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23 December 2016

Jenny Carter
Financial Reporting Council
8th Floor
125 London Wall
London
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Our Ref: SJG/SR

Dear Ms Carter

Consultation Document:
Triennial review of UK and Ireland accounting standards - Approach to changes in IFRS

We welcome the opportunity to provide our response to the above consultation document and our detailed responses to the individual questions in the consultation paper are set out on the following pages.

Yours sincerely

Steve Gale

Steve Gale
Head of Professional Standards
Crowe Clark Whitehill LLP

Consultation questions	**Crowe Clark Whitehill response**
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 agree with the revised 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.	Yes, we broadly agree with the proposals. In respect of IFRS 3, we believe it is important to develop a practical and proportionate approach to identifying intangibles separately from goodwill under FRS 102. In this area, we would welcome the inclusion of additional guidance and simplifications within FRS 102. In respect of the other changes in IFRS, please see our detailed responses below for additional comments.
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)?	In our opinion, option (b), favoured by the FRC, is the most appropriate approach. This would mean all financial institutions (whether they are applying IFRS, FRS 101 or FRS 102) would be calculating impairment losses on the same basis. A proportionate approach could be developed for other entities applying FRS 102 which could be both simple to apply and consistent with IFRS. We believe the simplified approach to impairment losses in IFRS 9 could be implemented in FRS 102 with minimal modification. For non-financial institutions, we believe that the simplified approach should be required for contract assets and lease receivables, as well as trade receivables. We believe that this approach should also be the default for other financial assets of such entities, although the full impairment requirements of IFRS 9 should also be available as an accounting policy choice. In our view, the impairment requirements should not apply to financial assets which are the result of financing transactions as the credit risk is already reflected in the discount rate applied (which is revised each period as necessary). In addition, we would welcome a Staff Education Note, or other guidance, which gives clear practical examples to assist smaller entities in applying the new impairment requirements.

Consultation questions	Crowe Clark Whitehill response
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?	We agree the proposed approach is appropriate.
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?	We agree with the arguments put forward in paragraphs 3.37 and 3.38 of the Consultation Document that suggest consistency with IFRS 16 is desirable. We do not favour any definition of a ‘short-term lease’ that would result in unnecessary and potentially complicated recognition differences between FRS 102 and IFRS. In our view, the guidance on identifying low value leases in paragraphs B3 to B8 of IFRS 16 is pragmatic and allows for an appropriate amount of judgement to be exercised. In this context, we would suggest setting a non-mandatory, guideline amount to aid in the identification of low value 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?	We are not aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements. We believe there could be some practical impact when considering whether limited liability partnerships and companies limited by guarantee which are under the control of a parent should be consolidated. With both of those types of entities, it is conceivable that a parent that has ‘control’ does not have a right to variable returns. We believe that some divergence in practice could develop, unless a significant portion of the detailed application guidance in IFRS 10 is reflected in FRS 102.

Consultation questions	**Crowe Clark Whitehill response**
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.	In our opinion the requirements of section 26 are cost-effective where the underlying shares are in companies that are listed or in the process of being listed. Where the underlying shares are in private companies (which are not in the process of being listed) the process of obtaining fair values for such instruments does not appear to be cost-effective. In these cases we would welcome an approach where share-based payment arrangements were not recognised at grant but full disclosure of the arrangements was provided instead.
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?	We agree with the proposed effective dates. If option (b) (in respect of question 3 above) is adopted, it may be attractive to keep the effective date of 1 January 2022 for the impairment requirements of IFRS 9 for financial institutions but bring forward the implementation of the simplified approach for other entities to 1 January 2019. This would minimise temporary differences between IFRS, FRS 101 and FRS 102.
Question 9 - Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?	Given the recent changes in auditing standards, arising from the IAASB disclosures project, we would welcome additional guidance within FRS 102 which promotes: • clear and concise disclosure of accounting policies • improving the quality of disclosures in respect of key judgements and sources of estimation uncertainty.
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.	Given recent experience, we believe it is important that the assessment of the impact of any changes in presentation and disclosure should include potential delays and difficulties of updating commercially-available accounts preparation software.