Exposure Draft

Financial Reporting Council

February 2014

FRED 54

Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Basic financial instruments

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indrectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2014
The Financial Reporting Council Limited is a company limited by guarantee. Registered in England number 2486368. Registered Office: 5th Floor, Aldwych House, 71-91 Aldwych, London WC2B 4HN.

Financial Reporting Council

February 2014

FRED 54

Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Basic financial instruments

This [draft] Financial Reporting Standard contains material in which the IFRS Foundation holds copyright and which has been reproduced with its permission.

COPYRIGHT NOTICE

International Financial Reporting Standards (IFRSs) together with their accompanying documents are issued by the International Accounting Standards Board (IASB):

30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7246 6410 Fax: +44 (0)20 7246 6411
Email: info@ifrs.org Web: www.ifrs.org

Copyright © 2014 IFRS Foundation

The IASB, the IFRS Foundation, the authors and the publishers do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

IFRSs (which include International Accounting Standards and Interpretations) are copyright of the International Financial Reporting Standards (IFRS) Foundation. The authoritative text of IFRSs is that issued by the IASB in the English language. Copies may be obtained from the IFRS Foundation Publications Department. Please address publication and copyright matters to:

IFRS Foundation Publications Department
30 Cannon Street, London, EC4M 6XH, United Kingdom.
Tel: +44 (0)20 7332 2730 Fax: +44 (0)20 7332 2749
Email: publications@ifrs.org Web: www.ifrs.org

All rights reserved. No part of this publication may be translated, reprinted or reproduced or utilised in any form either in whole or in part or by any electronic, mechanical or other means, now known or hereafter invented, including photocopying and recording, or in any information storage and retrieval system, without prior permission in writing from the IFRS Foundation.

A review committee appointed by the IFRS Foundation has approved the English translation of the International Financial Reporting Standards and related material contained in this publication. The English translation is published by the Accounting Standards Board in the United Kingdom and Republic of Ireland with the permission of the IFRS Foundation. The English translation is the copyright of the IFRS Foundation.

The IFRS Foundation logo, the IASB logo, the IFRS for SMEs logo, the "Hexagon Device", "IFRS Foundation", "eIFRS", "IAS", "IASB", "IASC Foundation", "IASCF", "IFRS for SMEs", "IASs", "IFRS", "IFRSs", "International Accounting Standards" and "International Financial Reporting Standards" are Trade Marks of the IFRS Foundation.

Contents

	Page
Introduction	3
Invitation to Comment	5
Draft Amendments to Financial Reporting Standard 102 Basic financial instruments	6
Amendments to Section 11	7
Amendments to Appendix I: Glossary	11
The Accounting Council's Advice to the FRC to issue FRED 54: Draft Amendments to FRS 102 Basic financial instruments	12
Consultation Stage Impact Assessment	15

Introduction

(i) In 2012 and 2013 the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing almost all extant standards with three Financial Reporting Standards:

FRS 100 *Application of Financial Reporting Requirements*;

FRS 101 *Reduced Disclosure Framework*; and

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland.*

This Exposure Draft proposes limited amendments to FRS 102 in respect of basic financial instruments.

(ii) The FRC's overriding objective in setting accounting standards is 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.

(iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

Draft Amendments to FRS 102 – Basic financial instruments

(iv) After the publication of FRS 102 in March 2013 entities and their advisers considered the implementation of the requirements of FRS 102 in more detail. In the process they raised concerns about the possibility of unintended accounting consequences in relation to basic debt instruments, which had not been identified during the consultations preceding the issue of FRS 102. Their feedback was that the conditions which debt instruments have to meet in order to be measured at amortised cost are too restrictive and only very simple financial assets and liabilities would be measured on that basis. More sophisticated financial instruments are required to be measured at fair value. As a consequence some financial instruments would need to be measured at fair value, although amortised cost is a relevant measurement basis as it captures the risks associated with those instruments adequately. It was also highlighted that IFRS permits the measurements of these instruments at amortised cost.

(v) The draft amendments set out in this Financial Reporting Exposure Draft (FRED) propose to change the conditions which debt instruments have to satisfy in order to be accounted for in accordance with Section 11 *Basic Financial Instruments* of FRS 102. The draft amendments propose to make the conditions that basic debt instruments have to meet less restrictive and aim to achieve the following:

(a) to allow a wider range of debt instruments to be measured at amortised cost where this is a relevant measurement basis;

(b) to align the measurement requirements for financial instruments more closely with those of IFRS 9 *Financial Instruments* issued by the IASB; and

(c) to reduce the cost of compliance with FRS 102.

(vi) The proposals retain the current approach of FRS 102, and set prescriptive conditions for debt instruments to be measured at amortised cost. Debt instruments that fail the proposed conditions continue to be measured at fair value.

(vii) The consultation period on this Exposure Draft ends on 30 April 2014. The comment period is slightly shorter than the standard consultation period of three months, in order to allow for the publication of the final amendments to FRS 102 by summer 2014.

(viii) The draft amendments are proposed to come into effect for financial years ending on or after 1 January 2015, the same date FRS 102 becomes effective.

Invitation to comment

1. The FRC is requesting comments on FRED 54 by 30 April 2014. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft amendments to the standard. In particular, comments are sought in relation to the questions below.

2. Information on how to submit comments and the FRC's policy in relation to responses are set out on page 16.

Question 1

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

Question 2

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

Question 3

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

Question 4

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

Question 5

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

Draft Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Basic financial instruments

Amendments to Section 11
Basic Financial Instruments

Paragraphs 11.8, 11.9 and 11.11 are amended as follows (deleted text is struck through, inserted text is underlined):

11.8 An entity shall account for the following financial instruments as basic financial instruments in accordance with Section 11:

(a) cash;

(b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9 and is not a financial instrument described in paragraph 11.6(b);

(c) ...

11.9 ~~A debt instrument that satisfies all of t~~The conditions a debt instrument shall satisfy in accordance with paragraph 11.8(b) are~~(a) to (d) below shall be accounted for in accordance with Section 11~~:

(a) The contractual r~~R~~eturn~~s~~ to the holder (the lender), assessed in the currency in which the debt instrument is denominated, ~~are~~ is:

(i) a fixed amount;

(ii) a positive fixed rate or a positive **variable rate** ~~over the life of the instrument~~; or

~~(iii) variable return that, throughout the life of the instrument, is equal to a single referenced quoted or observable interest rate (such as LIBOR) or~~

(i~~v~~ii) ~~some~~ a combination of ~~such~~ a positive or a negative fixed rate and a positive variable rate~~s~~ (eg ~~such as~~ LIBOR plus 200 basis points or LIBOR less 50 basis points, but not 500 basis points less LIBOR).~~, provided that both the fixed and variable rates are positive (eg an interest rate swap with a positive fixed rate and negative variable rate would not meet this criterion). For fixed and variable rate interest returns, interest is calculated by multiplying the rate for the applicable period by the principal amount outstanding during the period.~~

A variable rate is a rate equal to a single referenced quoted or observable interest rate (eg LIBOR).

(b) The contract may provide for repayments of the principal and/or the return to the holder to be linked to a single observable index of general price inflation of the currency in which the debt instrument is denominated.

(c) The contract may provide for a variation of the return to the holder during the life of the instrument, provided that:

(i) the new rate satisfies condition (a) and the variation is not contingent on future events other than:

(1) a change of a contractual variable rate; or

(2) to protect the holder against credit deterioration of the issuer; or

(ii) the new rate is a market rate of interest and satisfies condition (a).

(~~b~~d) There is no contractual provision that could, by its terms, result in the holder losing the principal amount or any interest attributable to the current period or prior periods. The fact that a debt instrument is subordinated to other debt instruments is not an example of such a contractual provision.

(~~c~~e) Contractual provisions that permit the issuer (the borrower) to prepay a debt instrument or permit the holder ~~(the lender)~~ to put it back to the issuer before maturity are not contingent on future events other than to protect:

(i) the holder against the credit deterioration of the issuer (eg defaults, credit downgrades or loan covenant violations), or a change in control of the issuer; or

(ii) the holder or issuer against changes in relevant taxation or law.

Such contractual prepayment provisions may include terms that require the issuer to compensate the holder for loss of interest as a result of the early termination.

(f) Contractual provisions may permit the extension of the term of the debt instrument, provided that the return to the holder and any other contractual provisions applicable during the extended term satisfy the conditions of paragraphs (a) to (e).

~~(d) There are no conditional returns or repayment provisions except for the variable rate return described in (a) and prepayment provisions described in (c).~~

11.11 Examples of financial instruments that do not satisfy the conditions in paragraph 11.9 (and are therefore within the scope of Section 12) include:

(a) an investment in another entity's equity instruments other than non-convertible preference shares and non-puttable ordinary and preference shares (see paragraph 11.8(d));

~~(b) an interest rate swap that returns a **cash flow** that is positive or negative, or a forward commitment to purchase a commodity or financial instrument that is capable of being cash-settled and that, on settlement, could have positive or negative cash flow, because such swaps and forwards do not meet the condition in paragraph 11.9(a);~~

~~(c) options and forward contracts, because returns to the holder are not fixed and the condition in paragraph 11.9(a) is not met;~~ and

(~~d~~b) investments in convertible debt, because the return to the holder can vary with the price of the issuer's equity shares rather than just with market interest rates.

~~(e) [not used]~~

The following Appendix to Section 11 is inserted.

Appendix to Section 11

Illustrative examples of debt instruments

This appendix accompanies, but is not part of, Section 11. It provides guidance for applying the requirements of paragraph 11.9. The examples aim to illustrate the application of the requirements in paragraph 11.9, however they only analyse the specific terms of the instruments identified in each of the scenarios. These examples are not a substitute for a comprehensive analysis of all terms and conditions of an instrument and whether they meet or fail the conditions of paragraph 11.9.

11A.1 **Example 1:** A zero-coupon loan.

For a zero-coupon loan, the holder's return is the difference between the nominal value of the loan and the discounted issue price. The holder (lender) receives a fixed amount when the loan matures and the issuer (borrower) repays the loan. The return to the holder meets the condition of paragraph 11.9(a)(i).

11A.2 **Example 2:** A fixed interest rate loan for initial tie-in period. The same loan reverts to the bank's standard variable interest rate after the tie-in period

The initial fixed rate is a return permitted by paragraph 11.9(a)(ii). A bank's standard variable interest rate is an observable interest rate and in accordance with the definition in paragraph 11.9(a) a permissible reference for a variable rate. In accordance with paragraph 11.9(a)(ii) the variable rate should be a positive rate. Unless there are indications to the contrary, it can be assumed that a bank's standard variable rate would under normal economic conditions not fall below 0%.

The variation of the interest rate after the tie-in period is non-contingent and since the new rate (ie the bank's standard variable rate) meets the condition of paragraph 11.9(a), paragraph 11.9(c)(i) is met.

11A.3 **Example 3:** A loan with interest payable at the bank's standard variable rate less 1% throughout the life of the loan, with the condition that the interest rate can never fall below 1.5%.

As discussed under Example 2 above, a bank's standard variable rate is a permitted variable rate in accordance with the definition of variable rate paragraph 11.9(a). The combination of a negative fixed rate (ie minus 1%) and a positive variable rate is a permitted return under paragraph 11.9(a)(iii). The combination of a bank's standard variable rate less a fixed interest rate of 1% therefore meets condition 11.9(a)(iii). The fixed interest rate floor of 1.5% meets the requirement of paragraph 11.9(a)(ii).

Paragraph 11.9(c)(i)(1) permits variation of a return to a holder (lender) that is contingent on a change of a contractual variable rate. In this example the contractual variable rate is the bank's standard variable rate. The variation of the return to the holder is between the bank's standard variable rate less 1% and 1.5%, depending on the bank's standard variable rate. For example, if the bank's standard variable rate is less than 2.5%, the return to the holder is fixed at 1.5%, if the bank's standard variable rate is higher than 2.5% the return to the holder is the bank's standard variable rate less 1%. The contractual variation meets the condition of paragraph 11.9(c)(i)(1).

The holder is protected against the risk of losing the principal amount of the loan via the interest rate floor of 1.5%, in case the bank's standard variable rate falls below 1%. The requirement of paragraph 11.9(d) is therefore met.

11A.4 **Example 4:** Interest on a loan is referenced to 1.5 times the bank's standard variable rate.

In accordance with the definition of a variable rate in paragraph 11.9(a), the contractual interest rate payable can be referenced to a single observable interest rate. A bank's standard variable rate is an observable rate and meets the definition of a variable rate, but the rate in this example is 1.5 times the bank's standard variable rate. Leverage, ie more than a single observable interest rate, is not permitted in accordance with the definition of a variable rate and therefore the rate in this example is not a variable rate as described in paragraph 11.9(a)(ii). The instrument is measured at fair value in accordance with Section 12.

11A.5 **Example 5:** Interest on a loan is charged at 10% less 6-month LIBOR over the life of the loan.

The effect of combining a negative variable rate with a positive fixed rate is that the interest on the loan increases as and when the variable rate decreases and vice versa (so called inverse floating interest).

Under paragraph 11.9(a)(iii) the combination of positive or negative fixed rate and positive variable rate is a permitted return. The variable rate (6-month LIBOR) meets the definition of a variable rate in paragraph 11.9(a), as the rate is a quoted interest rate, however, since the variable rate is negative, (minus 6-month LIBOR) the rate is in breach of paragraph 11.9(a)(iii). The instrument is measured at fair value in accordance with Section 12.

11A.6 **Example 6:** Interest on a £-Sterling denominated mortgage is linked to the UK Land Registry House Price Index (HPI) plus 3%.

In accordance with paragraph 11.9(b) the holder's return may be linked to an index of general price inflation of the currency of the debt instrument. The mortgage is denominated in £-Sterling and a permitted inflation index would be an index that measures general price inflation of goods and services denominated in £-Sterling.

The HPI measures inflation for residential properties in the UK and is not a measure of general price inflation. The return to the holder therefore fails to meet the requirements of paragraph 11.9(b). The instrument is measured at fair value in accordance with Section 12.

Amendments to Appendix I: Glossary

The following definition is added:

Variable rate	A rate equal to a single referenced quoted or observable interest rate (eg LIBOR).

The Accounting Council's Advice to the FRC to issue FRED 54: Draft Amendments to FRS 102 – Basic financial instruments

Introduction

1 This report provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRED 54: *Draft Amendments to FRS 102 – Basic financial instruments*. The FRC, in accordance with the Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012 (SI 2012/1741), is the prescribed body for issuing accounting standards in the UK. The Foreword to Accounting Standards sets out the application of accounting standards in the Republic of Ireland.

2 In accordance with the FRC's regulatory policies *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

3 The Accounting Council is advising the FRC Board to issue FRED 54: *Draft Amendments to Draft FRS 102 – Basic financial instruments* for consultation.

4 After the publication of FRS 102, feedback from constituents indicated that the implementation of the accounting requirements of FRS 102 for loans with common contractual features could have unintended consequences for many entities. The draft amendments address the identified issues and allow for these loans to be measured at amortised cost, which in turn is expected to reduce the cost of compliance with FRS 102. Given that the amendments come into force on the same day as FRS 102, ie 1 January 2015, constituents have requested that the amendments are finalised as soon as practically possible.

5 FRS 100 *Application of Financial Reporting Requirements* and FRS 101 *Reduced Disclosure Framework* were both issued in November 2012, and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* was issued in March 2013. The Accounting Council's advice to the FRC on those standards is contained in those standards. When these amendments are finalised, the Accounting Council's Advice to the FRC in FRS 102 will be updated to include its advice on this proposed amendment.

Background

6 FRS 102 contains the accounting requirements for financial instruments in Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments*. FRS 102 separates financial instruments into two main categories, basic financial instruments and other financial instruments. Whether a financial instrument is classified as 'basic' or 'other' depends on the instrument meeting certain criteria which are contained in Section 11 of FRS 102.

7 The conditions set out in Section 11 of FRS 102 are those set out in the IFRS for SMEs with some amendment to allow for certain loan covenants that are common in the UK and Republic of Ireland and should not affect the measurement basis of an instrument.

8 Following the publication of FRS 102, the FRC was informed that the classification conditions of basic financial instruments are, despite the amendment for loan covenant clauses, too restrictive. Some simple financial instruments with common contractual terms

would breach the conditions as currently drafted and as a consequence entities applying FRS 102 would incur unnecessary costs in measuring these financial instruments at fair value. Amortised cost is, in these situations, an appropriate measurement basis that reflects the risks of the instruments in question and is less costly to apply.

9 In order to gather more evidence about the issue and to substantiate whether the problems are confined to a small number of entities or are more pervasive, some initial outreach was conducted.

Outreach

10 The outreach included the views of a diverse range of constituents including entities that would be applying FRS 102, their representative bodies and advisers. Participants were in agreement that the conditions set for basic financial instruments in Section 11 of FRS 102 were overly restrictive. It was noted that a number of instruments which are common in practice were affected. The accounting issues would therefore affect a large number of entities, including many small businesses. It was also highlighted that there are inconsistencies between the accounting treatment under FRS 102 and IFRS 9 *Financial Instruments* for these instruments. A majority of participants was in favour of an amendment to FRS 102 prior to its effective date of 1 January 2015.

11 The Accounting Council considered whether it was appropriate for instruments, with the terms identified during the outreach, to be measured at amortised cost or whether such instruments should be measured at fair value. The Accounting Council was conscious that just because a certain type of financial instrument is common in practice does not necessarily imply that the financial instrument should be measured at amortised cost.

12 The Accounting Council also noted that FRS 102 as currently drafted may impose a greater reporting burden and therefore higher costs on entities reporting in accordance with Sections 11 and 12 of FRS 102, compared to those entities reporting under IAS 39 *Financial Instruments* or IFRS 9, because certain financial instruments would be measured at fair value under FRS 102, whilst under IFRS the same instrument is measured at amortised cost.

Objective

13 In developing this advice to the FRC Board, the Accounting Council was guided by the following overriding 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.

14 The Accounting Council considered the evidence from the outreach and agreed that the application of the classification conditions for basic financial instruments contained in Section 11 of FRS 102 could, in practice, result in unintended accounting outcomes for certain financial instruments. In order to meet the overriding objective for financial reporting, the Accounting Council advises that it is necessary to amend the requirements of FRS 102 as currently in issue.

15 In developing the draft amendments to FRS 102 the Accounting Council was guided by the principles for succinct financial reporting which state that financial reporting standards issued by the FRC should:

- have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

- reflect up-to-date thinking and developments in the way businesses operate and the transactions they undertake;
- balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
- promote efficiency within groups; and
- be cost-effective to apply.

Rule vs principle-based solution

16 The accounting requirements of FRS 102 in respect of the classification conditions are rule-based and set out a list of prescriptive criteria that financial instruments have to meet in order to be measured at amortised cost. The Accounting Council considered whether a principle-based solution based on the principle articulated in IFRS 9 in respect of the classification of financial assets, would be more effective, but advises to retain the rule-based conditions of FRS 102 instead, for the following reasons:

- the IFRS 9 principle is yet untested in practice and the IASB is currently debating possible amendments to IFRS 9; and
- the IFRS 9 principle in relation to the classification of financial instruments only applies to financial assets. The classification conditions in FRS 102, however, apply equally to debt instruments that are assets and liabilities.

Further analysis of the effects of the adoption of the principle as stated in IFRS 9 is required in order to avoid unintended consequences. The possible adoption of the IFRS 9 principle in respect of the classification of financial instruments in FRS 102 may be revisited at the next three-year review cycle of FRS 102.

17 The Accounting Council is conscious that rules cannot address all possible scenarios and situations, but advises that under the proposal, common financial instruments will be permitted to be measured at amortised cost, where measurement at amortised cost is appropriate. The draft amendments also align the accounting for these financial instruments with IFRS.

Effective date

18 The Accounting Council advises that, subject to the final amendments being issued later in 2014, the amendments should be effective from the effective date of FRS 102 (ie accounting periods beginning on or after 1 January 2015), and therefore no amendment to the effective date is required.

Consultation period

19 It is the FRC's stated policy to allow at least three months for representations to be made on proposals, unless circumstances require a shorter period. Given that the effective date of the final amendments, which are subject to the FRC Board's approval, is 1 January 2015, the Accounting Council advises that progress towards the publication of the final amendments should be as timely as possible. On that basis, the Accounting Council advises that the comment period should be reduced from the standard three months to a period ending 30 April 2014. The Accounting Council advises that this shorter period provides constituents with sufficient time to reflect on the proposals and provide their feedback, whilst it may bring forward the publication of the final amendments by over two months.

Consultation Stage Impact Assessment

1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises. The FRC issued an Impact Assessment with FRS 100 *Application of Financial Reporting Requirements*, FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* which included 12 example case studies to illustrate the impact of the new accounting standards on a wide range of entities.

2 The cost-benefit impact of the adoption of the requirements of FRS 102 as issued in March 2013 was estimated in the original Impact Assessment and this Consultation Stage Impact Assessment only analyses the potential changes to the original assessment. The Consultation Impact Assessment evaluates whether cost increases or cost savings are likely to arise for entities as a result of the introduction of these amendments.

3 The draft amendments to FRS 102 are intended to increase the number of financial instruments that can be measured at amortised cost. Based on the assumption that amortised cost valuation of a financial instrument is less costly than its measurement at fair value, the FRC believes that these proposals will reduce the reporting costs of entities that hold financial instruments covered by the draft amendments. The proposal is cost neutral for entities that are unaffected by this proposal, ie those entities that do not hold financial instruments where the classification as basic, or other, financial instruments will be changed by these draft proposals. Entities that wish to value their financial instruments at fair value instead of amortised cost, retain this option and the proposal has therefore no effect on them.

4 Given that the effective date of FRS 102 is accounting periods beginning on or after 1 January 2015, some entities may have already performed an initial assessment of their financial instruments based on the conditions set out in FRS 102 (as currently in issue). Provided the amendments are finalised as proposed, these entities will be required to re-analyse their financial instruments based on the new conditions for basic debt instruments. Entities will incur some extra cost in respect of this new analysis, however, the FRC believes the additional cost is outweighed by the benefits (ie cost savings) of allowing entities to measure more financial instruments at amortised cost on a continuing basis.

5 The FRC believes that the amendment of FRS 102 in accordance with these proposals will have a positive impact on financial reporting.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

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

Comments should be despatched so as to be received no later than 30 April 2014.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

Further copies, £8.00 (post-free) can be obtained from:

FRC Publications
145 London Road
Kingston upon Thames
Surrey
KT2 6SR

Tel: 020 8247 1264
Fax: 020 8547 2638
Email: cch@wolterskluwer.co.uk
Or order online at: www.frcpublications.com

ISBN 978-1-84798-800-3

UP/ASBD-BI14543