THE INVESTMENT ASSOCIATION

Accounting and Reporting Policy team
Financial Reporting Council
125 London Wall
EC2Y 5AS

By email: ukfrsperiodicreview@frc.org.uk

28 April 2023

RE: Comments on FRED 82: Draft amendments to FRS 102

As the SORP-making body for the SORP for UK Authorised Funds, the Investment Association (IA) welcomes the opportunity to comment on the proposals in the Exposure Draft. Overall, we consider FRS 102 works well in the context of Authorised Funds and we support the FRC's general approach of applying IFRS-based solutions and deviating where better alternatives exist.

The specialised nature of Authorised Funds means that the main proposals and many of the other incremental changes are not relevant and our response to only selected questions reflects this. Nevertheless, we welcome the steps to align more closely with adopted IFRS in respect of fair value measurement and in dealing with uncertainty in accounting for income taxes. We would also welcome the opportunity to engage further to enhance risk disclosures for Authorised Funds by improving the coherence of regulatory and accounting requirements.

Yours sincerely

Mark Sherwin
Senior Adviser, Financial Reporting

Comments on FRED 82

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 46% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The IA is the recognised SORP-making body for the SORP for UK Authorised Funds and its application is mandated by the Financial Conduct Authority (FCA). UK Authorised Funds account for £1.4 trillion of the total managed by our members.

Question 1: Disclosure

Overall, we are supportive of the reduced disclosure burden in FRS 102 compared to adopted IFRS.

However, as we highlighted in our response to the FRC's request for views in 2021, we take the view that the accounts' risk disclosures can be of limited value and could be enhanced. Investors buying shares in an Authorised Fund are signing up to having their investment managed in accordance with a defined investment strategy within a specific risk profile. In doing so they are seeking future reward in the form of capital appreciation, investment income, or both. Information about the investment strategy and risk profile is key to making an informed judgement about the merits of investing in an Authorised Fund and is required by the FCA to be provided to potential investors before they commit. Any significant changes to the investment strategy or risk profile require the approval of the FCA and the approval of investors in the form of a special resolution. FCA also requires detailed procedures for measuring and managing exposure to risk and ensuring compliance with risk limits to be established and maintained.

We consider that for Authorised Funds the nature of risk and the requirements of users is different from companies with a general commercial or industrial purpose and should be appropriately framed in concert with the disclosures around investment performance (reward) within the manager's report, rather than being separated in the Financial Statement notes and following "boiler plate" disclosures which do not aid users.

We plan to work with relevant parties and develop proposals as we prepare to consult on amendments to the SORP to coincide with the finalisation of amendments to FRS 102 and we would welcome the opportunity to engage with FRC staff as part of this process to explore whether an appropriate limited and possibly conditional exemption for Authorised Funds to apply certain standardised risk disclosure requirements might be created.

Question 3: Fair value

We agree with the proposal to align the definition of fair value, and the guidance on fair value measurement, with that in IFRS 13.

In particular, we welcome the introduction of flexibility to use the price within the bid-ask spread that is most representative of fair value to measure the fair value of an asset or a liability. This aligns with IFRS 13 and will allow Authorised Funds to use mid-market prices – widely considered to be the most appropriate basis for open-ended vehicles, such as Authorised Funds, that perpetually issue and cancel shares at net asset value to satisfy investor demand.

We would note that the proposed drafting of paragraph 2A.17 conflates two separate matters and so is potentially ambiguous. Firstly, it deals with the selection of the most appropriate fair value from a range of values where multiple valuation techniques are used. Secondly, in the final sentence, it deals with the selection of the most representative price within the bid-ask spread as the input to a single valuation technique consistent with the market approach. We would suggest that greater clarity could be achieved by splitting these two matters across separate paragraphs and in the latter incorporating paragraphs 70 and 71 of IFRS 13 in their entirety.

We do not have a view on the consequential amendment to Section 26.

Question 8: Effective date and transitional provisions

We agree with the proposed effective date of 1 January 2025 provided the final amendments are issued by the end of 2023. We do not have a view on the various transitional provisions.

Question 9: Other comments

We welcome the proposed amendments to Section 29 dealing with uncertainty in accounting for income taxes.

As part of our review of the implications of the proposed amendments, we noticed what we consider to be an inadvertent omission when amendments were made in December 2017 to widen the criteria for classifying debt instruments as basic with the addition of paragraph 11.8(bA). At the time, no consequential amendment was made to the fair value through profit or loss option granted in 11.14(b). To ensure the fair value option is available to all debt instruments, a reference to paragraph 11.8(bA) should be added to paragraph 11.14(b).