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For the attention of: **Mei Ashelford**

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Contact Colin Edwards
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Dear Mei

FRED 67: Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications

We welcome the opportunity to comment on FRED 67: Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications (the 'FRED'). We have set out our detailed responses to the questions raised in the FRED in Appendix 1 to this letter. Appendix 2 includes our additional comments on the proposed amendments.

In summary:

- Whilst we believe that the criteria for recognising intangible assets in a business combinations should be revisited and that the number of intangibles that must be recognised should be reduced, we do not agree with the proposals in FRED 67 which we believe are unclear and unlikely to result in the recognition of the appropriate population of intangible assets.
- In other aspects we broadly agree with the proposals, which we believe are a proportionate response to the practical issues that have emerged when applying FRS 102, although we have a number of comments on the detail of the amendments that are set out in the appendices to this letter.

Please contact Colin Edwards on 0207 694 8085 should you wish to discuss any of our comments further.

Yours sincerely

KPMG LLP

Appendix 1 – Responses to FRC questions

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?

We agree with FRC's approach to focus on incremental improvements and clarifications to FRS 102. We believe that it achieves an appropriate balance between addressing the practical issues that have arisen when applying the standard and maintaining a stable accounting framework.

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?

We agree that the proposed amendments are a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments. We therefore welcome the changes suggested to paragraph 11.9 and the insertion of paragraph 11.9A, as well as the additional examples that follow that paragraph. We have set out in Appendix 2 our observations about the drafting of these paragraphs and other related application issues.

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?

Broadly, we agree with the proposal 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. However, we can foresee some practical application issues that we would ask the FRC to consider, particularly:

- The text is silent as to what would happen if an entity changed 'status' (i.e. either becoming or ceasing to be a small entity) during the term of the loan. Is the entity permitted, or required, to change the accounting for the loan? If so, would this adjustment be dealt with prospectively or retrospectively?
- It is unclear why the same exemption is not available for loans from partners in a small partnership and we would welcome an extension of the exemption to that scenario. Other than small partnerships, we do not believe that the exemption should be further extended to any other situations, e.g. not to inter-company loans.
- Paragraph 11.14 does not currently deal explicitly with the subsequent accounting for loans that fall under the paragraph 11.13A exemption. We suggest that the FRC insert the following words after the second sentence in paragraph 11.14(a): 'For financing transactions initially measured under paragraph 11.13A, the effective interest rate is the contractual rate of the loan, which may be zero.' Further, in order to avoid any circularity, the last sentence in paragraph 11.14(a) should be extended as follows: 'For non-interest bearing debt instruments that are payable or receivable within one year, amortised cost shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment – see paragraphs 11.21 to 11.26) unless the arrangement constitutes, in effect, a financing transaction not in the scope of paragraph 11.13A.

Question 4
FRED 67 proposes to amend the definition of a financial institution, 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?

We agree with the general principle of amending the definition of a financial institution such that fewer entities will be classified as financial institutions. We broadly agree with the proposed amendments to Appendix I and paragraph 11.42, but have the following specific comment: it is unclear why stockbrokers are specifically listed in part (d) of the definition. This term is generally understood to refer to entities that buy and sell financial instruments *on behalf* of their clients in return for a commission. As stockbrokers typically enter into these transactions on an agency basis, they would not normally hold the financial instruments in their own balance sheet. It is, therefore, unclear why the extensive disclosures required for financial institutions should be relevant to them.

A further question arises of how widely or narrowly the reference to 'similar activities' should be drawn in the context of stockbrokers. Is the FRC's intention to include only

entities that buy or sell financial instruments on an agency basis? Or are all brokers, e.g., entities that buy or sell non-financial assets also included?

We agree with the additional text added to paragraph 11.42. However, we assume that the intention of these additions is that additional disclosure *must be* given when the risks arising from financial instruments are particularly significant to the business. It is therefore not clear to us why the FRC has used the term "encouraged" in Question 4.

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?

Undue cost and effort exemptions should be removed

We agree with the proposals to remove exemptions based on undue cost or effort. In our experience, such exemptions lack a conceptual basis and are rarely applied in practice.

The proposed policy choice for investment property (rented to another group company) is appropriate

Preparers of financial statements have questioned the relevance of fair valuing properties, the benefits of which are intended to be obtained through use by the group rather than by being sold, rented, or held for capital appreciation. Fair values for these properties are often not required for group reporting purposes and the recognition of such properties at fair value has additional implications including the recognition of deferred tax on any timing differences that arise.

We therefore support the proposals to permit the recording of such properties at depreciated cost.

We request that consideration be given to offering the accounting policy choice of cost or fair value to all investment properties. This would be consistent with the choice currently on offer under IFRS/FRS 101 and is an approach which has not come under scrutiny when IFRS development areas have been considered. Requiring investment property to be recorded at fair value under FRS 102 is not consistent with the objective of providing requirements that are less onerous than IFRS or FRS 101.

The accounting for intangibles in business combination should be simplified

We do not believe that it is appropriate to separately recognise some intangibles that are currently required to be recorded under FRS 102 (for example, non-contractual customer relationships). It is often difficult and expensive to identify and value such assets; users question what informational value they provide; and users and preparers both question how companies are able to control the related assets. We therefore support the FRC in its efforts to reduce the number of intangibles that are recorded separate to goodwill in a business combination.

FRED 67 does not achieve its goals

A stated aim of FRED 67 is to require the recognition of the same intangibles as were recognised under historical UK GAAP and then permit the recognition of those additional intangibles that are required to be recorded under IFRS. We do not believe that the current drafting of FRED 67 achieves that stated aim, for two reasons.

Firstly, FRS 10 required entities to recognise intangible assets if they were separable. There was no legal or contractual criterion in FRS 10. For example, a secret recipe[1] that was not copyrighted was recognised as an intangible under FRS 10. FRED 67 requires the recognition of assets if they are both separable *and* contractual/legal. There are no contractual or legal rights over the secret recipe.

Secondly, by requiring entities to recognise customer relationships (which in the strict sense of the words are neither separable, legal nor controlled) IFRS 10 is, by definition, introducing a broader view of separable, legal and control. FRS 10 applied these in a stricter, straightforward way such that customer relationships were not recognised as an intangible. (They cannot be sold, they do not represent legal rights and there is no control over the customer.)

To illustrate the differences, we have set out below a summary of the criteria of IFRS/FRS 102, historical UK GAAP, and FRED 67 showing which of a number of assets would be recorded under each. For completeness, we have also shown which assets would be recorded if a range of other possible criteria were adopted.

[1] "Technical or intellectual knowledge arising from development activity maintained secretly," as stated in FRS 10.

	Recognition criteria	Secret recipe	Licence that is inseparable from the business	Other licence	Brand[2]	Customer relationship	
A	Strict control; and strict separable	✓	×	✓	✓	×	Historical UK GAAP
B	Broad control; and separable **or** contractual/legal (both broad)	✓	✓	✓	✓	✓	IFRS / FRS 102
C	Strict control; and strict contractual/legal	×	✓	✓	✓	×	
D	Strict control; and separable **or** contractual/legal (both strict)	✓	✓	✓	✓	×	
E	Strict control; separable **and** contractual/legal (both strict)	×	×	✓	✓	×	FRED 67[3] (if strict control applied)
F	Broad control; separable **and** contractual/legal (both broad)	×	×	✓	✓	✓	FRED 67[3] (if broad control applied)

Recasting the criteria

In order to allow entities to recreate the position under FRS 10 then: (i) paragraph 18.8(b) would need to be deleted; and (ii) the FRC would need to make it clear that "control" etc. is to be strictly applied. However, is historical UK GAAP the appropriate aim?

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[2] FRS 10.12 states that it is rarely possible to determine the fair value of a unique brand but certain entities that are regularly involved in the buying and selling of brands have developed techniques for determining their value. Under old UK GAAP, the recognition of brand intangibles therefore depended on the ability, or perhaps inclination, of the acquirer to value them.

[3] Based on paragraph 18.8's "and" between the separable and legal criteria. However, that is inconsistent with the Glossary definition of intangible asset, which uses "or". If "or" applied, then secret recipes and inseparable licences would also be recognised.

The FRC should choose the outcome that it wants and, consequently, the criteria necessary to achieve that choice and redraft FRS 102 accordingly. If it wishes to make some intangibles optional, then appropriate optional criteria should be specified.

For our part, in our view both secret recipes and inseparable licences should be recognised, but customer relationships should not be recognised (not even as an option). Accordingly, we support the criteria in case D above.

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 included a number of comments on the proposed amendments in appendix 2 to this letter.

We also note that the FRC has deleted references to FRC Abstracts from the standard. Whilst we do not disagree with the deletion of these references, we believe that the FRC ought to consider (as part of a separate consultation) developing a transparent process to address emerging issues with the standard or diversity in practice in a way that balances promptness with openness and consensus-building.

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.

We have no comments on the costs and benefits identified in the consultation stage impact assessment.

Appendix 2 – Other comments

Section 5 – Statement of Comprehensive Income and Income Statement

The proposed amendments exclude the "profit on disposal of operations" from operating profit attributable to discontinued operations (Appendix to Section 5). They also state that profits or losses on the sale of fixed assets would normally be part of operating profit (FRS 102.5.9B).

Taking the above two amendments together, it is unclear how the proposals would require profits on disposal of operations that are treated as part of continuing operations to be classified – we believe that they should be part of operating profit.

Making this clear by further amending the wording of paragraph 5.9B would address this lack of clarity and reduce the potential for diversity in practice.

Section 7 – Statement of Cash Flows

Proposed amendments to FRS 102.7.5 (c-d)

- It is not clear what is meant by the reference to gross cash flows in FRS 102.7.5. In the case of an acquisition in group accounts the proposed amendment could be read as requiring the disclosure on separate lines of the consideration paid to acquire a business and the cash acquired. Whilst we would not object to such a requirement, it would be different from the requirement in IAS 7.42. We would therefore suggest that, if this was the intention of the FRC, it should be clarified in the drafting.
- It is not clear whether FRS 102.7.5 relates solely to the acquisition of the equity of subsidiaries in transactions in which the group gains control. It is not therefore clear whether cash flows to acquire shares in an existing subsidiary from a minority shareholder would be classified as part of investing activities or financing activities (as it would be under IAS 7.42A, 42B).
- Having stated that cash payments to acquire subsidiaries are classified in investing activities, we believe that the use of wider terminology (e.g. "businesses" instead of "subsidiaries") would make it clearer that the cash flows to acquire unincorporated businesses are also presented in investing activities.

Section 9 – Consolidated and Separate Financial Statements

Intermediate payment arrangements

We do not agree with the proposed introduction of paragraph 9.33A, which applies to a very rare set of circumstances. It is unnecessary, and runs the risk of having widespread, unwanted effects.

In our experience, entities that would fall within the scope of this paragraph are not common and often contain very specific features. We believe that extant FRS 102 is sufficiently clear to address the accounting for such entities. Furthermore, as drafted, the wording may encourage the structuring of more conventional employee benefit trusts (EBTs) to fall into its scope to avoid consolidation. For example, the words "the shares never vest in individual employees" may be interpreted to mean the paragraph applies to arrangements in which the shares vest in someone other than individual employees. Similarly, the requirement that dividends are distributed to employees "solely in accordance with the provisions of the trust deed" may be read as a distinguishing feature of such arrangements when it is also a feature of many EBTs.

Section 11 – Basic Financial Instruments

Initial classification of a financial instrument (paragraph 11.6A)

The current drafting of the newly inserted paragraph 11.6A could lead to confusion and divergence in practice. In particular:

- It is not clear what is meant by 'terms relating to future variations' in the first sentence of this paragraph. Does this, for example, include changes to the effective terms through the mere passage of time? To illustrate, assume a 5-year debt instrument is linked to the issuer's profits for the first 2 years and pays a fixed rate of interest thereafter. Due to the profit-linking feature, the debt instrument would need to be classified as a 'complex' debt instrument upon initial recognition. In our view, the entity is permitted, but not required, to reclassify the instrument as a 'basic debt instrument' on its second anniversary, as it will henceforth pay interest in line with the criteria for such classification.
- The second sentence of paragraph 11.6A states that 're-assessment is only required subsequently when there has been a modification of contractual terms that is relevant to an assessment of the classification'. We assume that the phrase 'modification of contractual terms' is meant to be a lower threshold than the 'substantial modification' referred to in paragraph 11.37 in respect of the rules for derecognition of a financial liability. For the avoidance of any confusion, the words 'change of contractual terms' could be used instead in paragraph 11.6A.

Contractual provisions contingent on future events [paragraph 11.9(c)]:

- Example 8 illustrates the application of criterion 11.9(c) for basic debt classification. The second paragraph of that example seems to imply that a prepayment option that is within the borrower's control is not considered to be 'contingent on future events'.

  In our view, an early settlement clause that is wholly within the control of either borrower or lender is not 'contingent on future events' and, hence, does not fall under paragraph 11.9(c). If the FRC agrees with our interpretation, it would be helpful if it

could be stated more explicitly in the drafting of Example 8, in particular since this is an area that generates numerous questions in practice.

The FRC may also want to consider adding a further example to illustrate that the mere passage of time is not a 'contingent event' for the purpose of paragraph 11.9(c). For example, a 10-year loan may have terms such that it cannot be settled within the first 2 years but, thereafter, can be settled at any time before maturity subject to an early redemption penalty. The early settlement option in this case is not *contingent* on future events, but will come into existence *automatically* and *inevitably* through the passage of time (whilst the FRC may consider this self-evident, we have had a number of questions from preparers regarding this precise point, illustrating that there appears to be confusion in practice).

Paragraph 11.9 - Example 9: A loan with interest equal to a percentage of the profits of the issuer

We agree with the conclusions of Example 9. However, the explanation in the last sentence [of when the instrument needs to be measured at amortised cost] may be difficult to understand. The following further explanation could be added (additional text underlined): "*The Regulations prohibit the measurement of financial liabilities at fair value, except for those held as part of a trading portfolio, that are derivatives or where permitted by IFRS as adopted in the EU. An example of the latter category are financial liabilities with embedded derivatives. However, the definition of a derivative excludes instruments with a non-financial underlying variable that is specific to a party to the contract. Therefore, if the issuer concludes that the issuer's profits are a 'non-financial variable specific to a party to a contract' and that the instrument could not otherwise be measured at fair value under IFRS as adopted in the EU, then it must measure the instrument at amortised cost, rather than at fair value, in accordance with paragraph 12.8(c).*"

Section 14 - Investments in Associates and Section 15 - Investments in Joint Ventures

Fair value changes

We do not agree with the proposed amendment to paragraph 15.15 because requiring fair value changes to be recognised in other comprehensive income is not in accordance with paragraphs 17.15E and 17.15F. Paragraph 17.15F requires changes that are reductions in the fair value below cost to be recognised in profit or loss. We believe the FRC should either not make this amendment to paragraph 15.15 and remove those same words about other comprehensive income from paragraph 14.10, or re-word both paragraphs to read "Changes in fair value shall be recognised in other comprehensive income or in profit or loss in accordance with paragraphs 17.15E and 17.15F".

Section 22 – Liabilities and Equity

Non-contractual debt-for-equity conversions between common control entities

The current wording of new paragraph 22.8B ('an entity is not **required** ...') seems to provide the preparer with an accounting policy choice for non-contractual debt-for-equity conversions between common control entities. It is unclear to us whether this is the FRC's intention. In our view, the entity should consider the substance of the transaction when accounting for such transactions between entities under common control, in particular, whether the lender has acted in the capacity of a shareholder or in the same way as an unrelated lender. We therefore suggest that you change paragraph 22.8B to say 'an entity **shall not** apply ...'

Section 23 – Revenue

Costs to secure the contract (newly inserted paragraph 23.17A)

We agree with the proposed amendment. However we recommend that the word "included" be replaced by "capitalised" to avoid any confusion. Furthermore, it is unclear why this paragraph is included in the construction contracts section. We would expect the similar requirements to apply to other contracts as well (e.g. servicing contracts).

Identification of the revenue transaction (paragraph 23.8)

For clarity, we suggest that this paragraph be amended as follows:

- *To remove the words "and all",* which are unnecessary and may be confusing.
- *To remove the words "and defer",* which are applicable only if the billing happens before the delivery of the service
- To remove "over the period during which the" and replace it with "as that service is performed." The current drafting might imply that revenue should be recognised on a straight-line basis, which may not always be the case (e.g. paragraph 23.15).

The revised drafting would then read:

> "An entity shall apply the revenue recognition criteria to each ~~and all~~ of the separately identifiable goods or services of a single transaction in order to reflect the substance of the transaction. For example when the selling price of a product includes an identifiable amount for subsequent servicing, an entity shall allocate the total revenue between the produce and the servicing (~~as required by~~ paragraph 23.3A) ~~and defer~~ and recognise revenue allocated to the service ~~over the period during which the~~ as that service ~~ing~~ is performed."

Section 26 – Share Based Payment

Scope

It is unclear whether the intention of the new scope paragraph (26.1B) is to confirm that Section 26 is applicable to both cash- and equity settled arrangements.

The new para 26.1B cross refers to 26.17. The current drafting of 26.17 describes a specific type of equity-settled arrangements. It is not clear whether the cross reference to paragraph 26.17 in paragraph 26.1B is intended to mean that a cash-settled arrangement captured by paragraph 26.1B is required to be accounted for as equity settled? It is also unclear why the cross reference to 26.17 has been included. Is the intention for 26.1B to only apply to those arrangements described in 26.17 or if not might it be helpful to delete the cross-reference to 26.17.

Definitions

- *Vesting conditions* – the proposed amendment appears to bring the definitions in line with IFRS 2. However, IFRS 2 in its definition of performance conditions refers to service being **explicit or implicit** where the wording in FRED makes an absolute statement for a performance condition to **require** service. In practice the service condition is sometimes implicit.

- Cash-settled share based payments - the drafting refers to '*settled in the **entity's** own equity instruments. It is unclear whether this reference is to* the equity of the entity who receives goods or services or the equity of the entity that is settling?

- The FRED has updated some of the definitions relating to share-based payments. It has not included either a definition of **non-vesting** conditions or, as IFRS 2 does, illustrative examples.

Section 28 – Employee Benefits

Group plans (paragraph 28.38)

We assume that the proposed amendment replacing "legally responsible for the plan" by "the sponsoring employer for the plan" is intended to align FRS 102 with IAS 19. However, if this is the case, IAS 19.41 uses different words ("legally the sponsoring employer for the plan.") We would recommend using the IAS 19 terminology to avoid confusion.

Both, the existing wording and proposed added wording require that, where a stated policy exists, the entities charged recognise "the ***net*** [emphasis added] defined benefit cost of a defined benefit plan so charged". Nowhere in FRS 102 is the term "***net*** defined benefit cost" defined. The term "cost of a defined benefit plan" is the heading before 28.23. The proposed amendment to 28.38 now uses both terms - "***net*** defined benefit cost" at the start of the sentence and "a defined benefit cost" at the end.

It is unclear if that drafting was intentional and confirms that the '*net* defined benefit costs' and 'cost of a defined benefit plan' are terms to be used inter-changeably, or if this is a drafting error. If the latter, we suggest that the FRC include clarification as to what is meant by '***net*** *defined benefit costs'.*

Further the amendment does not clarify where the amount charged is recognised. We suggest that the FRC clarify whether the amounts so charged are to be recognised in the P&L or OCI.

Section 31 – Hyperinflation

Restatement of revalued non-monetary items

We agree with the insertion of paragraph 31.8(bA). However, we believe that the last sentence should also clarify how the revalued amounts are restated. We would suggest that the sentence is expanded along the following lines: 'In these cases, the carrying amounts are restated by applying to the revalued amount the change in a general price index from the date of the revaluation to the end of the reporting period.'

Revaluation vs. indexing

We disagree with the insertions in paragraph 31.9 ["any revaluation surplus that arose in previous periods is eliminated"] and in paragraph 31.13 ["except that any unrealised gain shall be recognised in other comprehensive income"]. The addition to 31.9 suggests that the FRC sees the indexation in the same manner as a revaluation. In our view, the two concepts are entirely different (valuation is about asset value, indexing is about the currency measurement unit) and we suggest that the added text be deleted again.

With respect to the change in 31.13, in our view it is unnecessary because any such gain appears always to be realised. This is because only a monetary liability will lead to a gain and that gain is due to the reduction in the amount of the liability in the year-end currency unit, and so it is a realised profit as either a reduction in a liability (TECH 02/17 para 3.11(c)) or as akin to a gain on retranslation of a currency liability (TECH 02/17 para 3.9(d)(ii)) as it translates into a lesser year-end currency unit sum over the year. The reduction/ retranslation arises as follows. Suppose there is a nominal 100 monetary liability throughout the year and inflation is 100%. The comparative and brought forward figure for the liability is 200 in the year-end currency unit; at the year end it is 100; there is thus a gain of 100 on the year; this is how the net monetary asset/ liability loss/ gain actually arises.

First application of Section 31

We disagree with the requirement in the first sentence in paragraph 31.9 that the general price index should be applied from the dates the components were contributed or otherwise arose. Indeed, this would result in the components of equity also being indexed by the rate of inflation that applied **prior** to the economy becoming

hyperinflationary. In other words, hyperinflationary accounting is applied retrospectively for periods during which the economy was not hyperinflationary.

Use of average rate of inflation

Paragraph 31.11 states that the use of an average rate of inflation may be appropriate. The reader is likely to read this as meaning a simple average of the rates of inflation. We disagree with this simplification, given that the inflation index moves exponentially, rather than in a linear way.

Section 33 – Related Party Disclosures

Proposed disclosure exemption in 33.7A

We note that the numbers disclosed in accordance with legal or regulatory requirements may differ from the numbers required to be disclosed by FRS 102.33.7, due to a different basis of calculation. However, we do not object to the exemption provided by the newly inserted paragraph 33.7A.

We further suggest that the FRC consider whether the Key Management Personnel (KMP) disclosure requirements can be removed altogether for companies that are required to disclose directors' remuneration. Doing so would enable companies to provide statutory disclosures only and would remove the need to consider whether non-directors are KMP. Entities that are not companies or not required to provide disclosure of directors' remuneration could be required to provide the equivalent disclosure for directors or for those who fulfil roles equivalent to directorships. We appreciate that determining whether such a simplification is appropriate may require further consultation and may not be possible as part of the current review. If that is the case, we suggest that the FRC considers such a simplification as part of its subsequent work plan.