Wellcome Trust response:

Consultation Document September 2016
Triennial review of UK and Ireland accounting standards
Approach to changes in IFRS

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?

Yes - we do agree with the principles. It is important that the first consideration is to maintain consistency with IFRS so that there is comparability between entities reporting under the two different frameworks. This will also ensure that any changes to FRS 102 can take advantage of the consultations that will have taken place before any changes to IFRS were implemented as well as the practical knowledge gained from applying the IFRS. It will also minimise the adjustments required on consolidation if there are subsidiaries within a group that report under IFRS and it will make it easier to ensure that external auditors have appropriate training.

Once FRS 102 has been updated for the key changes that have taken place in IFRS in the recent past, stability is important and triennial reviews should be appropriate.

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.

We do agree with the proposals with the exception of the following:

IFRS 3 (revised 2008) : Business Combinations
It is difficult to see why IFRS 3 should not be considered as part of the triennial review.
IFRS 3 (revised 2008) does provide greater clarity than FRS 102 in some areas for example:
3: B64(e) which requires qualitative descriptions of Goodwill;
3:32 which focuses on the fair value of the assets and liabilities acquired in place of the cost allocation model provided by FRS 102 19.7;
3.37,3.53 which require transaction costs to be expensed and a readjustment of the amount of any previously held interest at fair value as part of the consideration as opposed to FRS 102 19.11 which does not address the fair value of any previously held interest.

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?

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)?

We favour option (c). We consider the simplified approach for trade receivables and contract assets that do not have a significant financing component to be practical and appropriate.

The detailed requirements of IFRS 9 (e.g. The need to consider expected credit losses and to demonstrate how this has been done) are very onerous and not always appropriate for organisations that are not financial institutions.

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 (i.e. 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?

Yes. FRS 102 should be aligned with IFRS 9 but only once the basis of the alignment has been agreed. It would add to further inconsistencies as well as being an additional burden on preparers of FRS 102 financial statements if there was a requirement to restate numbers and disclosures of financial instruments in two phases.

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?

No comments as we do not make extensive use of leases.

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?

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?

This will have no impact on the way that we currently report the corporate entities in the Wellcome Trust group however, a strict interpretation of this revised definition does not take account of charitable entities where control is determined by factors other than exposure, or rights, to variable returns or the ability to use power over an investee to affect the amount of an investor's returns.

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.

No comment as we do not have share-based payments.

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?

No. We believe that there is sufficient time to consider all of the areas discussed in the consultation in time for the 1 January 2019 effective date. This gives all organisations a period of time to address any issues that may arise from the initial adoption of FRS 102 in 2015. Any issues that might arise with the adoption of IFRS 15 (effective date 1 January 2018) and IFRS 16 (effective date 1 January 2019) can be addressed as part of the 2020 triennial review of FRS 102. It seems an avoidable additional burden on organisations to require a third period of transition.

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.

We submitted some additional comments in response to your invitation dated 22 March 2016. However, we would like to raise an additional point relating to the Statements of Recommended Practice that have been issued in accordance with the FRC's Policy and Code of Practice on SORPS. During the course of our first audit under FRS 102 and the Charities SORP (FRS 102) (the "SORP"), it became apparent that there are certain areas where the SORP appears to contradict FRS 102 or fails to clarify the practical application of some of the requirements in FRS 1O2 in the context of a charity. For example:
The requirements to provide for deferred tax as laid out in FRS 102:

FRS 102 29.6 requires that deferred tax should be provided in respect of all timing differences i.e. will include fair value adjustments on investments. Charities have a unique tax status and many of them have gift aid arrangements in place. This means that in practice, the deferred tax liabilities will not crystallise. There should be a separate module in the SORP which specifically addresses this issue as the inclusion of deferred tax may be misleading and confusing for readers of charity accounts.
The applicability of the exemptions under FRS 102 1.11 and 1.12 in the context of the references in 14.1 of the SORP to "exemptions permitted by this SORP".

The various SORP's should be reconsidered alongside the updates to FRS 102. (See response to Question 6 above)

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.

One of the areas that became apparent during the course of our first audit under FRS 102 was that for any auditors auditing entirely under a new set of accounting rules there is an unavoidable lack of knowledge and experience within the audit team. This resulted in a considerable amount of time being spent both internally and by the audit team in reaching agreement as to the correct application of FRS 102 in the context of such a complex organisation of Wellcome Trust. This was particularly apparent in certain areas:

- Accounting for deferred tax (particularly in an organisation with charitable status)
- The correct disclosure of reserves and unrealised and realised gains and losses
- Related party identification and disclosures
- Remuneration disclosures
- Financial Risk disclosures
- Accounting for gift aid payments

It is important that the triennial review addresses this point and wherever possible leverages off experience already gained from the implementation of the existing version of FRS 102 and the new IFRS standards.
One quantifiable measure of the costs is the time spent in each area, both externally and internally. This should be considered alongside the less quantifiable benefits obtained (such as consistency within and between organisations and increased transparency of information).