Financial Reporting Council

Dr Andreas Barckow
Chair
International Accounting Standards Board
IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD

1 March 2023

Dear Andreas,

I am writing on behalf of the UK's Financial Reporting Council (FRC) to comment on the Exposure Draft ED/2022/1 *Third edition of the IFRS for SMEs Accounting Standard*.

The FRC is responsible for setting UK and Ireland accounting standards, and we are also the UK regulator responsible for ensuring that the provision of financial information by public and large private companies complies with relevant reporting requirements. The adoption of any IFRS Accounting Standard is the responsibility of the independent UK Endorsement Board (UKEB).

Our response draws on the FRC's experience in developing UK and Ireland accounting standards, in particular FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, which as you may know were based on the *IFRS for SMEs* Accounting Standard, and for which we have also recently published an Exposure Draft (FRED 82) proposing significant updates.

We have provided responses to the consultation questions in the Appendix to this letter. If you have any queries, or would like to discuss our comments in more detail, please do not hesitate to contact either Stephen Maloney (Senior Project Director, Accounting and Reporting Policy) or Merrik Bousfield (Project Director, Accounting and Reporting Policy) at ukfrs@frc.org.uk.

Yours Ever,

Mark

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Appendix

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<tr><td>Question 1 – Definition of public accountability</td></tr>
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Respondents to the Exposure Draft Subsidiaries without Public Accountability: Disclosures, published in July 2021, expressed some concerns about applying the definition of public accountability. The description of ‘public accountability’ in the Exposure Draft Subsidiaries without Public Accountability: Disclosures comprises the definition and supporting guidance in paragraphs 1.3–1.4 of the IFRS for SMEs Accounting Standard (Standard).
In response to this feedback, the IASB is proposing to amend paragraph 1.3(b) to list banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks as examples of entities that often meet the second criterion of public accountability in paragraph 1.3(b). To assist an understanding of the basis for the definition of public accountability, the IASB is also proposing to clarify that an entity with these characteristics would usually have public accountability:
(a) there is both a high degree of outside interest in the entity and a broad group of users of the entity’s financial statements (existing and potential investors, lenders and other creditors) who have a direct financial interest in or substantial claim against the entity.
(b) the users in (a) depend primarily on external financial reporting as their means of obtaining financial information about the entity. These users need financial information about the entity but lack the power to demand the information for themselves.
Paragraphs BC11–BC19 of the Basis for Conclusions on this Exposure Draft explain the IASB’s rationale for clarifying the definition of public accountability in Section 1. The IASB expects that the amendments to paragraphs 1.3 and 1.3A of Section 1 will add clarity, without changing the intended scope of the Standard.
(i) Do you agree that the amendments will add clarity without changing the intended scope of the Standard? If you do not agree, which types of entities do you believe would be newly scoped in or scoped out?
(ii) Do you agree with the proposal to clarify the definition of public accountability? If you do not agree with the proposal, please explain what you suggest instead and why.
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A1. We agree that the changes to paragraph 1.3 will add clarity without changing the intended scope of the *IFRS for SMEs* Accounting Standard (‘the Standard’). On first reading, a reader might perceive the proposed change to paragraph 1.3 (from ‘most...would meet’ to ‘for example...often meet’) as indicating that a smaller proportion of these example entities have public accountability. However, the criteria themselves are unchanged, the assessment of the criteria is entity-specific, and so the changes should not change the conclusion for any given entity.

A2. We do not agree that, as written, the addition of paragraph 1.3A will help clarify the definition of public accountability. The definition of public accountability is already clearly stated in paragraph 1.3; we think that a user reading paragraph 1.3A could interpret it as an alternative to paragraph 1.3 that expands the definition of public accountability, since it is conceivable that an entity could have 'a high degree of outside interest' and a 'broad group of users' (for example, respectively, a significant trading relationship or a significant number of employees) whilst not meeting the criteria stated in paragraph 1.3.

A3. In addition, the link between paragraphs 1.3 and 1.3A is unclear. Paragraph BC17 of the Basis for Conclusions suggests that paragraph 1.3A is intended to clarify why the criterion in paragraph 1.3(b) is indicative of public accountability (although it is not obvious to us that the characteristics in paragraph 1.3A are not relevant to the criterion in paragraph 1.3(a) as well). However, as drafted, paragraph 1.3A presents characteristics which are usually correlated with public accountability but without a clear link being drawn to the criteria in paragraph 1.3. We therefore believe it would be better to remove the proposed paragraph 1.3A.

A4. Slightly different wording may be appropriate if the IASB's intention is to convey that entities meeting the criteria in paragraph 1.3 would typically have the characteristics in paragraph 1.3A, rather than that entities having the characteristics in paragraph 1.3A would typically meet the criteria in paragraph 1.3.

Question 2 – Revised Section 2 *Concepts and Pervasive Principles*
The IASB in its Request for Information asked for views on aligning Section *2 Concepts and Pervasive Principles* with the *Conceptual Framework for Financial Reporting*, issued in 2018. In the Request for Information, the IASB noted that the 1989 *Framework for the Preparation and Presentation of Financial Statements* (1989 *Framework*) had provided the foundations of the Standard. Based on feedback on the Request for Information, the IASB is proposing to revise Section 2 to align it with the 2018 *Conceptual Framework for Financial Reporting*. The IASB is proposing that Section 18 *Intangible Assets other than Goodwill* and Section 21 *Provisions and Contingencies* continue to use the definitions of an asset and of a liability from the previous version of Section 2, which was based on the 1989 *Framework*, to avoid unintended consequences arising from revising the definitions of an asset and of a liability. Paragraphs BC38–BC51 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for the revisions proposed for Section 2. (i) Do you have comments or suggestions on the revised Section 2? Please explain the reasons for your suggestions. (ii) Do you agree that Section 18 and Section 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2 (based on the 1989 Framework)?

In response to question 2(i):

A5. We agree that updating Section 2 to align to the 2018 *Conceptual Framework* is the correct approach. However, whilst it is shorter than the 2018 *Conceptual Framework*, the proposed Section 2 still contains some paragraphs that we believe are unnecessary in the context of the Standard.

A6. Most of the paragraphs in this category appear to us to be out of place in an accounting standard because they discuss the background and theoretical basis that underpins the framework. They have a place in the *Conceptual Framework*, since that is not an accounting standard and serves a different purpose, and these paragraphs form useful background information for that document. However, accounting standards typically do not contain such content as it is not relevant to understanding the requirements of a standard; our view therefore is that they do not need to be included in the Standard itself.

A7. For example:

(a) Paragraph 2.19 *Applying the fundamental qualitative characteristics* provides useful background on how the section on fundamental characteristics has been constructed, but it is not necessary to understand the requirements of the Standard.

(b) Paragraphs 2.93 to 2.99 *Information provided by particular measurement bases* provide background for the overall *Measurement bases* section, but are not necessary to understand the requirements, and also repeat some of the content of the other paragraphs in this section.

A8. Additionally, we think there are a number of paragraphs that unnecessarily repeat the content of other nearby paragraphs and could easily be removed. For example:

(a) Paragraph 2.7 duplicates paragraph 2.4(b)

(b) Paragraphs 2.52 and 2.56 duplicate paragraphs 2.50(b) and 2.50(c)

(c) Paragraph 2.102 mostly duplicates paragraph 2.9 (in repeating again what 'useful' means).

A9. We have also proposed to align Section 2 of both FRS 102 and FRS 105 to the 2018 *Conceptual Framework* as part of the proposals contained within our recently published exposure draft FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs*[1]. We have not included the paragraphs described in paragraphs A6 and A7 in our proposals.

A10. In FRED 82, we have added a number of paragraphs to make certain clarifications, some of which the IASB could also consider including in Section 2 of the Standard. For example:

(a) In the *Scope* section we have added a paragraph to clarify that Section 2 should be utilised when developing an accounting policy for a transaction, event or condition not specifically addressed by the Standard already.

(b) In the sub-section on materiality, we have included much of the text from the updates to IAS 1 paragraph 7 published in October 2018. In our view this update is as relevant to users of FRS 102, FRS 105 and the *IFRS for SMEs* Accounting Standard as it is to users of full IFRS Accounting Standards.

(c) We have retained, as proposed paragraph 2.61, the text of extant paragraph 2.45 of both FRS 102 and the *IFRS for SMEs* Accounting Standard, which sets out the general principle that the 'matching concept' for measuring profit or loss does not override the recognition requirements for assets and liabilities. We believe this is an important component in ensuring preparers do not revert to the matching concept (or any other similar concepts) either out of habit or in order to circumvent the requirements of these standards.

[1] https://www.frc.org.uk/consultation-list/2022/fred-82

(d) We have retained, as proposed paragraphs 2.107 to 2.109, the text of extant paragraph 2.52 of both FRS 102 and the *IFRS for SMEs* Accounting Standard, on offsetting. In our view, the omission of this text from the proposals weakens the prohibition against inappropriate offsetting, and it must be included within the Standard.

A11. Drafting comments:

(a) Consider relocating the footnote to paragraph 2.5 in the Glossary.

(b) Consider changing 'aims' in paragraph 2.80 to 'aim' to be consistent with the reference to paragraph 2.78.

(c) It is unclear to which criteria the phrase 'those criteria' in paragraph 2.70 is referring – is it the recognition criteria in the relevant section, or is it the discussion in 2.69, or something else in this section on 'Recognition Criteria'?

In response to question 2(ii):

A12. We agree that Sections 18 and 21 should continue to use the definition of an asset and of a liability from the previous version of Section 2. For FRED 82 we have taken the same approach and proposed similar changes to FRS 102 (and also to Sections 13 and 16 of FRS 105, which correspond to Sections 18 and 21 of FRS 102).

Question 3 – Proposed amendments to the definition of control in Section 9 *Consolidated and Separate Financial Statements*
The IASB in its Request for Information asked for views on aligning the definition of control in Section 9 *Consolidated and Separate Financial Statements* with the definition in IFRS 10 *Consolidated Financial Statements* and using that definition as the single basis for consolidation (control model) to facilitate greater consistency between financial statements prepared applying the Standard. Respondents to the Request for Information were in favour of the alignment, and the IASB is proposing amendments to align Section 9 with IFRS 10, introducing control as the single basis for consolidation that applies to all entities. The IASB is proposing to retain the rebuttable presumption that control exists when an investor owns more than a majority of the voting rights of an investee. The rebuttable presumption is a simplification of the control model. Paragraphs BC52–BC62 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for aligning the definition of 'control' in Section 9 with IFRS 10 and introducing a control model as the single basis for consolidation. Do you agree with the IASB's proposal to retain the rebuttable presumption as a simplification of the definition of control? If not, please explain why you do not agree with this simplification

A13. As we indicated in our response[2] to the *Request for Information: Comprehensive Review of the IFRS for SMEs Standard*[3] ('RFI Response'), we support retaining this simplification. As also stated in our Response, we believe the 'indicators of control' listed in paragraph 9.5 provide a simplification for preparers which is in keeping with the purpose of the standard, and their proposed removal might significantly complicate the assessment of control without offering any benefits.

Other comments on the proposed amendments to Section 9:

A14. We do not understand why, in paragraph 9.17, 'member of the group' has been changed to 'subsidiary', since it is not clear why a parent would be excluded from the scope of this paragraph.

[2] https://ifrs-springapps-comment-letter-api-1.azuremicroservices.io/v2/download-file?path=557_27007_EastonBilsboroughFinancialReportingCouncilFRC_0_20201021FRCresponseto2ndComprehensiveReviewoftheIFRSforSMEsStandardRfI.pdf

[3] https://www.ifrs.org/projects/work-plan/2019-comprehensive-review-of-the-ifrs-for-smes-standard/

Question 4 – Proposed amendments to impairment of financial assets in Section *11 Basic Financial Instruments* (renamed *Financial Instruments*)
The IASB in its Request for Information asked for views on replacing the incurred loss model for the impairment of financial assets in Section 11 *Basic Financial Instruments* with an expected credit loss model aligned with the simplified approach in IFRS 9 *Financial Instruments*. Feedback suggested that the simplified approach in IFRS 9 would be complex for SMEs to apply and would not result in substantial changes in the amount of impairment for the types of financial assets held by typical SMEs, namely short-term trade receivables. The IASB anticipates that an expected credit loss model would provide relevant information for users of financial statements when SMEs hold longer-term financial assets. Consequently, the IASB is proposing to: (a) retain the incurred loss model for trade receivables and contract assets in the scope of the revised Section 23 *Revenue from Contracts with Customers*; (b) require an expected credit loss model for all other financial assets measured at amortised cost, aligned with the simplified approach in IFRS 9; and (c) retain the requirements in Section 11 for impairment of equity instruments measured at cost. Paragraphs BC72–BC80 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for introducing an expected credit loss model for only some financial assets (i) Do you agree with the proposal to introduce an expected credit loss model for only some financial assets? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. (ii) Do you agree that the proposal strikes the right balance in deciding which financial assets should be in the scope of the expected credit loss model, considering the costs for SMEs and benefits for users of SMEs' financial statements?

In response to question 4(i):

A16. We believe that, if applied in a proportionate manner, it is appropriate to consider introducing the use of forward-looking information in the measurement of financial asset impairment. We understand from its previous deliberations that the IASB Board prefers either to retain in the *IFRS for SMEs* Accounting Standard the existing incurred loss model, or to adopt the expected credit loss (ECL) model from IFRS 9, rather than introducing a third model (based, for example, on management's best estimates).

A17. However, we do not agree with the proposal to introduce the ECL model only for some financial assets.

A18. The FRC intends to defer its conclusion as to whether to align FRS 102 with the ECL model pending the issue of the third edition of the *IFRS for SMEs* Accounting Standard. However, the FRC's preliminary view is that, in the context of FRS 102, it may be appropriate to require certain entities to apply an ECL model to all their financial assets measured at amortised cost, whilst allowing other entities to retain the incurred loss model. This preliminary view is based in part on the wide scope of FRS 102, which is applied by large corporate entities and financial institutions as well as by small and medium-sized entities. The FRC's preliminary view is that it may be appropriate to define the scope of which entities should apply an ECL model based on an entity's activities (such as entering into regulated or unregulated credit agreements as lender, or finance leases as lessor), or on whether the entity meets the definition of a public interest entity (a test which is not synonymous with the IASB's definition of public accountability).

A19. The proposals in ED/2022/1 would require many entities, which have both trade receivables and contract assets, and other financial assets measured at cost or amortised cost, to apply two different impairment models to their financial assets. In our view the need to apply two different models may be onerous for some preparers.

In response to question 4(ii):

A20. We recommend that the IASB considers whether or not intragroup receivables should be in scope of the ECL model. We have heard a range of stakeholder views indicating that for entities applying IFRS 9, applying ECL to such receivables has been onerous and that the benefits may not outweigh the costs. Such balances are common amongst all sizes of entities that are part of groups. One possibility could be to require the ECL model to be applied only to certain intragroup receivables, determined according to the strength of the counterparty's balance sheet.

Question 5 – Proposal for a new Section 12 *Fair Value Measurement*
The IASB in its Request for Information asked for views on aligning the Standard with IFRS 13 *Fair Value Measurement* and introducing illustrative examples into the Standard. This alignment would not amend the requirements for when to use fair value measurement. Respondents to the Request for Information favoured aligning the Standard with the definition of fair value in IFRS 13 to provide clarity and enhance comparability between financial statements prepared applying the Standard. The IASB is proposing that the requirements on measuring fair value and related disclosure requirements be consolidated in a new Section 12 *Fair Value Measurement*. Paragraphs BC108–BC118 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. Do you have comments or suggestions on the new Section 12? Please explain the reasons for your suggestions.

A21. As we wrote in our RFI Response, we support aligning the definition of fair value with that in IFRS 13 *Fair Value Measurement* and providing additional guidance derived from IFRS 13, as consistency reduces the possibility of confusion amongst preparers familiar with full IFRS Accounting Standards. We have reflected this view in FRED 82, by proposing to align the definition of fair value with IFRS 13, with some simplifications, and introducing a new Section 2A *Fair Value Measurement*.

A22. However, consistent with our RFI Response, we do not support centralising the related disclosures in Section 12. Retaining these requirements within the relevant sections of the Standard provides scope for these disclosures to be tailored to specific items as necessary, reduces the risk of disclosure requirements being overlooked by preparers determining the accounting for a given item, and is consistent with the approach in the rest of the Standard.

A23. We also do not support introducing additional disclosure requirements in relation to fair value applicable to all entities. In FRS 102 we only require disclosures in relation to the fair value hierarchy for financial institutions and retirement benefit plans, and not for any other entities (even large entities), so in our view requiring this for all entities applying the Standard may be excessive.

A24. As noted in paragraph A21, in FRED 82 we have adopted a similar approach to ED/2022/1 on this topic. However, we have retained the methodology for estimating fair value set out in extant paragraph 11.27 of the Standard, and extant paragraph 2A.1 of FRS 102, in proposed paragraph 2A.13 of FRS 102. We have also proposed certain other simplifications compared with the proposals in ED/2022/1. The IASB may wish to consider these simplifications for the *IFRS for SMEs* Accounting Standard. FRED 82 and its Basis for Conclusions provide further details and explanations if required.

Question 6 – Proposed amendments to Section 15 *Investments in Joint Ventures* (renamed *Joint Arrangements*)
The IASB in its Request for Information asked for views on aligning the definition of joint control with IFRS 11 *Joint Arrangements*, while retaining the three classifications of joint arrangements in Section 15 *Investments in Joint Ventures* (jointly controlled operations, jointly controlled assets and jointly controlled entities). Respondents to the Request for Information favoured aligning the definition of joint control. However, respondents expressed mixed views on whether to align the classification and measurement requirements with IFRS 11 or to retain the Section 15 classification and measurement requirements. The IASB is proposing to align the definition of joint control and retain the Section 15 classification and measurement requirements as set out in the Request for Information. Paragraphs BC119–BC127 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for these proposals. (i) Do you agree with the IASB's proposal to align the definition of joint control and retain the classification of a joint arrangement as jointly controlled assets, a jointly controlled operation, or a jointly controlled entity, and the measurement requirements for these classifications? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why. The IASB is also proposing amendments to align Section 15 with the requirements of paragraph 23 of IFRS 11, so that a party to a jointly controlled operation or a jointly controlled asset that does not have joint control of those arrangements would account for its interest according to the classification of that jointly controlled operation or the jointly controlled asset. Paragraphs BC128–BC129 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. (ii) Do you agree with this proposal? Why or why not? If you disagree with the proposal, please explain what you suggest instead and why

In response to question 6(i):

A25. As we wrote in our RFI Response, we do not agree with the proposal to align the definition of joint control in Section 15 *Investments in Joint Ventures* with that in IFRS 11 *Joint Arrangements* (or with the corresponding decision to align the definition of control in Section 9 *Consolidated and Separate Financial Statements* with that in IFRS 10 *Consolidated Financial Statements*). We consider the existing definition of joint control to provide a boundary for financial reporting that is generally understood within the context of entities eligible to apply the Standard. During our periodic review of FRS 102, we heard no clear support from stakeholders for aligning the definition of joint control with that in IFRS 11.

A26. As we also wrote in our RFI Response, we agree with the proposal to retain the existing categories of joint arrangements within Section 15, and we agree with retaining the existing measurement requirements in Section 15 for these categories.

A27. In our view, it may also be confusing to align the definition of joint control to IFRS 11 and change the generic term from 'joint venture' to 'joint arrangement' in line with IFRS 11, whilst retaining the existing categories of 'jointly controlled asset', 'jointly controlled operation and 'jointly controlled entity' rather than the categories of 'joint venture' and 'joint operation' from IFRS 11. This approach is potentially more confusing than aligning fully to IFRS 11.

In response to question 6(ii):

A28. Although we understand the problem being addressed, we do not agree with the proposal to amend paragraph 15.18 to align with the requirements of paragraph 23 of IFRS 11. In deliberating whether to include this change in FRED 82, we identified that applying the amendment may be difficult in practice, as an investor without joint control may not know how investors with joint control had classified the joint arrangement. In addition, feedback from stakeholders indicated that this may not be a widespread issue requiring standard-setting intervention.

A29. Therefore, in the absence of a clearly practicable solution and a clear need to address this matter, our view is that the least disruptive option is not to make this amendment.

Other comments on the proposed amendments to Section 15:

A30. Drafting comments:

(a) We suggest revisiting the drafting of paragraph 15.1 as we do not think it will be understood. We have drafted paragraph 15.1 of FRS 102 to make the meaning clearer, albeit some of the terminology would differ for the *IFRS for SMEs* Accounting Standard.

(b) In paragraph 15.20 consider replacing 'in accordance with' with 'using', for consistency with other instances of 'using the equity method' (eg in paragraph 15.19(c)).

(c) In proposed paragraph 15.19(d), the requirement to disclose commitments related to joint ventures is amended to a narrower requirement to disclose commitments related to jointly-controlled entities. It is not obvious to us that commitments worthy of disclosure could not arise in relation to jointly-controlled assets or jointly-controlled operations. Therefore, we would suggest using the term 'joint arrangements' rather than the proposed term 'jointly-controlled entities'.

(d) Similarly, in paragraphs 33.2(b), 33.4(b) and in the glossary definition of related party, the term 'joint venture' has been replaced with 'jointly controlled entity'. It is not obvious to us that a related party could not arise in these circumstances in relation to jointly-controlled assets or jointly-controlled operations. This is reinforced by the statement in the proposed revised Section 2 that a reporting entity does not have to be a legal entity. We also note that IAS 24 *Related Parties* still uses the phrase 'joint venture' (eg paragraph 9(b)) which, whilst undefined in that standard (and whilst 'joint control' *is* defined by cross-reference to IFRS 11), might still be interpreted to include all forms of joint arrangement. We have also made a similar comment in relation to paragraphs 7.5(c) and 7.5(d) in paragraph A53 of this letter.

Question 7 – Proposed amendments to Section 19 *Business Combinations and Goodwill*

Based on the feedback to the Request for Information, the IASB is proposing to align Section 19 *Business Combinations and Goodwill* with the acquisition method of accounting in IFRS 3 *Business Combinations** by:

(a) adding requirements and guidance for a new entity formed in a business combination;

(b) updating the references when recognising the identifiable assets acquired and liabilities assumed in a business combination to refer to the definitions of an asset and a liability in the revised Section 2 *Concepts and Pervasive Principles*;

(c) clarifying that an acquirer cannot recognise a contingency that is not a liability;

(d) requiring recognition of acquisition-related costs as an expense;

(e) requiring measurement of contingent consideration at fair value if the fair value can be measured reliably without undue cost or effort; and

(f) adding requirements for an acquisition achieved in stages (step acquisitions).

For other aspects of the acquisition method of accounting, the IASB is proposing to retain the requirements in Section 19. The IASB is of the view that:

(a) the guidance in IFRS 3 on reacquired rights is unlikely to be relevant to entities applying the Standard;

(b) restricting the measurement of non-controlling interest in the acquiree to the non-controlling interest's proportionate share of the recognised amounts of the acquiree's identifiable net assets (and not introducing the fair value option) is an appropriate simplification; and

(c) retaining recognition criteria for intangible assets acquired in a business combination balances the costs and benefits of separate recognition of these items because goodwill recognised in a business combination is amortised.

Paragraphs BC130–BC183 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for these proposals.

Paragraph BC177 of the Basis for Conclusions on this Exposure Draft explains that there were mixed views on whether step acquisitions are relevant to SMEs. The IASB is asking for views on adding requirements for step acquisitions and on the proposed requirements themselves. Asking for views on whether to add requirements allows stakeholders to evaluate the proposals when responding to this Invitation to Comment.

(i)	Do you agree with the proposal to introduce requirements for the accounting for step acquisitions? If your answer is yes, do you agree with the proposed requirements in the Exposure Draft? If you disagree with the proposal, please explain why and give your alternative suggestion.
(ii)	Do you agree that the IASB's proposals appropriately simplify the measurement of non-controlling interests by excluding the option to measure them at fair value? If your answer is no, please explain your reasons.
(iii)	Do you have any further comments or suggestions on the proposed amendments to Section 19? Please explain the reasons for your suggestions.

In response to question 7(i):

A31. As we wrote in our RFI Response, we support the inclusion of requirements for accounting for step acquisitions in the *IFRS for SMEs* Accounting Standard. We consider this form of business combination to be relevant to entities applying the Standard, so this would help ensure greater consistency in how entities account for business combinations that fall into this category.

A32. If requirements for accounting for step acquisitions are to be included in the Standard, we agree that it makes sense to follow the relevant requirements of IFRS 3. The requirements will be easier for existing IFRS users to apply and understand, and existing guidance on this topic will remain relevant.

A33. Note that we have not proposed a similar amendment to FRS 102 in FRED 82 because of an incompatibility with company law. However, as mentioned in our RFI Response, FRS 102 already includes requirements that address accounting for step acquisitions and we understand these requirements are applied in practice.

In response to question 7(ii):

A34. We agree with the IASB's proposal to exclude the option to measure non-controlling interests at fair value, as we do not believe there is any clear need to introduce a fair value option for measuring non-controlling interests. No such option exists in FRS 102 and we have heard no evidence from stakeholders that such an option is required.

In response to question 7(iii):

A35. The proposed reference in paragraph 19.10C(b) to paragraph 19.19A does not appear to be necessary.

A36. We note that paragraph 19.10C(b) is based on paragraph 12 of IFRS 3, which cross-refers to paragraphs 51 to 53 of IFRS 3 for guidance in determining which assets acquired or liabilities assumed are part of the exchange for the acquiree. This guidance is in fact contained predominantly in paragraphs 51 to 52 of IFRS 3, whilst paragraph 53 refers to acquisition-related costs.

A37. Proposed paragraph 19.10C(b) of the Standard cross-refers to proposed paragraph 19.19A for guidance in determining which assets acquired or liabilities assumed are part of what the acquirer and the acquiree (or its former owners) exchanged in the business combination transaction. However, proposed paragraph 19.19A is based on paragraph 53 of IFRS 3 and therefore omits the guidance in paragraphs 51 to 52 of IFRS 3 which would have been the main reason for cross-referring from paragraph 19.10C(b) to paragraph 19.19A.

Question 8 – Revised Section 23 *Revenue* (renamed *Revenue from Contracts with Customers*)
The IASB in its Request for Information asked for views on possible approaches to aligning Section 23 *Revenue* with IFRS 15 *Revenue from Contracts with Customers*. Respondents favoured this alignment without identifying a preferred approach. Consequently, the IASB is proposing to revise Section 23 to align it with the principles and language used in IFRS 15. The revised requirements are based on the five-step model in IFRS 15, with simplifications that retain the basic principles in IFRS 15 for recognising revenue. Paragraphs BC184–BC193 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for this proposal and the proposed simplifications of the IFRS 15 requirements. (i) Do you agree that the revised Section 23 would be appropriate for SMEs and users of their financial statements? If not, what modifications—for example, further simplifications or additional guidance—do you suggest and why? Determining whether a good or service promised to a customer is distinct can involve judgement. To assist entities in making this assessment, the IASB is proposing to simplify the requirements in paragraphs 27–29 of IFRS 15 by: (a) specifying that a good or service that an SME regularly sells separately is capable of being distinct (see paragraph 23.21 of the Exposure Draft); (b) expressing the criterion in paragraph 27(b) of IFRS 15 in simpler language and reflecting the objective of the criterion by focusing on whether a good or service is an input used to produce a combined item or items transferred to the customer (see paragraphs 23.20(b) and 23.23 of the Exposure Draft); and (c) including examples that illustrate the factors supporting that criterion (see paragraph 23.23(a)–(c) of the Exposure Draft). (ii) Do you believe the guidance is appropriate and adequate for entities to make the assessment of whether a good or service is distinct? If not, is there any guidance that could be removed or additional guidance that is needed?

A38. We agree that the revised Section 23 would be appropriate for SMEs (as defined) and users of their financial statements. In FRED 82 we have adopted a very similar approach for our proposals for amendments to Section 23 *Revenue* of FRS 102, which we consider appropriate for the entities that apply FRS 102, which includes SMEs as well as larger entities and those with public accountability. FRED 82 also contains a similar, although further simplified, approach for amendments to Section 18 *Revenue* of FRS 105, which is applied by micro-entities.

A39. Whilst our proposals for the revised Section 23 are based on those in ED/2022/1, there are a number of differences. Some of those are because we wish to allow revenue accounting under FRS 102 to be compliant with the requirements of IFRS 15 when possible, to promote efficiency within groups; others are to make the requirements more relevant to FRS 102 given the wider range of entities to which the standard applies. We have not itemised these differences in this response; FRED 82 and its Basis for Conclusions provide further details and explanations if required.

A40. We do however have a number of suggestions for further simplifications to aid in the understanding and application of the proposed requirements, which we think are relevant for the IASB to consider. These are set out in paragraphs A41 to A45.

A41. Allocation of a discount/variable consideration (paragraphs 23.69 to 23.71):

(a) We suggest that the approach to allocating a discount/variable consideration should be based on the amount of consideration that the entity expects 'in exchange for satisfying each promise in the contract', rather than 'in exchange for transferring the goods or services promised to the customer'. This would result in requirements that are better aligned with the focus on individual promises when an entity allocates consideration to each promise using the stand-alone selling price basis. Focusing on the 'goods or services promised to the customer', as proposed, risks a preparer considering all the goods or services to be transferred under the contract, rather than considering the individual promises within the contract.

(b) We also suggest adding examples based on paragraphs 84 and 85 of IFRS 15 to illustrate the requirements of paragraphs 23.70 and 23.71. In FRED 82, – we have done this in proposed paragraph 23.71A of FRS 102. This would help to clarify the application of the objective, which is potentially difficult to understand, and make it clear that it would be inappropriate to depart from allocating the discount on a stand-alone selling price basis except in specific scenarios.

A42. Common input methods (paragraph 23.92):

(a) We suggest including an example based on the number of hours of labour expended, as we understand that this is a common method used by entities delivering services.

(b) For the 'input method based on costs incurred' in subparagraph (e), we suggest including more detail about which costs should be included in this measure of progress, based on paragraph B19 of IFRS 15. We understand that this is the most common method used by entities to measure progress and entities will find the method easier to apply if the requirements are more specific.

A43. Costs to obtain a contract (paragraphs 23.102 to 23.105):

(a) We do not include 'undue cost or effort' exemptions in FRS 102. We believe a suitable approach to this requirement is instead to offer an accounting policy choice that allows costs to obtain a contract to be expensed as incurred. The proposed 'undue cost or effort' exemption requires a considerable amount of judgement; it also requires an entity to identify the costs to obtain a contract, which may be the most difficult part of accounting for these costs, since they are not otherwise identified when assessing contract pricing or profitability.

A44. Subclassification of trade and other receivables (paragraph 4.11(b)):

(a) It would be helpful to remove the requirement in paragraph 4.11(b) to show 'receivables arising from accrued income not yet billed' separately from 'trade receivables due from related parties' and 'trade receivables due from other parties'. The proposed paragraphs 23.116 and 23.117 differentiate between contract assets and receivables based on whether the entity's right to consideration is conditional or unconditional, rather than whether the customer has been invoiced or not. By removing the requirement in paragraph 4.11(b), an entity could more easily provide a single sub-classification of trade and other receivables that met the requirement of paragraph 23.123(a) for receivables and contract assets to be disclosed separately.

A45. Disclosure of information about promises in contracts with customers (paragraph 23.124):

(a) We suggest including the requirement from paragraph 119(c) of IFRS 15 for an entity to describe the nature of goods or services that it has promised to transfer in contracts with customers. We believe this will result in entities providing more detailed descriptions of their accounting policy for revenue, addressing the risk under current requirements that such descriptions can lack sufficient detail to enable users to understand the nature of goods or services to be transferred.

A46. We also have a number of minor drafting comments:

(a) In paragraph 23.14(a)(ii), replace 'any additional' at the start of the sentence with 'the', in order to acknowledge that the requirement is applicable to both increases and decreases in contract price.

(b) In paragraph 23.14(b), replace 'were' with 'had always been', so that a preparer can envisage that the modification has always existed, in order to aid in the understanding of the contract modifications requirements.

(c) In paragraph 23.26, reframe the opening sentence to refer to the entity *providing* the customer with the option to purchase a warranty separately (rather than the customer *having* the option), to make it easier for a preparer to assess the relevance of the requirement.

(d) In paragraph 23.46, delete 'some or all of', since the phrase 'to the extent that' already has the same meaning in the sentence, and removal also makes the sentence easier to read.

(e) In paragraph 23.101, delete the examples of licences that often provide customers with a right to use an entity's intellectual property. Similar licences can also provide customers with a right to access an entity's intellectual property, and the difference will depend on the terms of the contract. Presenting these examples without the additional context provided in paragraph B59A of IFRS 15 could lead preparers to think that these examples will *usually* be right-to-use licences, which may not be a suitable assumption and may result in an incorrect conclusion being drawn. Additionally, the examples in this paragraph are based on types of intellectual property that have 'significant stand-alone functionality' as described in paragraph B59A of IFRS 15. It is not clear that the same examples should be presented as satisfying neither of the criteria in paragraph 23.97 of the proposed revised Section 23, when these are different to the criterion in paragraph B59A of IFRS 15.

(f) In paragraph 23.107(a), delete the example, as it is vague and relates to the costs of an anticipated contract, which may risk being confused with the requirements covering costs to obtain a contract

(g) In paragraphs 23.115 and 23.116, express the requirements in relation to 'goods or services', rather than 'a good or service', in order to clarify that the requirement to present a contract asset or contract liability applies to each contract (ie to goods and services in aggregate, not individually).

Question 9 – Proposed amendments to Section 28 *Employee Benefits*
The IASB in its Request for Information asked for views on applying paragraph 28.19 of the Standard, that is the measurement simplifications for defined benefit obligations. The feedback identified challenges when applying paragraph 28.19, resulting in diversity of application. However, the feedback also provided evidence that only a few entities apply paragraph 28.19. Therefore, the IASB is proposing to delete paragraph 28.19. Paragraphs BC197–BC203 of the Basis for Conclusions on this Exposure Draft explain the IASB's rationale for this proposal. (i) Do you agree that only a few entities apply the measurement simplifications for defined benefits? Therefore, do you agree with the IASB's proposal to delete paragraph 28.19? Alternatively, if you do not agree with deleting paragraph 28.19, should the IASB clarify the paragraph by: (a) stating that an entity may apply any, or all, of the simplifications permitted by paragraph 28.19 when measuring a defined benefit obligation; and (b) explaining that when an entity applies paragraph 28.19(b), examples of future service of current employees (assumes closure of the plan for existing and any new employees) that can be ignored include: (i) the probability of employees' not meeting the vesting conditions when the vesting conditions relate to future service (future turnover rate); and (ii) the effects of a benefit formula that gives employees greater benefits for later years of service (ii) If you disagree with the proposal in 9(i), do you agree that this alternative approach clarifies paragraph 28.19?

A47. Paragraph 28.19 has never been included in FRS 102, and we support its deletion.

Question 10 – Transition
The IASB, in paragraphs A2–A39 of this Exposure Draft, sets out limited relief from retrospective application for those proposed amendments for which the IASB thought the costs of retrospective application would exceed the benefits. Do you agree with the proposed transition requirements for the amendments to *the IFRS for SMEs* Accounting Standard? Why or why not? If not, please explain what you suggest instead and why.

A48. As we wrote in our RFI Response, we do not agree with permitting the prospective application of the proposed revised Section 23. In our view, the contemporaneous application of two different methods for revenue recognition would impair the comparability of revenue between periods and entities, introducing complexity for users of financial statements. We do however support allowing a modified retrospective approach for revenue, and our proposals in FRED 82 for changes to Section 23 *Revenue* of FRS 102 contain this option as an alternative to fully retrospective adoption.

A49. We have no observations on the other exceptions to retrospective application set out in ED/2022/1.

Question 11 – Other proposed amendments
Table A1, included in the Introduction, summarises the proposals for amending sections of the Standard not included in questions 2-10. Do you have any comments on these other proposed amendments in the Exposure Draft?

Section 7 *Statement of Cash Flows*

A51. In paragraph 7.5(c), the IASB proposes to change the term 'joint ventures' to 'jointly controlled entities'. This represents a narrowing of scope, to exclude jointly controlled assets and jointly controlled operations. It is unclear to us:

(a) Whether it is necessary to refer to jointly controlled entities: the paragraph already refers to 'equity or debt instruments of other entities', which would include interests in jointly controlled entities. The reference to jointly controlled entities therefore appears to be redundant; if it is intended as emphasis, 'and' could be changed to 'including'.

(b) Whether it is appropriate to exclude (or imply the exclusion of) cash payments to acquire equity or debt instruments of jointly controlled assets and jointly controlled operations constituted as separate entities. Such cash payments would seem to be examples of cash flows arising from investing activities.

(c) Whether it is appropriate to exclude cash payments to acquire interests other than equity or debt instruments in jointly controlled assets and jointly controlled operations. Such cash payments would seem to be examples of cash flows arising from investing activities.

A52. In FRED 82, as we do not propose to change the generic term 'joint ventures' to 'joint arrangements', we have proposed no change to paragraph 7.5(c). However, for the purposes of the *IFRS for SMEs* Accounting Standard, an alternative formulation could be:

> 'cash payments to acquire **equity** or debt instruments of other entities (including **jointly controlled entities**) and interests in **jointly controlled assets** and **jointly controlled operations** ~~**joint ventures**~~ (other than payments for those instruments classified as cash equivalents or held for dealing or trading).'

A53. If paragraph 7.5(c) is to be amended, we suggest that a similar amendment is required to paragraph 7.5(d) to maintain consistency.

Section 9 *Consolidated and Separate Financial Statements*

A54. We support moving paragraph 22.19 to 9.20A as it is a more suitable location for this requirement. We have proposed the same change to FRS 102 in FRED 82.

Section 11 *Financial Instruments*

A55. We support the removal of the ability to apply the 'IAS 39 option' from Section 11 in conjunction with a proposal for the inclusion of an ECL model into the Standard. We have previously stated that, once a decision has been made regarding the inclusion of the ECL model in FRS 102, we will withdraw the IAS 39 option from FRS 102 as well. In FRED 82, in preparation for its eventual withdrawal, we propose to remove the ability for entities to newly adopt the IAS 39 option whilst permitting those already applying it to continue doing so for a time. We also note that FRS 102 contains a similar 'IFRS 9 option', which is most likely to be of relevance to financial institutions; we note that such entities would not be in the scope of the *IFRS for SMEs* Accounting Standard and therefore we agree with it not being included in the *IFRS for SMEs* Accounting Standard.

Section 26 *Share-based Payment*

A56. We agree with the decision to introduce the defined terms 'service condition' and 'performance condition', given their prominence and frequency in Section 26; these are already defined terms in FRS 102.

Section 27 *Impairment of Assets*

A57. It is not clear to us why the duplicative reference to the requirement to disclose impairment losses relating to inventories in paragraph 27.33(a) has been deleted, when there are similar duplications that have not been deleted; for example paragraph 27.33(b) duplicates paragraph 17.31(e)(vi).

Section 28 *Employee Benefits*

A58. We agree with the inclusion of more detailed requirements for the reconciliation of defined benefit obligations and plan assets in paragraph 28.41, and have proposed, in FRED 82, similar changes to the requirements in FRS 102.

Section 29 *Income Tax*

A59. We agree with the inclusion of new requirements in Section 29 in relation to uncertainty over income tax treatments, and have proposed, in FRED 82, similar changes to FRS 102.

Section 34 *Specialised Activities*

A60. We agree that the addition of bearer plants is a beneficial change, however we have adopted a different approach to ED/2022/1 in regard to biological assets. FRS 102 already contains an accounting policy choice to apply the cost model or the fair value model in relation to biological assets. We have not heard any views from stakeholders that this choice causes problems, and we believe the flexibility that this choice offers is preferable to introducing the concept of bearer plants to the Standard.

Drafting comments across all Sections

A61. Drafting comments:

(a) Paragraph 12.1(a) should be changed to '…share-based payment transactions within the scope of Section 26…', for consistency with the rest of the standard (eg paragraph 12.1(b)).

(b) The end of paragraph 14.8(i)(iii) is missing the section number to which it is referring (Section 11 presumably).

(c) Paragraph 16.3A is a discussion of scope and so would fit better in the 'Scope of this section' section as paragraph 16.1A. It would be useful to include a similar paragraph in sections 17 and 18 as well.

(d) In paragraphs 17.19, 17.23 and 18.24, the reference to paragraphs 10.15-10.18 should be changed to a reference to paragraphs 10.14D-10.18.

(e) Consider relocating the footnote to paragraph 18.4 to a new paragraph 18.4A.

(f) Consider relocating the footnote to paragraph 21.4 to a new paragraph 21.4A.

(g) Consider deleting the second sentence in paragraph 26.1D and moving paragraph 26.1E into its place.

(h) We do not support the proposed amendments to paragraph 26.6. The footnote seems unnecessary since the wording it contains is already included in some of the following paragraphs, and in other cases the use of 'employee' is contextually accurate (eg paragraph 26.15A). Alternatively, if the footnote is retained, we suggest adding that it also applies to paragraph 26.5, but does not apply to paragraphs 26.15A to 26.15C, since those paragraphs, which relate to employment taxes, are specifically relevant to employees rather than other counterparties.

(i) Consider amending paragraph 26.9(a) as follows, for consistency with the updated glossary definitions: '…~~vesting conditions related to employee service~~ service conditions or ~~to a~~ non-market ~~performance condition~~ vesting conditions…'

(j) Consider amending paragraph 26.14(a) as follows, for consistency with the updated glossary definitions: '…~~vesting conditions related to employee service~~ service conditions or ~~to a~~ non-market ~~performance condition~~ vesting conditions…'.

(k) Consider adding a leading paragraph before paragraph 26.14A, similar to how paragraph 26.7 is a leading paragraph for paragraph 26.9, to put paragraph 26.14A in a clearer context. Additionally, in our view the guidance in IFRS 2 paragraph 33D is very helpful and could be included to help the reader understand what the paragraphs above are trying to achieve. In our view, proposed paragraph 26.14A should be renumbered to 26.14B, and new paragraphs 26.14A and 26.14C inserted as follows:

'26.14A The fair value of the liability shall be measured by reference to the fair value of the cash-settled share-based payment transaction. For example, share appreciation rights are measured by reference to the fair value of the underlying equity instruments measured in accordance with paragraphs 26.10 and 26.11.

26.14C As a result of applying paragraphs 26.14 to 26.14B, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.'

(l) In paragraph 29.34D, consider cross-referring to paragraphs 10.14D-10.18 instead of to Section 10 *Accounting Policies, Estimates and Errors* as a whole.

(m) In paragraph 33.2(b), the final word 'applies' should be changed to 'apply'.

(n) In the glossary definition of 'market vesting condition', 'market condition' should be changed to 'market vesting condition'.

(o) In the glossary definition of 'performance condition':

(i) 'service condition' should be in bold type;

(ii) 'that is, a market condition' should be changed to 'that is, a **market vesting condition**'.

(iii) 'that is, a non-market condition' should be changed to 'that is, a non-market vesting condition'.

(p) In the glossary definition of 'vesting conditions' change the defined term to 'vesting condition'.

A62. We also have the following suggested change to the text of Section 27:

(a) In paragraph 27.24, consider changing the three instances of 'fair value' to 'recoverable amount'. In line with paragraph 27.5, it is the recoverable amount of an asset that needs to be measured for the purpose of impairment testing.

Question 12 – Section 20 *Leases* and IFRS 16 *Leases*

The IASB in its Request for Information asked for views on aligning Section 20 *Leases* with IFRS 16 *Leases* by simplifying some of the recognition and measurement requirements, the disclosure requirements and the language of IFRS 16.

Feedback on the Request for Information was mixed. Stakeholders suggested the IASB assess the costs and benefits of aligning the Standard with IFRS 16, even with the simplifications, and obtain more information about the experience of entities that apply IFRS 16.

The IASB decided not to propose amendments to Section 20 at this time and to consider amending the Standard to align it with IFRS 16 during a future review of the Standard. Therefore, the Exposure Draft does not propose amendments to Section 20. In making this decision the IASB placed greater emphasis on cost–benefit considerations and prioritised timing—that is, to obtain more information on entities' experience of applying IFRS 16.

The IASB is asking for further information on cost–benefit considerations, particularly on whether:

(a) aligning Section 20 with IFRS 16 at this time imposes a workload on SMEs disproportionate to the benefit to users of their financial statements— specifically, considering:

    (i) the implementation costs that preparers of financial statements could incur;

    (ii) the costs that users of financial statements could incur when information is unavailable; and

    (iii) the improvement to financial reporting that would be realised from recognising the lessee's right to use an underlying asset (and the lessee's obligation to make lease payments) in the statement of financial position.

(b) introducing possible simplifications—for example, for determining the discount rate and the subsequent measurement of the lease liability (reassessment)—could help to simplify the requirements and reduce the cost of implementing an amended Section 20 (aligned with IFRS 16) without reducing the usefulness of the reported information.

Paragraphs BC230–BC246 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale for not proposing amendments to Section 20 at this time and instead for considering amending the Standard to align it with IFRS 16 during a future review of the Standard.

Do you agree with the IASB's decision to consider amending the Standard to align it with IFRS 16 in a future review of the Standard? In responding to this question, please comment on the cost–benefit considerations in paragraphs (a) and (b).

A63. As we wrote in our RFI Response, we support aligning Section 20 *Leases* of the *IFRS for SMEs* Accounting Standard with IFRS 16 *Leases*. Since leases are an important source of finance both to entities within the scope of FRS 102 and entities within the scope of the *IFRS for SMEs* Accounting Standard, our views in relation to this question for both standards are generally aligned.

A64. During the previous periodic review of FRS 102, stakeholder feedback received by the FRC in 2016 indicated general support for aligning with IFRS 16 in time, although with the caveat that more evidence-gathering and analysis of the implementation of IFRS 16 was first needed.

A65. In our view, there has now been sufficient time since the implementation of IFRS 16, and hence sufficient implementation experience gained, for its principles to be included in the Standard. If such alignment is deferred to the fourth edition of the Standard, it is likely that substantial time will have passed since the implementation of IFRS 16 and we are concerned that the Standard will, in the meantime, have become outdated. We think the IASB should consider exposing a revised, IFRS 16-aligned Section 20 before the next comprehensive review, at least to obtain stakeholder views on a set of proposals.

A66. The proposals in our FRED 82 include a new Section 20 of FRS 102, based on IFRS 16 but with a number of additional simplifications. As part of our current periodic review of FRS 102, we issued a request for views, which indicated broad support from respondents for aligning FRS 102 with the principles of IFRS 16 at this stage, provided that appropriate simplifications were included to make the requirements more suitable for FRS 102 preparers.

A67. The scope of FRS 102 is different to that of the Standard, including many large entities and entities with public accountability. The FRC also publishes a financial reporting standard for the smallest entities, FRS 105. We have not proposed in FRED 82 to align FRS 105 with the principles of IFRS 16, and will consider such alignment during a future review. We appreciate that some stakeholders believe alignment with IFRS 16 principles may have a disproportionate impact for the smallest entities and that the costs would significantly exceed the benefits. Whilst this approach is similar to that set out in ED/2022/1, the scope of the Standard is not restricted, like FRS 105, to micro-entities.

A68. FRED 82 contains a Consultation Stage Impact Assessment (CSIA), which describes the expected costs and benefits of our proposals, and estimates the quantified costs. Whilst we have not been able to quantify the benefits of the proposals, we believe that the benefits of better-quality financial reporting will exceed the costs. One benefit that the CSIA identifies is avoiding the need for some entities to create supplementary analysis consistent with IFRS 16 principles, for example for entities that have, or are seeking, funding from investors or lenders accustomed to IFRS 16.

A69. FRED 82 proposes simplifications to discount rates. We have heard significant stakeholder feedback that the requirement in IFRS 16 to use an incremental borrowing rate has been onerous for some preparers. To make it easier for a lessee to determine a discount rate, two key simplifications are proposed in FRED 82. The lessee's 'obtainable borrowing rate' is introduced as an alternative to the incremental borrowing rate. Whilst intended to represent a broadly similar concept, a key difference is that the obtainable borrowing rate refers to the rate at which a lessee could borrow the total undiscounted value of the lease payments. The obtainable borrowing rate is expected to be simpler to determine and therefore represents a proportionate simplification for preparers. In addition, if in exceptional cases the lessee's incremental (or obtainable) borrowing rate cannot be readily determined, a lessee will be permitted to apply a specified publicly-available rate (the gilt rate). We believe these simplifications will address the concern of it being difficult and time-consuming to determine suitable discount rates, and allow any preparer to determine such a rate.

A70. All our proposed simplifications for the proposed revised Section 20 in FRS 102 are set out in FRED 82 and its Basis for Conclusions.

A71. In our view these simplifications are useful for small and medium-sized entities applying FRS 102 as well as for larger entities. For example, the inclusion of an option to utilise balances calculated under IFRS 16 as opening balances on the date of initial application is aimed at reducing the effort required for members of groups for which consolidated financial statements are prepared using IFRS Accounting Standards. We believe similar simplifications could also be suitable for the *IFRS for SMEs* Accounting Standard.

Question 13 – Recognition and measurement requirements for development costs
The Standard requires all development costs to be recognised as expenses, whereas IAS 38 *Intangible Assets* requires the recognition of intangible assets arising from development costs that meet specified criteria. This simplification in the Standard was made for cost–benefit reasons. However, feedback on this comprehensive review questioned this cost–benefit decision. Therefore, the IASB is seeking views on whether it should amend the Standard to align it with IAS 38, including views on the costs and benefits of doing so. Paragraphs BC253–BC257 of the Basis for Conclusions on this Exposure Draft further explain the IASB's rationale. What are your views on the costs and benefits, and the effects on users, of introducing an accounting policy option that permits an SME to recognise intangible assets arising from development costs that meet the criteria in paragraphs 57(a)–(f) of IAS 38? The entity would be required to demonstrate all of these criteria: (a) the technical feasibility of completing the intangible asset so that it will be ready for use or sale; (b) its intention to complete the intangible asset and use or sell it; (c) its ability to use or sell the intangible asset; (d) how the intangible asset will generate probable future economic benefits; (e) the availability of adequate technical, financial and other financial resources to complete the development and to use or sell the intangible asset; and (f) its ability to measure reliably the expenditure attributable to the intangible asset during its development.

A72. Since it was initially published in 2013, FRS 102 has contained in paragraph 18.8K an accounting policy option, based on paragraph 57 of IAS 38, permitting the recognition of an intangible asset arising from development costs which meet the conditions in paragraph 18.8H. Further paragraphs 18.8I and 18.8J, based on paragraphs 58 and 59 of IAS 38, have also been included to provide additional guidance on how to distinguish development activities from research activities.

A73. This accounting policy option was included in the first edition of FRS 102 following stakeholder feedback to an earlier consultation that such an option should be available; it was previously available in UK financial reporting standards prior to FRS 102 becoming effective. We believe it is popular with entities in certain industries or with certain business models which apply FRS 102, and we have had no comments or indications that users believe it should be removed from the standard. We therefore support the inclusion of such an accounting policy option in the *IFRS for SMEs* Accounting Standard.

Question 14 – Requirement to offset equity instruments
Paragraph 22.7(a) of the Standard states that if equity instruments are issued before an entity receives cash or other resources, the amount receivable is presented as an offset to equity in the statement of financial position, instead of being presented as an asset. Feedback from the first comprehensive review suggested that this requirement may conflict with local legislation. Stakeholders provided similar feedback during this second comprehensive review, suggesting that the IASB remove the requirement in paragraph 22.7(a) because it diverges from full IFRS Accounting Standards, which include no similar requirement for equity instruments. What are your views on removing paragraph 22.7(a)?

A74. Paragraph 22.7(a) has never been included in FRS 102 due to an incompatibility with company law. We have not received any comments that the omission of this paragraph has caused problems for preparers.

Question 15 – Updating the paragraph numbers of the IFRS for SMEs Accounting Standard
The proposed amendments to the requirements in the *IFRS for SMEs* Accounting Standard include the addition of new paragraphs and the deletion of existing paragraphs. A new paragraph is numbered in continuation from a previous paragraph. A deleted paragraph retains the paragraph number. Sometimes, the addition or deletion of paragraphs within a section may complicate the readability of the Standard (for example, Section 19 Business Combinations and Goodwill). As an alternative, a section may be revised, with paragraphs renumbered to show only requirements that would still be applicable, without a placeholder for deleted paragraphs (for example, Section 2 Concepts and Pervasive Principles). What are your views on the approach taken to retain or amend paragraph numbers in each section of this Exposure Draft?

A75. We agree with the approach taken, and have taken the same approach for the proposed amendments to FRS 102 set out in FRED 82. When a section is entirely rewritten, starting over with a new set of paragraph numbers is the best method as it prevents the Exposure Draft and ultimately the Standard from becoming unreadable, and also makes the new section easier to follow. When there is not a complete rewrite and many or most of the existing paragraphs retain their number, this helps to avoid possible issues with understanding which paragraph is being referenced. On balance we prefer this approach even for Section 19. Whilst it now has many newly-inserted paragraphs (eg proposed paragraphs 19.10A to 19.10O), which may suggest renumbering could be considered, we think that preserving the numbering of the existing paragraphs is preferable in this case.