

New Bridge Street House
30-34 New Bridge Street
London
EC4V 6BJ

T 0207 429 4100
F 0207 429 8939
W mha-uk.co.uk



Financial Reporting Council

8th Floor
125 London Wall
London
EC2Y 5AS

28 April 2015

— Our Ref: MHA/Tech/02

Dear Mrs Carter

MHA Comments in response the FRC's Proposals included in FRED 59

Thank you for the opportunity to comment on these proposals.

MHA is a national association of independent accountants offering a full range of services to national, regional and local businesses. MHA can be found in 47 offices across England, Scotland and Wales. The association also has an international presence through its membership of Baker Tilly International.

The member firms of MHA act for a substantial number of owner-managed businesses across the United Kingdom. The majority of these businesses will be either directly or indirectly affected by these proposals.

While MHA supports the majority of the proposals made by the FRC in this exposure draft we do have certain concerns regarding the clarity of the wording used in the proposed amendments and approach taken to encourage entities to present additional disclosures in the financial statements in order for them to present a true and fair view.

In our response to Question 1 we have provided some suggestions as to how the current guidance could be improved.

Should you wish to discuss any of these comments please do not hesitate to contact us.

Yours faithfully

Mr Carlison Morris
MHA Technical Manager
carlison.morris@mhllp.co.uk

Question 1

Do you agree that the proposed Section 1A Small Entities adequately reflects the new small companies regime set out in company law and that the disclosure requirements for small entities are clear? If not, why not and what alternative approach would you propose?

Clarity of wording

The proposed guidance on the disclosure requirements for small entities appears ambiguous as it concerns what disclosures are required in order for the financial statements to show a true and fair view. In particular there is a view (one which we do not share but nonetheless respect) that the combined effect of proposed paragraphs 1A.12/13 and paragraph 17 on page 46 of FRED 59 are in effect suggesting that by taking advantage of the disclosure exemptions in section 1A a small entity will not be preparing a set of accounts that are true and fair.

We are particularly concerned about this owing to the potential knock on impacts that such a mind-set might have on the content of other essential guidance such as the charities SORP.

It is possible that, given this guidance, the charities SORP committee require those charities following section 1A to provide comparable levels of disclosure to charities following FRS102 (with the exception of the requirement to produce a statement of cash-flows). As the vast majority of charities are small entities this would impose a significant burden on this important sector.

Those whom we have consulted on the current proposed wording have tended to infer that, in ordinary circumstances, a small entity will:

- follow the disclosures in paragraph 1A.14
- consider, and in reality usually include, the disclosures in paragraph 1A.15
- consider whether additional disclosures are required as "encouraged" in 1A.13 (but usually will conclude that none are required).

Whilst it is clear that the proposed amendments to the standard cannot say this (as to do so could counter not only the spirit but possibly also the letter of the directive), this seems to be a reasonable summary of what is intended. The question for the committee is therefore how could the proposed wording be improved to make its position on these issues less ambiguous?

Section 3.2 of FRED 58 on micro-entities specifies that financial statements prepared in accordance with the FRSME are presumed to give a true and fair view.

While we appreciate that the legal framework for micro-entities is different, we would suggest that similar language be included in the proposed amendments. The following might be appropriate for inclusion:

1A.16 Financial statements prepared in accordance with this Section 1A are normally presumed to give a true and fair view provided that the disclosures listed in 1A.14 are made and 1A.15 are considered."

Use of “encourage”

Our second concern is of a more fundamental nature. Were these suggestions to be accepted then clearly the previous recommendations on clarity of wording would no longer be relevant.

The EU Accounting Directive places a cap on the matters that can be mandated (either by legislators or accounting standard setters) to be disclosed in the financial statements of small entities. This follows on from a widely held desire for simplification and removing unnecessary red tape particularly for smaller entities.

Paragraphs 1A.12 requires a small entity to “present sufficient information in the notes to the financial statements to meet the requirement for the financial statements to give a true and fair view ...”. We welcome this requirement as we believe it is important that preparers should include such notes and that auditors can suggest that, without them, the financial statements do not show a true and fair view (and hence consider an audit report modification). This requirement is consistent with the revised legislation.

Paragraphs 1A.13 states that an entity is not required to comply with the disclosure requirements of paragraph 8.7 and sections 9 to 35 of the standard. It then goes on to say that entities are “encouraged to consider and provide any of those disclosures that are relevant to its transactions, other events or conditions in order to meet the requirement in paragraph 1A.12”. It is our view that the use of the word “encourage” is not in keeping with the spirit (if not the letter) of the EU Accounting Directive.

Paragraph 1A.15 then states a “small entity is encouraged to make the following disclosures: ...” Other “encouraged to present” statements appear in paragraph 1.15, 1A.4 and 6.1A. These points are not at all contentious and are in fact very sensible. We do however question how this is not a disclosure requirement in all but name.

By introducing particular suggestions and a wider call to look at all FRS 102 disclosures, the proposed guidance as it stands appears to create different tiers of *stealth disclosures* and detracts from the proper purpose of 1A.12 which is to consider whether any disclosure is necessary.

Even if the FRC does not believe this wording amounts to a disclosure requirement (and make clear statements elsewhere to that effect) there is the possibility that regulators and others may consider that the mere existence of these statements in the standard creates a requirement and will accordingly reflect this in any resulting guidance they issue to their constituents.

In summary, whilst we acknowledge advice from the Accounting Council (paragraphs 17 to 19 on page 46 of the FRED) that such disclosures should be “encouraged”, in our view the revised standard is not the appropriate place in which to do this.

Therefore we suggest that all references to “encourage” should be removed from these proposals.

Question 2

In developing these proposals the FRC has applied the principle that there should not be differences between the recognition and measurement requirements applicable to small entities and those applicable to larger entities. This principle has been determined after taking account of the generally positive response to a similar proposal in the Consultation Document.

Do you agree with this principle? If not, why not and what alternative principle or specific exceptions to the principle would you propose?

YES

We agree with this principle.

Question 3

Do you agree that the transitional provisions in FRS 102 are sufficient for small entities, or have you identified any further areas where transitional provisions should be considered? If so, please provide details.

YES

We agree that these provisions are sufficient.

Question 4

Do you agree with the other amendments proposed to FRS 102 for compliance with company law? If not, why not?

YES

We agree with those amendments.

Question 5

This FRED is accompanied by a Consultation Stage Impact Assessment. Do you have any comments on the costs or benefits discussed in that assessment?

NO

We have no comment on this assessment.