Financial Reporting Council
By email ukfrs@frc.org.uk

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Response to FRED 67 consultation

If you have any queries regarding this response, please contact Louise Bissell - louise.bissell@manchester.ac.uk

The British Universities Finance Directors Group ('BUFDG') is the representative body for higher education finance staff in the United Kingdom. BUFDG aims to be the recognised channel for the provision, analysis, and dissemination of information, advice and support across the higher education finance sector, helping institutions deliver value, enhance their finance capabilities and work together. BUFDG's members are the Directors of Finance and Chief Financial Officers of almost all UK higher education institutions.

Our response to the consultation on FRED 67 is set out below.

Question 1 *Overall do you agree with the approach of FRED 67 being to focus, at this stage, on incremental improvements and clarifications to FRS 102? If not, why not?*

Response to Question 1
We agree with this approach.

Question 2 *FRED 67 proposes to amend the criteria for classifying a financial instrument as 'basic' or 'other'. This will mean that if a financial instrument does not meet the specific criteria in paragraph 11.9, it might still be classified as basic if it is consistent with the description in paragraph 11.9A. Do you agree that this is a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments, which will allow more financial instruments to be measured at amortised cost, whilst maintaining the overall approach that the more relevant information about complex financial instruments is fair value? If not, why not?*

Response to Question 2
We agree with this approach and consider the inclusion of paragraph 11.9A and the additional examples assist in clarifying if a financial instrument is a basic or complex one.

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Question 3 *FRED 67 proposes that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) can be accounted for at transaction price, rather than present value (see paragraph 11.13A). This practical solution will provide relief to small entities that receive non-interest-bearing loans from directors, by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value. Do you agree with this proposal? If not, why not?*

Response to Question 3

This seems a practical amendment. We note that this amendment also appears to apply to public benefit entity concessionary loans. However it does not appear to be reflected in PBE34.89 and thereafter. This may be a misunderstanding on our part but flag that this amendment in relation to public benefit entities is unclear.

Question 4 *FRED 67 proposes to amend the definition of a financial institution (see the draft amendments to Appendix I: Glossary), which impacts on the disclosures about financial instruments made by such entities. As a result, fewer entities will be classified as financial institutions. However, all entities, including those no longer classified as financial institutions, are encouraged to consider whether additional disclosure is required when the risks arising from financial instruments are particularly significant to the business (see paragraph 11.42). Do you agree with this proposal? If not, why not?*

Response to Question 4

This amendment seems a practical one however we consider that there should be more guidance as to when the additional disclosures are required even if not classed as a financial institution. Some examples may help to clarify what is meant by "particularly significant to the business".

Question 5 *FRED 67 proposes to remove the three instances of the 'undue cost or effort exemption' (see paragraphs 14.10, 15.15 and 16.4) that are currently within FRS 102, but, when relevant, to replace this with an accounting policy choice. The FRC does not intend to introduce any new undue cost or effort exemptions in the future, but will consider introducing either simpler accounting requirements or accounting policy choices if considered necessary to address cost and benefit considerations. As a result, FRED 67 proposes: (a) an accounting policy choice for investment property rented to another group entity, so that they may be measured at cost (less depreciation and impairment) whilst all other investment property are measured at fair value (see paragraphs 16.4A and 16.4B); and (b) revised requirements for separating intangible assets from the goodwill acquired in a business combination, which will require fewer intangible assets to be recognised separately. However, entities will have the option to separate more intangible assets if it is relevant to reporting the performance of their business (see paragraph 18.8 and disclosure requirements in paragraph 19.25B). Do you agree with these proposals? If not, why not?*

Response to Question 5

We agree with these proposals.

Question 6 *Please provide details of any other comments on the proposed amendments, including the editorial amendments to FRS 102 and consequential amendments to the other FRSs.*

Response to Question 6

We have no further comments on the editorial amendments, however as a representative body for the Higher Education Sector we would like the FRC to consider the following as part of their on-going review of FRS 102:

- Whether there is a need for further guidance for public benefit entities. In the sector, areas such as endowments and other non-exchange transactions may still require further clarity;
- Whether and when it is likely that the accruals model for government grants will be revisited. Across the sector, universities have adopted different models for government grants, either performance or accruals and sometimes different models for revenue and capital grants. This has made sector benchmarking and understanding for the interested reader more challenging.

Question 7 *FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not? Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.*

Response to Question 7

Paragraph 1.18 does not make it clear that any changes in accounting triggered by the FRS 102 2017 triennial review should be treated as retrospective prior year adjustments. This is implied in paragraph 1.19 which gives some exceptions to this principle.

The transitional provisions do not address the issue of where a financial instrument was previously accounted for as a complex one and now meets the definition of a basic financial instrument. It needs to be clear whether this should be a prior year / retrospective adjustment or whether there are any specific transitional provisions.

Question 8 *Following a change in legislation the FRC is now required to complete a Business Impact Target assessment. A provisional assessment for these proposals is set out in the Consultation stage impact assessment within this FRED. The overall impact of the proposals is expected to be a reduction in the costs of compliance. In relation to the Consultation stage impact assessment, do you have any comments on the costs or benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.*

Response to Question 8

With regard to the costs of implementing the changes, whilst it is accepted that this is very difficult to value, the following has not been taken in to account:

- It is considered that for some entities it will require significantly more than half a day to understand and implement these changes.

- The costs take no account of the cost of advisers' fees borne by companies appointed to help assist with familiarisation and implementation. Advisers' fees are significantly more than £24 per hour.

Whilst these changes will lead to on-going cost savings and simplification, as the changes are for very specific areas they will have very limited application. Therefore the savings will be non-existent or minimal for many entities.