RSM

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Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Third Floor, One London Square
Cross Lanes
Guildford
Surrey, GU1 1UN
United Kingdom

T +44 (0)844 2640300

rsmuk.com

For the attention of Jenny Carter

danielle.stewart@rsmuk.com

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Dear Madam

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

We welcome the opportunity to comment on the FRC's consultation document ("the Consultation Document").

We are generally supportive of the proposals regarding the FRC's approach to making amendments to FRS 102 in the light of changes to IFRS. We welcome the FRC's proposal to set out a timetable for amending FRS 102 to reflect changes to IFRS resulting from the completion of the IASB's three main projects; being IFRS 9, 15 and 16. However, we believe that any updates to FRS 102 in respect of corresponding changes made to IFRS 9, 15 and 16 should be informed by the experiences of those entities which will have actually applied those IFRSs. Consequently it is our view that FRS 102 should be updated for the proposed changes which correspond to IFRS 15 in the 2022 triennial update, rather than in 2019.

As a general point, we would ask the FRC to consider delaying the issue of exposure drafts so they are not tabled too far in advance of the proposed implementation dates, albeit that reasonable notice is required. In the specific circumstances of updating FRS 102, we believe it would be beneficial if the exposure drafts could be delayed so that drafting can take account of issues arising from the application of IFRS 9, 15 and 16 by entities applying those standards.

If you would like to discuss any aspect of this response please do not hesitate to contact Danielle Stewart.

Yours faithfully

RSM UK Tax and Accounting Limited

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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?

We welcome the updates to the FRC's principles for developing succinct financial reporting standards. However, we consider that the objective to "balance improvement with stability" should be an objective in its own right.

We recognise that it is a challenge to balance the need to maintain the quality of the financial reporting standard with the need for users to have a stable platform with which they can become familiar and that provides consistency and comparability of financial statements prepared using the standard. We observe that the FRC's stated aim was to incorporate major updates to the standard once every three years. However, the Accounting Council agreed that there may be circumstances where FRS 102 would require updating in an interim period between the three-year cycles. If this occurs, the amendments proposed should be limited. We observe that since FRS 102 was issued the balance appears to have been weighted towards "improvement" rather than "stability". We request that once the triennial review amendments have been published, no further changes should be made until the next triennial review, unless it is a significant matter that could not have been foreseen.

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 welcome the FRC's overall approach that updating FRS 102 as a result of changes in IFRS is to be dealt with as part of its triennial reviews. In our opinion, the FRC should not issue exposure drafts of proposed changes too early, since this could result in successive changes being made to the standard in advance of the effective date (see response to Q1 in respect of stability). It is our view that updating FRS 102 as a result of changes in IFRS should take into account the experience of IFRS-adopters in applying those IFRSs. This would allow the FRC to take a considered view of the issues arising for IFRS-adopters when the FRC proposes its consequential updates to FRS 102. We therefore suggest that the FRC should postpone its proposals for updating section 23 (Revenue) of FRS 102 until 2022, as inclusion in the 2019 triennial update to FRS would not allow for sufficient time to consider issues, such as how much of the extensive guidance in IFRS 15 is required in FRS 102, in the light of the experience of those entities which are applying IFRS 15 (see our comments to question 8).

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?

We support the proposal for financial institutions to apply the impairment requirements of IFRS 9 as incorporated into FRS 102. We recommend that the FRC does not make a decision about whether an expected loss model should be incorporated into FRS 102 for entities that are not financial institutions until such time as a sufficient number of IFRS-adopters have applied the expected credit loss model to allow assessment of its effectiveness and workability. This would allow the FRC to gauge the nature and significance of issues that might emerge from its application under IFRS 9 and also to allow the FRC to clarify the definition of a financial institution for these purposes. We refer to our response to question 2 regarding the timing of exposure drafts.

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)?

The FRC's proposed timetable for incorporating the expected loss model for impairment of financial assets is that the requirements will be effective for accounting periods beginning on or after 1 January 2022. However the effective date of IFRS 9 is for accounting periods commencing on or after 1 January 2018. Consequently we recommend that if it is decided to incorporate a simplified approach to impairment losses into FRS 102, this should be developed with the benefit of the experiences of entities applying the simplified approach of IFRS 9.

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?

We agree with the FRC's proposed approach since this is consistent with our view that the FRC's updates to FRS 102 for corresponding changes to IFRS should be informed by the experience of entities which have applied the updated IFRSs. In addition the proposed approach will allow users of FRS 102 which are applying IAS 39 recognition and measurement the same period of calm afforded to users of FRS 102 that apply section 11/12 recognition and measurement principles..

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?

The proposed timetable for amending FRS 102 in respect of accounting for leases would allow for reflection and consideration of matters arising from the application of IFRS 16 by entities in the scope of that standard. We suggest that the FRC makes use of this opportunity by waiting to observe the implementation experiences of those entities applying IFRS 16 before considering how FRS 102 might be updated with regards to lease accounting. In relation to your specific question about exemptions, our current thinking is that entities applying FRS 102 should be permitted to apply at least the equivalent exemptions allowed under IFRS for short-term leases and low-value leases, but IFRS 16 implementation experience should be taken into account, particularly on the low-value lease exemption.

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?*

We suggest that further consideration should be given to whether control obtained other than through voting or similar rights would meet the Companies Act definition of a subsidiary. However, we believe that this question is best responded to by lawyers qualified to do so and consequently we do not comment.

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 observe that whilst the broad principles regarding control are similar in FRS 102 and IFRS, we note that the definition of control as set out in IFRS 10 is more detailed than the existing definition in FRS 102. For example, IFRS 10 considers negative returns and is broader in terms of the activities over which the investor has power than FRS 102. Consequently there might be instances where a different conclusion could be reached when determining whether a parent/subsidiary relationship exists when applying IFRS 10 as compared to FRS 102. However, we do not have any examples to provide at this time. It is unclear whether the FRC's reasoning for replacing the current definition of control in FRS 102 with that of IFRS 10 are the same as the IASB's reasons for the equivalent update as a result of issuing IFRS 10, to its definition of control. The FRC has not clarified whether it intends to include the equivalent additional material in FRS 102 that forms part of IFRS 10's, such as application guidance, basis of conclusions and illustrative examples, although it is not in the usual style of FRS 102 to do so. We question whether it will be possible for FRS 102 users who are not also familiar with IFRS to understand the meaning of and reason for the change, in the absence of this explanatory guidance

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.

There are some commentators who do not see the benefit of accounting for equity settled share-based payments at all. We recognise that this can be a complex area of accounting and complexity is often associated with cost, but we feel that on balance, given the breadth of companies (i.e. size and complexity) that apply FRS 102, further simplifications are not appropriate, since they are likely to move FRS 102 further away from IFRS without sufficient benefit in the context of the overall objectives set out in paragraph 1.5 of the Consultation. Whether or not one likes the share based payment accounting approach, users have lived with it for a long time and are used to it – in this context, so called simplifications create a bigger burden, not a lesser one. Accordingly, we do not make any suggestions regarding more cost-effective alternative requirements.

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 for these amendments in respect of those which correspond to IFRS 9 and 16 but do not agree with the proposed timetable for the adoption of the proposals which correspond to changes in IFRS 15, as set out in our response to question 2 above. However, we would urge the FRC not to issue exposure drafts to make amendments to FRS 102 too early and to adopt a timetable which would allow issues arising from the actual application of the associated IFRSs to be taken into account (see comments to questions 2, 3 and 5 above).

Question 9

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

We have no further comments regarding the approach to keeping FRS 102 up to date. As noted in our response to question 1, we request that once the triennial review amendments are published no further changes should be made until the next triennial review, unless it is a significant matter that could not have been foreseen. This is consistent with our view that the objective to balance the need for stability with improvement is currently weighted towards improvement, which is causing the former to be unduly subordinated to the latter.

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.

It is too early to establish the impact on costs and benefits likely to arise from the proposals in this consultation document, particularly since the contents of the detailed proposals are not yet known.