Wellcome Trust response to FRED 67 -
Draft amendments to FRS 102 : *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

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?

Yes. It is important that there is a period of stability for both auditors and reporters.

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?

Yes. This amendment is welcome as a disproportionate amount of effort can be involved in measuring such debt instruments at fair value. The use of fair value for many such instruments is considered to be misleading as it is not a true reflection of what the debt will actually be settled at.

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?

Not applicable to Wellcome Trust so we have not commented.

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. It is considered that the amendments do allow for the application of sensible and practical judgements by reporters and should ensure comparability between entities facing similar risks.

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?

In principal we do agree. There is a substantial element of subjectivity in determining what amounts to "undue cost and effort".
The amendments to the identification of intangible assets are practical and serve to clarify the requirements.

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.

1.7A We think that the addition of this paragraph is valuable and serves to clarify the appropriate application of the SORP. We have identified several areas of the Charities SORP where the requirements appear to conflict with FRS 102 and where the application of FRS 102 in isolation is more appropriate.

7.22. We think that the inclusion of an analysis of net debt alongside the Statement of Cash Flows does provide useful information. It allows readers to see how business financing has changed over the year and is an easy way of assessing whether an entity that on the surface looks to have had a significant increase in cash has a corresponding increase in debt. It can also highlight such things as foreign exchange movements arising on debt. However, where consolidated financial statements are prepared, this should only be required in the consolidated financial statements for the group and not at an entity level so that intercompany transactions are taken account of.

Glossary: "held as part of an investment portfolio". We think that the clarification that a single investment may, in certain circumstances, be considered as an investment portfolio is appropriate.

Question 7
FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not?

Yes we do agree with the transitional provisions.

Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.

No. We have not identified any additional 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.

We support the conclusions of the impact and agree with the decision to make limited amendments to FRS 102 and to delay the incorporation of the changes made to IFRS that took place after FRS 102 was approved for issue. We do however think that further consideration should be given to application of the Statements of Recommended Practice in the context of FRS 102. In the course of the transition to both FRS 102 and the Charity SORP (FRS 102) we have identified several areas of the Charities SORP where the requirements appear to conflict with FRS 102 and where the application of FRS 102 in isolation is more appropriate.