

8 November 2013

Mei Ashelford  
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Our Ref: SJG/AJC

Dear Mei Ashelford

**FRED 50 Draft FRC Abstract 1 Residential Management Companies' Financial Statements and Consequential Amendments to the FRSSE**

We welcome the opportunity to comment on the exposure draft of FRED 50

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely



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**Question 1: Do you agree with proposed draft FRC Abstract 1 and Consequential Amendments to the FRSSE? If not, why not?**

We agree with the treatment of assets proposed in Paragraph 5 as they are held under statutory trust. The proposed disclosures in Paragraph 8 are as a consequence also appropriate.

We accept that the statement in paragraph 4 is correct from a legal standpoint. In our opinion the consideration of this matter is overly narrow. The Residential Management Company (RMC) is legally the principal and not an agent, however the RMC is disbursing funds held under a statutory trust and therefore we do not consider that sufficient consideration has been given to the concept that the RMC, although acting as principal, is acting in the fiduciary capacity of trustee in collecting and disbursing service charge monies.

A pervasive concept of financial reporting is that commercial substance overrides legal form. Fundamentally in relation to service charge monies the RMC only enters into expenditure required for the maintenance of the property and then collects the service charge monies to meet the necessary costs. Despite the legal form (which has been clearly established) the RMC only acts as trustee with no commercial interest and very little discretion on the disbursement of the funds.

As noted in Paragraph 20 of the Accounting Council's advice to the FRC. The RMC statutory accounts are unlikely to meet the legal requirements of providing service charge information to tenants under the Landlord and Tenant Act 1985 and therefore the RMC will require two sets of financial statements, the statutory financial statements and the service charge accounts. This seems to be an unnecessary burden and we believe the approach recommended in the ICAEW Technical Release 03/11 "Residential Service Charge Accounts" should be used.

**Question 2: Do you agree with the proposed effective date? If not, why not?**

We agree with the proposed effective date and in particular believe it is important to permit early adoption. This issue has remained unresolved for a considerable period of time and a common, consistent approach should be adopted across all entities as soon as possible.