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30 April 2014

Susanne Pust Shah
Financial Reporting Council
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Re: Financial Reporting Exposure Draft ("FRED") 54 – Draft Amendments to FRS 102

Dear Susanne,

BlackRock is one of the world's pre-eminent investment management firms and a premier provider of global investment management, risk management and advisory services to institutional and retail clients around the world.

As of 31 March 2014, the firm manages £2.64 trillion across asset classes in separate accounts, mutual funds, other pooled investment vehicles, and the industry-leading iShares® exchange-traded funds.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietary-developed analytics, systems, and technology. BlackRock Solutions currently provides risk management and enterprise investment services for £9 trillion in assets.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa, and the Middle East. Headquartered in New York, the firm maintains offices in 30 countries around the world.

BlackRock is pleased to have the opportunity to respond to FRED 54. We support the Financial Reporting Council's ("FRC's") overriding objective in setting accounting standards to enable users of accounts to receive high-quality understandable financial statements proportionate to the size and complexity of the entity and users' information needs. We also support an approach whereby the FRC brings forward proposals to amend FRS 102 where constituents identify significant adverse unintended consequences, particularly where the FRC has extended the scope of FRS 102 beyond that of the International Financial Reporting Standard ("IFRS") for Small and Medium-sized Entities ("SMEs").

Question 1 – Do you support the proposal to amend the conditions of paragraph 11.9 and make the requirements less restrictive?

We feel that the proposal meets the objective of the FRC to provide succinct financial reporting standards that are consistent with international accounting standards through the

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application of IFRS-based solutions, and balances consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions based on public interest and users' information needs.

Question 2 – In your view, under the amended conditions will debt instruments be classified appropriately, i.e. will the proposal have the effect that debt instruments that are basic in nature are measured at amortised cost and debt instruments that are non-basic in nature are measured at fair value? If you have reservations, please specify the financial instruments that you believe would not be measured appropriately under the proposed requirements.

The proposal appears to achieve the desired outcomes, however it is critical that the ability to designate debt instruments at fair value through profit or loss under section 11.14(b) is retained for entities where this results in more relevant information for instruments that are managed and their performance evaluated on a fair value basis.

Question 3 – It is proposed that the Appendix to Section 11 *Basic Financial Instruments* will contain some illustrative examples. In your view, are the proposed examples helpful? If not, what other examples would you suggest should be included instead?

We believe that the proposed examples are helpful given the complexity of the rule based approach. We highlight that the proposal is rules based rather than principles based which is not consistent with either the other provisions of FRS 102 or with IFRS. While we acknowledge the limitations of relying on IFRS 9, which as the FRC highlights is untested, we recommend that any rules based solution should only be seen by the FRC as a temporary solution.

Question 4 – The proposed amendments would be effective from 1 January 2015. Do you have reservations concerning the proposed effective date?

We have no concerns regarding the effective date.

Question 5 – The exposure draft does not contain specific transition requirements and the requirements of Section 35 *Transition to this FRS* of FRS 102 will therefore apply. In your view, are any specific transitional provisions in relation to the proposed amendments necessary? If so, please tell us what transitional provisions you would suggest and why?

We do not feel specific transitional requirements are necessary.

Additional Comments - FRS102 Fair Value Hierarchy

We support the FRC's overriding objective in setting accounting standards to enable users of accounts to receive high-quality, understandable financial statements, proportionate to the size and complexity of the entity and users' information needs. We also support an approach whereby the FRC brings forward proposals to amend FRS 102 where constituents

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identify significant adverse unintended consequences, especially where the FRC has extended the scope of FRS 102 beyond that of the IFRS for SMEs.

The FRC extended the scope of FRS 102 beyond that of the IFRS for SMEs and in doing so recognised that entities performing “specialised activities” were drawn into scope. Section 34 was added to FRS 102 in order to supplement the requirements for such entities. FRS 102 modified the measurement requirements in paragraph 11.14 to replicate the fair value option available in IAS 39 and, in respect of financial institutions, added disclosure requirements based on IFRS 7. These requirements include fair value disclosures in accordance with paragraph 34.22 and 34.42. Instead of replicating the IFRS 7 fair value disclosure hierarchy, these disclosures are based on the measurement hierarchy in paragraph 11.27.

The application of paragraph 11.27 as the basis for making fair value disclosures in accordance with paragraphs 34.22 and 34.42, forces entities adopting FRS 102 to diverge from IFRS in a manner that reduces the comparability of information provided to users and increases the cost of providing divergent information.

The requirements of FRS 102 will increase complexity as preparers of accounts attempt to develop a presentation which meets the requirements of both FRS 102 and IFRS 7. Inherent in this is increased operational risk and cost as many preparers of financial statements have automated systems in place to produce the fair value disclosure hierarchy under IFRS. The accounting policies of any entity using valuation models, already includes details of the valuation methodologies applied. Thus presenting positions valued using industry standard valuation models and market observable inputs as a level 3 positions under FRS 102 is at worst, potentially misleading.

This requirement would appear to contradict the FRC’s aims to provide succinct financial reporting standards that have consistency with international accounting standards through the application of IFRS-based solutions, and balances consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions based on public interest and users’ information needs. This also reduces comparability with U.S. Generally Accepted Accounting Principles.

We would support an update to FRS 102 that would amend paragraphs 34.22 and 34.42 to define the fair value hierarchy in accordance with IFRS 7 for disclosures rather than referring to paragraph 11.27. We believe this update would add little risk of unintended consequences for other entities given the disclosure requirements are related to financial institutions and retirement benefit plans.

Yours Sincerely,



Tom McGrath
Director

