MAZARS

Accounting Standards Board
5th Floor
Aldwych House
71-91 Aldwych
London
WC2B 4HN

Direct line 020 7063 4410
Email steven.brice@mazars.co.uk

For the attention of Michelle Sansom

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Dear Michelle

EXPOSURE DRAFT ON THE FUTURE OF FINANCIAL REPORTING IN THE UK AND REPUBLIC OF IRELAND (FRED 46 TO FRED 48)

Mazars is an international, integrated and independent organisation specialising in audit, advisory, accounting and tax services. The Group has a presence in 69 countries and draws on the expertise of 13,000 professionals to assist businesses, major international groups, SMEs, entrepreneurs and public bodies at every stage in their development. Mazars welcomes the opportunity to comment on the Accounting Standards Board's "Revised Exposure Drafts: The Future of Financial Reporting in the UK and Republic of Ireland" ('the Revised Exposure Drafts'). We set out below our general comments as well as our responses to the specific questions included in the Exposure Drafts.

GENERAL COMMENTS

Fundamental amendments made to original proposals

The Board have made a number of significant amendments to these revised proposals which we believe are necessary and important changes in order to make the proposals relevant and applicable for UK and Irish businesses.

Even though some of the amendments have resulted in certain key accounting areas being significantly different to those originally proposed, we think that the changes were necessary to ensure the suitability of the financial reporting framework and accounting requirements, for instance in relation to the alignment of certain options that are currently permitted under existing UK GAAP such as accounting for development costs, borrowing costs and revaluation of assets. That said we consider that there still remains some areas in which improvements are required before final publication of the FRS 100, 101 and 102 ("the new Standards") for example financial instruments, service concession arrangements, format of primary statements, and other minor drafting amendments. These are discussed further in our response to specific questions.

Revising the scope of the framework to apply EU-adopted IFRS/FRS 102

We continue to support the scope of the accounting framework being based on public accountability (the basis for which we set out in our original comment letter), albeit we do appreciate and understand the reasons for revising the scope such that it does not extend beyond that which is currently mandated by EU legislation.

Accordingly, we will continue to support an approach that has a differential accounting framework that is based principally on an entity's characteristics, such as public accountability, rather than size alone – this being in order to ensure that users of financial statements receive relevant and understandable financial information that is appropriate to the size and complexity of the entity's business operations. Consequently, in our opinion entities with public accountability should apply EU-adopted IFRS on the basis that the accounting and disclosures required under this framework would appropriately meet these users' needs.

However, we appreciate the various concerns that have been raised regarding the definition of 'public accountability' that was set out originally and as such understand the basis for the scope reduction. We believe that an approach which takes into account size, complexity and cost considerations, as a driver for the provision of financial information is highly important in the current economic environment. Therefore, on balance, we are able to support the Board's change to the scope proposals.

Comprehensive, stand-alone and simplified Standard

The original proposals focused on having a new UK Standard (FRS 102) that had similar qualities to the IFRS for SMEs, such as being a single comprehensive, stand-alone standard containing simplified accounting requirements.

The revised proposals noticeably do not continue to have these same qualities on the basis that:

i) the majority of the amendments needed to make FRS 102 and the framework applicable for UK and Irish businesses have inherently increased complexity both in terms of the content of the accounting requirements and how FRS 100, 101 and 102 co-ordinate together; and

ii) FRS 102 now contains a higher number of cross references to EU-adopted IFRS and sits more alongside the applicable legislation requirements (for example due to the removal of the 'IFRS-style' formats and other requirements in order to avoid gold-platting).

As such, by the very nature of amending the proposals to make them more appropriate to the needs of UK and Irish business, this has inherently resulted in the complexity of the application and content of FRS 100 to 102 notably increasing.

However, in our view, the fundamental changes are paramount to the suitability of the accounting framework and requirements and hence believe that the benefits outweigh the added complexity.

There are further comments in our response to question 3 regarding how we think some of the areas of increased complexity should be dealt with.

Future role of the ASB

In our response to the original proposals, we set out our basis for why the future role of the ASB should not be limited only to influencing the IASB in their standard-setting process. Hence, in our opinion, the ASB should continue to have a role that:

(a) Ensures the setting of accounting standards are appropriate for the needs of businesses in the UK and Ireland, thus being able to make changes to future amendments that are issued by the IASB where necessary;

(b) Determines the scope of accounting standards and ensures it remains relevant for UK and Irish businesses;

(c) Ensures that any urgent issues applicable to UK and Irish businesses can be addressed and specific guidance is able to be developed where necessary – as it currently carried out by the Urgent Issues Task Force (UITF). For example, as has been the case relating to UITF Abstract 48, which impacted entities in the UK and Ireland only; and

(d) Provides an oversight role in the development of SORPs.

Given the fundamental changes that are now proposed, which has consequently lead to a number of key areas where the accounting basis and requirements are considerably different to EU-adopted IFRS[1], in our view maintaining the ASB's role as per the above has become a lot more important.

Timing

We welcome the ASB's timetable to finalise the proposals and issue the new Standards by the end of this year. We believe that the ASB has made significant, and much needed, progress in the development of the new Standards and as such would not wish for the timetable to face any further delay.

In general we support an effective date for accounting periods beginning on or after 1 January 2015 and see no benefit in postponing the effective date any further. We have provided further specific comments in our response to question 8 regarding the application of the effective date.

[1] Including, but not limited to, accounting for deferred taxation, development activities, group reorganisations, format/classifications within primary statements and exemptions permitted under UK legislation.

RESPONSES TO SPECIFIC QUESTIONS

Q1 The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Do you agree?

We agree with the ASB's project objective. However as referred to above, we were, and will continue to be, supportive of the ASB's original project objective which incorporated the requirement for public accountability entities to prepare their financial information in accordance with EU-adopted IFRS.

Nonetheless, we understand the cost implications that this scoping would have on certain publicly accountable entities and hence are able to support this project objective and revised scope for the application of FRS 102.

Q2 The ASB has decided to seek views on whether:

As proposed in FRED 47: A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13;

or Alternatively: A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).

Which alternative do you prefer and why?

We consider that a financial institution should not be exempt from any of the requirements in IFRS 7 or IFRS 13 in relation to the financial instruments they hold. This is on the basis that we think that it is not appropriate for financial institutions to be exempt, under any circumstances, from providing useful information that is relevant to their principal activities.

In our opinion, the disclosure exemptions that are set out in the reduced disclosure framework ("RDF") for 'standard'/non-financial institutions relate to areas which are unlikely to be significant to the principal operations of qualifying entities and hence not including the disclosures permitted under the RDF exemptions would unlikely lead to incomplete or misleading information and the concept of 'true and fair' not being met for such entities..

Regarding the RDF exemptions, we would however welcome an amendment which emphasises the point that the disclosure exemptions may only be taken where they would not result in financial statements fairly presenting information about that entity. This is because we have concerns that preparers may take these exemptions for qualifying entities under all circumstances, irrespective of the concepts and pervasive principles (as set out in Section 2). Hence, we believe it would be beneficial to reinforce the 'true and fair' concept within FRS 102 (paragraph 1.11), for example we would suggest the following to be added: "[only if] the omission of such disclosures would not distort the truth and fairness of the financial statements".

Q3 Do you agree with the proposed scope for the areas cross-referenced to EU-adopted IFRS as set out in Section 1 of FRED 48? If not, please state what changes you prefer and why.

We acknowledge that the ASB has had to make substantial amendments to the original proposals in order to incorporate suitable requirements for entities that were previously falling outside the scope of

FRS 102 as they were deemed to be 'publicly accountable' (and hence were going to apply EU-adopted IFRS).

We therefore agree that these entities which now fall within the scope of FRS 102 should apply: IAS 33 'Earnings per Share', IAS 34 'Interim Reporting' and IFRS 8 'Operating Segments', as contained in EU-adopted IFRS, when those standards are applicable to such entities.

As a general point relating to cross-referencing, we agree that cross-references to EU-adopted IFRS should be included on the basis that this maintains a reduced volume/size of FRS 102 – this is compared to including the applicable text from EU-adopted IFRS within FRS 102, albeit this may in fact increase the complexity that is often associated with cross-references to other technical material.

Nevertheless, we would encourage the ASB to create a separate Appendix that clearly sets out all the cross-references to EU-adopted IFRS and legislation that are made within the Standards and provides the applicable text of the requirements. This is to make it easier to understand which version of applicable IFRS/legislation is to be applied and ensures that preparers use the correct version of the requirements, hence reducing the potential for error.

Furthermore, we believe that it is appropriate for these entities, such as PLUS-Quoted entities, to apply IAS 33 and IFRS 8 based on the scope requirements set out in FRS 102 (paragraph 1.3 and 1.5). However, we do not think that it is appropriate for these entities to be required to apply IAS 34, unless they are required to do so by their regulator. In our opinion FRS 102 (paragraph 1.4) is currently worded such that these entities are mandatorily required to apply IAS 34. It is not considered appropriate for accounting requirements to mandate the scope for interim financial reporting, and hence should be left to the regulators as currently is the case for AIM and fully listed companies.

Q4 Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

We agree, in general, with the definition of a 'financial institution' in that it includes banks (as defined by the FSA), building societies (as defined by the Building Societies Act 1986), insurance companies, trusts and funds, stock-brokers, credit unions (as defined by the Credit Unions Act 1979), friendly societies and pension plans.

In our opinion, this definition must be sufficiently robust in order to ensure that there is not divergence in practice when it is applied. We would therefore recommend the following improvements:

- The source for the 'bank' definition is provided in order to emphasis that these institutions are those as defined by the FSA.
- Clarification is made that a 'business effecting or carrying out insurance contracts' does not include insurance brokers nor does it include all entities that 'carry out insurance marketing activity', as defined by Section 384 of the Companies Act. On this basis, we agree that the definition should not include Lloyds Brokers and Lloyds Syndicates, which are captured under the Section 384 definition, as well as other insurance brokers, on the basis that we believe these entities do not need to be subject to the same additional disclosure requirements.
- Clarification is made as to whether the definition includes an e-money issuer, a MiFID investment firm or a UCITS management company on the basis that these entities are specifically excluded from the small companies regime under Section 384 of the Companies Act. It is recommended that an e-money issuer and a MiFID investment firm should be included as their principal activities are considered to be consistent with those of entities as already included in the definition, and hence should be subject to the additional disclosure requirements due to the nature of their activities. In contrast, a UCITS management company's principal activity is to manage, rather than hold investments/funds; hence we believe that they would not need to be included in the definition.

Q5 In relation to the proposals for specialist activities, the ASB would welcome views on:

(a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?

We have no specific comments in this area.

(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

We support the basis that accounting for service concession arrangements ("SCA"), including PPP/PFI arrangements ("SCA/PPP/PFI"), should be based on the principles set out in IFRIC 12 within EU-adopted IFRS. Accordingly, we welcome the move towards applying the concept of control rather than risks/rewards (as per FRS 5.ANF) when accounting for such arrangements.

However, given that this change in concept is a fundamental shift in the basis for recognising assets subject to SCA/PPP/PFI arrangements, we strongly believe that the 'concept' basis needs to be clearly set out in Section 34 in FRS 102. In particular we think that the ASB should keep in mind the important point that preparers/users will be accustomed to using the substantial guidance set out in FRS 5.ANF for accounting in this area and hence the requirements and guidance to be drafted in Section 34 should be sufficient relative to this, rather than relative to IFRIC 12 (as is currently the case).

In our opinion, Section 34 should be, at least, enhanced to include the following requirements/guidance:

- Basis for the 'control' concept – to enhance the scoping requirements and include the flow diagram as set out in IFRIC 12.4 to 9 and Appendix B, with particular emphasis added to the key requirement surrounding residual interest in the infrastructure asset.
- Basis for recognising either a financial asset or an intangible asset – to enhance the guidance around the basis for the infrastructure asset representing either a financial asset or intangible asset (rather than a fixed asset).
- Background of SCA/PPP/PFI arrangements – to provide more detailed guidance surrounding what constitutes a SCA and which types of entities and arrangements would be required to fall within this Section, as set out in IFRIC 12.1 to 3. A particular focus should be given to how 'non-public entities' such as Universities should apply this Section, for example we believe that the inclusion of paragraph IFRIC 12.3(a) will be particular valuable for the education sector.
- First-time adoption exemptions for arrangements entered into before the date of transition – to provide guidance relating to the practical application of this exemption regarding: i) what a first-time adopter *should apply* instead of Section 34 (the exemption in Section 35 (paragraph 35.10i) simply states that the first-time adopter need *not apply*)[2]; and ii) circumstances when the exemption may not be appropriate.

  Regarding i), where the exemption is taken, we think that existing arrangements should be *required* to continue to apply the same accounting treatment which is being applied at the date of transition (we assume that this will be the requirements as set out in FRS 5.APNF) – thereby leading to no change in accounting for the arrangements. Where this is the case, then the accounting policies must clearly set out the accounting treatment being applied.

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[2] This point is also considered relevant to the other exemptions set out in section 35 (paragraph 35.10) and hence should be addressed to avoid any confusion and divergence in practice.

Regarding ii), often SCA/PPP/PFI arrangements are undertaken by special purpose entities and hence these entities may only operate one concession arrangement during its existence.

We therefore would encourage that Section 35 (paragraph 35.10i) includes a requirement to deal with the situations where i) the arrangement has very recently started before the date of transition; and ii) there is a significant change in the terms and conditions of the arrangement during the period of the concession – in both these cases, the entity should consider the appropriateness of applying the exemption at the date of transition and the requirements set out in Section 34 in order to ensure that the truth and fairness of the financial statements are maintained.

Q6 The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

We have no specific comments in this area.

Q7 Do you consider that the related party disclosure requirements in Section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

Yes. We believe that the disclosure requirements are sufficient and welcome the inclusion of the related party disclosure exemption for transactions or balances between group entities that are wholly-owned subsidiaries within the group. This is on the basis that the requirements are aligned with current legislation and thus avoids gold-platting.

Q8 Do you agree with the effective date? If not, what alternative date would you prefer and why?

We agree with the revised proposed effective date; for accounting periods beginning on or after 1 January 2015, and we support the ASB's timetable to finalise the proposals for the end of the year.

We also agree with the Board's proposals to permit early adoption for all entities, particularly those that may wish to adopt the RDF early in order to take advantage of the benefits of this framework. However we would suggest that Section 1 (paragraph 1.14) is amended to remove the reference made to early adoption by public benefit entities and the application of the relevant SORP.

In our opinion, the words: ", subject to the additional requirement for a public benefit entity that is must also apply a public benefit entity SORP which has been developed in accordance with this FRS, FRS 100 and FRS 101" should be removed. This is because : i) we are not sure why public benefit entities are given specific reference over other entities that will be applying revised SORPs; and ii) it implies that the revised SORPs will take precedence over the adoption of FRS 102 – this cannot be the case.

However, we note one further amendment that should be made regarding early adoption by charities – this is discussed further in the PBE section of our letter.

Q9 Do you support the alternative view, or any individual aspect of it?

We have no comments in relation to the alternative view.

OTHER SPECIFIC COMMENTS

During our review of the proposals, we have identified a number of other specific points which we would like to comment on.

1. Application of IFRS 9 'Financial Instruments'

Sections 11 and 12 deal with the accounting for financial instruments and the Sections make it clear of the ASB's intentions to issue a supplementary exposure draft to update these Sections for the IASB's amendments to IFRS 9, when the IASB finalises its proposals on hedging and impairment under IFRS 9 project. We acknowledge the Board's reasons for looking to update the Sections so that entities can avoid having to make two sets of changes; firstly on adoption of FRS 102 and then secondly, when all the topics for IFRS 9 are completed and incorporated into a future revision to FRS 102.

However we do not agree that the future amendments to IFRS 9, which are to be issued by the IASB on impairment and hedging, are brought into FRS 102 prior to the transition date of 1 January 2015. This is for the following reasons:

- We do not understand why accounting for financial instruments has been given this 'preferential treatment' to be adopted early into FRS 102. The reasons given by the Board in Part 1 (paragraphs 3.35 to 3.37) could also be applied to the other new IFRSs which are to become effective in 2013 (such as accounting for consolidations (IFRS 10) and joint arrangements (IFRS 11)) and the other IASB projects which are being finalised with the current aim of becoming effective in 2015 (such as the revenue recognition and potentially the leases project). Hence we do not support this 'preferential treatment' for the future amendments to IFRS 9 being incorporated into FRS 102 earlier. We understand that a key reason for bringing in the revised IFRS 9 requirements is because they will improve the accounting for financial instruments, as compared to the IAS 39 requirements. Whilst we support this reasoning, and hence can see the benefits of incorporating the improvements from the other amendments as well, such as to IAS 19, these improvements relate to presentation and disclosure, rather than recognition and measurement. Accordingly the benefits from these recognition and measurement amendments to IAS 39 would be considered to outweigh the complexity and costs. We therefore believe that the IFRS 9 amendments should be incorporated into FRS 102 during the first routine update in 2/3 years time, therefore at the same time for all other amendments and revisions to EU-adopted IFRS, such as IFRS 10 and IFRS 11, are brought in.
- We acknowledge the ASB's thinking regarding wanting to reflect the most-update-to-date accounting for financial instruments, especially as the current requirements might incorporate weaknesses in IAS 39 identified in the wake of the financial crisis. However, we do not see the advantage of applying the IFRS 9 requirements for impairment and hedging will outweigh the complexities for UK and Irish businesses, when comparing against applying IAS 39. This is because there is already considerably more familiarity and understandability of the requirements in IAS 39's in general. And hence, in our opinion there is a danger that the requirements for IFRS 9 will be incorporated into the UK accounting regime prematurely before sufficient lessons can be learnt from EU-adopted IFRS preparers.
- There is also the key practical reason that both preparers and users will have reduced implementation time for understanding and applying the requirements prior to the transition date. Currently the ASB do not know when the IASB will finalise their IFRS 9 project and in our view this is likely to result in an insufficient implementation time being left for preparers to understand the IFRS 9 requirements and apply them appropriately (especially as the ASB are intending on issuing an exposure draft, once the IASB finalises IFRS 9).
- We acknowledge the potential benefit of incorporating the future changes to IFRS 9 as soon as they are finalised by the IASB is in order to have only one Standard driving the accounting

within Sections 11 and 12 - either IAS 39 or IFRS 9. This is because having a 'mixed-model' may lead to inconsistencies in the overall accounting requirements. However, in our opinion the benefit would not warrant early adoption of IFRS 9 into FRS 102 for the reasons stated above.

2. Deferred taxation (Section 29)

The revised Section on income tax now incorporates, in our view, a 'hybrid' approach to accounting for deferred tax. This is because the Section is based upon applying a timing differences approach with the additional requirements for the recognition of certain deferred tax items.

On first view, we considered that this approach would not be appropriate for UK and Irish businesses, because: i) the accounting requirements are not based on a single, comprehensive and logical basis for the recognition of deferred tax; and ii) the basis was not consistent with IFRS, hence this would lead to a GAAP difference between EU-adopted IFRS and FRS 102 and would therefore not in general support the objective of convergence with IFRS.

However, on reflection, we believe that, in the majority of cases, the recognition and measurement of deferred tax for entities applying these accounting requirements will result in the same/very similar outcome that would arise if the entities were applying the temporary difference approach set out in IAS 12. Accordingly, on balance, in our view the accounting requirements are suitable for the needs of UK and Irish businesses principally on cost and complexity grounds for transition to the new Standards. As such we welcome this 'hybrid' approach as we think it offers a smoother path to transition in this, quite complex, accounting area. However, this Section is still only seen as an interim solution to accounting for deferred tax and therefore would expect the ASB to revise this Section in forthcoming updates in 2/3 years.

3. Format of the primary statements

We agree with the ASB's revised proposals to remove the form and content of the primary statements that are set out in the IFRS for SMEs, as the inclusion adds confusion regarding how these requirements fit in with the Company Law formats. This therefore leaves entities being required to apply the Company law formats (as set out in the Companies Act) with only additional presentation requirements being set out in the new Standards.

However we believe that simply deleting the 'IFRS form and content' requirements still leaves some potential confusion over what the format requirements are for the primary statements, particularly for those entities that are now required to comply with the Company Law formats, for example entities that are not companies. As such we would welcome the Board to still include the format requirements within FRS 102 (or as an Appendix) to aid understanding.

We acknowledge that the ASB has made a considerable effort to identify the complexities that entities may face when applying the RDF – these are set out in FRS 101 Appendix I. Whilst the Appendix therefore sets out the areas that entities will need to consider in order to ensure that financial statements prepared under the RDF are in accordance with legislation, we believe that this remains a key draw-back for entities wishing to benefit from the RDF – unamended IFRS formatted primary statements as prepared under EU-adopted IFRS will not be in accordance with UK legislation and hence entities will need to incur additional costs to ensure compliance. This therefore removes one of the main advantages of applying the RDF and hence we would encourage the ASB to discuss this concern with BIS and Companies House in order to try to reach a workable solution.

4. Small company exemptions for group reporting

In order to aid understandability of the interaction between the accounting requirements and company legislation, it is recommended that Section 9 (paragraph 9.3) includes the exemption that is available in Section 398/399 of the Companies Act for small companies/groups to prepare consolidated accounts.

5. Reference/grammatical drafting amendments

i. Section 2 (paragraph 54) currently states: "To rebut this presumption at the time the payment is made to the intermediary, the entity must demonstrate: a) It will not obtain future economic benefits from the amounts transferred; or b) It does not have control of the right or other access to the future economic benefits it is expected to received."

Paragraph b) should read: "It does not have control of the right, or other access, to the future economic benefits it expects to receive.

ii. Section 3 (paragraph 5) – reference is made to 'companies legislation', however the word 'companies' should be removed for consistency with the opening sentence in paragraph 3.5.

iii. Section 3 (paragraph 16, 16A) – Both these paragraphs refer to information only needing to be provided where the information is material. It is recommended that requirements regarding 'materiality' are not mandated within the accounting standards as this is something which should be a matter of judgement for the auditors and furthermore, is covered in general in Section 2. There are also some other minor drafting amendments recommended. It is considered therefore that these paragraphs should be amended as follows:

"Financial statements may result from processing large numbers of transactions or other events that are aggregated into classes according to their nature or function. The final stage in the process of aggregation and classification is the presentation of condensed and classified data, which form line items in the financial statements. If a line item is not individually material, it may be aggregated with other items either in those statements or in the notes. An item that is not ~~sufficiently~~ material to warrant separate presentation in those statements may warrant separate presentation in the notes.

~~An entity need not provide a specific disclosure required by this [draft] FRS if the information is not material."~~

iv. Section 4 (paragraph 1) states: "(which can also be called the balance sheet)" – this should be included within the glossary Section rather than the main text of the Section.

v. Section 5 (paragraph 2b) states: "(which is the profit and loss account required by regulations plus any additional requirements of this Section)" – this should be included within the glossary Section rather than the main text of the Section.

vi. FRS 102 (in particular Sections 4, 5) – throughout the Standard there are inconsistent references to the Statement of Financial Position and Balance Sheet and to the Statement of Comprehensive Income /Income Statement and the Profit and Loss Account. There should be consistency to avoid potential confusion and in our opinion references should be made to the IFRS terminology to encourage the future development of IFRS in the UK.

vii. Section 22 (paragraph 2) includes a cross reference to paragraph 1.4 in the final sentence – this reference should be to paragraph 1.6 instead.

PUBLIC BENEFIT ENTITIES

GENERAL COMMENTS

The consultation on FRED 45

We responded on 29 July 2011 to the ASB's consultation on FRED 45 'Exposure Draft: The Future of Financial Reporting in the UK and Republic of Ireland – Financial Reporting Standard for Public Benefit Entities' ("the Exposure Draft for PBEs").

We note that the ASB has responded positively to the concerns and suggestions which we and others made. We welcome the changes which have been made and reflected in FRED 48. We also welcome

the way in which the content of the proposed separate standard for PBEs will be incorporated into the body of FRS 102.

We acknowledge that the requirements of FRED 45, which were specific to public benefit entities, have been incorporated into FRED 48 and identified by the prefix 'PBE'. This is sensible, clear and easy to follow.

Replacement of UK GAAP for PBEs

In broad terms, we fully support the proposals that are put forward by the ASB in FRED 48 to meet the specific financial reporting needs and requirements of PBEs. The ownership of PBEs is different from that of most for-profit entities and is driven by altruism in the spirit of stewardship, rather than by the aim of private gain. The funding of PBEs commonly arises as a consequence of non-exchange transactions. The proposed new Standards address such matters and provide the specific financial reporting requirements for PBEs.

However, we do have some recommendations for improvements and amendments to be made which are discussed in more detail in this PBE section of our letter. In making these recommendations, our principal drivers have been to ensure that high quality is maintained and a financial reporting framework is created which is appropriate for UK and Irish PBEs.

Public accountability and framework of standards

FRED 45 sets out a differential financial reporting framework based on public accountability. In our earlier response we called for charities to be exempt from public accountability status. Accordingly we note that reference to public accountability has been withdrawn from the scope for applying EU-adopted IFRS, as discussed above in our general comments.

Timing and early adoption

We think that the timetable for an effective date of 1 January 2015 is realistic for PBEs. We appreciate that this maintains the practice of an implementation gap of 18 months between the expected date of issue of the new Standards and the effective date.

This timescale should allow sufficient time for the production of IFRS-compliant Education, Social Housing Provider and Charity SORPs in good time before the mandatory effective date.

Charity law and Regulations require charities to prepare their Trustees' Reports and financial statements in accordance with the Charity SORP. Charities will not therefore be able to adopt FRS 102 early in the absence of an IFRS-compliant Charity SORP. Accordingly, as already mentioned above in our response to question 8, we believe that Section 1 (paragraph 1.14) should be amended to make specific reference for charities in this regard to avoid any potential first-time adoption implications where the new Standards are adopted early.

Areas still to be addressed

The two main areas still to be addressed are narrative reporting and fund accounting.

The financial statements of an entity set up for public benefit (as opposed to private benefit) will never give the full story of its activities, outputs, outcomes and wider impact. The narrative of the Directors'/Trustees' Report provides the context which is essential to a full appreciation of the financial statements.

FRS 102 also needs to address explicitly the recognition of and accounting for unrestricted, designated and restricted funds (whether restricted as to income or capital, expendable and permanent endowment). We comment in more detail in points 4 and 5 below.

Sector-specific SORPs

We believe that there is real value in the ASB continuing to recognise SORPs as these are developed to deal with sector-specific issues at a more detailed level than FRS 102. We trust that future, IFRS-compliant sector-specific SORPs will be more consistent with one another wherever practicable. In particular, we think that the IFRS-compliant Charity SORP should be in two sections. The first section should apply to smaller charities and should be written in plain English. The second section should deal with the needs of larger charities and be written in technical language, as at present. This approach recognises that most charities are relatively small, with limited financial resources.

RESPONSES ON SPECIFIC MATTERS

The following comments are specifically focused on charities:

1. Incoming resources from non-exchange transactions, paragraphs PBE34.64 to PBE 34.72

We agree with this Section, except for accounting for restricted grants to charities. We comment on this in point 4 below in the context of paragraphs PBE34.65 and PBE34.66. We agree with the statement on benefits and costs in paragraph PBE34.67.

2. Public benefit entity combinations, paragraphs 34.73 to 34.87

We agree with this Section, covering combinations which are in substance a gift or meet the definition and criteria of a merger. It would be rare for a PBE combination to be an acquisition and fall to be accounted for under Section 19. We have one concern regarding charities over the second criterion for a merger in paragraph PBE34.80. When two charities merge, the funds of each individual charity must continue to be applied in accordance with the trusts under which these were received and within the charitable purposes of each charity. It would be quite possible for two charities to merge and for the classes of beneficiary or the benefits provided to change post merger. For instance, the change could arise in response to a re-assessment of the needs of the beneficiaries and the benefit of the public or a sufficient section of the public.

3. Concessionary loans, paragraphs 34.88 to 34.98

We agree with this Section. We believe that most charities will account for such loans on the basis of the amounts paid or repaid, less any impairment as per paragraphs PBE34.92 and PBE34.93.

4. Grants receivable, section 24

Section 24 applies to both for-profit entities and PBEs. We find paragraph 24.1 unhelpful in referring to government and other grants. All grants are assistance in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions concerning the activities of the entity. A government grant is simply a description of the provider of the grant and not its nature. As such we would suggest that reference to 'government' is removed from the second sentence in paragraph 24.1 so that is relates to all grants in general.

We have one concern over accounting for grants to charities. Charities commonly receive grants which are restricted either as to income or capital. A restriction of itself concerns the purpose of funding and not the performance. A restricted fund may or may not be subject to specified future performance conditions. We therefore do not agree with paragraph 24.3A or 24.4 in terms of funding with a restriction alone, as these paragraphs are not consistent with the principles of fund accounting. A grant which is restricted is receivable and falls to be recognised in the fund in which it will be held when the entity is able to apply (spend) that grant. Normally, that will be when the grant is receivable. Accordingly, we do not agree with the performance or accruals models for restricted grants.

We suggest that more detailed guidance on restricted grants would sit comfortably alongside paragraphs PBE34.62 and PBE34.66 in section 34.

Prior to the introduction of Charity SORP 1995, it was common for charities to recognise income from restricted and unrestricted grants to the extent that the related expenditure had been incurred. This was known as expenditure-driven income recognition and led to distortions in accounting and reporting. An entity which received and applied a grant more quickly would recognise a higher level of income than one which received the same grant but applied it more slowly. This was confusing for the user of the accounts. Charity SORP 1995 (and in due course SORPs 2000 and 2005) provided for fund accounting for grants receivable. Both entities in this example would recognise the same income, as they are in receipt of the same grant. The entity which applied the grant more quickly would show a lower fund balance than the other entity. In this way, the fund balances reflect the financial transactions of the entity concerned.

We note the ASB's commitment to undertake a fundamental review of the accounting for grants in the near future however we would welcome the detailed guidance in relation to the above being included within the final publication of FRS 102.

5. Appendix 1 to section 34, funding commitments

We agree with the guidance in this Appendix, except that PBE 13 and 14 should note that a restriction on an incoming resource is not a performance-related condition. Such a restriction does not preclude the recognition of incoming resource within restricted funds.

6. Appendix 2 to section 34, incoming resources from non-exchange transactions

We agree with the guidance in this Appendix.

We hope that you have found our comments helpful. Should you wish to discuss them further please contact Steven Brice on +44 (0) 207 063 4410 or Jessica Howard on +44 (0) 207 063 4413, or Paul Gibson on +44 (0) 207 7063 5025 in relation to the PBE comments.

Yours sincerely

Steven Brice

Steven Brice
Financial Reporting Advisory Partner
Mazars LLP