Financial Reporting Council

March 2016

Impact Assessment and Feedback Statement

Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland – Fair value hierarchy disclosures*

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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Impact assessment

Introduction

1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

Amendments to FRS 102 – Fair value hierarchy disclosures

2 The amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* are intended to reduce the potential cost of compliance with FRS 102, whilst increasing the consistency with disclosures required by EU-adopted IFRS that users of the financial statements will often be familiar with. Evidence from consultation supported this, with the following benefits identified:

(a) more meaningful information for users of financial statements who are already familiar with the IFRS disclosures;

(b) easier comparison with similar entities reporting under IFRS;

(c) the IFRS 13 *Fair Value Measurement* hierarchy is already well established and preparers are familiar with its requirements;

(d) easier consolidation processes for group financial statements prepared under IFRS;

(e) in many cases systems are already in place to enable compliance with IFRS 13 and the costs of converting to the previous FRS 102 disclosures will be avoided; and

(f) by permitting early application and issuing the amendments before many entities have approved financial statements for periods ending on 31 December 2015, the unnecessary costs of complying with the previous FRS 102 requirements for only one year can be avoided.

3 Nevertheless the amendments may impact differently on different entities:

(a) entities that are neither financial institutions nor retirement benefit plans will be unaffected by the proposals – this is the vast majority of entities applying FRS 102;

(b) entities that are financial institutions or retirement benefit plans and are within the scope of a SORP; and

(c) other financial institutions.

4 Financial institutions and retirement benefit plans within the scope of a SORP were previously required, or permitted, by the relevant SORP to provide disclosures about fair value in a way that allows them to both comply with FRS 102 and provide information that is similar to that required by IFRS. Some of these entities will have previously applied FRS 29 *Financial Instruments: Disclosures*, which was also consistent with IFRS. Feedback confirms that the amendments are expected to lead to cost savings as additional resources or additional systems will no longer be necessary to produce the FRS 102 disclosures and the IFRS disclosures. For those previously applying FRS 29 the costs, in relation to this disclosure, will not be increased by the implementation of FRS 102. In addition, increased comparability with entities applying IFRS will be useful for users already familiar with IFRS disclosures and aid comparison of the financial statements of financial institutions to those of entities applying IFRS.

5 Some financial institutions are not within the scope of a SORP, and are unlikely to have applied FRS 29 in the past. For these entities the disclosures required by FRS 102 are likely to be new. For some of these entities, closer alignment with IFRS will also be beneficial to allow greater comparison between entities, although the cost savings may be

less significant. With an effective date of 1 January 2017 for the amendments, these entities will have time to prepare for the change if they choose not to apply the amendments early.

6 Despite the on-going cost savings, for example through not having to convert IFRS-compliant disclosures into the disclosures previously required by FRS 102, some entities will have incurred costs in preparing for FRS 102 that may now be sunk costs if they choose to apply the amendments early. The option to apply the amendments early will enable entities to adopt the new requirements at the time that has the most positive impact on their costs of compliance and needs of users.

Conclusion

7 The FRC believes that the amendments to FRS 102 will have a positive impact on financial reporting and reduce the costs of compliance.

Feedback Statement

8 The purpose of this Feedback Statement is to summarise the comments received to FRED 62 *Draft amendments to FRS 102 – Fair value hierarchy disclosures*. FRED 62 was issued in November 2015 and the comment period closed on 31 January 2016.

9 The Accounting Council's Advice to the FRC included with the amendments to FRS 102 sets out how the key comments have been taken into account in finalising those amendments.

10 The table below shows the number of respondents to the consultation and analyses the respondents by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	8
Accounting bodies	4
Representative bodies of preparers	5
Preparers	5
	22

FRED 62 *Draft amendments to FRS 102 – Fair value hierarchy*

11 FRED 62 posed three questions, and the feedback and FRC response to it is summarised below.

Question 1

Do you agree with amendments proposed to FRS 102? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	21
Disagreed	1
	22

12 All but one of the respondents agreed with the proposal to amend the fair value hierarchy disclosures for financial institutions and retirement benefit plans applying FRS 102. These respondents agreed with the rationale set out in FRED 62 that, in aligning the disclosure with IFRS 13 *Fair Value Measurement*, the amendments would improve the meaningfulness of the information and the comparability with those reporting under IFRS (making comparison easier for users) as well as reducing the costs of compliance with FRS 102. The amendments will also align FRS 102 with FRS 101 *Reduced Disclosure Framework*.

13 A number of respondents commented on the fact that paragraph 11.27 of FRS 102, which sets out a process, or methodology, for determining fair values was not being updated at the same time, as discussed in the Accounting Council's Advice to issue FRED 62. These respondents noted that there is no requirement to reconcile the valuation methodology to the disclosures about financial instruments measured at fair value, and an amendment should not be made to paragraph 11.27 without careful consideration of the impact on the other sections of FRS 102 that require or permit measurement at fair value. Therefore they agreed that the amendment of paragraph 11.27 should be considered as part of the first triennial review, and this should not delay the amendment of the disclosures.

14 Three respondents noted that the definition of an active market in FRS 102 is not the same as in IFRS 13, and although this is unlikely to be a significant issue, the triennial review would offer an opportunity to consider whether the two should be aligned.

15 Two respondents suggested that the descriptions of observable inputs and unobservable inputs could be expanded, or become defined terms, in order to include more of the equivalent definitions from IFRS 13.

16 The respondent that did not wholly agree with the proposals considered that there would be a need to re-analyse financial instruments between the two hierarchies, which would add unnecessary complexity. This view was not shared by the other respondents, with those commenting on the two different hierarchies agreeing that the inconsistency should not be problematic for preparers, although should be addressed in due course.

FRC response

17 The FRC has considered the suggestions made and agrees that the definition of an active market should be considered as part of the triennial review, along with the possible revision of paragraph 11.27 of FRS 102. FRS 102 is intended to be IFRS-based and

proportionate for those within its scope, and therefore the FRC decided not to expand the definitions of observable and unobservable inputs, although entities requiring further guidance would be able to refer to IFRS 13 through the requirements of paragraph 10.6 of FRS 102. The amendments have been finalised as proposed, reflecting the high degree of support for them.

Question 2

Do you agree with the proposed effective date for these amendments? If not, what alternative would you propose?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	21
Disagreed	1
	22

18 There was strong support for the proposed effective date of accounting periods beginning on or after 1 January 2017, with early application permitted. The respondent that disagreed suggested that mandatory application should be brought forward to 1 January 2016.

19 A number of respondents commented on the expected timing of publication of the amendments, in March 2016, and that this should not be delayed. There is expected to be significant interest in early application, which will avoid the costs of preparing disclosures on the basis currently set out in FRS 102 before changing this in future periods.

FRC response

20 The amendments have been issued in March 2016 with the same effective date as was proposed.

Question 3

> In relation to the Consultation Stage Impact Assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

21 Those respondents commenting broadly agreed with the comments in the Consultation Stage Impact Assessment that the amendments will save costs and avoid unnecessary confusion amongst users, thereby having a positive impact on the entities affected and the users of their financial statements. Examples of the benefits include:

(a) more meaningful information for users of financial statements who are already familiar with the IFRS disclosures;

(b) easier comparison with similar entities reporting under IFRS;

(c) the IFRS 13 hierarchy is already well established and preparers are familiar with its requirements;

(d) easier consolidation processes for group financial statements prepared under IFRS;

(e) in many cases systems are already in place to enable compliance with IFRS 13 and the costs of converting to the previous FRS 102 disclosures will be avoided; and

(f) by permitting early application and issuing the amendments before many entities have approved financial statements for periods ending on 31 December 2015 the unnecessary costs of complying with the previous FRS 102 requirements for only one year can be avoided.

22 A small number of respondents commented that some costs may have already been incurred in preparing for the previous FRS 102 requirements that could have been avoided if the amendment had been made earlier.

FRC response

23 These comments have been taken into account in finalising the Impact Assessment.

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