

30 April 2012

Michelle Sansom
Accounting Standards Board
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By email to asbcommentletters@frc-asb.org.uk

Dear Michelle

The Future of Financial Reporting in the UK and Republic of Ireland

I am writing on behalf of AFME (the Association for Financial Markets in Europe) to respond to the Accounting Standards Board's ("the ASB's") January 2012 Financial Reporting Exposure Drafts on the future of financial reporting in the UK and Republic of Ireland ("the FREDs"). AFME is, as you know, the leading European trade association for firms active in investment banking and securities trading and thus represents the shared interests of a broad range of participants in the wholesale financial markets. We welcome the opportunity to respond to these latest FREDs, and we commend the ASB for its continued consultation on this important topic.

As noted in our letter of 21 April 2011, in which we commented on the ASB's previous UK GAAP proposals, the great majority of AFME members are large financial institutions with trading operations in a significant number of countries, both inside and outside the EU, and securities listed on one or more exchanges. Their interests therefore focus on only certain limited sections of the proposals, and this is reflected in our comments below.

As explained in our responses to Questions 1 and 2, a key concern with the current proposals is the exclusion of financial institutions from the exemption for financial instrument disclosures. Given, amongst other factors, the focus of users on consolidated financial statements (which is acknowledged in the FREDs) we believe the disclosure exemptions should be applied consistently to all wholly owned subsidiaries, provided that the relevant information is presented in publicly available consolidated financial statements that include the entity concerned. Moreover, as financial institutions that are wholly owned subsidiaries are currently eligible for exemption from the financial instrument disclosures in FRS 29 (IFRS 7): *Financial Instrument Disclosures*, we believe the present proposal provides an unnecessary element of "gold plating" in this respect, which contravenes the principle set out in sub-paragraph 3.11(c) of Part One of the FREDs.

Our responses to the questions set out on pages 9-10 of Part One of the FREDs are set out below.

Q1 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?

A1 We support the stated project objective, which we believe is generally achieved by the proposals.

We note in particular that the proposal acknowledges that users generally focus on the consolidated financial statements rather than those of wholly owned subsidiaries, and that the proposals therefore provide reduced disclosure requirements for wholly owned subsidiaries, an approach which we support. As already stated, however, we believe this principle should be consistently applied, and that wholly owned subsidiaries that happen to be financial institutions should also be permitted to use the exemption from financial instrument disclosures since this information will be available for users in the consolidated group financial statements.

We note also that financial institutions that are wholly owned subsidiaries are currently eligible for exemption from the financial instrument disclosures contained within FRS 29, and we are not aware of any user demand for these disclosures to be provided at the individual legal entity level. On this basis, we believe the existing exemption should be retained in the ASB's revised reporting requirements.

Q2 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?

A2 As already noted, we believe the reduced disclosure framework should be applied consistently to all entities, including financial institutions, given the focus of users on consolidated financial statements and the existing availability of this exemption to financial institutions under FRS 29.

Notwithstanding the above, we believe the first of the stated alternatives - the FRED 47 proposal - will be clearer and easier to apply.

Q3 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.

A3 We do not believe our members will be significantly affected by this aspect of the proposals and therefore have no comment on this question.

Q4 Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

A4 While in general supporting the definition of a financial institution, we note that it appears, as currently drafted, to exclude broker-dealer entities. As the nature of broker-dealer activities is consistent with that of institutions included in the scope of the proposed definition, we believe it would be appropriate for broker-dealers also to be included. We understand from your colleagues that it is the ASB's intention to clarify/amend the FREDs so as to ensure that broker-dealer entities fall within the definition of a financial institution, and we would therefore support such a change.

Q5 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?

A5 Our members will not be affected by these aspects of the proposals and we therefore have no comment on this question.

Q6 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?

A6 Our members will not be affected by the proposals for the financial statements of retirement benefit plans (at least in relation to their role as AFME members), and we therefore have no comment on this question.

Q7 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?

A7 We believe the disclosure requirements in section 33 of FRED 48 should be sufficient to meet the needs of both preparers and users. In particular, we support the ASB's decision to retain the existing exemption from the related party disclosure requirements for transactions between wholly-owned members of a group. In our view, disclosure of such transactions adds little if any useful information at the subsidiary level. The volume of such transactions can however be significant, making it onerous for preparers to collect the relevant information, and we therefore believe any benefit to users from providing such disclosures will be far outweighed by the cost to preparers of producing the information. Retaining this exemption is also consistent with the focus of users on the consolidated group financial statements as transactions between members of a wholly owned group will be eliminated on consolidation.

Q8 Do you agree with the effective date? If not, what alternative date would you prefer and why?

A8 While sympathetic to the conflicting demands on the ASB in regard to introducing the proposed changes, we remain concerned that the proposed effective date may not be realistic given the major changes currently being developed in IFRS, particularly in relation to those standards that may have significant operational impacts, such as impairment of financial assets and leases.

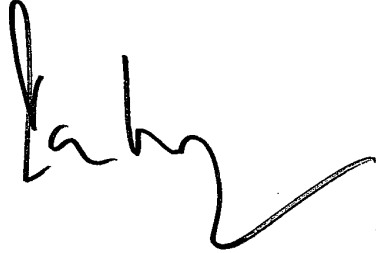
As noted in our letter of 21 April 2011 on the ASB's previous proposals, it is difficult to determine operationally how the ASB's proposed effective date will impact the implementation efforts of preparers when the IASB has still not finalised the effective dates for all of its new standards. We therefore recommend that the ASB should reconsider the effective date for its current proposals once the IASB has determined the implementation timetable for its own new standards.

Q9 Do you support the alternative view, or any individual aspect of it?

A9 We do not support the alternative view. Although we believe its stated objective to be broadly consistent with the ASB's stated objective, we think many of the points made in respect of complexity would be more appropriately addressed specifically to entities which report under the FRSSE, rather than to the broad range of companies at which the FREDs are directed. We also believe that introducing alternative accounting methodologies, formats and treatments adds complexity, and would undermine the key objective of introducing a consistent accounting framework for all companies reporting under UK GAAP.

I hope the above comments are helpful. We would of course be pleased to discuss any points which you may find unclear, or where you believe AFME members might be able to assist in other ways.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian Harrison', with a long, sweeping horizontal stroke at the end.

Ian Harrison

Managing Director

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