previous balance sheet date. This seems to mean that there would be restatement when an entity combines with an unincorporated business. However, this would mean recognising pre-transfer profits, which are not realised profits for the reporting entity. We suggest that the ASB considers adding guidance similar to that in the LLP SORP whereby a merger with an unincorporated business is accounted for prospectively by bringing in the net asset book values at the date of the transfer of the trade and assets, and only recognising profits from the date of transfer.
34. The disclosure requirement in para 20.16(c) of FRED 44 relating to a lessee’s disclosure on operating leases has been deleted in FRED 48. The disclosure requirement was “*a general description of the lessee’s significant leasing arrangements including, for example, information about contingent rent, renewal or purchase options and escalation clauses, subleases, and restrictions imposed by lease arrangements*”. From a user’s perspective, this seems a useful disclosure if it is applicable (and is included in the IFRS for SMEs). It is not clear why it has been removed and we suggest the ASB reconsiders whether it should be included in the final standard.
35. In addition, section 23 on revenue does not include the illustrative example relating to financial service fees (IAS 18 IE14), however other IAS 18 illustrative examples are included. In the absence of the example in IE14, there may be ambiguity as to whether investment management fees and associated costs can continue to be unbundled from the investment management contract and accounted for under the revenue section within the new standard. We therefore recommend that this example is included.
36. We note that the SME version of IFRS2 in Section 26 is substantially simplified. While this may potentially introduce some diversity in practice we consider that the SME text is sufficient for most practical purposes. We suggest that there is no need to expand this section ahead of the IASB review of the IFRS for SMEs.
37. The exemption in para 33.1A of FRED 48 for wholly-owned subsidiaries refers only to ‘transactions’. This is consistent with current FRS 8 although current practice in our experience extends this to include closing balances and other items..

We suggest the following text which would clarify the meaning and maintain current practice:

"The requirements of this section need not be ~~given for~~ applied to transactions ~~or outstanding balances (including commitments) entered into~~ between the entity and members of a group of which the entity is a member ~~two or more members of a group~~, provided that any subsidiary undertaking which is a party to the transaction ~~are~~ is wholly-owned within that group. ~~by such a member."~~

Some disclosure of balances with group companies is required by law in any event (it may be helpful to add a footnote to 33.1A that cross references to the Company Law disclosure requirements), but this would make it clear that companies are not required to disclose individual group company balances.

FRED 48 – deferred tax

38. The second sentence in para 29.8 of FRED 48 which refers to the reversal of deferred tax when all conditions for retaining tax allowances have been met, seems unnecessary as it was previously included in FRS 19 to refer to IBAs specifically.
39. It is unclear as to how para 29.9 of FRED 48 might be interpreted. It may be clearer to refer to the language that is currently in FRS 19 about unremitted earnings, rather than the current language on income and expenses from a subsidiary, associate, branch of JV.
40. It is unclear from paras 29.10 and 29.11 of FRED 48 what is required for deferred tax accounting if intangible assets are recognised in a business combination. Para 29.10 appears to require recognition of deferred tax, but would these be permanent differences under para 29.11 and so should not be recognised? The FRS should be clear as to which of these takes precedence, and it may be more helpful to refer to the language in FRS 7 as to recognition if this is the intention (that is, adjustments to record assets and liabilities of the acquired entity at their fair values are treated in the same way as they would be if they were timing differences arising in the entity's own accounts). Alternatively, need to clarify what is meant by the 'amount attributed for tax purposes' – i.e. is this intended to be similar to a 'tax base' approach?
41. Para 29.12 of FRED 48 notes that tax rates are substantively enacted when future events required by the enactment process historically have not affected the outcome and are unlikely to do so. We suggest that the text in FRS 16 para 15 is carried forward as this is explicit for UK taxes and would avoid differing interpretations.
42. There is guidance on the treatment of VAT included in the income tax section in FRED 48, despite the fact that VAT is not an income tax as defined by the scope of para 29.2. We suggest that 29.20 is deleted as VAT is adequately addressed in paras 17.10(a) and 23.4.
43. Para 29.24 of FRED 48 seems confusingly worded - it seems to be suggesting that you need a legally enforceable right to offset deferred tax assets and liabilities. The language in the IFRS for SMEs para 29.29 is similar - but is better expressed.
44. The disclosure requirement in para 29.27(b) of FRED 48 is unclear. It says "*an explanation of the significant differences in amounts presented in the statement of comprehensive income and*

amounts reported to tax authorities". This seems to reconcile to the tax return, rather than to the tax expense in the financial statements (which could differ). If this is intended to be the reconciliation from the standard rate of tax to the tax expense in the financial statements (as at present and which seems to be the case from the illustrative accounts accompanying the IFRS for SMEs where the disclosure derives from) then consider clarifying the wording.

45. Para 35.10(h) of FRED 48 includes an exemption in respect of deferred tax for first-time adopters of the new FRS. This exemption has been brought across from the IFRS for SMEs and refers to differences between the tax basis and the carrying amount of assets or liabilities. We note that 'Tax basis' is shown in bold, but is not defined in the glossary and does not seem to fit with the proposed 'timing differences plus' approach in FRED 48. Given that this proposed approach differs from that in the IFRS for SME, the ASB should consider if an exemption for deferred tax for first-time adopters is appropriate.

Insurance

46. As noted in our response to question 1 in Appendix 1, there is currently limited reference to insurance contracts within the various scope sections of FRS 102. For example, the revenue, provisions and intangible assets sections do not contain the insurance contract scope exclusions included within IAS 18, IAS 37 and IAS 36 respectively. As insurers are able to apply the new UK GAAP framework, we recommend that the ASB review and update the scope of each section of the FRS 102 where necessary to ensure these sections have been appropriately tailored.
47. In addition, as set out more fully in our response to the insurance discussion paper, we believe that two modifications to the requirement to apply IFRS 4 to insurance contracts merit consideration:
- extending the reduced disclosure framework for qualifying entities to some of IFRS 4's disclosure requirements.
 - limiting the application of IFRS 4 to those contracts currently accounted for as insurance under UK GAAP.

Retirement benefit plans (section 34 of FRED 48)

48. We believe that Para 34.39 applies to both defined contribution and defined benefit plans but this is not clear from the current draft as the paragraph sits within the defined benefit section. We also note that although highlighted in bold, 'net assets available for benefits' is not defined in the glossary and this is not the first mention of the phrase in this section.
49. As noted in our response to question 6, we consider that paras 34.43 and 34.44 of FRED 48 could be better expressed. Our proposals for expressing these requirements are:

As currently drafted	PwC proposal
34.43 A defined benefit plan shall disclose information regarding the actuarial present value of promised retirement benefits including:	34.43 A defined benefit plan shall disclose information regarding the actuarial present value of promised retirement benefits based on the most recent valuation which is prepared for the trustees including:

(a) 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.

(a) the actuarial present value of promised retirement benefits, distinguishing between vested and non-vested benefits, on the basis of the plan's ongoing funding arrangements.

(b) the technical provisions ie the amount required to meet the actuarial liabilities and the actuarial estimate of the solvency of the plan.

(b) the actuarial estimate of the cost of securing liabilities with a third party (the solvency position of the plan).

(c) the significant actuarial assumptions made and the method used to calculate the actuarial present value of promised retirement benefits.

(c) the significant actuarial assumptions made and the method used to calculate the values in (a) and (b).

34.44 The actuarial information required by paragraph 34.42 shall be:

(a) based on the most recent valuation; and

(d) the percentage of the actuarial present value of liabilities (both on an ongoing and a solvency basis) covered by assets available to meet those liabilities.

(b) the date of the valuation shall be disclosed.

(e) the date of the valuation.

50. Only one term should be used to deal with pension schemes. The FRED uses 'Retirement benefit plan', 'Retirement benefit scheme' and 'Pension fund', whereas the existing SORP uses 'Pension scheme'. The existing IFRS standard (IAS 26) also uses 'Retirement benefit plan'.

FRSSE

51. We have not commented on the amendments to the FRSSE. Our view is that the ASB should work towards the deletion of the FRSSE and, subject to company law developments, replace this with a cut-down version of FRS 102. This would remove practical issues such as the application of the small company definition, where applying the company law size criteria via the FRSE and FRS 102 might result in different answers due to differing recognition and measurement rules and it is not clear which would take precedence.



Part 1 – Explanatory note

1. At the end of the first line of para 1.15 of Part 1 there is a reference to a footnote which discusses relevant authorities but no reference is made to any RoI authorities.

FRED 46

2. The footnote to para A2.4 of FRED 46 that refers to those entities required to use IFRS says “Broadly, those listed on a regulated market”. This is too broad as it does not restrict this to regulated markets in Member States.
3. Para A2.14 of FRED 46 says “*The Act requires, in section 407, that the individual accounts of a parent company and each of its subsidiaries are prepared using the same financial reporting framework ...*”. Should this say ‘UK subsidiaries’?

FRED 47

4. For financial institutions, could cross-refer in para 5 of FRED 47 to the specific excluded exemptions in paras 8d and 8e to avoid confusion
5. In para 10 of the summary in FRED 47, reference is made to the reduced disclosure framework for entities using FRS 102. It is likely to be confusing if FRS 101 becomes known as the ‘RDF standard’ and if ‘RDF’ is also used in the context of FRS 102 also. It may be better for FRS 102 to have certain exemptions from disclosures rather than referring to ‘framework’, “10 Reduced disclosures are also available to qualifying entities.....”

FRED 48

6. To be clear, para 7 of the summary in FRED 48 could say ... disclosure exemptions for the individual financial statements of subsidiaries (and ultimate parents) ...”.
7. Consider combining paras 1.3 and 1.4 of FRED 48, possibly with separate bullet points for the cross-references to the two standards.
8. In para 1.7 of FRED 48, could clarify by saying “References to other standards in IAS 33, IAS 34 and IFRS 8 are amended to refer to the relevant paragraph in this [draft] FRS”.
9. Typo in para 1.8 of FRED 48 – needs ‘it’ before ‘must’, ie should say “... Where a qualifying entity has financial liabilities held at fair value which are neither held as part of a trading portfolio nor are derivatives, it must also apply the disclosure requirements of paragraph 11.48A”
10. Throughout the standard there are instances where paragraph references such as (a) , (b) etc are used but these are not properly introduced in the preceding sentence (for example, in paras 2.52, 3.2, 14.3, 14.8 of FRED 48).
11. In para 3.2 of FRED 48, for fair presentation, should this say ‘... cash flows (unless exempt) ...’?

12. In para 3.10 of FRED 48, reference is made to accounts being prepared at least annually – but in para 3.10(b) (and in Company Law) accounts may be prepared for a period of up to 18 months – how can these be at least annually? Rather than saying 'annually', it may be preferable to say 'for each financial year' and define this as per Act.
13. In para 3.16 of FRED 48, could cross-refer to the guidance on materiality in para 2.6.
14. Para 4.1 of FRED 48 says the statement of financial position can also be called the balance sheet – but para 3.22 says any non-misleading title can be used, so why limit this in para 4.1.
15. So that it is not overlooked, it would be helpful if the illustrative statement of comprehensive income in section 5 of FRED 48 included para 5.6 disclosures (showing split between NCI and owners), or could state that there is no NCI.
16. For completeness, should 'investment portfolio' (which is included in para 9.9A of FRED 48) also be included in the glossary of terms?
17. Para 9.15 of FRED 48 says "*Section 29 Income Tax applies to deferred tax differences that arise from the elimination of profits and losses resulting from intragroup transactions*". Not sure what a 'deferred tax difference' is. Should it just say 'deferred tax'?
18. In para 15.20 of FRED 48, it would be helpful to include the disclosures from 14.14 rather than cross refer to these.
19. In para 17.3(b) of FRED 48, is a quarry a non-regenerative resource and if so how does this tie into para 17.16?
20. Typo in para 19.6 of FRED 48 – it needs 'the' before 'merger' – ie, should say "... which may be accounted for by using the merger accounting method ...".
21. Para 33.1 of FRED 48 refers to transactions and outstanding balances. To be consistent with para 33.9, it should presumably refer to 'transactions, outstanding balances, including commitments'.
22. In para 33.6 of FRED 48, the term 'employee benefits' states that it include all forms of consideration for services rendered to the entity. It would be helpful to state that it also covers termination benefits (to clarify that these are for services).