Consultation Document
The Financial Reporting Council's
Corporate Reporting Research Activities

response to consultation

30 March 2017

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's portfolio of qualifications are the foundation for a career in public finance. They include the benchmark professional qualification for public sector accountants as well as a postgraduate diploma for people already working in leadership positions. They are taught by our in-house CIPFA Education and Training Centre as well as other places of learning around the world.

We also champion high performance in public services, translating our experience and insight into clear advice and practical services. They include information and guidance, courses and conferences, property and asset management solutions, consultancy and interim people for a range of public sector clients.

Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance. We work with donors, partner governments, accountancy bodies and the public sector around the world to advance public finance and support better public services.

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Submitted electronically to
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Dear Andrew

Consultation Document
The Financial Reporting Council's Corporate Reporting Research Activities

CIPFA is pleased to comment on the FRC's consultation on its corporate reporting research activities, which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

The FRC has a long history of high quality conceptual development of financial reporting, pursued through a combination of stakeholder consultation and well-conceived research. Much of this was progressed through the former Accounting Standards Board (ASB). This included work in areas such as reporting on heritage assets and other considerations for public sector and not for profit reporting which are of great interest to CIPFA.

Initially framed for the purposes of UK GAAP, the work carried out by the ASB also contributed to IASB development of its conceptual framework and IFRS, and to the public sector focused work of the International Public Sector Accounting Standards Board. While the major body of ASB pronouncements has been largely superseded with the adoption of EU-IFRS, this work is embedded in the remaining framework within FRS 102, including the special considerations for public benefit entities. As the consultation document explains, a key purpose of ongoing research is to assist and influence the development of improved IFRS standards.

Given CIPFA's primary focus is on public sector and not-for-profit reporting, we have focused our attention on question 2 in the consultation document, which sets out four potential projects: variable and contingent consideration; defined benefit pension schemes; non-exchange transactions; and intangible assets. It then asks

- Which, if any, of these potential projects do you think the FRC should undertake? In your view, what are the relative priorities?
- Are there other topics that you believe the FRC should undertake with a view to influencing the International Accounting Standards Board (IASB)?

In relation to the first part of question 2, CIPFA agrees that work each of these topics would have value. However, we would particularly support work on non-exchange transactions.

As noted in the consultation document, the current FRS 102 approach to government grants was accepted as an interim measure, and the basis for conclusions set out the expectation that this would be addressed in a research project. This situation arose as a result of a general policy of allowing 'old UK GAAP' treatments to be retained in FRS 102 where they were consistent with IFRS. This was practical, because it allowed existing practices to be continued with relatively little change, and it also reflected a general view that where recently developed UK GAAP and IFRS standards were aligned, they were both of high quality. However, neither SSAP 4 *Government Grants* nor IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* are recently developed. Nor are they particularly well regarded from a conceptual point of view. The ASB cast doubt on the approach in SSAP 4 during the drafting of its *Statement of Principles for Financial Reporting* and particularly when developing the *Interpretation for Public Benefit Entities*. In similar vein, the IASB identified that IAS 20 is not consistent with the board's approach to standard setting in recent years; an IAS 20 revision project was put into the IASB work plan, but has been put on hold because other issues have been accorded higher priority.

Against this background, we suggest that both UK GAAP FRS 102 and the international standard IAS 20 are in need of improvement, and FRC work in this area could be very beneficial.

As noted in the consultation document, the International Public Sector Accounting Standards Board is also reviewing this topic, and the FRC would consider this initiative (and those of other standard setters). We agree that this is the right approach: it makes sense not to unnecessarily duplicate the work of others. Even if the IPSASB work covers all of the relevant issues, additional work or interpretation may be needed to extend it to the wider context of non-public sector grant recipients, whether they are profit seeking companies or non-profit public benefit entities.

On the second part of question 2, while we do not have proposals for a major project affecting all sectors, we do wonder if further work is required to facilitate the consistent and comparable treatment of assets subject to service potential that are held by the public benefit entity (PBE) sector.

Service potential is particularly important for public benefit entities. Charities, social housing providers and the education sector routinely engage in service-focused non-exchange transactions as a default, rather than engaging in profit seeking endeavour. However, the description of service potential in FRS 102 does not translate very well to the not-for-profit context.

The glossary at Appendix 1 of FRS 102 defines service potential as follows:

The economic utility of an asset, based on the total benefit expected to be derived by the entity from use (and/or through sale) of the asset.

This is relatively easy to interpret for assets principally held for generating cash-flows, but less so for e.g. charities providing shelter to homeless persons, or preserving natural habitats.

FRS 102 does recognise that a cash-flow driven approach to valuation may not be appropriate for assets held for service potential. FRS 102 27.20A cites depreciated replacement cost as a possible alternative approach, and also indicates that other bases may be appropriate. However, except for general material on pervasive principles and on selection of accounting policies, FRS 102 does not provide preparers with any guidance on how they can determine which measurement bases might be appropriate, and how they might choose which to apply. It would be very helpful if the FRC were able to carry out research which identified a principled approach to these issues.

I hope this is a helpful contribution to FRC's work in this area. If you have any questions about this response, please contact Steven Cain
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Yours sincerely

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