

Ms Mei Ashelford  
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29 June 2017

Dear Ms Ashelford

**FRED 67: Draft amendments to FRS 102**

Buzzacott is pleased to respond to the FRC's consultation on FRED 67 to improve and clarify FRS 102. We set out our comments as follows:

**Question 1**

We agree with the approach of FRED 67, being to focus on incremental improvements and clarifications to FRS 102. Many entities are only now starting to apply FRS 102 for the first time, and others only for the second time. It is far too early to contemplate incorporating the recent major changes to IFRS into FRS 102.

**Question 2**

We agree that the amendments to the classification criteria for financial instruments are proportionate and practical.

**Question 3**

We welcome the recent exemption for small company director-shareholder off-market loans to be accounted for at present value.

However, we believe the exemption does not go far enough. We do not consider that discounting off-market loans adds to the quality or understandability of financial statements, nor that it enhances users' information needs in most instances. The logic asserted by Danielle Stewart at the recent ICAEW presentation on FRED 67 in defence of limiting the scope of the exemption to small company director-shareholder loans is questionable; the arguments for exempting small company director-shareholder loans applies equally to, for example, loans from shareholders who are not also directors (including parent companies), and director-shareholder loans to non-small companies.

We are also concerned that this exemption removes the principle of all entities applying the same recognition and measurement provisions, and gives rise to the need for transitional rules for entities that outgrow the small company size criteria (see also our response to Question 7 below).

We therefore consider that the requirement to account for off-market loans at present value should either be completely removed for all such loans, regardless of lender or size of recipient, or that it be an accounting policy choice, in order to allow those entities to whom such accounting is useful to continue to apply it. Small entities applying Section 1A are already required to disclose details of material off-market transactions with directors and owners under 1AC.35; for medium and large companies, paragraph 33.1A could be amended to require similar disclosure in respect of off-market intercompany loans.

We also note that the current accounting requirements in respect of off-market loans are inconsistent with the treatment of other off-market transactions e.g. preference shares with below market interest rates.

#### **Question 4**

We agree with this proposal.

#### **Question 5**

We agree with the proposal to remove all instances of the 'undue cost or effort exemption' and to replace them with accounting policy choice where relevant, especially in respect of properties rented to other group entities.

#### **Question 6**

We have no specific comments to make in respect of the other proposed amendments to FRS 102, and are generally supportive of them.

We would, however, like to propose a change to the disclosures currently required by paragraph 11.41. This note is poorly understood and has resulted in considerable divergence in practice as to which items should be included, particularly regarding prepayments, accruals and cash. The fact that the note does not reconcile back to the balance sheet or other notes also adds to the confusion. We consider that this note does little to enhance users understanding of the financial position of the entity, and hence advocate that its content be limited to only that required by paragraph 55 of SI 2008/410 i.e. financial assets and liabilities measured at fair value through profit or loss.

#### **Question 7**

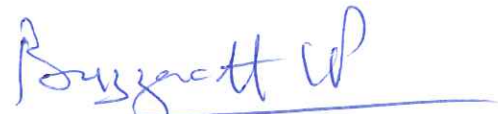
We support the proposed transitional provisions in paragraph 1.19.

However, we also believe that if the amendment to 11.13A remains unamended, a further transitional provision will be required for small companies with off-market director-shareholder loans that outgrow the small company size criteria.

**Question 8**

We welcome the requirement for the FRC to complete a business impact target assessment. However, we consider the estimate of transitional costs, calculated using an average of one hour per accountant/bookkeeper, to significantly underestimate the likely time spent.

Yours sincerely



Buzzacott LLP