Triennial review of accounting standards

Submission from the Association of Investment Companies

The Association of Investment Companies (AIC) welcomes the opportunity to respond to the Financial Reporting Council's (FRC) consultation document, FRED 67, on the draft amendments to FRS 102 *The Financial Reporting Standard applicable to the UK and Republic of Ireland*.

The AIC represents over 340 closed-ended investment companies with assets under management of over £150 billion. Investment companies have their shares admitted to trading on public stock markets.

The AIC's members include UK investment trusts, Venture Capital Trusts, UK REITs and non-EU companies. Our non-EU members are primarily Channel Islands domiciled.

Approximately half our members, by number, use UK GAAP. The majority of our remaining members use IFRS.

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?

The AIC **agrees** with the approach of FRED 67.

FRS 102 is relatively new and it is not yet appropriate to consider major changes. This approach is supported by the amended principle of balancing stability with continuous improvement. Incremental improvements and clarifications are welcome.

The AIC **recommends** the FRC waits to assess how the new international standards on financial instruments, revenue and leases work in practice prior to the UK considering amending FRS 102 for these standards. This will allow the FRC's approach to benefit from the experience of companies reporting under IFRS.

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?

The AIC **agrees** this is a proportionate and practical solution.

Introducing a principles-based approach which can be consulted after applying the more detailed tests will reduce the reason to reassess the classification of debt instruments that already fall within the basic financial instrument category. It will allow additional debt instruments to be considered basic, if they meet the principles-based description.

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?

The AIC does not have any comment on this question.

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?

The AIC does not have any comment on this question.

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?

The AIC does not have any comment on this question.

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.

The AIC **supports** the editorial and consequential proposals made. They provide useful clarification.

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.

The AIC does not have any comment on this question.

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.

The AIC does not have any comment on this question.

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To discuss the issues raised in this paper please contact:

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