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27 April 2012

Dear Madam

## **The future of financial reporting in the UK and Republic of Ireland**

We write in response to the invitation to comment on the future of financial reporting in the UK and Republic of Ireland following the publication of FRED 46 'Application of Financial Reporting Requirements' ('draft FRS 100'), FRED 47 'Reduced Disclosure Framework' ('draft FRS 101') and FRED 48 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' ('draft FRS 102') (together 'the FREDs'). In Appendix 1 to this letter we set out our responses to the specific questions raised by the ASB and Appendix 2 sets out some additional matters we wish to raise but which do not fall within scope of the specific questions. Appendix 3 sets out more detailed comments on the FREDs. This letter contains our major comments.

In summary we:

- accept that UK GAAP, as it currently stands, should be replaced;
- believe that the FRC Board should seek to influence strongly the forthcoming review of the IFRS for SMEs;
- are concerned that the requirement to apply the Accounting Regulations, in some cases, erodes the benefit of reduced disclosure for those entities applying the proposed reduced disclosure framework for listed groups. We encourage the FRC Board to work with BIS and to lobby the EU Commission to address this;
- encourage the FRC Board to make available the reduced disclosure framework for listed groups as soon as possible;
- do not want the timetable for implementation of draft FRS 102 to be delayed further as a result of the IASB's progress in finalising IFRS 9 *Financial Instruments*;

- believe that the FRC Board should provide periods of stability to preparers, users and auditors in respect of UK standards and should commit to seek to change these at intervals of a minimum of three years. With the exception of changes to draft FRS 101 that may be necessary if changes are made to IFRSs, we believe no mandatory changes to FRSs 100, 101 and 102 should be made before 2018. This will provide a stable platform to allow all to adapt to the new standards particularly in the area of financial instruments which may be the most challenging area to preparers, users and auditors; and
- recommend that the FRC Board seeks to promote international convergence and that in due course the IFRS for SMEs issued by the IASB may be adopted directly in the UK.

### **The proposals**

We recognise the need to replace UK GAAP as it currently stands. Maintaining the status quo is not an option. The current patchwork of UK standards, including SSAPs, UITF Abstracts, FRSs developed by the ASB and FRSs based on IFRSs, requires a fundamental overhaul to provide a coherent framework. The current requirements in UK GAAP are deficient and for many years students of the ACA qualification have been taught only IFRSs. UK GAAP is a dying language.

Arriving at an appropriate and proportionate accounting framework for private companies in the UK and Ireland must be the primary objective of the ASB's project.

With that aim in mind, we note the increased level of divergence (compared to the ASB's previous proposals) from the IFRS for SMEs reflected in draft FRS 102. The loss of international comparability will be limited given that there is no short term prospect of the IFRS for SMEs being used widely in Europe and many of the UK GAAP 'options' added to draft FRS 102 bring the proposed standard closer to full IFRSs. We believe this loss is compensated for by the benefits of amending the requirements of the IFRS for SMEs to make the proposed draft FRS 102 more understandable and flexible.

As noted below, we believe that consistency with the IFRS for SMEs can be enhanced by influencing the forthcoming review of that standard rather than by compromising the quality of UK financial reporting in an effort to achieve consistency with the IFRS for SMEs in the short term.

We are pleased the ASB has taken on many of the suggestions we made in our previous response, and those from other respondents.

### **The FRC Board should use draft FRS 102 to influence the IASB**

We recognise that the previous proposals published by the ASB highlighted some issues which the ASB has sought to address, in particular that the IFRS for SMEs was written for international adoption by smaller entities and in jurisdictions that do not have the complication of having to comply with detailed reporting guidance in company law. The UK has a developed reporting framework and adopting the IFRS for SMEs, as published, would have given rise to anomalies in reporting e.g. entities following full IFRSs and the FRSSE would be able to revalue fixed assets, but those following the FRSME would not. This would raise complexities when moving through tiers.

Many of the amendments made in draft FRS 102 are those which we hope the IASB will make to its IFRS for SMEs in its first round of improvements. Many requirements in the IFRS for SMEs have been clarified and significant improvements have been made in the drafting of draft FRS 102, in

particular in the area of financial instruments. As the standard-setting body for the largest economy seeking to implement a financial reporting framework based on the IFRS for SMEs, the FRC must seek to exert strong influence on the forthcoming review of that standard. The extensive consultation that the ASB has carried out will add weight to the argument to make amendments in line with those made in draft FRS 102. We hope that, in time, the differences between the IFRS for SMEs and draft FRS 102 will reduce.

### **Interaction with company law**

#### *Draft FRS 101*

We continue to support the proposed disclosure exemptions for qualifying entities, both for those applying full IFRSs (draft FRS 101) and those applying draft FRS 102 and welcome the decision made by the ASB to extend this to the separate financial statements of a parent company.

A qualifying entity applying draft FRS 101 will be preparing Companies Act accounts and is therefore subject to the applicable requirements of the Accounting Regulations. The interaction of the UK legal requirements with IFRSs brings unfortunate complexity to what is aimed to reduce the burden of reporting. In some cases the requirement to apply the Accounting Regulations may outweigh the benefit of reduced disclosure.

In particular, an entity applying draft FRS 101 would be required to present primary statements in line with the statutory formats. This could involve extra work to reformat the group consolidation return from an IFRS layout to that required by the Act. It would be helpful if BIS or the FRC could confirm that this would be a circumstance in which the formats could be adapted as permitted by the Regulations<sup>1</sup>. This would be consistent with the aim of both BIS and the FRC to reduce burdens on UK companies.

Additional complexity is created by the need to amend certain recognition and measurement principles of EU adopted IFRSs for entities following draft FRS 101 to comply with EU directives, e.g. the treatment of negative goodwill arising on a bargain purchase. In our previous response we said the ASB should work with BIS to seek a solution to this complexity at a European level (either by simplifying the Accounting Directives, perhaps by removing the accounting formats entirely, to remove the inconsistencies with IFRSs or to introduce a reduced disclosure regime for subsidiaries into endorsed IFRS). We suspect there would be strong support for this elsewhere in Europe.

#### *Draft FRS 102*

Although it is beneficial that draft FRS 102 is written in international language as it is in line with full IFRSs and those being trained recently in accountancy will be familiar with it, it is inconsistent with the language used in UK law. As an example, stocks are referred to as inventories in draft FRS 102 and stocks in company law. Therefore the balance sheet should include the caption 'stocks', which means the accounting policy should be for stocks. The preparer then needs to decide whether to refer to the company law measurement 'the lower of cost and NRV' or draft FRS 102's 'estimated selling cost less cost to complete'. This is likely to bring unnecessary confusion for preparers.

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<sup>1</sup> Paragraph 4(1) of Schedule 1 of the Large & Medium-Sized Companies & Groups (Accounts & Reports) Regulations 2008.

We note that all entities, including those which are not subject to the Act, preparing financial statements in accordance with draft FRS 102 are required to follow the statutory formats for the profit and loss account and balance sheet. This is likely to prove controversial and we question whether this requirement is necessary, or even appropriate, for entities which are not subject to the Act, such as a general or limited partnership that is not a qualifying partnership. It could be forced to apply the statutory formats even though it may not be useful, may contradict the partnership deed and strays away from the LLP formats which might be the next most logical place to go. Some other not-for-profit entities (e.g. non-charitable clubs) would also be forced into company law formats, when adopting (say) charitable formats would be more obvious.

Draft FRS 102 states that an entity is not required to comply with the formats where they conflict with any statutory framework under which such entities report. If the FRC Board continues with the requirement to require such entities to follow the statutory formats, we think the draft should go further and refer to SORPs and other regulators. A wide variety of entities follow UK GAAP and most already have established formats for their primary statements which are adapted to their industry e.g. charities, investment trusts etc. We also suggest that the statutory formats are included as an appendix to draft FRS 102 as these may not be familiar to entities not subject to company law.

#### **Publication, effective date and transition**

The FRC Board should continue to pursue the ASB's objective of publishing the final standards this year, to be effective from 1 January 2015, so that there is certainty over the final regime for constituents. Every effort should be made to ensure that there is no slippage in the timetable.

We believe that the FRC should publish FRS 101 without delay as it is not dependent on the content of draft FRS 102 and is a deregulatory measure. Publication this year would mean the regime could be in place in time for December 2012 year ends. Although current law restricts companies preparing IAS accounts from taking advantage of the reduced disclosure framework, we anticipate the amendment to UK law to allow companies to move back from preparing IAS accounts to Companies Act accounts without a 'relevant change in circumstances' will be made later this year.

In addition, we believe that preparers, users and auditors should be provided with a period of stability and to this end we recommend that no mandatory changes to FRSs 100, 101 and 102 be made until 2018. We discuss this, and other matters concerning the effective date, further in our answer to Question 8.

#### **Accounting for financial instruments**

We agree that the long term goal for draft FRS 102 should be consistency with the IASB's revised standard on financial instruments, presumably as reflected in its IFRS for SMEs. However, and subject to the comments on sections 11 and 12 elsewhere in this letter, we believe that an amended version of the requirements of the IFRS for SMEs on accounting for financial instruments can achieve the stated objective of the ASB's project to enable the provision of high-quality, understandable financial reporting proportionate to the size and complexity of the entity's and users' information needs. Thus, and noting that any benefits of IFRS 9 will in any case be made available to relevant entities through the provisions of paragraph 11.2 of draft FRS 102, we do not believe the effective date of the proposals should be impacted by the progress of IFRS 9 or that

mandatory changes to draft FRS 102 should be made immediately following the finalisation of that standard.

**Other matters**

We are responding separately to the ASB's staff discussion paper on the future of insurance accounting in the UK.

We have performed an exercise to track the changes required to transform the Deloitte UK GAAP model financial statements for an unlisted group from compliance with current GAAP to draft FRS 102 to identify any potential issues preparers may face. We would be happy to discuss the detailed issues arising from this exercise with you and to share a copy of this document with you.

If you have any questions or comments, please contact Ken Rigelsford on 020 7007 0752, Amanda Swaffield on 020 7303 5330 or Isobel Sharp on 020 7007 0894.

Yours faithfully

*Deloitte LLP*

**Appendix 1****Responses to the specific questions in the Explanation to FREDs 46, 47 and 48****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?*

Yes. We recognise that the previous ASB proposals highlighted some issues which the ASB has sought to address. The UK has a developed reporting framework and adopting the IFRS for SMEs, as published, would have given rise to anomalies in reporting e.g. entities following full IFRSs and the FRSE would be able to revalue fixed assets, but those following the FRSME would not. This would have raised complexities when moving through tiers.

We note the ASB's elimination of the concept of 'public accountability' in deciding whether entities must apply full IFRSs. We agree that it is appropriate that a requirement to apply full IFRSs should be left to the law, market regulators and pressure from users. We note the anomaly that a listed company, which is not a parent, is able to continue applying UK GAAP but accept that the FSA has consulted on this matter. Any change to this position is a matter for the FSA.

The proposals for accounting for financial instruments, although incomplete at this stage, are an improvement on than those which currently exist in UK GAAP for those not adopting FRS 26.

Some issues still remain which need ironing out, such as the points we raise in Appendix 2 in respect of public benefit entities and in our detailed comments on the FREDs. However we hope that a final replacement for current UK GAAP will be issued later this year.

**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?*

The alternative approach set out above tries to provide consistency with disclosures required by FRED 48 for financial institutions. However, this approach misses the fact that there are also financial instrument disclosures in sections 11 and 12 of draft FRS 102 which derive from IFRS 7. Paragraph 1.9 of draft FRS 102 clarifies that a qualifying entity which is a financial institution is still required to provide the disclosures in sections 11 and 12. We cannot see how it would be appropriate for a qualifying entity that is a financial institution applying full IFRS for recognition and measurement to apply the limited disclosures listed for IFRS 7 under question 2 as this would result in less disclosure than that required by a financial institution applying sections 11 and 12 of proposed FRS 102. For example, they would not be required to give the disclosures around defaults and breaches, "income, expense, gains or losses" or hedge accounting.

Given that a financial institution applying sections 11,12 and 34.17-34.30 complies with most of IFRS 7, we believe that a financial institution which applies full IFRS recognition and measurement should apply full IFRS 7. This also has the added benefit that it is the more straightforward approach as FRS 101 would not need to be updated every time IFRS 7 is amended by the IASB. It is interesting to note that some subsidiaries that currently apply FRS 26 and are financial institutions are able to invoke the exemption from applying FRS 29 Disclosures: Financial Instruments. Such subsidiaries would no longer have an exemption from the IFRS 7 disclosures.

Regarding the reference to IFRS 13, the FRC Board should clarify that financial institutions should be required to provide the disclosures in IFRS 13 only in respect of their financial instruments. As drafted, paragraph 5 of draft FRS 101 would mean that qualifying entities which are financial institutions would have to provide the disclosure required by IFRS 13 for non-financial items whereas a qualifying entity which is not a financial institution would not. We see no conceptual basis for such a discrepancy. However, we agree that qualifying entities should be exempt from the requirements of paragraphs 91-99 of IFRS 13 in relation to all assets.

### **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 recognise that the ASB decided to cross refer to full IFRSs to avoid cluttering the standard with requirements that apply to relatively few entities. Whilst we believe that FRS 102 should be a standalone document, we recognise that this approach is practical as it avoids the need to update the standard every time a cross-referred IFRS is amended. We recognise there may be a desire, from those entities brought into the scope of draft FRS 102 as a result of the removal of the concept of 'public accountability', for a consolidated document which contains all of the relevant IFRS standards to be applied by them. We do not see this as a job necessarily for the FRC; it could be provided by a publisher.

We comment on the scope of each area cross-referenced to EU adopted IFRS below.

#### *Earnings per share*

We agree with the scope of entities required to apply IAS 33 *Earnings per Share*, not least as this is consistent with FRS 22 *Earnings per Share* which is already a converged standard.

IAS 33 makes reference to other IFRS standards e.g. IAS 1, IAS 27, IAS 39 and IFRS 2. Paragraph 1.7 states that 'References in IAS 33, IAS 34 and IFRS 8 are amended to refer to the relevant paragraph in this [draft] FRS'. However, no detailed list of cross-references is provided so we therefore assume that preparers will be able to use their judgement.

#### *Segmental reporting*

The scope of entities required to apply IFRS 8 *Operating Segments*, by draft FRS 102, differs to those currently required to adopt SSAP 25 *Segmental reporting*. The result is those larger companies and those banking and insurance groups which do not have shares which are publicly traded, will no longer need to provide segmental disclosures, other than those required by the Companies Act. We agree with this as it is deregulatory and aligns with full IFRSs.

Another impact is that the guidance SSAP 25 provides on interpreting the statutory requirements in respect of segmental reporting will be lost. This is unfortunate but could be addressed in guidance issued in reporting manuals produced by the accounting firms.

We are concerned though that the current drafting has the effect that an entity that chooses to provide information described as segmental information must comply with IFRS 8. It is questionable whether entities should be discouraged from providing more abbreviated segmental information just because they do not comply in full with those requirements. Additionally, many entities already use the term 'segment information' in their financial statements, which could cause them to fall foul of this requirement.

#### *Interim reporting*

The drafting of this paragraph should be reconsidered as it results in a more burdensome reporting regime. As drafted, the standard requires an entity to prepare a half yearly report in accordance with IAS 34 even where it is not required for regulatory reasons as the paragraph requires any entity whose shares are publicly traded to comply with IAS 34.

So, a company traded on AIM, which is not a parent and applies draft FRS 102, would have to prepare a half yearly report in accordance with IAS 34, but an AIM company preparing group accounts under IFRSs would not as the AIM Rules do not require it. Companies listed on the main market and currently following UK GAAP as they are not parents will also be pushed into IAS 34. The words "described as complying with IAS 34" appear to caveat only the situation where an entity chooses to prepare an interim report voluntarily. It is arguable that the standard does not need to make any reference to IAS 34 because interim reporting is a matter for regulators rather than the ASB.

*Insurance*

We note there is currently a separate discussion paper on the future of insurance accounting in the UK and Ireland to which we are responding separately.

**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.*

We agree with the proposal of 'financial institutions' providing additional disclosure on financial instruments.

We agree that including a more specific definition in draft FRSs 100 and 102 of 'financial institution' is helpful as it avoids the difficulties that were experienced with FRED 44 in trying to interpret the public accountability criterion. However, we are not convinced that the definition as drafted is helpful to those who will be applying the proposed standards. References in the paragraphs below are to paragraph 5 of draft FRS 100. Similar amendments would need to be made to the definitions in paragraph A1.1 of proposed FRS 100 and paragraph 34.18 of draft FRS 102.

*Regulated activities – banks, brokers and insurance entities – paragraphs 5(a), (b), (c), (e) and (f)*

Paragraph 4.9 of Part Three of FREDs 46, 47 and 48 says that the ASB considered using the definition in s467(1) Companies Act 2006, but does not explain why this option was rejected. The term "regulated activity" in that section is defined in s474 of the Act. Using a definition based on s474 would be helpful in that:

- it would provide certainty and would not require preparers to consider yet another definition;
- when the Regulated Activities order is changed, BIS considers whether to amend s474 of the Act. This would mean that the ASB would not need to make a consequential change to the proposed FRSs were a new class of financial institution to be brought into scope;
- it would have the advantage for preparers that it aligns with other exemptions available in the Act, so that it is clear what is/is not in scope;
- paragraphs 5(a), (b), (c), (e) and (f) could be combined in one, shorter definition as "an entity which has (a) a Part IV permission to carry out a regulated activity as set out in s474 Companies Act 2006 or (b) carries out insurance market activity"; and
- the s474 definition excludes a number of activities which require Part IV permission but where the business model is to create value by selling another body's financial products rather than by originating or trading in financial instruments or insurance contracts on the entity's own account. It would, however, scope in a range of activities (such as corporate finance, investment management and insurance broking activities) which are not included in the ASB's proposed definition but where, nevertheless, the FSA has an interest in the solvency of the entity and hence there is a public interest in understanding (at the very least) their exposure to liquidity risk. As an alternative, the definition could be cast using the terms in s384(b) of the Act, which is largely confined to those where the entity's holdings of, and issuance of, financial instruments or insurance contracts is core to the business model.

If the ASB does not take forward our suggestion with regards to 5(a),(b),(c),(e) and (f), then we note that:

- paragraph 5(b) excludes mutual societies that are then scoped in by 5(b), 5(e) and 5(f). Removal of the words from “but which...” would simplify the definition;
- the ASB’s definition does not include e-money issuers, where issuing financial instruments is central to the business model. These should be added to 5(d); and
- the ASB’s definition in 5(c) does not necessarily include all Lloyd’s entities. We recommend adding the words “and/or which undertake insurance market activity.” to the end of the definition if it is intended that they should be caught.

#### *Funds and retirement benefit plans – paragraphs 5(d) and (g)*

Proposed paragraph 5(d) is an attempt to include a range of funds and those businesses which service them.

- The term “stockbroker” used in the ASB’s proposed definition is not defined in this FRS, nor in the FSA Handbook Glossary. Introducing a new definition of this term based on classes of FSA Part IV permission could be problematic. For example, is it designed to capture both “execution only” brokers and those which undertake market-making activities? Our proposal to replace 5(a), (b), (c), (e) and (f) with a definition based on s474 (or s384(1)) of the Act would avoid the need to define this term.
- There is no reason why custodian banks should be included but not other forms of custodian (as defined in the FSA Handbook Glossary). Again, we believe our proposed amendment above would deal with such custodians.
- The list of funds in 5(d) is somewhat arbitrary. “Mutual fund” is not defined anywhere. Should this include investment partnerships such as hedge funds and private equity funds (which will soon be regulated under the Alternative Investment Fund Managers Directive)?

Although we understand the basis for including retirement benefit plans in the definition, we disagree that the benefit of so doing outweighs the associated costs, particularly for smaller schemes. The principal effect of including retirement benefit plans within the definition of a financial institution is to require the disclosures included in paragraphs 34.19-34.30 of proposed FRS 102 (both directly, and via paragraph 34.42). We suggest that paragraph 5(g) should be deleted (with consequential amendments elsewhere), with retirement benefit disclosures being dealt with in section 34 and/or the SORP.

#### *Application to groups*

It is unclear whether the definition of a financial institution is intended to apply in respect of a legal entity only or whether it should extend to, for example, a group where a large part of its business derives from entities within it which are financial institutions. This could have wide-ranging implications and a clear answer should be provided.

*Irish entities*

The definition is entirely UK-centric and does not include equivalent Republic of Ireland references, although we note that additional tables of Irish legal references are now available from the ASB's website.

**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?*

We suggest that biological assets should be carried at historical cost to avoid unnecessary diversity in practice. This is not because we consider that the proposals are unduly arduous, particularly as there is already an 'undue cost or effort exemption' exemption from fair value accounting within draft FRS 102. It is our view that agricultural activity is not so different to other manufacturing activities (particularly those with a long production cycle such as maturing whisky stocks) as to justify a completely different accounting treatment.

There are many types of biological asset. The ease by which they could be fair valued without undue cost or effort varies. For example, animals for sale and 'fixed asset' herds for production are likely to be able to be fair valued without undue cost or effort whereas growing crops, where there is generally no market and valuation would have to be based on a theoretical model, would often be carried at historical cost. This means that if the proposals in FRED 48 come into force, some biological assets will be at valuation and others will not. There is likely to be diversity of practice as different judgements are made about how tough the hurdle is for the undue cost or effort exemption. On this basis it would be preferable for all biological assets to be accounted for consistently at historical cost.

IFRSs are designed primarily for companies with quoted securities and in this context fair value may have more relevance. We also note that the IASB is receiving pressure from constituents, e.g. in Malaysia, to review IAS 41. Following a fair value accounting approach may result in early recognition of profits whilst crops are growing, at which point yields and prices are very uncertain (dependent on weather conditions, global markets etc). This would lead to significant volatility in profit or loss and recognition of gains that may never be realised if the outcomes at harvest date are different than forecast.

We recommend the ASB reconsiders the proposed accounting for agricultural activities as we question the IASB's rationale for opting for the fair value approach in the IFRS for SMEs. The basis for conclusions (BC146) states that measuring cost is actually more burdensome and arbitrary than arriving at a fair value. We are not aware that existing UK GAAP for agriculture is deficient or that there has been widespread criticism of the resulting accounts, plus those continuing to apply the FRSSE will be following the cost model. The majority of agricultural businesses are within scope of the FRSSE and we would not want to see fair value accounting being pushed down to FRSSE companies if this is seen as current practice.

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

The guidance on service concession arrangements included in draft FRS 102 is very brief in comparison to that contained within IFRIC 12, as it picks up only the bare bones of IFRIC 12. IFRIC 12 includes much more guidance including some illustrative examples. We are in favour of a short, simple standard but not if this renders the requirements inoperable.

The approach taken in accounting for service concession arrangements under IFRS is different to that used in UK GAAP. Current IFRS adopters found the transition to IFRIC 12 a challenge. As such we believe that those unfamiliar with IFRSs, and IFRIC 12 in particular, will struggle to follow what is required, leading to divergence in practice.

If the IFRS approach is to be followed then further guidance should be added to section 34, in particular:

- expand the material on deciding what is within the scope of service concession arrangement accounting. Including the flow chart and table currently appended to IFRIC 12 as Information notes would be helpful;
- align the guidance on revenue (draft FRS 102 34.16) with paragraphs 12 and 13 of IFRIC 12 so that a preparer can apply Section 23 *Revenue* to this situation;
- include guidance on how to initially recognise the receivable when there are both financial asset and intangible asset elements to a single service concession contract; and
- provide guidance on how to account for borrowing costs incurred by the operator.

In our previous response we raised the point that the transitional exemption in the proposals (now draft FRS 102 35.10(i)) did not specify how to account for service concession arrangements entered into before the date of transition to draft FRS 102. We still believe that additional guidance would help clarify the requirements:

- the opening of paragraph 35.10 states that the exemptions are available for use in an entity's first set of financial statements under the new framework. In the case of service concessions, it would be helpful to clarify that this exemption is available for the remainder of the life of the service concession contract; and
- we presume the intention of the ASB is for entities with existing service concession contracts to have the option to continue to account for the arrangements using accounting policies previously used by the entity for such a contract e.g. entities transitioning from current UK GAAP to draft FRS 102 would continue to follow the requirements of application Note F to FRS 5 in the year of transition and all subsequent years. However, the current wording in the transition rules leaves entities free to choose a new set of accounting policies for contracts entered into before the date of transition which are not those of the draft FRS. For example, it appears that an entity currently using IFRS would be able, on adoption of FRS 102, to revert to using the current UK GAAP Application Note F accounting instead of continuing with the IFRIC 12 model. We do not believe that this was the ASB's intended outcome.

**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?*

We broadly agree with the approach taken by the ASB in developing the proposed accounting and reporting framework for UK pension schemes. We welcome, in particular, the ASB's decision not to force retirement benefit plans to adopt IFRSs. However, we believe there are three areas where the proposed FRS could be improved.

- Paragraph 34.39 uses the term “net assets available for benefits” in bold, but does not define this term. A definition should be provided. By implication from the terms in paragraphs 34.33 and 34.36, this includes all of the scheme's net assets excluding the actuarial liability. It also needs expanding to refer to section 16 (investment property, commonly held by pension schemes) and potentially section 17 (where the effect would be to force the valuation approach on users).
- Paragraph 34.39 also requires financial instruments to be fair valued in accordance with paragraphs 11.27-11.32. In the case of listed government and corporate debt (frequently held by retirement benefit plans), this contradicts with paragraph 11.14(a) which requires that such instruments be held at cost.
- Paragraph 34.42 requires retirement benefit plans to provide the disclosures required by paragraphs 34.17-34.30. Whilst these disclosures may be appropriate for large defined benefit schemes, they will be of less relevance to smaller and/or defined contribution schemes. For example:
  - larger schemes are required by law to prepare a statement of investment principles. Smaller schemes are exempt. This would largely overlap with the information required by paragraphs 34.23 and 34.24 which do not exempt smaller schemes; and
  - for defined contribution schemes, scheme members often have a choice of investment options into which their contributions will be channelled. Scheme members rely on information about these underlying investment funds' performance and risk to make investment choices. The disclosures that would be required in the financial statements of such schemes by paragraphs 34.29-34.30 would reflect the aggregation of investment choices made by members, outwith the control of the trustees, rather than the effect of investment decisions by the trustees, and so are of little use in judging the trustees' stewardship of the scheme assets.

Accordingly, we recommend that retirement benefit schemes be removed from the definition of financial institutions and the existing paragraph 34.42 also be removed. A revised SORP *Financial reports of pension schemes* could then be developed based on a more granular assessment of the appropriate disclosures for schemes of different sizes and natures. This would also allow a more rapid change to disclosure requirements in response to changes in pension law to avoid overlapping or competing disclosures.

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

We are broadly supportive of the ASB's proposals. However, we note the following issues.

- It may be useful to clarify what is meant by 34.46 (e) 'a description of the retirement benefits promised to participants' as this may not be particularly relevant to members of defined contribution pension schemes whose retirement benefits are not 'promised' or guaranteed – potentially by adding the sentence "In the case of a defined contribution scheme, this would be an explanation that benefits are dependent on investment values and returns and there is no guarantee of a particular benefit."
- We are not sure what is meant in paragraph 34.46 (f) by 'a description of any plan termination terms'. Some guidance on this point is needed.
- Paragraph 34.43 requires a defined benefit pension scheme to disclose actuarial liabilities. We suggest paragraph 34.43 makes clear that this information is to be published "either within the financial statements or alongside the financial statements." This will, in most cases, avoid the need for this disclosure to be audited and reduce costs for trustees; it will also allow this to be met by the current SORP requirement that a copy of the technical provisions certificate is presented alongside the financial statements. Paragraph 34.38 implies this could be possible but an explicit statement in paragraph 34.43 would be helpful.

#### **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 consider the related party disclosure requirements, as proposed, to be sufficient. The new requirements will address an anomaly in the current GAAP where those entities not subject to company law avoid disclosure of the remuneration of key management personnel due to the exemption in FRS 8 from disclosing emoluments in respect of services as an employee of the reporting entity.

We support the exemption from Section 33 for transactions entered into between wholly owned members of a group, whilst it is allowed by the Companies Act. We note that the ASB has based the wording for the exemption on that included in FRS 8. We suggest the wording from the Companies Act is used instead. The current review of the Directives being undertaken at EU level proposes removing the exemption so this may need to be revisited.

#### **QUESTION 8**

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

We agree with a mandatory effective date of 1 January 2015, provided that the FRC Board/ASB meets its objective of publishing the final standards this year. Every effort should be made to ensure that there is no slippage in the timetable. These efforts should include liaison with HMRC to ensure iXBRL taxonomies based on the new framework are available early enough to allow software providers to make tools available in good time for filing of the first tax returns under FRS 101 and FRS 102.

We add the following comments on the availability of the proposed standards for early adoption.

There does not appear to be any justification for any prohibition on early adoption of the reduced disclosure framework under FRS 101. As the text of FRS 101 is not dependent on FRS 102, we would encourage the ASB to finalise FRS 101 as soon as possible to allow qualifying entities to take advantage of the reduced disclosure regime.

We recognise that those qualifying entities already applying full IFRSs may be restricted from moving to FRS 101 due to the restriction in company law concerning a change of accounting framework. However, this only represents a small subset of qualifying entities and we understand that this is likely to be amended in the near future following BIS's consultation on audit exemptions and change of accounting framework. Although it is a matter for BIS rather than the ASB, we would favour deleting entirely the restriction on moving between IAS accounts and Companies Act accounts, and if necessary, directors could be required to disclose the reason for the change. Otherwise there will be a need for endless changes to the law to cope with circumstances that were not previously anticipated. In practice companies will not want to keep changing from one regime to another unless there is good reason. Any potential tax implications could be addressed by suitable tax legislation.

Regarding the effective date for those within scope of draft FRS 102, we do not see why early adoption is restricted to those periods beginning on or after date of publication of the final standard. For an entity with a December 2013 year-end to be able to adopt early, the final standard would need to be published by the end of 2012. The ASB should consider amending the effective date so that entities can apply the new accounting framework for periods ending on or after date of publication. The explanation at 12.4 in section 1 of Part 3 (concerning companies that are in arrears filing their accounts) does not justify the conclusion. We understand that the prohibition is because of the need to allow time for changes in tax legislation. This should be explained more fully if it is the case.

In our previous response we said a lengthy period of transition would be preferable so entities could choose a time to transition that is workable for them and to avoid all entities transitioning at the same time. We are still of this view and believe that amending proposals as set out in the paragraph above to enable more flexibility in early adoption would help achieve this.

With respect to public benefit entities, there is a provision in paragraph 14 of draft FRS 100 that they may adopt the new accounting framework early if they also apply an applicable public benefit entity SORP which has been developed in accordance with draft FRS 102. We suggest that this provision be deleted. This has the effect of giving a SORP a greater status than is appropriate for recommended practice. In the event of a conflict between a standard and a SORP, it is clear that the standard must be applied. This point is made in a footnote to paragraph 8 of FRS 100 but should be made more prominently. It also means that a group may face a delay in being able to switch to the new regime for its main accounts if there is a public benefit entity within the group whose applicable SORP has not been finalised as, in reality, it would be impractical to transition only part of a group. Furthermore, the current drafting is deficient because not all PBEs are covered by a SORP. Therefore, if the substance of the provision were to be retained, it would need to be reworded to refer only to an applicable SORP.

Finally, with regard to the sections addressing accounting for financial instruments, we do not believe that the effective date of the proposals should be impacted by the progress of IFRS 9. We suggest that any amendments required to align draft FRS 102 with the final IFRS 9 should not be

mandatory for application before 2018 (but with early adoption permitted) in order to provide a stable platform for transition. In the interim, those entities affected by the final IFRS 9 amendments could adopt the requirements of draft FRS 102 or, if preferred, could adopt the full measurement and recognition requirements of IFRS 9 and IAS 39 as permitted by the provisions of paragraph 11.2 of draft FRS 102.

**QUESTION 9**

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

We do not support the alternative view. The view was debated during the previous round of consultations and was not widely supported.

## **Appendix 2**

### **Other matters**

Below are our comments on matters which we wish to raise but are not captured by a specific question by the ASB.

#### *Income tax*

We support the approach the ASB has taken in 'grandfathering' in existing UK GAAP (with a few improvements) pending the next updating of the IFRS for SMEs. Given this approach we believe that the discounting of deferred tax should continue to be permitted. Not allowing discounting is inconsistent with Section 12 'Provisions and contingencies'.

#### *Financial instruments*

The ASB should consider allowing a fair value option for publicly traded debt instruments. It appears inconsistent to require shares that are publicly traded or reliably measurable to be carried at fair value, but require debt instruments that meet the same criteria to be carried at amortised cost. The current proposals would require some charities and investment funds to depart from their existing practice of valuing all their investments at fair value and there could also be a mismatch between a listed entity's group accounts and parent company only accounts where such a parent had invested in debt assets. See also our response to Question 6 regarding an ambiguity as to how holdings of such instruments by retirement benefit plans should be accounted for.

#### *Going concern*

In our previous response we raised the point that paragraph 3.8 of draft FRS 102 refers to a period of 12 months from the reporting date, as the period for assessing whether the going concern assumption is appropriate. UK auditing standards and the FRC's guidance on going concern both refer to a period 12 months from the approval of the financial statements. Retaining this period was also supported by the majority of respondents to the Sharman Inquiry. Accordingly, the requirement in draft FRS 102 should be amended to be consistent with the other UK requirements and guidance issued by the FRC.

#### *Discontinued operations*

Paragraph 33 of IFRS 5, for the purposes of draft FRS 101, has been amended to require an additional column on the face of the income statement splitting out the results of discontinued operations on a line by line basis. This requirement is duplicated in draft FRS 102. This goes beyond the current requirements of FRS 3 where some of the information may be given in the notes rather than on the face of the profit and loss account. We are not clear from paragraph 5.29 of Part 3 of the FREDs why the ASB has deemed it necessary to impose more onerous requirements than those in current UK GAAP.

#### *Public benefit entities*

There are some issues around the proposed accounting for public benefit entities which we believe require further thought before a final standard is published. Draft FRS 102 includes guidance in

paragraphs 34.55 to 34.61 around funding commitments. As stated in our previous response, we do not see the need for this guidance, since the principle of when to recognise a liability is covered elsewhere in draft FRS 102.

Furthermore, the guidance on funding commitments is inconsistent with Section 21 on provisions and with the extant charities SORP which states that ‘a term in a grant agreement or offer that relieved a donor charity from a future obligation in the event of lack of funds at a future settlement date would not normally prevent the recognition of a liability by the donor charity’ [paragraph 156]. We therefore suggest that the above-mentioned paragraphs and Appendix I to Section 34 be removed.

There is also an issue regarding the accounting for restricted income. We do not believe that paragraphs PBE34.62-PBE34.72 or Appendix II to Section 34 are necessary. The principles in Section 23 *Revenue* and Section 21 *Provisions* should be sufficient to enable an entity to determine how to account for resources received from non-exchange transactions. We acknowledge that, in practice, there are diverse accounting treatments for such transactions, despite the existence of the ASB’s *Statement of Principles for Financial Reporting: Interpretation for Public Benefit Entities* (SOP for PBEs). If the ASB continues to include PBE-specific guidance in draft FRS 102, we suggest that the wording in paragraphs 5.34 – 5.37 of the SOP for PBEs be included in place of PBE34.62-PBE34.72. This has the advantage that it has already been subject to consultation by the ASB and SORP making bodies are already committed to revising their SORPs to align with the SOP for PBEs. The ASB has included additional definitions (compared to the FRSME) and text in draft FRS 102 which may result in restricted income that would currently be recognised on receipt under the SORP, being deferred until the resources had been used for that restricted activity. This is because the definitions of ‘restrictions’ and ‘performance conditions’ are distinguished by the former not requiring funds to be returned to the donor if not used as specified and the latter requiring the resource to be returned to the donor. It appears that these definitions conflict with the definition of restricted income in the charities SORP and also with the wording referred above contained in the SOP for PBEs. This is an opportune time for the FRC Board to co-ordinate with the SORP making bodies to achieve consistency.

As set out in our response to FRED 45, we do not see that there is a valid cost/benefit argument to allow concessionary loans to be recorded at the amount received/paid. We can understand that, in the case of certain PBEs, it might be argued that the purpose of such loans is not to make an economic return, and hence the concession in the standard is appropriate. We do not support wider application of this concession.

#### *The future of the FRSSE*

We agree that the FRSSE should remain in place whilst we await the outcome of the current EU developments on micro companies and the reform of the EU Accounting Directives. There is little point in those entities which currently apply the FRSSE transitioning to a new framework only to be subject to further change once the EU developments are incorporated into UK law.

FRED 46 makes a consequential amendment to the FRSSE to require an entity to have regard to FRS 102, not as a mandatory document but as a means of establishing current practice, where it undertakes a new transaction for which it has no existing policy. We are aware that some will read this as meaning FRS 102 is current practice. However, paragraph 39 (to be renumbered 41) of Appendix IV to the FRSSE states that “it is recognised that as new FRSs are issued that amend

generally accepted accounting practice as it applies to larger entities, it may not be appropriate for such rules to apply to smaller entities". We recommend this cross reference to draft FRS 102 should be deleted so that the FRSSE is a truly standalone document.

Our hope is that once the EU proposals are implemented, the FRSSE in its current form, i.e. based on current UK GAAP, could be removed. A debate would then need to take place to determine whether those entities that remain should apply draft FRS 102 or whether any simplifications would be required by law or are otherwise appropriate.

We believe the ASB should clarify how to apply the small company asset test threshold where the assets would be reported at different amounts under the FRSSE and FRS 102, e.g. if fair value for agricultural assets remains in FRS 102. We assume that a company can continue to apply the FRSSE if it does not breach the assets threshold when applying the FRSSE i.e. there is no need to consider what asset values might be if FRS 102 was applied.

**Appendix 3**

**Suggested amendments to FRS 100 (FRED 46) FRS 101 (FRED 47) and FRS 102 (FRED 48)**

**FRED 46**

Topic	Reference	Suggested amended/additional text	Notes
Summary	Summary 6(a)	“..... Financial Reporting Standard for Smaller Entities....”	Amended to correct name of Standard
Definitions	5		We note that the ASB has published legal references for Irish entities on its website. We suggest that Irish references should be incorporated into the final FRSs where relevant.
Definitions	5		It is unclear whether the definition of a financial institution is intended to apply in respect of a legal entity only or whether it should extend to, for example, a group where a large part of its business derives from entities within it which are financial institutions.
Definition of ‘financial institution’	5(a), (b), (c), (e) and (f)  Also FRED 46 Appendix 1: A 1.1 and FRS 102: 34.18.		Paragraph 4.9 of Part Three of FREDs 46, 47 and 48 says that the ASB considered using the definition in s467(1) Companies Act 2006, but does not explain why this option was rejected.  We discuss the definition in more detail in our answer to Question 4 in Appendix 1.

Definition of 'financial institution'	5(g)	Delete 5(g)	As discussed in our response to Question 6 in Appendix 1, we suggest removing retirement benefit plans from the definition of financial institutions.
Statement of compliance	13	.... <u>"Such financial statements will not comply with all of the requirements of IFRSs and therefore will not contain the unreserved statement of compliance set out in paragraph 16 of IAS 1."</u>	It would be helpful to remind preparers to remove or modify the statement of compliance with IFRSs, particularly when first applying FRS 101.
Statements of compliance	11-13		We suggest placing these requirements within the standards 'proper' (i.e. FRS 101/FRS 102 as relevant) to ensure that preparers can easily locate them.
Date from which effective and transitional arrangements	14		<p>The prohibition on early adoption for periods beginning before that date of issue of the standards should be reconsidered. The explanation at 12.4 in section 1 of Part 3 (concerning companies that are in arrears filing their accounts) does not justify the conclusion. We understand that the prohibition is because of the need to allow time for changes in tax legislation. This should be explained more fully if it is the case.</p> <p>In any event, imposing the restriction by reference to periods <b>beginning</b> on or after the issue of the standards is unduly restrictive. For example, if publication of the final standard slips into January 2013, a company with a December years end would not be able to apply the new requirements until its December 2014 year end.</p> <p>There does not appear to be any justification for any prohibition on early adoption of the reduced disclosure</p>

			<p>framework under FRS 101 (subject to the need to comply with the law concerning change of accounting framework).</p> <p>See our cover letter and answer to Question 8 in Appendix 1 to our letter.</p>
Date from which effective and transitional arrangements	17(b)(ii) 17(b)(iii)	“...prepared in accordance with its <del>previous financial reporting framework</del> <u>EU-adopted IFRS...</u> ”	In this context, EU-adopted IFRS must be the previous framework.
Withdrawal of current accounting standards	20		<p>The long list of withdrawn standards and UITF Abstracts should be replaced with a simple statement that they have all been withdrawn except for FRS 27. Even if it is thought to be necessary to include the complete list, this should be accompanied by a short statement of what, if anything, remains in force.</p> <p>We note that the ASB is not proposing to withdraw the Foreword to Accounting Standards so this document will need to be updated in many respects, including CIMA leaving CCAB, ICAI being CAI and introduction of IAASA, FRC reform, change of public sector rules. Paragraph 15 suggests that accounting standards cannot override exemptions in the law and this has caused difficulty in the past, for example in connection with FRS 8.</p>

Withdrawal of current accounting standards	20-21		Paragraph 20 states that the listed standards “are” withdrawn while 21 states that certain statements “will be” withdrawn. Is a distinction intended to be made between the timing of these withdrawals?
Consequential amendments to the FRSSSE	22(a)	<del>“...and, for the generality of small entities, are the same as those previously required by other accounting standards, or a simplified version of those requirements...”</del>	We suggest that these words are deleted. This is just historical and the insertion of “previously” makes it look rather strained.
Consequential amendments to the FRSSSE	22(d)		As discussed in Appendix 2 to our letter, we believe the cross reference to FRS 102 should be deleted so that the FRSSSE is a truly standalone document.
Consequential amendments to the FRSSSE	22(d)	<u>“Public benefit entities (PBEs) as defined in [draft] FRS 102 should in particular have regard to the PBE specific requirements in [draft] FRS 102.”</u>	The entire final sentence about PBEs should be underlined because it is all new text.
Consequential amendments to the FRSSSE	22(g)	<del>“...developed or revised after the FRSSSE was first issued (in November 1997)...”</del>	These words are now redundant because there will be no pre 1997 SORPs that have not been revised.
Consequential amendments to the FRSSSE	22(g)	<del>“...or EU-adopted IFRS...”</del>	These words appear to be redundant because there are currently no SORPs drafted on that basis.
Consequential amendments	22(l)		This paragraph introduces the term ‘impairment’ to the FRSSSE, which previously referred only to ‘write-offs’. We would suggest

to the FRSSE			that the terminology used should be consistent throughout.
Consequential amendments to the FRSSE	22(n)	“Where the reporting entity is preparing consolidated financial statements, <u>it should have regard to paragraph 5 of the Status of the FRSSE as a means of developing its policies and practices for the preparation of its consolidated financial statements.</u> ”	Part of this sentence should be underlined as it represents an amendment. This is subject to our comment at 22(d) which may result in paragraph 5 being withdrawn or significantly amended.
Consequential amendments to the FRSSE	22(u)	“..... <del>users expect financial statements to be prepared using accepted practice. If a practice was clearly accepted and established, it should be followed unless there were good reasons to depart from it. Accordingly, preparers and auditors should have regard to FRSs (including the FRSME) and UITF Abstracts not as mandatory documents, but as a means of establishing current practice...</del> ”	This should be deleted. It runs the risk of always having to consult the “big book”. At a minimum, it needs to be amended to say “if a practice was clearly accepted and established <u>for small companies</u> , it should be followed .....
Equivalent disclosures	AG10		AG10 of FRS 100 states disclosure exemptions for subsidiaries are permitted where the relevant disclosure requirements are met in the group accounts even where the disclosures are made in aggregate or abbreviated form. However, it should also be clarified whether, if disclosure is not made in the consolidated accounts on grounds of materiality, a qualifying entity would need to include that disclosure.
Applicable accounting framework	A2.4 footer	“Broadly, those <del>listed</del> <u>admitted to trading on an EEA regulated market.</u> ”	This could be included directly within A2.4 rather than presented in a footnote.

Applicable accounting framework	A2.9		There appears to be some duplication between the main text of A2.9 and the related footnote. The footnote could be omitted.
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**FRED 47**

Topic	Reference	Suggested amended/additional text	Notes
Abbreviations and definitions	3	<u>“The meaning of ‘equivalent disclosures’ is explained in the Application Guidance to [draft ] FRS 100.”</u>	Reference is made to ‘equivalent disclosures’ throughout FRS 101. Given the explanation of what this means is included in the Application Guidance to FRS 100, it would be useful to refer to this. Alternatively it may be helpful to include paragraphs AG8 to AG10 of draft FRS 100 in FRS 101.
Availability of disclosure exemptions	7(a)		<p>A shareholder may object “..... if the shareholder holds more than half of the allotted shares of the entity that are not held by the immediate parent, or if the shareholder holds 5% or more of the total allotted shares in the entity”.</p> <p>No explanation is given for this complicated two part test. If the parent owns 99% of the subsidiary, the first part of the test gives another shareholder with 0.5% a right of veto. This seems inconsistent with the second part of the test which requires a shareholder to have 5% in circumstances where there is a larger minority interest.</p> <p>It appears to be sufficient to allow a shareholder to object if</p>

			<p>they hold 5% or more of the allotted shares.</p> <p>More generally, we note that companies are able to take existing exemptions (for instance, the FRS 1 exemption from preparing a cash flow statement), and even to change accounting frameworks without obtaining shareholder agreement, written or otherwise. We believe that this is the more appropriate approach.</p>
Availability of disclosure exemptions	7(c)	<p>“it states in the notes to its financial statements: <u>(i) that the exemptions made available by [draft] FRS 101 have been taken</u><del>the relevant standard and paragraph references of the exemptions adopted...</del>”</p>	<p>The disclosure requirement is unnecessarily detailed in requiring a list of standards and paragraph references. It should be sufficient to disclose that the reduced disclosure framework has been applied.</p>
Disclosure exemptions for qualifying entities	8(a)	<p>“.....involving equity instruments of an entity other than <del>the a</del> parent, providing...”</p>	
Disclosure exemptions for qualifying entities	8(b)	<p>“...B64(p), B64(q(ii)), B66..”</p>	<p>The exemption from IFRS 3:B64(q) in its entirety is inconsistent with FRS 102: 19.25A which requires disclosure of amounts included in the consolidated profit and loss account for the year in respect of any acquisitions.</p>

Date from which effective	10		See comments for FRED 46 above in respect of early adoption and our response to Question 8 in Appendix 1.
Date from which effective and transitional arrangements	10	“An entity may apply this [draft] FRS for accounting periods beginning on or after [1 January 2015]. Early application is permitted for accounting periods beginning on or after the date of issue of this standard, <del>subject to the additional requirement for a public benefit entity that it must also apply a public benefit entity SORP which has been developed in accordance with this [draft] FRS, [draft] FRS 100 and [draft] FRS 102.</del> ”	The wording relating to public benefit entities and SORPs should be deleted because it will not be relevant to entities applying FRS 101 (which will be applying IFRS recognition and measurement).
Introduction	AG		It would be helpful if the introduction to this section emphasised that these amendments to policies need only be made where the effect is material.
Amendments to IFRS 1 disclosures	AG1(a)&(b)		It would be helpful to explain in what circumstances use of the exemptions in IFRS 1 D16 and D17 would result in measuring assets and liabilities on a basis that is not in compliance with the Act.
Amendments to International Financial Reporting Standards as	AG1(a) & (b)	“This election is available to a qualifying entity provided that it is a subsidiary/parent that measures its assets and liabilities in compliance with the Act <del>in accordance with the reduced disclosure framework set out in the [draft] Financial Reporting Standard 101</del> ”	The struck through words appears to be redundant and confusing.

<p>adopted in the European Union for compliance with the Act and the Regulations</p>		<p><del>‘Reduced Disclosure Framework’.</del></p>	
<p>Amendments to IFRS 3 disclosures</p>	<p>AG1(c)</p>	<p>“If that excess remains after applying the requirements in paragraph 36, the acquirer shall recognise the resulting excess <del>on the face of the statement of financial position on the acquisition date, immediately below the intangible assets heading as a negative asset, and followed by a subtotal showing the net amount of the intangible assets and the negative asset. The</del> <u>as a negative asset, which shall be attributed to the acquirer.</u> The amount of the negative asset up to the fair values of the non-monetary assets acquired should be recognised in the statement of profit or loss in the periods in which the non-monetary assets are recovered, whether through depreciation or sale...”</p>	<p>In addition to the change in the measurement and recognition bases required to comply with the 7<sup>th</sup> Directive, this amendment includes a number of presentation requirements for any negative asset recognised in respect of a bargain purchase.</p> <p>We note that no such requirements are included in FRS 102 Section 18 or 19 and the requirements imposed on FRS 101 reporters appear to be unduly onerous by comparison.</p>
<p>Amendments to IFRS 5 disclosures</p>	<p>AG1(d)(b)</p>	<p>“In the statement of comprehensive income it shall be presented in a column identified as relating to discontinued operations, i.e. separately from continuing operations; <u>a total column should also be presented.</u>”</p>	<p>The words “a total column should also be presented” should be underlined because they do not appear in IFRS 5.</p>

Amendments to IFRS 5 disclosures	AG1(d)(b)		As discussed in Appendix 2 to our response, we believe that the full columnar approach for discontinued operations is excessive. This also applies to draft FRS 102:5.7.
Amendments to IAS disclosures:	AG1(e)	<u>“An entity within the scope of Schedule 2 of the Regulations should use a format set out in that Schedule.”</u>	The final sentence should be underlined because it does not appear in IAS 1.  More generally, the mark up to show the amendments to IFRSs needs to be reviewed for consistency.
Amendments to IAS disclosures	AG1(g)	<u>“Extraordinary items are extremely rare as they relate to highly abnormal events or transactions that fall outside the ordinary activities of a reporting entity and which are not expected to recur. In view of the extreme rarity of such items no examples are provided.”</u>	We would suggest including a comment to clarify that extraordinary items are expected to be rare, such as is currently included in FRS 3:48.
Amendments to IAS disclosures	AG1(i)	<u>Delete paragraph.</u>	This paragraph should be omitted because there does not appear to be a conflict here between IAS 19 and the Act. The proposed amendment to IAS 19.104A seems an over-enthusiastic application of the statutory prohibition on offsetting income and expenses (which is also a feature of IFRSs). Under existing UK GAAP, it is accepted that some things such as profits on disposal of assets are properly shown as a net figure. FRS 12 specifically refers to netting reimbursements in the profit and loss account and has not been seen as in conflict with the law.
Companies	A1.3	<u>“..... comply with the applicable provisions of Part 15</u>	

Act accounts		.....”	
IAS 1	A1 Table 1	“..as for IFRS for SMEs 5.20 of the IFRS for SMEs...”	We suggest amending or deleting the text as shown left in the section on IAS 1.
IFRS 1	A1 Table 1		The section about IFRS 1 is unclear as to the circumstances in which the measurement of assets and liabilities may not comply with the Accounting Directives. Further clarification may be helpful for adopters.

#### FRED 48

Topic	Reference	Suggested amended/additional text	Notes
Summary	Summary 6		This paragraph refers to individual <u>accounts</u> and consolidated <u>financial statements</u> . This inconsistency appears to be applied consistently throughout the FRED but reads very strangely. It would be preferable to use either accounts or financial statements throughout.
Summary	Summary 6(a)	“..... Standard for Smaller Entities .....”	
Summary	Summary 16	“..... appendices of implementation guidance ..... which provide guidance concerning its <u>implementation application</u> ”.	The current drafting is inconsistent because implementation guidance provides guidance about implementation and application guidance provides guidance about application. However, more generally, the appendices are not consistently described as either implementation guidance or application

			guidance.
Scope	1.3	"...ordinary shares are <b>publicly traded</b> , or that.."	The words 'publicly traded' should be written in bold to ensure the reader is aware that publicly traded is defined in the glossary.
Scope	1.4		The drafting of this paragraph should be reconsidered. The standard should not have the effect of requiring an entity to prepare an interim report in accordance with IAS 34 where that is not required for regulatory reasons. As currently drafted, the paragraph requires any entity whose shares are publicly traded (e.g. an AIM company) to comply with IAS 34. The words "described as complying with IAS 34" appear to caveat only the situation where an entity chooses to prepare an interim report voluntarily. It is arguable that the standard does not need to make any reference to IAS 34 because interim reporting is a matter for regulators rather than the ASB. See our response to Question 3 in Appendix 1.
Scope	1.5		As discussed in our response to Question 3 to the consultation in Appendix 1, it is questionable whether companies should be discouraged from providing more abbreviated segmental information just because they do not comply in full with IFRS 8.
Scope	1.8	"A qualifying entity applying this [draft] FRS ..... nor are derivatives, <u>it</u> must also apply ....."	
Applicability of FRS 102	1.11		See points noted above for FRED 47 which apply equally here.

disclosure exemptions			
Exemptions	1.11		We note that some of the exemptions given (e.g. cashflow statement) are already available under current UK GAAP without shareholder approval and therefore to require written shareholder approval may be considered onerous.
Exemptions	1.12(e)		It would be helpful if the ASB could provide a rationale for exclusion of certain group arrangements.
Date from which effective	1.14		See comments for FRED 46 above in respect of early adoption and our response to Question 8 in Appendix 1.
Date from which effective and transitional arrangements.	1.14	“An entity may apply this [draft] FRS for accounting periods beginning on or after [1 January 2015]. Early application is permitted for accounting periods beginning on or after the date of issue of this standard, <del>subject to the additional requirement for a public benefit entity that it must also apply a public benefit entity SORP which has been developed in accordance with this [draft] FRS, [draft] FRS 100 and [draft] FRS 101.</del> ”	As explained in our response to Question 8 in Appendix 1, the proviso that a public benefit entity must also apply a SORP which has been developed in accordance with the FRS should be deleted..  Also, the current drafting is deficient because not all PBEs are covered by SORPs. Therefore, if the substance of the requirement were to be retained, it would need to be reworded to refer only to an <u>applicable</u> SORP.
Going concern	3.8	“... but is not limited to, twelve months from <del>the reporting date</del> <u>the date of approval of the financial</u> ”	As discussed in Appendix 2 to our response, the requirement in FRS 102 should be made consistent with other UK requirements

		<u>statements.</u> "	and guidance.
Consistency of presentation	3.11	"(b) <u>an amendment to this</u> [draft] FRS requires a change in presentation."	
Consistency of presentation	3.11		The proposals are unclear about the future of the UITF and whether UITF Abstracts may be issued in future. If UITF Abstracts may be issued in future, 3.11 should be expanded to address changes required by UITF Abstracts.
Entity's domicile and legal form	3.24(a)		It is unclear what is intended by the 'domicile' of an entity but the drafting implies that this may be different from the country of incorporation which must also be disclosed. It would be preferable for the reference to 'domicile' to be deleted. Alternatively, it should be explained in what circumstances it may differ from the country of incorporation.
Entity's domicile and legal form	3.24(a)	" <u>or, if there is no registered office, the principal place of business .....</u> ".	We assume that the intention is that the registered office will always be given if one exists, and the principal place of business will be given otherwise.
	4.1	"....except to the extent that these requirements are not permitted by any <u>SORP, regulator or statutory framework</u> under which such entities report."	
Scope and terminology	5.2		We suggest that if an entity has no items of other comprehensive income it could be permissible to present a profit and loss account in accordance with 5.2(b) and 5.5, with a statement to that effect included on the face of the profit and

			loss account.
Discontinued operations	5.7		As discussed in Appendix 2 to our response, we believe that the full columnar approach for discontinued operations is excessive. This also applies to draft FRS 101: AG1(d)(b).
Extraordinary items	5.10A	<u>“Extraordinary items are extremely rare as they relate to highly abnormal events or transactions that fall outside the ordinary activities of a reporting entity and which are not expected to recur. In view of the extreme rarity of such items no examples are provided.”</u>	The definition of extraordinary items is presumably included to align with the Accounting Regulations. It would be useful to adopters if guidance on presentation and disclosure of such items was included within the standard – for instance, having reference to the wording currently included in FRS 3:48.
Analysis of expenses	5.11		Inclusion of these requirements in this section implies that the analysis by nature or function must be given on the face of the statement rather than in the notes. The statutory formats would permit the analysis to be given in the notes. The intention here should be clarified. It is arguable that 5.11 is unnecessary because such an analysis is necessary to comply with the formats.
Statement of changes in equity	6.3A		We consider that the requirement to present an analysis of other comprehensive income by item should also be met if an analysis is provided on the face of the SOCI.
Statement of cash flows	7		We note that a small company, which is not a qualifying entity, applying draft FRS 102 would no longer be exempt from preparing a cash flow statement. Although we do not disagree with this position, we would seek clarification as to whether this

			was the intention.
Components of cash and cash equivalents	7.20		<p>This paragraph seems to acknowledge that there will be a difference between “cash at bank and in hand” as disclosed on the balance sheet in line with Schedule 1 to the Accounting Regulations and “cash and cash equivalents” as required by FRS 102 for the cash flow statement, requiring a reconciliation between the two amounts. A footnote to Appendix 2 to draft FRS 102 also makes reference to this point.</p> <p>However this could be made clearer, and it could additionally be clarified whether this reconciliation should be on the face of the cash flow statement or in a note to the accounts.</p> <p>We also believe that the term “similarly described” is inappropriate as “cash at bank and in hand”, which will appear on the statement of financial position is a different term to “cash and cash equivalents”.</p>
Exemption from consolidation for small groups	9.3		<p>We note that Section 9 does not include the exemption from consolidation for small groups, although other Companies Act exemptions are included in 9.3. We suggest that this exemption is also included in the Standard.</p>
Definition of control	9.5		<p>This material is taken unamended from the IFRS for SMEs but could conflict in some circumstances with the definition of a subsidiary undertaking in the Act. The wording in the standard should be identical to that in company law to avoid situations</p>

			where an entity could meet one definition but not the other.
Exclusion from consolidation	9.9(b)	“..... has not previously been consolidated in <del>the</del> consolidated financial statements <u>prepared in accordance with this standard</u> ”.	We presume that consolidation under a previous GAAP would not affect the requirement.
Exclusion from consolidation	9.9A		The second sentence of this paragraph defines “held as part of an investment portfolio” which is used in the definition of “held exclusively with a view to resale” in the Glossary. It would be preferable to delete the sentence from 9.9A and include it either as a separate defined term in the Glossary or as part of paragraph (c) of the definition of “held exclusively with a view to resale”.
Special purpose entities	9.12	“..... to share-based payments, <u>and</u> consequently plans related to such arrangements are .....”.	
ESOPs	9.25	“An entity that is not a parent accounts for any investments in associates and any interests in jointly controlled entities in accordance with paragraph 14.4 or 15.9, as appropriate. <del>An entity that is not a parent but facilitates employee shareholdings under remuneration schemes, such as Employees Share Ownership Plans (ESOPs) applies paragraphs 2.53 to 2.55 to such arrangements.</del> ”	This paragraph requires an entity that is not a parent to apply paragraphs 2.53 to 2.55 to employee share ownership plans. No equivalent requirement is given for the separate financial statements of an entity that is a parent and no explanation is provided for this distinction.  It is unclear why a subsidiary that facilitates an ESOP trust should be required to adopt an accounting treatment in its individual accounts which is different from how a parent would account for the same arrangements. It is clear from 9.10 of draft FRS 102 that an ESOP trust may fall within the definition of

			<p>an SPE and would therefore be required to be consolidated as a subsidiary.</p> <p>We believe that this adequately addresses accounting for ESOP trusts and that the second sentence of 9.25 should be deleted. This is consistent with the position under IFRSs. Also, if the words in 9.25 were to be retained, the cross referred material at 2.53 to 2.55 would have to be expanded because is derived from UITF 32 rather than UITF 38</p>
Separate financial statements	9.26A		In relation to the references to the treatment of associates and jointly controlled entities, it appears that there should be consequential amendments to 14.4 and 15.9 because they do not currently address the scenario where the entity is a parent but does not prepare consolidated financial statements.
Combined financial statements	9.30(e)	<del>"(e) the related party disclosures required by Section 33 Related Party Disclosures."</del>	The requirement to make related party disclosures required by section 33 is redundant because 9.29 requires compliance with <u>all</u> of the requirements of the [draft] FRS.
Exchanges of business or other non-monetary assets for an interest in a subsidiary, joint venture	9.31-32	"..... received by the reporting entity <del>exceeds</del> <u>is less than</u> the book value ....."	<p>These paragraphs are derived from UITF Abstract 31 but some changes have been made. At the end of what is now 9.31(c), UITF Abstract 31 stated that "Any gain arising on the exchange that is not realised should be reported in A's statement of total recognised gains and losses". The substance of this requirement, which was to ensure consistency with the law, should be retained.</p> <p>Also, 9.31(d) should also be amended as noted to the left.</p>

or associate			
Scope	11.5		It is not clear from the scoping included here whether convertible debt held by the investor is within the scope of Section 11 or Section 12. We suggest clarifying this point.
Basic financial instruments	11.6(b)		The IFRS for SMEs deliberately avoids the use of the word 'derivatives' although the instruments listed at 11.6 would be derivatives. The amendments proposed by the ASB to sections 11 and 12 to ensure compliance with the law do refer to derivatives because the word is used in the Accounting Regulations. We note this inconsistency but do not see how it can be avoided. Adding '(i.e. derivatives)' at the end of 11.6(b) would make the material more internally consistent and help link it to the directors' report requirements.
Loan commitments issued	11.6		Although we appreciate the goal to simplify requirements for financial instruments, the requirement to scope all loan commitments issued out of Section 11 (therefore requiring all such commitments to be held at fair value) could be onerous for some entities.
Scope of Section 11	11.7(b)	"financial instruments that meet the definition of an entity's own equity <u>or arise in connection with share-based payment transactions</u> (see Section 22 Liabilities and Equity and Section 26 Share-based Payment)."	To ensure that all arrangements within the scope of chapter 26 are excluded from the scope of chapter 11.

Scope of Section 11	11.7	“A reporting entity that issues or holds financial instruments set out in (f) and (g) is required by paragraph <del>1.4</del> <u>1.6</u> to apply IFRS 4 Insurance Contracts...”	The reference needs to be amended from 1.4 to 1.6.
Subsequent measurement	11.14		As discussed in Appendix 2 to our response, we suggest the inclusion of a fair value option for publicly traded debt instruments.
Subsequent measurement	11.14(b)		It could be helpful to clarify what is meant by impairment in this instance, since not all indicators of impairment included within Section 11 are applicable to these instruments.
Basic financial instruments	11.27(b) & (c)		<p>This paragraph at first appears to be largely redundant because any instrument accounted for at fair value within the scope of section 11 would usually fall within 11.27(a), such as shares which are publicly traded and those which are otherwise reliably measurable.</p> <p>The reason for (b) and (c) is that other sections cross refer to this guidance. However, it would be clearer if the explanation of this, which currently appears at the end of 11.27, was moved to the beginning.</p>
	11.27	... Section 16 <del>Investment Property</del> and section 34.39...	Titles are not given for sections other than 16. Also (subject to our comments about the scope of section 34.39 in our response to Question 6 in Appendix 1), it is helpful to refer to that section.

Disclosures for financial 'instruments' at fair value	11.48A		<p>The intention appears to be that these additional disclosure requirements apply to financial <u>liabilities</u> to ensure the requirements of paragraph 36(4) of Schedule 1 to the Accounting Regulations are met, and A3.7 in Appendix 3 states that “the disclosures in paragraph 11.48A apply to financial <b>liabilities</b> that are not held as part of a trading portfolio and are not derivatives”. However, the heading and the introductory words of 11.48A refer to financial instruments rather than financial liabilities.</p> <p>The disclosures required by paragraph 36(4) of Schedule 1 also apply to certain categories of financial assets. These will be relevant in some cases, for example if an interest in a subsidiary is accounted for using FVTPL (either in separate financial statements in accordance with 9.26 or in consolidated financial statements in accordance with 9.9 and 9.9A). The disclosure requirements of the Regulations do not necessarily have to be duplicated in the standard but there appears to be inconsistency between the treatment of assets and liabilities which could be misleading to preparers.</p>
	12.3(d)		<p>We suggest that the reference to “rights” under insurance contracts should refer to “obligations”, otherwise it would appear as though liabilities under insurance contracts are within the scope of section 12. Additionally we question why this paragraph differs to the scope exclusion at 11.7(f).</p>
'Embedded derivatives'	12.4	“Most contracts to buy or sell a non-financial item such as a commodity, inventory, or property, plant and equipment are excluded from this section	<p>This paragraph describes what are known, in IFRS terminology, as embedded derivatives. We accept the need to reduce the possibility of structuring transactions to avoid the need for fair</p>

		<p>because they are not financial instruments. <u>Where, in substance, two contracts which do not necessarily belong together have been combined and result in</u> <del>However, this section applies to all contracts that impose risks on the buyer or seller that are not typical of contracts to buy or sell tangible or intangible assets, this section applies. For example, this section applies to such arrangements that could result in a loss to the buyer or seller as a result of contractual terms that are unrelated to changes in the price of the non-financial item, changes in foreign exchange rates, or a default by one of the counterparties.</del></p>	<p>value accounting where this is necessary for a fair presentation. However, we have concerns that this paragraph may be seen as unduly onerous because of the need to review all commercial contracts to identify such terms. At the other extreme, the requirement may be ignored because it is not understood. The suggested wording is intended to keep structured transactions within scope (i.e. where two contracts have in effect been stapled together where they don't need to be) but exclude those where in substance there is genuinely one contract.</p> <p>In addition we suggest the inclusion within scope of contracts to buy or sell intangible as well as tangible assets.</p>
Measurement	12.8	<p>"...except as follows: equity instruments that are not publicly traded and whose fair value cannot otherwise be measured reliably, <u>hedging instruments used to hedge variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation</u>, and contracts linked to such instruments that, if exercised, will result in delivery of such instruments..."</p>	<p>This section should also exclude hedging instruments used to hedge variable interest rate risk of a recognised financial instrument, foreign exchange risk or commodity price risk in a firm commitment or highly probable forecast transaction, or a net investment in a foreign operation, which are not measured at fair value through profit or loss.</p>
Disclosures for financial 'instruments'	12.8A		<p>See comments above re 11.48A – need to clarify if this applies only to financial liabilities.</p>

at fair value			
Risks to be hedged	12.17(b)	“foreign exchange or interest rate risk in a firm commitment or a highly probable forecast transaction, <u>or on a debt instrument measured at amortised cost.</u> ”	12.17 does not currently permit hedging the foreign exchange risk of a debt instrument held at amortised cost, citing that hedge accounting with a cross currency swap would not have a significant effect. This would be true if the swap was exchanging floating foreign currency debt for floating functional currency debt. However, if the swap exchanges either floating or fixed rate foreign debt into fixed functional currency debt then there can be a very significant mismatch which could be avoided by permitting hedge accounting.
Hedge accounting	12.18(a)	“...an interest rate swap, a foreign currency swap, a cross currency interest rate swap, a foreign currency forward exchange contract, <u>a futures contract...</u> ”	12.18 refers specifically to “forward exchange contracts” – we suggest that this could also include futures contracts.
Hedge accounting	12.18(a)	“...ora hedge of a foreign exchange risk in a net investment in a foreign operation, <del>a financial asset, or financial</del> that is expected to be highly effective...”	The drafting of this sentence is unclear, in particular the reasoning behind the inclusion of references to financial assets and liabilities.
Accounting for hedging commodity price risk of a fixed commitment	12.23		We note that commodity price risk of a firm commitment will in most cases arise from the commodity price being fixed rather than variable. We would therefore suggest that this be included in the ‘fair value’ hedge section (12.19-12.22).
Hedging forecast	12.23		12.23 does not currently allow hedge accounting for forecast interest payments – for instance on floating rate debt that will

interest cashflows			be issued in the future. This appears overly restrictive and may mean that companies do not achieve hedge accounting in practice, as companies do not often hedge only the term of debt that currently exists when engaging in cash flow hedging of floating interest payments.
Recycling of reserve	12.23		<p>It is quite common for companies to renegotiate current debt or cancel or renegotiate terms. These actions could cause the hedge relationship to end, triggering recycling and thereby cancelling out the offsetting effect of applying hedge accounting in the first place. This could also give scope for manipulation of the figures.</p> <p>Instead, we suggest that recycling should follow the same treatment of matching hedged cash flows unless they are no longer expected to occur.</p>
Disposal of a foreign operation	12.23		The prohibition on recycling the net investment hedge reserve on disposal of the foreign operation represents a departure from IAS 39/FRS 26 treatment and gives rise to added volatility on disposal. It would also mean that some gains/losses on derivatives would be recognised permanently in OCI. We would suggest amending this to permit recycling of the reserve on disposal.
Hedge accounting	12.24		This paragraph seems unnecessary and overly restrictive, given that recycling is covered in 12.23. For instance, if capitalised borrowing costs were hedged, 12.24 would still force recycling to profit or loss of the interest on the swaps, which would not

			then be matched with the hedged interest flows.
Measurement of inventories	13.4A	Suggest amending paragraph reference to “ <u>PBE13.4A</u> ”	There has been some misunderstanding that the proposed requirement applies to assets held “for distribution” to customers etc. The proposed clarification is intended to avoid this.
Element of PP&E cost	17.10A	“ <u>An entity applies Section 13 Inventories to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period.</u> ”	Adding wording from IAS 16 which clarifies the last point in 17.10(c).
Purchase method	19.6	“...except for combinations of entities or businesses under common control which may be accounted for by using <u>the merger accounting method (see paragraphs 19.27 to 19.33).</u> ”	The references need to be corrected and the word “the” should be inserted as shown.
Adjustments to the cost of a business combination contingent on future events	19.13	“However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment to the cost of the combination <u>at the date it can be reliably estimated (i.e. not by retrospective restatement).</u> “	It is not immediately clear from the drafting whether this means a retrospective restatement or an impact to goodwill in the current period. Wording added to clarify that the adjustment is made to the cost of the combination on the date that the probability criterion is met.

	19.27		This paragraph is more restrictive than the scope exclusion from IFRS 3 which applies to all combinations of entities under common control. The drafting as it stands perpetuates the FRS 6 restriction that there can be no change to the non-controlling interest. We suggest that the opportunity be taken to widen the scope in line with IFRS 3 rather than retaining the position of FRS 6.
Finance leases – subsequent measurement	20.12	“..... Section 18 <u>Intangible Assets other than Goodwill</u> or Section 19 Business Combinations and Goodwill .....”.	
Disclosures	20.16	<u>(c) 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.</u>	Reinstating the last paragraph of paragraph 20.16 of the IFRS for SMEs which is missing.
Liabilities and equity	22		Unlike every other section, there does not appear to be any requirement within Section 22 to disclose an accounting policy in respect of classifying financial instruments as either liabilities or equities.
Scope	22.2	“A reporting entity that issues or holds financial instruments set out in (f) and (g) is required by paragraph <u>1.6</u> to apply IFRS 4 Insurance Contracts...”	The reference needs to be amended from 1.4 to 1.6.

Distributions to owners	22.18		<p>We strongly support the decision not to require distributions of non-cash assets to be accounted for at fair value. However, the proposed requirement to disclose the fair value of such assets may be unduly onerous in many cases.</p> <p>For example, this may require valuations to be obtained for unquoted shares or properties that would not otherwise be needed. Shareholders may have no interest in this information because the value of their total holding is usually unaffected. We therefore propose that this disclosure requirement should be subject to an exemption where it would involve undue cost or effort.</p>
	23A.32		<p>This paragraph implies that the franchisor will “in substance” be acting as an agent if it makes no profit on the transaction. This appears to place too much emphasis on whether a profit is made and insufficient emphasis on other factors such as the legal rights and obligations that may arise when the agency relationship is not disclosed.</p>
Scope - grants	24.1		<p>It is unclear why it is necessary to introduce a definition of “government grant” when the section applies to all grants. Also, subsequent references to “government grants”, for example in 24.2 and 24.3, have the effect of excluding other types of grant from the scope of these paragraphs. We assume that this is unintentional and that these references should be simply to “grants”.</p>

Scope – share-based payment	26.1	“This section specifies the accounting for all share-based payment transactions including: (a) equity-settled share-based payment transactions in which the entity acquires goods or services as consideration for equity instruments of the entity, <u>its parent or another group company</u> (including shares or share options);”	This scope paragraph refers only to equity instruments of the entity and therefore does not appear to catch arrangements in which the equity instruments are those of a parent or other group company. 26.16 addresses “Group plans” but it may be helpful if 26.1 is amended to avoid any doubt that they are within the scope of the section.
Measurement of retirement benefit plan assets	28.15		As discussed in our response to Question 6 in Appendix 1, this requirement should be expanded to refer to section 16 (investment property, commonly held by pension schemes) and potentially section 17.
Group plans	28.38	“...such subsidiaries are permitted to recognise and measure employee benefit expense on the basis of a reasonable allocation of the expense recognised for the group. <u>Such subsidiaries should recognise their share of the related pension scheme asset or liability on a consistent basis.</u> ”	This material on group plans addresses the recognition of the cost of a group plan by individual entities within a group. It is silent on whether any defined benefit asset or liability must also be allocated among the participating group entities. It would be helpful if this could be clarified, especially because the need to recognise a liability in the individual accounts of participating entities is a significant change from existing UK GAAP.  We note that this material is taken from IAS 19 which introduces a similar uncertainty. As stated in Deloitte iGAAP 2012, at 5.2 in chapter A15, we believe that the intention is that the asset or liability should be recognised. However, it may be helpful if the ASB could confirm that it shares this view.
Recognition of	29.6	“Deferred tax shall be recognised in respect of all	“Timing differences” should be in bold because this is a term defined in the glossary and appears here for the first time in

deferred tax		timing differences..."	this section.
Tax forecasts	29.27(c)		The requirement to make this disclosure for at least the next three years may be seen as onerous. It would require, for example, forecasts of capital expenditure to cover that period and arguably would require forecast tax computations to be prepared. We suggest that the requirement could be clarified to require an indication of any expected significant changes only, without the need to prepare forecasts.
Exchange differences	30.13	"...such exchange differences shall be recognised initially in other comprehensive income and <u>accumulated in</u> <del>reported as a component of equity.</del> "	It is not clear whether the intention of this paragraph is to require translation differences to be presented in a separate component of equity. As draft FRS 102 does not permit recycling of such differences to profit or loss on disposal of the net investment there appears to be no benefit to imposing this requirement. We therefore suggest the amendment noted to the left.
Events after the end of the reporting period	32		We note that the equivalent requirements in IFRSs and existing UK GAAP (IAS 10/FRS 21) include detail on going concern and related disclosures and suggest that reference to going concern should be included in this section to clarify that events changing the going concern status are adjusting (as in FRS 21).
Related party disclosures	33.1A	"..... the transaction <del>are</del> <u>is</u> wholly-owned by such a member."	
Related party disclosures	33.5		It would be helpful to include a footnote to this paragraph which mentions the additional disclosures required by the

			Companies Act.
Agriculture	34.2(a)		As discussed in our response to Question 5 in Appendix 1, we propose that biological assets should be carried at historical cost.
Extractive industries	34.11		This paragraph could cause significant issues for companies in the extractive industry. Paragraph 34.11 cross refers to sections 17 and 18 for ‘assets for use in extractive industries’ but it is unclear whether this captures exploration assets or just those assets such as plant and machinery used in exploration.  See comment below in respect of paragraph 35.10(j).
Service concession arrangements	34.12		As discussed in our response to Question 5 in Appendix 1, we suggest that further guidance should be added to expand the material on service concession arrangement accounting.
Financial institutions: Disclosures	34.18(g)	<del>A retirement benefit plan.</del>	See our response to Question 4 in Appendix 1.
Treatment of net assets	34.39		As discussed in our response to Question 6 in Appendix 1, this requirement should be expanded to refer to section 16 (investment property, commonly held by pension schemes) and potentially section 17.
Glossary inclusion	34.39		“Net assets available for benefits” is in bold text but is not included in the glossary.

Fund account	34.41	<u>“The Fund Account is presented in place of an income statement.”</u>	It could be made clear in this paragraph that a defined benefit scheme is not required to produce an income statement and that the Fund Account is presented instead.
Disclosure for retirement benefit plans	34.42	Delete paragraph	As discussed in our response to Question 6 in Appendix 1, we suggest deleting this paragraph as part of the removal of retirement benefit schemes from the definition of financial institutions.
Disclosure of actuarial liabilities	34.43	<u>“This information may be published either within the financial statements or alongside the financial statements.”</u>	As discussed in our response to Question 6 in Appendix 1, we suggest paragraph 34.43 makes clear that this information is to be published either within the financial statements or alongside them.
Retirement benefits disclosures	34.46		The introduction to this paragraph says “may contain” which suggest that the items listed are illustrative rather than mandatory requirements. This should be clarified.
Retirement benefits disclosures	34.46(e)	<u>“In the case of a defined contribution scheme, this would be an explanation that benefits are dependent on investment values and returns and there is no guarantee of a particular benefit.”</u>	As discussed in our response to Question 6 in Appendix 1, it may be useful to clarify (perhaps as shown to the left) what is meant by 34.46 (e) ‘a description of the retirement benefits promised to participants’.
Plan termination terms	35.46(f)		As discussed in our response to Question 6 in Appendix 1, we are not sure what is meant by ‘a description of any plan termination terms’.

Heritage assets	34.47	"...shall be accounted for in accordance with the requirements of paragraphs 34.47 to 34. <u>54</u> ."	The reference should be corrected to extend to 34.54.
Heritage assets	34.49	"...paragraphs <u>34.50 to 34.52</u> ..."	The reference to "34.49 to 34.51" should be updated.
Heritage assets	34.55	"...paragraphs <u>34.56</u> to 34.61..."	The heading above this paragraph should be underlined. The reference to 34.55 should be to 34.56.
Public benefit entities	PBE 34.55-72		As discussed in Appendix 2 to our response, we do not believe that these paragraphs are necessary and suggest alternative guidance.
Public benefit entities	PBE34.63	"... <u>to public benefit entities for other resources received from</u> ..."	All other sections within the PBE section make clear that they apply only to PBEs; we suggest that it should be clear to this section also.
Public benefit entities	PBE34.63	"Paragraphs PBE34.64 to PBE34. <u>72</u> <u>apply</u> ..."	
Public benefit entities	PBE34.73	"Paragraphs PBS34.73 to PBE34.86 <u>apply</u> ..."	
Public benefit entities	PBE34.91	"..... to <u>from</u> a third party ....."	
Public benefit entities	PBE34.96	"The entity shall disclose <del>ure</del> in the summary ....."	

Public benefit entities	PBE34.98	“..... separately, <del>H</del> however multiple .....”.	
Appendices to 34	App1 and 2 to Section 34		Why are these appendices an integral part of the standard when appendices to some other chapters (e.g. 21A) provide guidance but are not part of the standard? It is preferable that all appendices to chapters have the same status to avoid misunderstandings.
First time adoption	35.2		The prohibition on being a first time adopter more than once is inconsistent with IFRS 1. It is not unrealistic to expect that some entities applying FRS 102 will transition to IFRSs when listing and then revert back to FRS 102 several years later if they delist. Full retrospective application with no concessions could be very onerous if the gap is more than a few years. We suggest that this prohibition should be removed and replaced with the same definition as that in IFRS 1.
Opening balance sheet	35.7		This paragraph implies that it may be necessary to produce a ‘third’ balance sheet as at the beginning of the earliest period for which comparative information is presented, but does not explicitly state that this is required to be published. We suggest it be made explicit that no opening balance sheet is required to avoid placing additional burden on entities transitioning to the new standard.
Exemptions in year of transition	35.10		The introduction to this paragraph states that the exemptions may be used by an entity in preparing its first financial statements under the FRS. However, some of the exemptions apply in subsequent years as well, e.g. the treatment of service

			concession arrangements in 35.10(i).
Deferred income tax – transition	35.10(h)		The language in this paragraph has not been updated in line with revised Section 29.
Service concession arrangements -transition	35.10(i)	<b><i>“Service concession arrangements.</i></b> A first-time adopter is not required to apply paragraphs 34.12-34.16 to service concession arrangements entered into before the date of transition to this FRS. An entity that has previously applied a different GAAP <u>may continue to apply the requirements of its previous GAAP rather than the relevant sections of this FRS to assets arising from such arrangements for as long as those arrangements exist.”</u>	As noted in our response to Question 5 in Appendix 1, the transitional exemption is not currently workable, as it does not address the subsequent accounting for assets arising from existing service concession arrangements. Our suggested amendment addresses this.
Extractive activities	35.10(j)		This paragraph could cause significant issues for companies in the extractive industry. It is unclear whether the current practice of capitalising exploration and evaluation expenditure, as permitted by the oil and gas SORP and IFRS 6, current practice is to will be permitted going forward under FRS 102. Paragraph 34.11 cross refers to sections 17 and 18 for ‘assets for use in extractive industries’ but it is unclear whether this captures exploration assets or just those assets such as plant and machinery used in exploration.
Dormant companies -	35.10(m)		An explanation should be provided of why this exemption for

transition			dormant companies is considered to be necessary.
Borrowing costs - transition	35.10(o)		There should be an additional exemption to permit borrowing costs capitalised under FRS 15 to be carried forward even if they do not meet the slightly different requirements of FRS 102 when a policy of capitalisation is adopted.
Glossary	General		It is unclear whether all of the terms in the glossary are intended to be defined in the body of the standard and whether terminology in the glossary should be in bold throughout the standards or only on first use. Practice seems to be mixed.
Glossary	Combinations under common control		In the definition of combinations of entities or business combination under common control, it is unclear whether (a) to (d) are intended to be examples or a comprehensive list when the exception applies. It would be preferable to allow some flexibility to address circumstances not falling within (a) to (d).
Glossary	Derivative	“..... or other variable <u>(sometimes called the ‘underlying’)</u> , provided ..... party to the contract <del>(sometimes called the ‘underlying’).</del> ”	The definition of a derivative would be easier to read with this proposed amendment.
Glossary	Disposal group	<u>Delete definition.</u>	The definition of a disposal group can be deleted as the term has been removed from the standard.
Glossary	Fair presentation	“ <u>Fair presentation is considered to have the same meaning as ‘true and fair’.</u> ”	The definition of fair presentation should be expanded to clarify that the meaning is the same as true and fair. Reference could be made to the Counsel’s Opinion in a footnote.

Glossary	First-time adopter		The definition of a first-time adopter should be made more UK specific throughout with reference to previous UK standards.
Glossary	Held exclusively with a view to subsequent resale		As noted above, we suggest removing the text defining 'held as part of an investment portfolio' from 9.9A above and including it either within the definition of 'held exclusively with a view to subsequent resale' in (c) or including it as a separate definition in the glossary.
Glossary	Income and expenditure		The definition of "income and expenditure" is not taken from the IFRS for SMEs. The natural meaning of "income and expenditure" includes the gross amounts whereas this definition seems to be attempting to define the net surplus of income over expenditure.
Glossary	Inventories held for distribution		It would be helpful if the definition of "inventories held for distribution" provided some examples (see comments above).
Glossary	Qualifying entity		In the definition of a qualifying entity, it would be helpful to clarify that the requirement to give a true and fair view includes comparable expressions such as presents fairly.
Glossary	Transaction costs		In the definition of "transaction costs (financial instruments)" the reference to paragraph AG13 of IAS 39 should be deleted. This adds nothing and most users of the standard will not have access to IAS 39.

Glossary	Individual accounts		It is unclear why “individual accounts” are included at the very end of the glossary rather than being included as a normal item in the correct place in the alphabetical order.
Appendix 1	Basic financial instruments	“Paragraph 11.9(c) is amended to clarify that contractual prepayment provisions <u>which</u> are <del>not</del> contingent future events <del>unless they</del> <u>exclude those which</u> protect the holder from credit deterioration or tax changes”.	For basic financial instruments, the proposed amendment should be made for clarity.
Appendix 1	Basic financial instruments		Subject to the point raised above regarding 11.48A, it may be necessary to change the wording here to refer to financial liabilities rather than financial instruments.
Appendix 1	Other Financial Instruments Issues	“..... in a foreign operation are <u>not</u> reclassified to profit or loss .....”.	
Appendix 2	Turnover and Revenue		“Turnover” and “Revenue” are not equivalent terms. The latter is a broader term which includes other gains that are not included in turnover because they do not arise from the provision of goods and services falling within the company’s ordinary activities.
Appendix 3	A3.2	“A brief consideration of the legal framework for some other entities can be found at <u>A2.18-19</u> within FRS 100.	The reference needs to be corrected.

Appendix 3	A3.5	<p><u>"...and with the Regulations in relation to the form and content of Companies Act accounts."</u></p>	<p>This implies that companies preparing IAS Accounts do not have to comply with Part 15 and the Accounting Regulations which is incorrect.</p>
Appendix 3	A3.12		<p>The emphasis of this paragraph is that some investment entities that might have hoped to use FVTPL will be unable to do so for legal reasons. While it is appropriate to sound a note of caution, most such investments can be described as held exclusively for resale even though there may not be any immediate intention to dispose of them. We therefore question whether this paragraph may imply that the problem is more common than is likely to be the case.</p>
Appendix 3	A3.14		<p>We agree with the conclusion reached but the final sentence is not a justification for that conclusion. The fact that the asset and liability are recognised separately does itself justify netting the related income and expenses. However, we believe that the correct analysis of this issue is that there is a single net amount which is the cost to the entity so that the issue of netting off does not arise. We believe that this is why the treatment is permitted by FRS 12. It is comparable to the accepted practice of disclosing profits and losses on disposal of assets as a single net amount.</p>
Appendix 3	A3.15		<p>This paragraph highlights that 9.26 requires the cost of investment in a subsidiary to be determined without regard to merger relief, which will be a significant change from current practice. We acknowledge that this change would be consistent with IFRSs but in some private company situations and group</p>

			reconstructions it may be onerous to have to obtain valuations that would not be necessary for other reasons.
Appendix 3	A3.16/19		The comments made in these paragraphs about fair value changes on investment property and living animals and plants apply equally to such changes on financial instruments.
Realised profits	A3.17/18		This paragraph applies equally to financial instruments that are subject to fair value accounting.
Appendix 3	A3.20		This should also refer to the fact that section 34 permits merger accounting for certain combinations of PBEs.
Appendix 3	A3.27	“Impact on distributable profits <u>(TECH 02/10)</u> ”	It would be helpful if the title of the distributable profits guidance could include “TECH 02/10”.
Appendix 3	A3.28		The recognition of deferred tax on revaluations is not a good example of adverse impacts on distributable reserves because TECH 02/10 states that such tax provisions are a reduction in the unrealised profit on revaluation rather than a separate realised loss.