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Ms Michelle Sansom
ACCOUNTING STANDARDS BOARD
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Dear Ms Sansom

Response the FRED 45

We are writing with reference to the publication of FRED 46, 47 and 48 and the current consultation.

Please find attached the University of Manchester's response to the consultation.

Yours sincerely



Stephen Mole

Director of Finance

University of Manchester FRED 46, 47 and 48: Response to consultation

Our response to the ASB's consultation is limited to areas where we wish to make comment.

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?

The University of Manchester support the proposals as an optimal solution for the completion of the 'IFRS' project across UK entities. However, we do have reservations about some important aspects relating to revenue recognition, performance conditions, the definition of grants and non-exchange transactions and the lack of definition on what constitutes a public benefit entity, which we discuss below in the 'Other Issues' section.

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?

The University of Manchester is only commenting on service concession arrangements

Service Concession Arrangements (FRED48 Section 34, Specialised Activities, para 34.12-34.14)

We have several concerns regarding the proposals for service concession arrangements.

1. Firstly, we note that Para 34.12-34.14 in FRED48 is based on IFRIC12 – Service Concession Arrangements. This was developed to assist private entities, as grantees, in accounting for 'public to private' type arrangements that developed out of PFI-style contractual arrangements. IFRIC12 strictly applies to grantees ("concession

operators”) not grantors (“public bodies”) and so provides detailed requirements on how to account for service concession arrangements by the operator. However, it provides no information on how to account for such schemes for the grantors. This lack of detail could be open to interpretation and ambiguity if it is to be applied by grantors.

2. The first line of FRED48 para 34.12 states “a service concession is an arrangement whereby a government or other public sector body (the grantor).....”. We are unsure whether this can be taken to extend the scope of IFRIC 12 to grantors who are not public sector entities, such as public benefit entities (e.g. universities). We think it would be helpful for the standard to provide a definition of “other public sector bodies” and to be specific as to where the boundary should be drawn. For example, universities are not public sector bodies but are private bodies with a mixed economy of funding, part of which is subject to contractual arrangements with the government.
3. As currently drafted FRED48 (in line with IFRIC12) only addresses service concession arrangements as defined in the glossary and does not give the wider guidance that was given in FRS 5 “Reporting the Substance of Transactions”. In the HE sector there are some more complex arrangements called Nomination Agreements. These agreements are established between universities and private owners/operators of student accommodation. Under such Nomination Arrangements the University underwrites the cost of the service if the operator is unable to attract sufficient demand from students. Such underwriting arrangements range from those that are annual (i.e. the University only provides underwriting for 1 year) or are longer term in nature. These arrangements are qualitatively different from the public-private arrangements envisaged under IFRIC12 and mirrored in FRED48. One approach that might be adopted by the ASB is to make it clear that FRED48, Section 34, Para 34.12-34.14 applies to grantees (as intended by IFRIC12) and leave it to the individual public benefit entity SORPs to address the accounting for the grantor of service concession and other similar arrangements.

QUESTION 8

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

We would like an effective date of 1 January 2016.

We consider this to be a more practical timescale, particularly as we are of the view that there is still further work required on revenue recognition. This revised date should give sufficient time for the education sector to develop a new SORP in time to enable institutions to address the conversion process early and the impact on their opening balances and 2015/16 comparatives. It should be noted that most education institutions have 31 July year ends.

QUESTION 9

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

We do not support the alternative view. While we have sympathy with the thrust of the proposals in driving out complexity, we believe this would be better tackled by targeting the IASB rather than introducing a distinctly different accounting approach to financial reporting for non-listed and public benefit entities. The alternative view, applied solely to non-listed and public benefit entities would result in the continuation of an inconsistent reporting framework which we could not support.

Other Issues

We would also like to raise some particular issues in relation to the FREDs.

Public Benefit Entity Definition

The revised FREDs omit the application guidance on the definition of a public benefit entity which appeared in FRED 45. As public benefit entities are a distinct sector we feel that the short definitions provided by the revised FRED should be supplemented by the application guidance provided in FRED45.

Income Recognition and Performance Conditions

We are concerned with the definitions provided for 'performance conditions' and 'restrictions' and the way they interact with the requirements for revenue recognition, particularly in relation to grants and income from non-exchange transactions.

Performance conditions:

In the glossary to FRED 48 a performance condition is defined as "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". In our view the definition of performance conditions should not be based on whether funds are repayable to the donor or not but should instead relate to the delivery of a service or an agreed output(s).

Restrictions:

The glossary gives a definition of restrictions as "a requirement that limits or directs the purposes for which a resource may be used but does not require that resource to be returned to the donor if the resource is not used as specified". Also FRED 48, section 34.66 states that "a restriction does not prohibit a resource from being recognised in income

when receivable". However this appears to conflict with the definition of performance conditions given above which states that if a resource is not used as specified then it must be returned to the donor, thereby giving rise to a liability. Also we do not see that a mere restriction (in the general meaning of this term) placed on the purposes for which a donation was made should result in non-recognition of income. Ultimately, it is wholly within the recipient entity's control to spend the money received on the purpose for which it is donated and therefore would not seem to meet the definition of a liability.

Furthermore many charities receive donations where the donor's request is that the donation itself must be permanently invested and only the investment income this donation generates can be spent. In the education sector the original capital from these donations are accounted for as funds in the bottom half of the balance sheet. Under FRED 48 it appears they may be classed as a liability. This treatment does not seem right as these amounts will never fall to be repayable. Nor would it be appropriate for these amounts to be recognised as income as the resource itself cannot be utilised, only the income that it generates. In these instances, the entity does not have any performance conditions to meet other than its trust obligations.

Distinction between grants and non-exchange transactions:

We note that the section dealing with the accounting for grants contains an accounting policy choice (performance or accruals model), whereas the accounting for non-exchange transactions does not (performance model only). However, there does not appear to be anything in FRED 48 to guide an entity as to whether a receipt should be classified as a grant or as a non-exchange transaction. We therefore feel that the guidance should more clearly distinguish between these two types of transaction. We also consider that the definition of non-exchange transactions can be enhanced further such that clarity is given that donations which operate in a similar manner to a grant (as per our further suggested definition below), can have the same accounting policy choice as grants.

We propose the following replacement (see addition in bold):

*FRED48 34.64 Non-exchange transactions include, but are not limited to, donations (of cash, goods, and services) and legacies. **A donation receivable which imposes a specified condition relating to the operating activities of the entity may be accounted for using the same accounting policy choice as allowed for grants and as set out in Section 24.***

Grants definition

Section 24 (Grants) links to a definition of a government grant in the glossary, but does not define grants in general, yet section 24 applies to grants “by government and others”. We propose the following replacement:

FRED48 24.1 This section specifies the accounting for all grants receivable from governments and others.

Glossary: ‘Grant’ A grant is assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the operating activities of the entity.