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28 April 2023

Clarion Housing Group welcomes the opportunity to provide a response to the FRED 82 consultation.

By way of background, we are one of England's largest providers of social housing, owning and/or managing around 125,000 homes. We report under FRS 102, as well as a number of SORPs, particularly the Housing SORP.

<u>Summary</u>

We understand that as a result of the changes to Section 20 *Leases*, the required accounting for shared ownership properties is being reviewed by the Housing SORP Working Party. Given that Clarion owns and leases out over 10,000 shared ownership properties, a change in accounting in this area is likely to have a material impact for us.

We therefore ask the effective date chosen for the proposed changes gives the Housing SORP Working Party sufficient time to understand the proposed changes to FRS 102 (whether to leases, or other sections), prepare a draft revised Housing SORP, manage a consultation process and publish a final amended SORP.

Afterwards, the social housing sector would also need sufficient time to efficiently and accurately carry out the necessary accounting exercises, prepare restatements where relevant, investigate impacts on covenants, etc.

<u>Expected credit loss model</u>

We have already adopted the recognition and measurement requirements of IFRS 9 but as a sector we would like to see greater consistency in the preparation of financial statements. We would therefore recommend decisions are taken sector-by-sector to aid comparability.

IFRS 9 is a complex standard so finance teams do need sufficient time to adopt its requirements. Given the other potential changes posed to FRS 102 we do support deferring this proposal.

<u>Other financial instrument issues</u>

We agree with the proposal to remove the option to follow the recognition and measurement requirements of IAS 39.

We also support the deletion to the temporary amendments made to FRS 102 in relation to interest-rate benchmark reform but see no harm in leaving these in place for the foreseeable time.

Leases

Clarion is broadly supportive of the general direction of travel, which is to bring more leases onto the SOFP.

However, we have two concerns:

1. FRED 82 proposes to align FRS 102 with IFRS 16, thus appearing to un-align FRS 102 with the IFRS for SMEs; the third Exposure Draft of the IFRS for SMEs (September 2022) made the decision to indefinitely defer alignment with IFRS 16.[1]

   Notably, as part of that ED a number of the IASB's members felt that the cost and effort of aligning the IFRS for SMEs with IFRS 16 would outweigh the benefits for users of the affected financial statements.[2] This is particularly relevant in the current economic environment, where SMEs have only emerged from the consequences of a once-in-a-generation global pandemic to be hit with a once-in-a-generation rate of inflation. Resources are stretched and investing in technical accounting will not currently be the priority of SME decision makers.

2. The proposed Section 20 *Leases* is 20 pages long, which would make it one of the longest sections of FRS 102. We suggest that the FRC consider how the length of this section could be reduced so that it is more in keeping with the depth of the rest of FRS 102, in order to assist the preparers of financial statements under the standard.

Effective date

An effective date of accounting periods beginning on or after 1 January 2025 will likely be too short a timeframe for many SMEs to prepare, particularly those who are significantly affected by any of the proposed changes.

In the specific case of leases, many SMEs may not have a large number of leases captured by the new requirements: perhaps some company cars and a few offices at the low end, increasing to a fleet of vans or heavy equipment at the high end.

In our case, we may be significantly impacted by the changes in lease accounting, primarily as a lessor but also as a lessee. As an example, among the 125,000 homes we own and/or manage, we have over 10,000 shared ownership properties which are leased out to tenants who part-own the property. These leases have an array of different terms and conditions, as over time our model leases will change due to operational and/or legal reasons while in some cases historic terms and conditions may have been preserved.

Although we understand that the changes to Section 20 *Leases* proposed by FRED 82 mostly affect the accounting of lessees, we also understand that Housing SORP Working Party is currently reviewing whether the changes to Section 20 also affect how social landlords account for the shared ownership properties they are the lessors for.

Should the SORP Working Party conclude that a significant change to the accounting for shared ownership is required, revisiting the accounting for over 10,000 shared ownership leases would be a

[1] https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-2022/ed-2022-1-iasb-ifrs-smes.pdf (page 29)

[2] https://www.ifrs.org/content/dam/ifrs/project/2019-comprehensive-review-of-the-ifrs-for-smes-standard/exposure-draft-2022/bc-ed-2022-1-iasb-ifrs-smes.pdf (BC241)

significant exercise for us - as well as all our fellow private registered providers of social housing. In total, the sector owns over 200,000 shared ownership properties.[3]

We ask that the Housing SORP Working Party be given sufficient time to understand the proposed changes to FRS 102 (whether to leases, or other sections), prepare a draft revised SORP, manage a consultation process and publish a final amended SORP.

The social housing sector would then need sufficient time to efficiently and accurately carry out the necessary accounting exercises, prepare restatements where relevant, investigate impacts on covenants, etc.

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1111997/2022_PRP_STOCK_-briefing-notes_FINAL_V1.0_.pdf (Page 3: 7% of 3.1 million units are LCHO – "Low Cost Home Ownership – which is largely another name for Shared Ownership)