Your reference:
Our reference: 85/5050

MOORE STEPHENS

20 December 2016

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Dear Ms Carter

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

Moore Stephens LLP is pleased to respond to the FRC on the triennial review of UK and Ireland accounting standards and the approach to changes in IFRS.

We have reservations about some of the proposals in the consultation document. Although we generally supportive of the proposals, we do believe that 2017 may be too early to consult on changes that would come into force in 2022.

Attached to this letter you will find Appendix 1 with our comments to the specific questions raised in the exposure draft.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Jamie Tomlin, Audit Technical Associate Director (+ 44 (0) 207 651 1619).

Yours faithfully

Moore Stephens LLP

Moore Stephens LLP

Appendix 1

Response to Consultation Document 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?

We agree with the proposal to introduce the concepts of stability and proportionality into the revised principles.

As with all principles, the application of these in practice is the true test. If there is a conflict between improvement and stability, for example, how would this be resolved? Would stability predominate until the "weight" of a matter become overwhelming, or will up to date thinking always be incorporated, with the proviso that changes to the standard to reflect this would only ever be made at fixed intervals?

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 a result of changes in IFRS as part of this triennial review? If not, please provide alternative suggestions.

We are reluctant to have two phases within a relatively short period to update the standard. We can see merit in clearly identifying two sets of changes, based upon the effective dates, but believe it is too ambitious to propose changes in 2017 for which the related international standards have not been tested through use in practice.

We believe that there is a significant risk that any proposals in phase 2 would be subject to revision before the effective date of 1 January 2022. We would therefore support the deferral of the matters identified for phase 2 to a later date when a better understanding of the requirements and issues relating to financial instruments and leases and how these can be incorporated into FRS 102 can be made.

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 would favour option (b). We believe a distinction should be made between entities for whom financial instruments comprise their core business activities and others. A reasonable way to make this distinction is through the definition of financial institutions. We recognise for these entities that the importance of financial instruments is such that greater detail and guidance is required.

However, we would not support non-financial institutions being subject to the same detailed requirements. In practice this could result in no material changes to their accounting for financial instruments, but increase the difficulty in reaching this outcome by having to understand the intricacies of IFRS 9. We can therefore support a distinction based on entity type.

We are also of the view that where financial instruments are not the core business activity, a simplified model for impairment should be developed which would nonetheless be consistent with that for financial institutions. This is because it seems illogical to have two types of entities having fundamentally different recognition criteria, especially where this situation arises from, in effect, the earlier introduction of a more up to date approach.

We believe that option (b) best resolves this.

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 FRC 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 support this proposal.

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 believe it is too early at this stage to fully understand the issues of practical implementation of IFRS 16 and so identify how this could be developed into a useable model for FRS 102. We are fully supportive of the inclusion of the exemptions for short-term leases and leases of low underlying asset value but have no comments at this stage about how these would be applied under FRS 102.

Question 6: The FRC proposes to make 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 into FRS 102 other than a need to resolve possible conflict where, as a result of any changes, the definition of a subsidiary differs in FRS 102 from that of a parent and subsidiary undertaking as defined under law. In our view, if the control model can be reconciled with s1162(4) of the Companies Act 2006 then we see no issues. If this cannot be done, then having different definitions of what is a subsidiary would be very unhelpful.

Generally, we are concerned that whilst FRS 102 is a distinctly separate GAAP to IFRS, there is a risk that FRS 102 may be seen as moving too closely to IFRS. We understand the reasons why the changes were made to IFRS, but in each instance, it must be asked whether those changes would also be required for entities applying FRS 102. If FRS 102 becomes increasingly aligned with IFRS, does this leave a future for FRS 101?

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.

We are not aware of any greater challenges in applying section 26 of FRS 102 compared with FRS 20. In the absence of observable information, the valuation of share based payments will always be a complex issue . If a simplified approach were taken, we have doubts about how this could be reconciled with materiality considerations.

We would generally not support a disclosure only approach.

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.

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 be submitted to ukfrsreview@frc.org.uk. Those comments received by 31 October 2016 will be taken into account for 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 believe there is merit in monitoring how the IASB may update the IFRS for SMEs for IFRS 9 and IFRS 16. Although FRS 102 has diverged substantially from the IFRS for SMEs, the simplified approach in the latter could help to form the thinking about how to incorporate IFRSs 9 and 16 into FRS 102. We recognise that there are timing issues in connection with this.

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 the Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

We have no comments on the costs and benefits other than to acknowledge that to quantify these can be extremely difficult.