CPA IRELAND | CERTIFIED PUBLIC ACCOUNTANTS

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To whom it may concern,

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to comment on:

"FRED 67 The Triennial Review of FRS 102"

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?

Yes we agree with the approach of FRED 67 which focuses on incremental improvements and clarifications to FRS 102.

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?

Yes we agree that the provisions of the proposed paragraph 11.9A are a proportionate and practical solution for allowing a substance over form approach to the classification of basis financial instruments.

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?

Whilst we agree with and welcome this proposal we feel it does not go far enough and that this treatment should be extended to small entity intercompany loans.

At the moment these are interest free loans and under current rules are considered to be financing transactions. They therefore fall to being measured at the present value of the future cash payments discounted at a market rate of interest for a similar debt instrument with subsequent measurement at amortised cost using the effective interest

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method. This is felt to be an unnecessary complication to the accounting treatment of these loans. Establishing the effective interest rate and accounting for the measurement difference created using this method has introduced additional unnecessary costs to small groups. The only method to avoid these costs is to make the loan payable on demand which itself causes a negative impact on the Accounting Ratios on which many SMEs rely to ensure their access to external finance.

The FRC states that one of its primary objectives is that its financial reporting standards are cost-effective to apply. The imposition of this new treatment on intercompany loans is resulting in unnecessarily complex accounting treatments, impacting on multiple accounting periods and therefore causing additional cost for our members.

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?

Yes, on balance, we agreed with the proposal to amend the definition of financial institutions which as a result impacts on the disclosures about financial instruments made by such entities. However, we would have a concern relating to the fact that there is no guidance given to non-financial institutions on what one would consider to be "particularly significant to the business" in relation to the risks arising from financial instruments.

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);

We agree with this proposal as this choice should reduce the current burden on group's that hold their properties within separate entities in their group structure where groups which rent property out to other group members would have to reclassify the property as investment property in the separate financial statements and then do a consolidation adjustment in the consolidated financial statements to effectively reverse the investment property treatment and treat the property as owned tangible fixed assets. The reason being Consolidated financial statements have to show the group in line with its economic substance, which is that of a single reporting entity.

(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?

We do not agree with this proposal and feel that additional guidance is required.

Currently FRS 102 requires the recognition of more intangible assets in a business combination than was previously the case under old GAAP. FRS 102 states that Intangible assets in a business combination are currently separated out from goodwill if they either arise from legal or contractual rights, or if they are separable.

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FRED 67 enables entities to recognise fewer intangible assets acquired in a business combination separately from goodwill and is now taking to the old GAAP approach, which required separate recognition of intangibles that are both separable and arise from contractual or other legal rights.

We feel this proposal will offer entities an amount of flexibility in making their own judgement on which intangibles are those that are both separable and arise from contractual or other legal rights when it comes to deciding if they can be or cannot be recognised separately from goodwill. This may potentially create difficulties for users to make meaningful comparisons between entities in their sectors.

We also feel that additional guidance and a list of intangibles that typically would have to be separately recognised because they are both separable and arise from contractual or other legal rights is required. A disclosure note on all classes of property held should also be required, this may assist the standard to be applied as consistently as possible.

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.

We have no further comments to make.

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.

We agree with the proposed 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.

A Business Impact Assessment is a good idea in principal however some of the assumptions and variables used in the methodology to determine the overall cost appear to be rudimentary.

For example: “the estimated cost is 345,500 accountants and book-keepers x 1 hour x £24.19 = £8.4m.”

The methodology used to determine 1 hour of accountants’ time is unclear, also there is no reference to other associated costs including training, software and time spent by company directors.

Additionally, 345,500 is the total number of accountants in the UK and Ireland, the vast majority of these will not be involved in the preparation of financial statements as they will be working in commercial and industry roles.

Although we agree with the principle of the Business Impact Assessment a more robust model would need to be prepared in order to determine the costs. Many of the variables in this model would be difficult to determine and the council could spend a lot of time and energy in preparing a Business Impact Assessment which would always be subject to scrutiny.

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If you have any questions on the above please do not hesitate to contact me.

Yours sincerely,

David Roxburgh
Chairperson, Financial Reporting Sub - Committee