Think Ahead ACCA

Triennial review of UK and Ireland accounting standards – approach to changes in IFRS

Consultation document issued by the Financial Reporting Council in September 2016

Comments from ACCA
31 December 2016

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Further information about ACCA's comments on the matters discussed here may be obtained from the following:

Richard Martin
Head of Corporate Reporting, ACCA
Telephone: +44 (0)20 70595748
Email: richard.martin@accaglobal.com

ACCA welcomes the opportunity to provide views in response to the consultation from the Financial Reporting Council. This has been done with the assistance of the members of ACCA's Global Forum for Corporate Reporting and our sector panels. They have considered the questions raised and their views are reflected in the following comments.

SPECIFIC QUESTIONS ON WHICH COMMENTS ARE REQUESTED

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 have two comments on these principles. Principle (a) should incorporate the intention that FRS102 should stay close to IFRS for SMEs on which it was based. This would not mean that FRS102 could not adopt a different solution than IFRS for SMEs, nor could it never 'get ahead' of IFRS for SMEs in incorporating treatments from full IFRS. All of these principles would have to be applied in a balanced way and a principle to follow IFRS for SMEs would have to be applied together with the considerations from the other principles.

We do not think that Principle (d) is needed. It may imply an overemphasis on the interests of a small minority of businesses applying FRS102, namely the subsidiaries of listed groups applying IFRS. The general issue of promoting efficiency is covered by Principle (e).

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.

Despite the principles above we find there to be little overall rationale for the selection of the matters that are proposed to be changed and those that are not.

As noted above in considering the changes we believe that FRC needs to consider the approach of the IFRS for SMEs. We agree that the 2015 amendments should be considered in the triennial review. However the approach of IFRS for SMEs to some of the other amendments to IFRS such as those in IFRS9 to 16 would be helpful to consider before the FRC makes changes to FRS102 many of which it does not intend to be applied until 2022.

Our comments on the detailed proposals, other than those more specifically dealt with in Questions 3 to 6, are the following

- IFRS3 it would be appropriate to consider these in step with IFRS for SMEs and after the full impact of the post-implementation review of IFRS3 is known.

- IFRS13 the case for change needs to be better made as if there is virtually no impact expected than the change is not justified.

- We are not convinced that the separation of contract elements from IFRS15 should be done as a separate item, but should be part of any other changes arising from the standard when these are considered for FRS102. The principle of the need to separate elements of revenue is currently part of FRS102. We see no reason why members of IFRS groups could not use in subsidiaries' individual accounts from 2018 the more detailed requirements of IFRS15 to apply the existing principle if they wanted to for reasons of efficiency.

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)?

As with IFRS15, IFRS9 in our view should not be further incorporated in a piecemeal way into FRS102. This could give rise to complexity and confusion.

IFRS9 is already an option available and for those sectors, such as the financial institutions applying FRS102, the relevant regulator could require them to report using IFRS9 from 2018 in step with the listed banks and insurers.

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?

We are not sure about the specific 2022 date but we agree in principle that when the main treatments of IFRS9 are incorporated to the extent considered necessary into FRS102, then the IAS39 option should be withdrawn.

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 do not think that FRC should make commitments in 2017 as to how IFRS16 should be best included into FRS102. FRC should wait for the experience of the practical implementation of IFRS16 by the companies applying full IFRS to become clear. The practical expedients should be explicit rather than dependent on indications from the IASB in some of the supporting text. We would also like to see how IFRS for SMEs intends to apply the key treatments from IFRS16. Our view in summary is that changes to lease accounting would be best dealt with in the next triennial review in 2019.

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?

If the impacts of the changes from IFRS10 are minimal, then they are not worth incorporating into FRS102.

If there were to be revisions then the accounting for joint ventures might also need to be reconsidered.

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 have no comments on this.

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 have noted above that we are not in favour of the amendments proposed for Phase 1 that arise from IFRS 10 to 15. We agree that Phase 1 should include appropriate amendments and clarifications that have arisen from the implementation of FRS102 this year together with the changes made to IFRS for SMEs.

Amendments that might arise from the standards IFRS9 to 16 should not be proposed in 2017 even as Phase 2, but should await the implementation of those standards in practice by full-IFRS companies, the approach of IFRS for SMEs and probably be included in the next triennial review.

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 other comments.

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.

We will respond with any observations in response to the exposure drafts of amendments.