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Ms Mei Ashelford
Financial Reporting Council
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Dear Ms. Ashelford

FRS 102 and FRED 67 Consultation

Thank you for the opportunity to respond to the FRED 67 Consultation entitled '*Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland*'.

John McCarthy Consulting Limited is based in Dublin, Ireland and is recognised by the Professional Standards Department of Chartered Accountants Ireland as a training consortium.

We have no comments to make on Questions 2 and 4 to 8 inclusive of the consultation. We have the following comments on Questions 1 and 3:

Question 1

We agree with the overall approach of FRED 67 to focus on incremental improvements and clarifications to FRS 102.

Question 3

We quote from the Consultation Paper: '*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?*'

We agree with this proposal and welcome its early application already announced with effect from 8 May 2017. This has been widely welcomed by our clients and the wider small/medium business community in the UK/Ireland as a whole.

However, this amendment does not go far enough. In particular, it should be applied to other long-term financing transactions (with basic financial instrument features), occurring in ‘small’ entities (as defined in company law) including the following:

- Loans to or from Directors who are not shareholders;
- Loans to or from shareholders who are not Directors; and
- Loans to or from other parties connected to Directors/shareholders in ‘small’ entities, as well as other ‘group’ companies and companies under common control.

We have heard of criticism of this sort of proposal by some commentators who say that the above points ignore the special ‘quasi-equity’ nature of shareholder/director loan finance transactions.

Our counter argument is that the most important principles at stake in a ‘small’ entity set of financial statements are that they be understandable and relevant to their users. The users are primarily the Directors who are often the sole shareholders as well as family members, but also important users are trade suppliers, Government/Revenue and employees.

May we draw your attention to paragraphs 2.4 and 2.5 of FRS 102 where ten *Qualitative characteristics of information in financial statements* are set out? The first two are:

‘Understandability

2.4 The information provided in financial statements should be presented in a way that makes it comprehensible by users who have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information with reasonable diligence. However, the need for understandability does not allow relevant information to be omitted on the grounds that it may be too difficult for some users to understand.

Relevance

2.5 The information provided in financial statements must be relevant to the decision-making needs of users. Information has the quality of relevance when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations’.

Understandability and relevance are the first two listed, which means they are surely of primary importance and should override other conflicting characteristics.

Thank you for taking the time to read our submission. We look forward to seeing the new version of FRS 102 in January 2018.

JOHN
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Kind regards.

Your faithfully

John McCarthy Consulting Ltd.

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