Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745
F +44 (0)20 7600 8288
mail@theqca.com

www.theqca.com

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

ukfrs@frc.org.uk

14 December 2016

Dear Ms Carter,

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

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to the FRC's triennial review of the UK and Ireland accounting standards with respect to its approach to changes in IFRS.

As a general comment, we note that a company's accounts serve as a vital source of information about a company's financial position and performance for shareholders and other stakeholders. As such, we believe that any changes to accounting standards proposed by the FRC should be on the basis that this enhances the ease with which a company can communicate information to users of the accounts.

We have responded below in more detail to the specific amendments from the point of view of our members, small and mid-size quoted companies.

Responses to specific questions

Q1 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 generally agree with the FRC's principles for developing succinct financial reporting standards for the UK and the Republic of Ireland. Nonetheless, we would encourage the FRC to take the time, after the adoption of a new standard by the IASB, to assess how it is working in practice. We believe that only then can it be properly assessed, as to whether the changes are proportionate and cost effective, as well as whether the new standard better meets the needs of the principal objective.

Q2 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 agree with the proposal not to amend FRS 102 following the issue of IFRS 12, as well as the proposal not to amend FRS 102 to incorporate any further disclosure requirements of IFRS 13. Furthermore, we also agree that changes should be made so as not to risk precluding the use of an IFRS 15-compliant accounting policy.

As a general comment, we believe that the FRC should have followed the approach taken with IFRS 3 (revised). Namely, that it should wait until post-implementation reviews are completed before considering the adoption of new standards. Therefore, we believe that the significant changes anticipated for 2022 should be delayed until 2025.

Furthermore, we believe that, for IFRS 16, the FRC should undertake further work to assess the impact on the cost of debt for smaller companies. We note that the IASB's rationale for changing lease accounting is based on assessing the cost of debt for larger companies. We believe that the benefits are likely to be much less (or even negative) for smaller companies.

Q3 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 agree with the FRC that option (b) is the best option in successfully amending FRS 102 to incorporate an expected loss model, in relation to the impairment of financial assets.

Nonetheless, with regards to 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, we question the desirability of cross-referencing to full IFRSs from FRS 102. We believe that this has the potential to expose relatively small and resource-constrained companies to the sometimes considerable complexities of IFRSs, which increases the risk of error. This risk is compounded if relatively unsophisticated companies – for example, treasury companies in non-financial services groups – were required to refer to an IFRS that is very much written with sophisticated financial sector companies in mind.

Q4 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 note that the potential situation exists whereby an entity could elect to use IAS 39, even once it is no longer available as part of EU-adopted IFRS for accounting periods beginning before 1 January 2018. We note that removing the option from the date that IAS 39 ceases to exist in IFRS could result in a company that has taken that option potentially moving back to FRS 102 – an accounting policy it has already chosen to move away from – and continuing with the incurred loss model for a while longer. Alternatively, the company could move to the IFRS 9 requirements, thus accelerating the adoption of the expected loss model. With this in mind, we believe that the availability of IAS 39 under FRS 102 should reflect its availability under IFRS.

Q5 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 that it is premature to develop a suitable model for entities applying FRS 102. The FRC should wait until the Post-Implementation Review of this standard is complete before developing such a model. This would allow the FRC to properly assess whether the introduction of the requirements into FRS 102 will result in higher quality and proportionate reporting. In the meantime we encourage the FRC to carefully assess how IFRS 16 affects IFRS preparers and, in particular, if there are any practical implementation problems that follow. We believe that it would be prudent to then seek the views of lenders and investors before deciding on whether and how to bring the principles into FRS 102.

Q6 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?

We have no comments on these aspects of the consultation document.

Q7 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 believe that share-based payment accounting as set out in section 26 of FRS 102 is not relevant for private companies, as the fair value measures are too theoretical to provide useful information. We believe it would be more cost effective to simply require disclosure for equity settled share based payments.

Q8 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?

As we noted in Q2, we believe that the FRC should wait until post-implementation reviews are completed before considering the adoption of new standards. This would mean that the significant changes anticipated to be effective from 1 January 2022 should be delayed until 2025.

Q9 Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?

We do not have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review.

Q10 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.

At this stage, we do not have any comments on the costs and benefits likely to arise from the outline proposals in this consultation document regarding the impact assessments accompanying the FREDs arising from the triennial review.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	**Crowe Clark Whitehill LLP**
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
Jonathan Compton	BDO LLP
Amy Shepheard	Deloitte LLP
Neil Armstrong	Frontier Developments PLC
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Joseph Archer	PKF Littlejohn LLP
Andrew Westbrook	RSM
Donna Caira	Saffery Champness
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc