



Hans Nailor  
Accounting Standards Board  
Holborn Hall  
100 Gray's Inn Road  
London  
WC1X 8AL

Woodfield House  
Tangier  
Taunton  
Somerset TA1 4BL

Direct Line: 01823 345096  
Fax: 01823 345430  
General Enquiries: 0870 3330123 (Voice)  
0870 3330125 (Minicom)

Email:

Your Ref: fred29@asb.org.uk  
Our Ref: RTJ/Policy (T) -fred29

Date: 11 September 2002

Dear Hans,

### **FRED 29 (i) Property, plant and equipment (ii) Borrowing costs**

We concur that IAS 16 and FRS 15 have much in common in terms of their scope and principles for initial measurement, valuation and depreciation of tangible fixed assets.

A number of issues do however arise in the context of the charities sector that warrants particular consideration.

As identified in the exposure draft, the proposals are silent on the question of initial measurement of donated assets. The existing standard (FRS 15) is explicit in its requirement for donated tangible fixed assets to be carried at their current value on the date they are received. This accounting treatment is echoed in the Charities SORP and is standard sector practice.

The inclusion of all charity assets in their financial statements at fair value has been a long struggle and we are concerned that the technical underpinning of this work may be lost if the issue is not specifically addressed by the new standard. From the context provided in the preface to the exposure draft, it would appear that ASB have the discretion to modify an international standard for UK purposes. We believe that consideration therefore should be given to the inclusion of a short paragraph to address the issue of initial valuation of donated assets.

Revaluation of tangible fixed assets, whilst not the usual sector practice, is a policy adopted by some charities and the Charities SORP allows some flexibility in valuation approaches where such a policy is adopted. Some charities that currently revalue using EUV may be reluctant to adopt OMY policies for reasons well explained in the preface to the exposure draft. Also a number of charities adopted revaluation policies under FRS 15 without fully appreciating the requirement for ongoing valuations under the standard. Transitional arrangements that allow entities that chose not to adopt revaluation policies under the new standard to continue carrying tangible fixed assets at a previous valuation would be welcomed. These transitional arrangements should apply both to entities that did not adopt revaluation policies under FRS 15 and to those that choose not to adopt

revaluation with the introduction of the new standard. This would give charities an opportunity to review current valuation policies before “locking into” a requirement for on-going valuations under a new standard.

We attach a schedule that sets out our responses to the particular questions raised in the exposure draft.

Yours Sincerely  
Raymond Jones

Raymond Jones  
Policy Accountant

**Responses to Exposure Draft 29  
Property, Plant and Equipment (IAS 16)  
Borrowing Costs (IAS 23)**

Reference	Issue	Response
ASB(i)	Do you agree to the proposal to issue new UK standards on property, plant and equipment and borrowing costs when IASB issues the revised IAS 16, unless further changes to the international standard become clear as the result of the revaluation project.	It would be prudent not to issue a new standard until the IASB review of IAS 16 and the outcome of the revaluation project is known with reasonable certainty. (Also see response to ASB (viii) – below).
ASB (ii)	Should residual values used for calculation of depreciation be reviewed annually or at acquisition or revaluation.	Residual values should generally only be reviewed on acquisition or revaluation of tangible fixed assets. To review annually will create additional expense and will only be relevant where residual values are material to annual depreciation. We would therefore prefer to see the need for annual review limited to those assets that have material residual values as under the current standard.
ASB (iii)	Should the new standard allow for renewals accounting for depreciation.	We do not generally encounter such depreciation policies being adopted within the charities sector. We are therefore in context with the new standard being silent on this issue.
ASB (iv)	Views on approaches to revaluations: OMV (open market value)- EUV (existing use value) – DRC (depreciated replacement cost).	<p>Whilst the IAS has the attraction of simplicity in its heavy weighting for the use of OMV, we recognise the potential anomalies this approach may create e.g. development potential of land included in valuations or write-downs of specially adapted property despite the value of such additions for existing use.</p> <p>There may therefore be reluctance in parts of the charities sector to use open market values for functional property as this will not reflect the current usage and may create the type of anomaly identified above.</p> <p>There is also significant use of DRC within the charities sector (hospitals, nursing homes, libraries, schools etc.). It will be important that current RICS guidance given within in FRS 15 continues to provide the yardstick as to when DRC approaches are appropriate.</p>
ASB (v)	Any other differences between the two standards you wish to comment on.	No other issues identified.
ASB (vi)	Transitional arrangements for insurance companies.	No comments.

**Responses to Exposure Draft 29**  
**Property, Plant and Equipment (IAS 16)**  
**Borrowing Costs (IAS 23)**

ASB (vii)	Do you believe that a transitional arrangement should be included in the new UK standard to allow entities that adopted FRS15's transitional arrangements to continue to recognise the carrying amounts under that arrangement.	<p>This exemption would be extremely helpful. The FRS 15 transitional arrangement helped many charities that had revalued as a one – off exercise in the past and did not wish to adopt a policy of on-going revaluation. We therefore feel that the introduction of such an exemption is very important to the sector.</p> <p>Indeed in the context of a move to OMV, it would be appropriate to offer this exemption again to charity's moving to the new standard (not wishing to adopt this policy) but having previously adopted a policy for EUV revaluations under FRS 15.</p> <p>A significant number of charities may also have moved to revaluation approaches under FRS 15 not fully appreciating the on-going valuation requirements. An option to reconsider whether a revaluation policy is still appropriate in the context a move to a new standard is therefore also desirable.</p>
ASB (viii)	Need for other transitional arrangements.	<p>Yes, as mentioned above a move to OMV property values may be inappropriate for some charities. An exemption similar to that granted on the introduction of FRS 15 would be helpful in allowing entities to treat past revaluations as though they were historic costs and not requiring ongoing revaluations in the future.</p> <p>There may also be merit in considering allowing the application of either standard up to 2005. This could allow reporting entities to make a single switch from current UK standards to the proposed new standards rather than a piece-meal transition.</p>
ASB (ix)	Are there any other aspects of IAS 16 that should be reviewed by IASB.	No other issues identified.
ASB (x)	Should capitalisation of borrowing costs be optional? If a choice were mandatory capitalisation or prohibition of capitalisation which would you support.	Within the charities sector there will be a tendency to expense interest costs. We have no difficulties with optional treatment continuing to be allowed.
ASB (xi)	Can foreign exchange differences be regarded as borrowing costs.	It is rare in our experience for charities to enter into foreign exchange loans to fund tangible fixed assets. We can see logic to the international standards approach to this issue as any decision to take a foreign exchange loan will be a factor of both the rate of interest and an assessment of currency movements. However, we have no difficulties in ASB excluding foreign exchange movements from borrowing costs.

**Responses to Exposure Draft 29**  
**Property, Plant and Equipment (IAS 16)**  
**Borrowing Costs (IAS 23)**

ASB (xii)	Any specific issues to be brought to IASB's attention.	None
IASB (i)	Do you agree that exchange transactions involving property, plant and equipment should be measured at fair value except where fair value of neither exchange assets can be determined reliably.	We concur with this approach.
IASB (ii)	Do you agree that exchange transactions involving intangible assets should be measured at fair value except where fair value of neither exchange assets can be determined reliably.	We concur with this approach.
IASB (iii)	Do you agree that depreciation should apply to temporarily idle or retired assets held for disposal.	We can accept the approach proposed as being pragmatic. Argument could be made that depreciation of idle assets is only relevant where despite the retirement there is still a reduction in the economic life of the asset. Also retired assets pending sale perhaps should in theory be regarded as current assets and written down to net realisable value and depreciation ceased.

Woodfield House  
Tangier  
Taunton  
Somerset TA1 4BL

Direct Line: 01823 345096  
Fax: 01823 345430  
General Enquiries: 0870 3330123 (Voice)  
0870 3330125 (Minicom)

Email:

Your Ref: fred 25  
Our Ref: RTJ/Policy (T)/ED 25

Date: 27 August 2002

Hans Nailor  
Accounting Standards Board  
Holburn Hall  
100 Gray's Inn Road  
London  
WC1X 8AL

*Dear Hans,*

#### **Related Party Disclosures - FRED 25 Consultation**

FRS 8 has been a key standard in charity reporting and has contributed significantly to the sector's accountability and transparency. Transactions with related parties (other than at arms length with subsidiaries) are not regarded as normal or usual in the context of charities. In particular transactions that give rise to a benefit to a charity trustee (a director in company's terminology) require either constitutional authority or in England and Wales an order by the Charity Commission.

In this context the guidance provided by FRS 8 on transactions undertaken directly or indirectly with individuals accountable for stewardship (e.g. trustees) has been particularly valuable. In the context of charities such information may significantly influence the decisions of users of financial statements such as donors. We therefore have particular concerns that this issue of materiality is not addressed in the exposure draft. We fear that without specific guidance that significant transactions with trustees and persons connected with them will fall out of disclosure as being immaterial in the context of the reporting entity or group whilst being significant to the recipient. With current pressures on enhanced disclosure, accountability and transparency we believe this could be seen as a retrograde step and poorly timed.

We also note that FRS 8 deals more comprehensively with the notion of influence and related party status. From the sector viewpoint relationships that might exist which inhibit a charity from pursuing its own independent interest are particularly relevant. Any decision to enter into a transaction ought to be influenced only by the consideration of the charity's own interests. Currently paragraph 2.5 (a) of FRS 8 addresses this point well. Similarly, the concept of two parties being influenced from the same sources and hence being related appears to have been lost. We feel that these considerations could be introduced explicitly into paragraph 5 or 6 of the exposure draft and to some extent built into the definition of "significant interest" provided in paragraph 9.

We also consider that IASB should give wider consideration to the disclosure of "management compensation." The term is loose and undefined at present and one can imagine a variety of

transactions being treated as part of management compensation and therefore exempt from disclosure. IASB should in our view be encouraged to consider the exact reasons for the regarding “management compensation” as being exempted from the standard. Users of financial statements are undoubtedly influenced by compensation packages awarded to key management and on occasion such information is relevant to the assessment of governance and risks of aggressive earnings management. The only justification that we can see for the exemption (apart from sensitivities) is that such disclosures are also required under company law. We therefore believe this matter and the reasons for the exemption should be re-considered.

Our responses to the specific questions raised with the Exposure Draft are set out in the attached schedule.

Yours Sincerely

Raymond Jones

Raymond Jones  
Policy Accountant

**Related Party Disclosures**  
**Exposure Draft 25**

Reference	Issue	Response
ASB (i)	Do you agree with the proposal to issue a new standard in the UK on related party disclosures, once the new IAS 24 is approved.	<p>In the context of the Charities Sector we see little advantage to the proposal other than in the context the wider agenda of aligning UK and international standards. FRS 8 appears to be broadly consistent with the requirements of IAS 24 already and much of the more detailed analysis and explanation provided by the UK standard will be missed. It could be argued that FRS 8 creates in substance the same disclosure requirements as the international standard without its revision. (except perhaps in the interpretation of materiality).</p> <p>However, in so far as the two standards are compatible, we believe it is primarily a matter for the ASB to consider the need and merits for the adoption of the text of the international standard.</p>
ASB (ii)	Do you believe that the ASB should consider any transitional arrangements.	<p>The disclosure requirements of the Exposure Draft are not considered significantly different to FRS 8. We would not therefore anticipate a particular need for a significant transitional period.</p> <p>There may however be merit in considering allowing the application of either standard up to 2005. This could allow reporting entities to make a single switch from current UK standards to the new standards proposed rather than a piece-meal transition.</p>
ASB (iii)	Should disclosure of the name of the controlling party and, if different, that of the ultimate controlling party – should the UK standard require such disclosure even if not required by IAS 24.	Yes. We concur with the reasons put forward in paragraph 13B of the exposure draft.
ASB (iv)	Should the standard require disclosure of the names of the transacting related party.	<p>An understanding of the relationship between the parties, amounts, and nature of the transaction are essential to users of the accounts. The names of the parties involved are not perhaps as essential to this understanding.</p> <p>However, we recognise that there may be stakeholder interest in transactions that involve directors (trustees in charities) or their close family members or with entities controlled by them. This information may be relevant to stakeholders and users of accounts in assessing the governance practices of an entity and as such may be relevant to their overall assessment of an entity including risk.</p> <p>On balance therefore we believe that the standard should disclose the names of transacting related parties.</p>



**Related Party Disclosures**  
**Exposure Draft 25**

ASB (v)	Should the definition of related parties specifically refer to shadow directors and persons acting in concert.	Yes, we believe that specific reference to shadow directors is desirable in order to remove any ambiguity as to their related party status. Whilst such relationships may already fall within the "significant influence" categories or be seen as "management personnel" we consider it to be desirable to remove any lingering ambiguity. The concept of persons acting in concert to exercise control or influence over a charity is only encountered on rare occasions and in the charity context is seen primarily as a governance issue. In our experience transactions by a charity with such persons is unlikely. In practical terms forming a view as to whether persons are actually acting in concert to influence an entity is extremely problematic. We therefore have no particular concerns should the standard not refer specifically to persons acting in concert as being a related party.
ASB (vi)	Should the standard specify that disclosure is required of material transactions and give more guidance on materiality.	In the context of the charities sector transactions with related parties (other than subsidiaries) are not a normal feature of activities. Such transactions often either require constitutional authority or an order made by the Charity Commission (e.g. - if a trustee or connected person benefits from the transaction or arrangement). In this context the interpretation of materiality may not be the same as for general commercial entities where the standard suggests that related party relationship may be a normal feature of commerce. FRS 8 was particularly helpful in this respect in that significant transactions with trustees/related parties was defined not only in terms of the reporting entity but also in the context of the other related party. We would therefore favour the inclusion of a paragraph 20 of FRS 8
ASB(vii)	Are there other aspects of the draft standard that IASB should be requested to review.	No other specific areas identified where review by IASB is necessary.
IASB (i)	Do you agree that the standard should not require disclosure of management compensation, expense allowances similar items.	Remuneration and other payments made to management are clearly transactions over which the management of an entity has considerable influence if not control. There may be arguments to say that standards based disclosures are unnecessary due to existing legislative requirements for such disclosures. However, standards do not appear to take a general line of not addressing issues already provided for by legislation or regulation. We consider the exemption given to the disclosure of management compensation is difficult to justify.

**Related Party Disclosures**  
**Exposure Draft 25**

IASB (ii)	Do you agree that the standard should not require disclosure of related party transactions and outstanding balances in separate financial statements of a parent or a wholly-owned subsidiary that are made available or published with consolidated financial statements to which that entity belongs.	<p>In the context of commercial groups we concur with this exemption. Users of accounts are primarily concerned with the potential impact on group results.</p> <p>In the context of the charitable sector certain concerns do arise as transactions between a charitable entity and its subsidiaries could allow for undisclosed subsidy arrangements or in the provision for debt due from non-charitable subsidiaries which may not be readily apparent in the consolidated accounts.</p> <p>We therefore concur with the standard in the context of commercial entities provided the Charities SORP is allowed sufficient flexibility to address additional disclosure needs that may apply to the sector.</p>
-----------	---	--