

27 April 2012

Michelle Sansom
ACCOUNTING STANDARDS BOARD
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN

Dear Ms Sansom

Accounting Standards Board: Consultation on the proposals for the future of UK GAAP

I write on behalf of Veolia Water Central Limited in response to the Financial Reporting Exposure Drafts (FREDs) setting out the revised proposals for the future of financial reporting in the UK and Republic of Ireland.

- FRED 46 – 'Application of Financial Reporting Requirements' (draft 100)
- FRED 47 – 'Reduced Disclosure Framework' (draft 101)
- FRED 48 – 'The Financial Reporting Standard Applicable in the UK and Republic of Ireland' (draft 102)

We welcome the opportunity to respond to the ASB's consultation.

To a large extent we believe that the proposed framework meets its objective to enable high quality reporting which is proportionate to the size and complexity of the entity and its users' needs. However, we consider that in the particular circumstances of intermediate holding companies preparing consolidated financial statements where not required by law, for example, when required by regulators, the prohibition of the use of FRED 47, and the absence of disclosure exemptions in FRED 48, will result in disproportionate and onerous disclosure requirements on those entities with no significant benefit to the users of those financial statements. In these circumstances disclosures may be mandated by users as required.

Our responses to the specific questions and proposals set out in the consultation are set out in the attached appendix.

Please contact me if you would like to discuss the contents of this letter.

Yours sincerely



Duncan Bates
Chief Financial Officer
Veolia Water Central Limited

Appendix

1. Does the proposed framework meet its objective to enable high quality reporting which is proportionate to the size and complexity of the entity and users needs?

To a large extent we believe that the proposed framework does achieve its objective stated above. However, the comments below identify areas where we do not consider this to be currently achieved. Several of these have particular relevance for the water industry and will enable financial reporting to be more relevant to the needs of the users of the financial statements within the industry.

Renewals accounting

Under current UK GAAP the water industry applies renewals accounting for infrastructure assets where the water network is in a steady state and subject to an asset management plan. Expenditure on infrastructure assets which relates to increases in capacity or enhancements of the network are treated as capital expenditure. Expenditure on maintaining the operating capability of the network is treated as an addition to fixed assets termed 'infrastructure renewals expenditure'. Depreciation is charged in effect as the estimated, anticipated level of expenditure required to maintain the operating capability of the network as based on the independently certified asset management plan (the 'infrastructure renewals charge').

When applying the usual accounting for property, plant and equipment, over time depreciation erodes the net book value of infrastructure assets, however operating capability is maintained. Therefore in the long term, the financial statements would not reflect the economic substance of the assets. Renewals accounting is considered to best reflect the special nature of water industry assets and we request that the language in FRS 15 on this is included in FRS 102.

Disclosure exemptions – Financial Instruments

An entity applying the disclosure exemptions available will not be required to provide any disclosures with respect to financial instruments. We believe that understanding the key components of an entity's capital base is necessary in order to understand the likely impacts on future cash flows. Therefore, as a minimum, we would expect that the following should be required to be disclosed:

- a maturity analysis;
- a description of the interest rates being applied to the debt;
- detail of any assets held as collateral; and
- details of any breaches of covenants.

Our view is that Section 11 'Basic Financial Instruments' should contain the accounting requirements and key disclosures for basic financial instruments, principally debt, and that references to items held at fair value and related disclosures, should be removed to Section 12 'Other Financial Instruments'. It would then be appropriate for all entities to make the disclosures in Section 11 with exemptions only available for Section 12.

Deferred tax

FRS 102 introduces a new version of deferred tax which is neither IFRS nor existing UK GAAP. This does not aid comparability between entity accounts. There appears to be no conceptual basis for requiring deferred tax to be provided on revaluations and rolled over gains, and these changes will not eliminate the differences between UK GAAP and IFRS.

In addition, we note that discounting deferred tax is not permitted whilst provisions other than deferred tax must be discounted, where the effect of the time value of money is material. We would welcome the option to discount deferred tax to recognise the time value of money and maintain consistency with other provisions of a long term nature.

Disclosure exemptions for intermediate consolidations

We consider that the disclosure exemptions for qualifying entities support the objective of the framework. However, we consider that FRS 101 and the disclosure exemptions in FRS 102 should also be available to qualifying entities in their consolidated accounts, where these are required for reasons other than by law; for example under financing arrangements or for external regulators.

In this situation there is no significant benefit to the users of the financial statements in requiring disclosures in the consolidated accounts which are not required in the individual entity accounts. We believe that if consolidations are prepared for the purpose of key stakeholders then such stakeholders may specify the disclosure they wish to see. Mandating disclosures where they are not desired increases clutter in financial reporting.

Furthermore, under the proposals, an entity adopting FRS101 in its individual financial statements would, when preparing intermediate consolidated accounts, be required to adopt either FRS 102 or full IFRS in those consolidated accounts. Neither of these alternatives would be desirable since the recognition and measurement rules of FRS 102 are different to FRS 101 and the disclosure requirements of full IFRS would be onerous for such financial statements.

We believe that the disclosure exemptions and the option of FRS 101 should be available to intermediate consolidations.

2. Financial institutions

This is not applicable to Veolia Water Central Limited.

3. Do you agree with the scope for areas cross-referencing to EU adopted IFRS?

The decision to cross-reference to EU adopted IFRS where accounting standards and disclosure requirements are identical is appropriate and reduces duplication in FRS 102. However, permitting entities to choose between accounting for financial instruments under FRS 102 or IAS 32 and IAS 39 (to be amended for IFRS 9) introduces potential for lack of comparability between entities in an area which is already inherently complex.

4. Financial institutions

This is not applicable to Veolia Water Central Limited.

5. Specialist activities – are the proposals for service concession arrangements sufficient to meet the needs of the preparers?

This is not applicable to Veolia Water Central Limited.

6. Retirement benefit plans

We do not have any comments on the proposals for the financial statements of retirement benefit plans themselves, but would like to take this opportunity to raise the following issues in respect of the accounting for retirement benefit schemes in company accounts.

In group schemes, where there is no contractual agreement for all group companies to make contributions on a defined benefit basis, then the total cost of the plan (service cost, actuarial gain/loss, finance cost etc.) is recognised in the individual accounts of the group entity which is legally responsible for the plan. Other group entities recognise a cost equal to their contribution to the plan in the period.

It is not clear from the proposals how the entity recognising the total cost, and thus applying defined benefit accounting, should account for the cash contributions recognised by the other group entities. In our view additional guidance is required to ensure these are accounted for consistently.

7. Related party disclosures – do you consider that the related party disclosures are sufficient to meet the needs of the preparers and users?

Disclosures are considered to be sufficient and we welcome the exemption for wholly owned entities in disclosing group transactions.

We note that the requirement to disclose the remuneration of directors will still be required by the Companies Act 2006 (the Act) despite the exemption for related party transaction disclosures.

8. Effective date – do you agree with the effective date?

The effective date proposed gives sufficient time to analyse the impact of FRS 100-102 and make an informed decision on which option to adopt. Providing the dates in the draft timetable are achieved then the proposed effective date is appropriate.

9. Alternative view – do you support the alternative view, or any individual aspects of it?

We believe that the alternative view has a simplistic view of the breadth of companies who will be aiming to report under FRS 100-102. Whilst we agree that the concept of “cash is king” is key to all business and that it is vital to ensure that there is “sufficient funding to remain a going concern and execute its business plan”, these are not the only considerations of the majority of users of financial statements for entities applying FRS 100-102.

The current proposals in FRS 100-102 allow measurement techniques and disclosures to be proportional to the size and complexity of the business. In addition, simpler businesses are not likely to have complex pension schemes, share based payments or complex financial instruments, so onerous disclosures and measurement bases will not be required.

We do not agree with the proposal to offer further measurement bases as this would make comparability between financial statements more difficult, rather than less. In addition, the concept of holding items off balance sheet and providing disclosure in the notes to the financial statements instead would possibly increase clutter rather than reduce it.

In summary, we do not agree with the alternative view.