Association of Accounting Technicians response to the Financial Reporting Council (FRC) consultation document “Triennial review of UK and Ireland accounting standards”

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1 Introduction

1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the FRC consultation document "Triennial review of UK and Ireland accounting standards" published on 27 September 2016.

1.2. AAT is submitting this response on behalf of our membership and for the wider public benefit of ensuring that the financial reporting framework used in the UK and Ireland is fit for purpose, up to date, and results in decision-useful information in financial statements.

1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further and particularly focused on whether the proposals meet the above objectives and are proportionate.

1.4. In preparing this response AAT has considered the potential impact that the proposed changes would have on SMEs and micro-entities, many of which employ AAT members or would be represented by AAT's 4,200 licensed accountants.

2. Executive summary

2.1. Whilst AAT agrees that FRS 102 (Standard) should remain broadly comparable with IFRS, as this increases the comparability of UK financial statements with those prepared elsewhere in the world, AAT is concerned by the proposal to incorporate the requirements of IFRS 16, and some of the requirements of IFRS 9 and 15, in the Standard at this stage (3.7, below). None of these IFRSs are as yet effective for larger listed companies and therefore it is not yet possible for their practical effects to be known. Even with a delayed implementation date AAT believes that it is too early for the Standard to reflect these requirements. AAT believes that incorporating these standards into FRS 102 should be delayed until at least the next Triennial Review when the effect of adopting these IFRSs for larger companies will become clearer.

2.2. AAT believes that this Triennial Review should concentrate on 'bug fixing' rather than making such significant changes to recognition and measurement principles. FRS 102 has only recently come into effect for larger companies, and small companies are only required to apply it for accounting periods beginning on or after 1 January 2016. It is not the time for major changes when companies, particularly smaller ones, are still getting to grips with applying the Standard (including section 1A) as currently drafted.

2.3. Changes to the Standard need to result in decision-useful information in financial statements and the costs of such changes should not outweigh the benefits. AAT is not convinced that this is the case for many of the proposed changes, at least at the current time.

3. AAT response to the consultation document

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. Do you agree with the principles? If not, why not?

3.1. AAT agrees with the revised principles, although AAT is not convinced that some of the proposals in the consultation document necessarily fully reflect them. For instance the proposal to introduce the control model in IFRS 10, where for the reasons explained in paragraph 3.9 below AAT does not believe the benefit of the change will outweigh the costs of applying it.

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 about which IFRSs will be incorporated into FRS 102 as part of this triennial review? If not, please provide alternative suggestions.

3.2. AAT agrees that section 19 of FRS 102 should not be updated for greater consistency with IFRS although AAT is not convinced that the requirement to recognise intangible assets separately on a business combination necessarily results in decision-useful information, given that unlike IFRS, FRS 102 requires both goodwill and intangible assets to be amortised over their useful economic lives.

3.3. AAT agrees that FRS 102 does not need to be updated to reflect the disclosure requirements of IFRS 12.

3.4. However, as stated in section 2, AAT believes it is too early to incorporate the core principles of IFRS 9, IFRS 15 and IFRS 16 in FRS 102. None of these IFRSs are as yet effective and their practical impact is therefore not yet known. Implementation should be deferred until at least the next Triennial Review. These IFRSs should also be considered as a whole for inclusion in FRS 102, rather than 'cherry picking' certain aspects, as is proposed for IFRS 9 and IFRS 15.

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 3.12 sets out three options for how this may be achieved, with the FRC favouring option (b). Which option would you prefer and why?

3.5. AAT does not believe that an expected loss model should be incorporated in FRS 102 at this time. AAT understands the rationale for requiring certain types of financial institutions, e.g. banks and building societies, to account for impairment losses on the same basis but this could be done by mandating such entities to apply the relevant sections of IFRS 9 by way of cross reference. This should be restricted to banks and building societies rather than all entities currently defined as financial institutions. All other entities would continue to adopt the model currently set out in FRS 102, at least for the time being.

3.6. Applying IFRSs by cross reference already has a precedent as listed entities preparing their accounts under FRS 102 (e.g. those listed on ISDX[1]) apply the requirements for segmental and half year reporting by way of cross reference to IFRS.

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?

3.7. The option to choose IAS 39 should be retained until FRS 102 has been updated to reflect the requirements in IFRS 9, although as noted above AAT does not believe that these requirements should be applied 'across the board' at this stage.

[1] http://www.isdx.com/about-us/

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?

3.8. AAT does not believe that it is the right time to introduce the "right to use" asset model into FRS 102 for the reasons set out in 2.1 above.

Question 6: The FRC proposes to make changes to FRS 102 to incorporate the control model of IFRS 10. 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?

3.9. AAT does not agree that FRS 102 should be changed to incorporate the control model of IFRS 10. The changes would have no effect on the vast majority of entities so AAT believes the costs of the changes would outweigh the benefits. As noted elsewhere in this response AAT does not believe major changes should be made to the Standard at this time.

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.

3.10. AAT believes that the FRC should consider whether small companies should be exempt from the recognition and measurement requirements of section 26, as they have been exempt from the recognition and measurement requirements of FRS 20 under 'old' UK GAAP. After the UK has left the EU it may be possible to require disclosures of such arrangements to be made by small companies, which is not legally permissible at present. This would restore the treatment of such arrangements in place under the FRSSE, which AAT believes was a proportionate approach for small entities.

Question 8: Do you agree with the proposed effective dates arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?

3.11. AAT agrees with the effective date for incremental improvements and clarifications although early adoption should be permitted.

3.12. AAT does not agree with the effective date of more fundamental changes as AAT does not believe fundamental changes should be made at this time, for the reasons set out above.

Question 9: Do you have any other comments on the approach to the triennial review?

3.13. AAT does not have any further 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 and benefits

3.14. AAT does not believe it is possible to provide meaningful feedback at this stage other than that the costs of introducing significant changes to FRS 102 at this time would be likely to outweigh the benefits.

4. About AAT

4.1. AAT is a professional accountancy body with approximately 50,000 full and fellow members and 80,000 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 licensed accountants who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

4.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

5. Further information

If you have any questions or would like to discuss any of the points in more detail then please contact Aleem Islan, AAT Technical Consultation Manager, at:

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