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Jenny Carter
Financial Reporting Council

By email: ukfrs@frc.org.uk

Date: 28 January 2016

Dear Jenny

RE: FRED 62: Draft amendments to FRS 102: Fair value hierarchy disclosures

The Investment Association[1] ("the IA") warmly welcomes the proposed amendments to the fair value disclosure hierarchy for financial institutions. These proposals will improve consistency with IFRS and reduce the cost of compliance for entities affected by the proposals while having no impact on other entities.

We welcome the FRC's intention to make the amendments available for accounting periods ending on 31 December 2015 and expect that early adoption will be commonplace. Unfortunately, the anticipated date for publication of the final amendments of March 2016, means that there will be some entities that could benefit from the amendments that are unable to apply them because the financial statements will have been approved before the final amendments are issued. Typically Authorised Funds' financial statements are published within two to three months of the period end and some are published within less than two months. We understand that the FRC must follow due process to consider the feedback and to approve the final amendments. In order to help preparers' planning, we encourage the FRC to keep the period between approving and issuing the amendments as short as possible and request that the anticipated date of issuance be made known as soon as is possible.

Our response to FRED 62 is attached.

Yours sincerely

Mark Sherwin
Senior Adviser, Financial Reporting
The Investment Association

[1] The Investment Association represents the UK investment management industry. Our members manage over £5.5 trillion of assets on behalf of UK and overseas clients. This includes £0.8 trillion in about 2,500 UK Authorised Funds (ie. unit trusts and open-ended investment companies). The Investment Association is the SORP-making body responsible for the SORP for UK Authorised Funds.

The Investment Association’s response to FRED 62: Fair value hierarchy disclosures

Question 1
Do you agree with the amendments proposed to FRS 102? If not, why not?

We strongly agree with the proposed amendments and encourage the FRC to finalise them as soon as possible in order to maximise the number of entities that can apply them together with their first-time application of FRS 102.

In 2013, responses to our exposure draft of the SORP for UK Authorised Funds indicated that preparers of at least 75% of Authorised Funds’ financial statements were already capable of making fair value hierarchy disclosures under IFRS but that additional development would be required in order to comply with the hierarchy as set out in FRS 102. Moreover most agreed that it was desirable to extend the FRS 102 hierarchy in order to achieve the same level of transparency about the use of unobservable data as is available under IFRS. Therefore we expect there to be overwhelming support for the proposed amendments.

We note the apparent inconsistency highlighted in paragraph 17 of the FRED whereby there will be different hierarchies for measurement and disclosure and the Accounting Council’s recommendation that this is resolved in due course. However, we do not think this inconsistency is problematic for preparers and should not be a reason for not issuing the amendments as proposed. Indeed, we note this inconsistency currently exists in UK GAAP and has done since the FRS 29 hierarchy diverged from FRS 26 in May 2009.

Question 2
Do you agree with the proposed effective date for these amendments? If not, what alternative would you propose?

We expect almost universal early application of the amendments and therefore we see no reason to delay the mandatory effective date to 2017. Indeed, we note that when the ASB amended FRS 29 to incorporate the IFRS fair value disclosure hierarchy in May 2009, it applied for accounting periods beginning on or after 1 January 2009 ie. for periods that had already started (FRS 29 paragraph 44G). We think an effective date of 1 January 2016 is appropriate.

Question 3
In relation to the Consultation Stage Impact Assessment do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

We agree with the identified benefits. For users of financial statements there will be improved comparability with financial statements prepared under IFRS and improved transparency about the extent to which valuations are exposed to the necessary judgements and assumptions in the absence of observable data. For preparers there will be cost savings as it will no longer be necessary to develop a capability to modify existing IFRS-compatible reporting in order to comply with FRS 102. Responses to our SORP exposure draft in 2013 indicated that preparers of at least 75% of Authorised Funds’ financial statements already have IFRS fair value hierarchy analysis capability.