Housing SORP Working Party response to *Triennial review of UK and Ireland accounting standards: Approach to changes in IFRS*

We are delighted to respond to the FRC's consultation document *Triennial review of UK and Ireland accounting standards: Approach to changes in IFRS.*

The National Housing Federation (NHF) is the voice of housing associations (Registered Providers) in England. We believe that everyone should have the home they need at a price they can afford.

Our members provide two and a half million homes for more than five million people. Each year they invest in a diverse range of neighbourhood projects that help create strong, vibrant communities.

The social housing sector has recently implemented SORP 2014 and FRS 102. This had a significant impact on the sector's financial statements. During the implementation we responded to a number of issues arising from the implementation, most notably early repayment clauses in loan facility agreements. We were pleased with the FRC's response to this issue which allowed us to provide appropriate guidance to members.

We believe there are areas for improvement to FRS 102 to ensure consistency of financial reporting, where this is appropriate. As a Working Party, we are considering how the Housing SORP could provide additional guidance to achieve this. We will provide further details of this in our annual review and in response to future consultations.

With respect to this consultation, we have provided responses to each question as requested. We feel that changes in IFRS should not automatically be incorporated into FRS 102. IFRS contains many complexities that are relevant for large and complex organisations who report to shareholders and operate in the financial services sector. This means that some of the requirements of IFRS are not relevant to the social housing sector and add greater inconsistency, which we believe is not useful for readers of a social housing provider's financial statements.

If you have any questions from our responses to the consultation questions, please feel free to get in contact with John Butler on John.Butler@housing.org.uk.

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?

Response

Yes. We agree with this principle. We feel it is important to allow Registered Providers a period of time without major changes to accounting standards and a chance for stability for financial reporting. As mentioned in our cover letter, we also feel there are areas of FRS 102 that can be improved to ensure the qualitative characteristics of information in financial statements are met for the social housing sector. We will provide further details in our annual review and future consultations.

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.

Response

Yes, but with careful thought about which elements are considered for inclusion in FRS 102. We recognise that financial reporting standards continually need to be reviewed to ensure they are relevant. However, we don't feel all changes made to IFRS should be incorporated into FRS 102. This is because the complex accounting requirements that are relevant for large and complex organisations who report to shareholders and operate in the financial services sector will not be relevant or suitable for the social housing sector. Further, applying more complex requirements is likely to lead to greater inconsistency, which we believe is not useful for readers of a social housing provider's financial statements. We will look forward to seeing the detailed changes proposed to FRS 102 in the next consultation(s).

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)?

Response

We are aware of some of the larger Registered Providers adopting IFRS9 (in accordance with the accounting policy choice in FRS 102 11.2). We are also aware that some Registered Providers may factor in expected losses on rental arrears due to welfare reforms. However, the more complex impairment requirements of IFRS9 would not be appropriate for all Registered Providers.

In general, we would prefer option (b) as this is a simpler approach.

A suggestion would be to allow the choice for organisations to adopt the more complex impairment requirements, if that would provide better information to users of the financial statements.

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?

Response

Yes. Allowing choice is preferred, so long as it is disclosed why key accounting policy choices are made.

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?

Response

No, not at this stage. We will give further thought when the next consultation is released. However we would encourage a measured approach be considered to ensure the burden on smaller, less complex organisations, is not disproportionate to any advantages of revised lease accounting requirements.

Further, we will consider the implications of the changes specifically on the businesses of Registered Providers, where different types of agreements over the use of property assets are commonplace in order to meet short, medium and long-term housing needs.

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?

Response

No, none that we are currently aware of. However we will consider further in future consultation(s) as necessary.

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.

Response

No. Share-based payments are not currently relevant for Registered Providers.

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?

Response

Yes. We feel this allows enough time to consult with the sector and consider any amendments to the Housing SORP.

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.

Response

As mentioned earlier in this consultation response, we believe there are areas for improvement to FRS 102 to ensure consistency of financial reporting, where this is appropriate. The main areas of challenge was the interpretation of FRS 102 paragraph 11.9 potentially triggering fair value accounting for certain loan agreements, where the intention is to hold loan agreements to their maturity. One example is early repayment clauses in loan facility agreements.

We believe there should not be unintended consequences of trying to apply complex IFRS accounting requirements which would not be relevant for smaller, less complex organisations that do not report to shareholders.

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.

Response

No, not at this stage.