PRAG

PENSIONS RESEARCH ACCOUNTANTS GROUP

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Dear Jenny

Response to Consultation Document Triennial review of UK and Ireland accounting standards Approach to changes in IFRS September 2016 ('the Consultation Document')

We welcome the opportunity to respond to the Consultation Document.

The Pensions Research Accountants Group (PRAG) is an independent research and discussion group for the development and exchange of ideas in the pension field. Its efforts are concentrated mainly on the areas of reporting and accounting by pension schemes, but it has also produced reports on other matters when appropriate. PRAG's members work for pension funds, administrators, audit firms and other pension related professions. It therefore represents a wide cross-section of pension expertise. PRAG is also the SORP making body which publishes the Financial Reports of Pension Schemes A Statement of Recommended Practice (2015) ('the SORP').

We set out below our response to the questions asked in the Consultation Document.

Question 1:

The FRC has reviewed its principles for developing succinct financial reporting standards for the UK and Republic of Ireland. As a result, limited changes have been made to the principles, to emphasise the need to balance improvement with stability and the need for proportionate solutions (see paragraph 1.11). Do you agree with the principles? If not, why not?

The PRAG agrees with the principles.

Question 2:

Significant changes in IFRS have been considered against the FRC's principles for developing succinct financial reporting standards for the UK and Republic of Ireland; see Section 3 Changes in IFRS – Detailed analysis. Do you agree with the proposals for updating FRS 102 as result of changes in IFRS as part of this triennial review? If not, please provide alternative suggestions.

PRAG notes that most of the proposals for updating FRS 102 for changes in IFRS are not relevant for pension scheme financial reporting. PRAG supports the proposal for the alignment of determining fair value under FRS 102 with the fair value hierarchy in IFRS 13.

Question 3:

In relation to the impairment of financial assets, the FRC proposes to amend FRS 102 in order to incorporate an expected loss model. Paragraph 3.13 sets out three options for how this may be achieved, with the FRC favouring option (b). Which option would you prefer, and why?

This is not applicable to pension schemes.

Do you have any suggestions for how the simplified approach to impairment losses for trade receivables, contract assets and lease receivables in IFRS 9 might be developed into a suitable model for entities applying FRS 102 (other than financial institutions, or a sub-set such as banks and building societies)?

Not applicable.

Question 4:

Presently, in paragraph 11.2 (and paragraph 12.2), FRS 102 permits an accounting policy choice in relation to financial instruments, allowing an entity to choose the recognition and measurement requirements of FRS 102, IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments (and elements of IAS 39 as amended by IFRS 9). The FRC proposes to retain the option to choose IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102 (ie for all accounting periods beginning before 1 January 2022). From 1 January 2022 the FRC proposes that the available options will be the requirements of FRS 102 or IFRS 9. Do you agree? If not, why not?

This is not applicable to pension schemes.

Question 5:

Do you have any suggestions for how the requirements of IFRS 16 Leases might be developed into a suitable model for entities applying FRS 102? In particular, do you have any suggestions relating to the application of the short-term lease exemption or the exemption for leases when the value of the underlying asset is low?

This is not applicable to pension schemes.

Question 6:

The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 Consolidated Financial Statements. Company law specifies when consolidated financial statements are prepared, and any changes would supplement these existing requirements by providing further guidance on what is meant by ‘control’. Are you aware *of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements?*

PRAG notes that pension schemes are required to report all financial instruments, including shares held in subsidiaries, at fair value in the statement of net assets and in the absence of any statutory requirement, are not required to prepare consolidated financial statements under FRS 102. It would be helpful to clarify that the proposed changes would not change the current position for pension scheme financial reporting in relation to consolidated financial statements.

In most situations, any changes to the definition of control in FRS 102 will have no impact in practice. However, in other cases entities may be consolidated for the first time or cease to be consolidated. Do you have any information about how significant the practical impact may be and the circumstances in which it might occur?

Not applicable, subject to the above comment.

Question 7:

Do you have any comments on the cost-effectiveness of the requirements for share-based payments, currently set out in Section 26 Share-based Payment of FRS 102? If you consider that alternative requirements would be more cost-effective, please provide details of how you would adapt the current requirements whilst still providing useful information to users.

This is not applicable to pension schemes.

Question 8:

Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?

PRAG agrees with the proposed effective dates.

Question 9

Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?

Please note that there is no need to repeat comments about potential areas for improvements to FRS 102 that have already been submitted to ukfrsreview@frc.org.uk as these comments have already been noted and will be considered. Detailed comments about potential improvements should continue to be submitted to ukfrsrevew@frc.org.uk. Those comments received by 31 October 2016 will be taken into account in developing formal proposals for changes. Comments received after this date will be taken into account in the later stages of the review, if they cannot be considered sooner.

Comments were provided by PRAG to this e mail address by the deadline of 31 October

2016 so there has been no repeat of those observations in this response.

Question 10:

The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

PRAG does not have any comments to make in relation to costs. Consistency of fair value determination and disclosure in line with IFRS 13 will be beneficial for consistency purposes for pension scheme financial reporting.

As a general point, PRAG notes that there have been several changes to FRS 102 over the last year or so, some of which were suggested by PRAG at the time of the SORP revision and indeed at the time of the development of FRS 102. In the light of the major changes introduced by FRS 102 for pension scheme financial reporting a period of stability to allow the changes to bed down would be welcome.

Yours sincerely

Kevin Clark

Chair of the PRAG SORP Working Party