FRS 102 FACTSHEET 1
TRIENNIAL REVIEW 2017 AMENDMENTS

Triennial Review 2017 Amendments

The first triennial review of FRS 102 was conducted over a two year period and included both informal and formal consultations and two exposure drafts. The review concluded with the publication of the final amendments in December 2017 and a revised edition of FRS 102 was published in March 2018, alongside revised editions of the other UK accounting standards.

This factsheet highlights some of the more notable changes to FRS 102 to assist preparers and their advisors in getting ready for implementation. This factsheet consists of two parts: the first part outlines the five principal amendments that have been made, and the second part outlines notable amendments by section. FRS 102 Factsheet 2 *Triennial Review 2017—Transition* has also been prepared and covers transition to the Triennial Review 2017 Amendments.

Focus on incremental improvements and clarifications

In response to stakeholder feedback, the focus of the Triennial Review 2017 was to address many of the implementation issues that were raised and make FRS 102 clearer and easier to use. Consequently, the majority of the amendments were either editorial in nature (for example, the scope sections were streamlined, defined terms were removed from the main body of the standard and consistent language and terminology used throughout) or intended to clarify, rather than change, accounting treatment. Some more notable amendments were made that will change the accounting treatment for certain transactions, however, these changes result in either more straightforward accounting treatment or exemptions. The principal amendments are outlined on pages 2 and 3.

Major changes to IFRS deferred

Further consideration of the case for, and most appropriate timetable for, the development and implementation into UK GAAP of requirements reflecting the principles of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* is needed. This work will not begin until these standards have been fully implemented by IFRS reporters and insight can be gained from their implementation experience.

Effective date 1 January 2019

The amendments to FRS 102 generally become effective for accounting periods beginning on or after 1 January 2019. Early application is permitted provided all the amendments are applied at the same time, with the exception of the amendments made in respect of directors' loans (see page 3) and the tax treatment in respect of gift aid payments (see page 7), both of which can be applied early in isolation. Irish entities are also permitted to early apply the amendments made to Section 1A *Small Entities* to reflect the implementation of the EU Accounting Directive in the Republic of Ireland.

The amendments include two transitional exceptions to retrospective application in relation to investment property rented to group entities and intangible assets acquired in a business combination. Further details on these exceptions can be found in UK GAAP Factsheet 2 *Triennial Review 2017—Transition*.

The date of transition is the beginning of the earliest period for which an entity presents full comparative information. For example, if an entity has a 31 December year end, and therefore would apply the amendments for the first time for its year ended 31 December 2019, the date of transition would be 1 January 2018.

This factsheet has been prepared by FRC staff and highlights some of the more notable changes to FRS 102 as a result of the Triennial Review 2017 Amendments. It should not be relied upon as a definitive statement on the application of the standard nor is it a substitute for reading the detailed requirements of FRS 102.

Principal amendments

Key FRS 102 references

(1) Removal of undue cost or effort exemptions

Associates and joint ventures

Entities already have the option to choose to measure investments in associates and joint ventures at cost or fair value. The undue cost or effort exemptions in respect of these types of investments were specifically in situations when an entity has selected the fair value measurement basis, but is unable to determine a fair value without undue cost or effort. These exemptions have been removed. *14.10, 15.15*

If an entity considers it too difficult or costly to determine a fair value for these investments, it can choose to use the cost measurement basis as its accounting policy. *14.4, 15.9*

Investment property

Prior to the *Triennial Review 2017 Amendments*, entities were required to measure all investment property at fair value, unless there was undue cost or effort in determining such a fair value. This exemption has been removed so all investment property (with the exception of investment property rented to another group entity) must now be measured at fair value. *Section 16*

A new accounting policy choice has been introduced, specifically in relation to investment property rented to another group entity. Entities are now allowed to choose to measure such properties at cost (less depreciation and impairment). On transition to this new accounting policy, an entity is permitted to use the fair value of such an investment property as its deemed cost at the date of transition to the *Triennial Review 2017 Amendments* (ie the start of the comparative period). Further details on this transitional exception can be found in UK GAAP Factsheet 2 *Triennial Review 2017—Transition*. *16.4A, 1.19(a)*

All other investment properties (ie those not rented to another group entity) are required to be measured at fair value. Entities that have previously applied the exemption must now determine a fair value. The valuation does not need to be undertaken by an independent valuer, however, entities are required to apply the fair value guidance set out in the appendix to Section 2 *Concepts and Pervasive Principles* (previously included in Section 11 *Basic Financial Instruments*) and disclose the methods and significant assumptions applied in determining the fair value. *16.7, 16.10(a) Appendix to Section 2*

(2) Intangibles acquired in business combinations

The requirements of Section 18 *Intangible Assets other than Goodwill* have been amended in relation to intangible assets acquired in a business combination. The requirements are now clearer, whereby entities are only required to recognise such intangible assets separately from goodwill if they meet the recognition criteria, are separable ***and*** arise from contractual or other legal rights. *18.8*

Entities may choose to separately recognise additional intangible assets on acquisition so long as they meet the recognition criteria, and are either separable ***or*** arise from contractual or other legal rights. This choice must be applied consistently to a class of intangible assets and to all business combinations.

Principal amendments

Key FRS 102 references

(3) Classification of financial instruments

A new principle-based description has been introduced into Section 11 *Basic Financial Instruments* to address implementation issues regarding the classification of some financial instruments. 11.9, 11.9A

As a result, in addition to those debt instruments that meet the existing conditions set out in Section 11, a debt instrument shall be classified as 'basic' if it is consistent with a new principle-based description set out in paragraph 11.9A.

> *11.9A*
> *...if it gives rise to cash flows on specified dates that constitute repayment of the principal advanced, together with reasonable compensation for the time value of money, credit risk and other basic lending risks and costs...*

Entities need only consider the principle-based description for debt instruments that do not meet the detailed conditions set out in paragraph 11.9.

(4) Directors' loans exemption

A new exemption has been introduced into Section 11 to allow small entities the option to measure loans from a director (or their group of close family members when that group contains at least one shareholder) at transaction price, rather than present value. This exemption can also be applied by small LLPs in respect of loans from its members. This exemption will make accounting by small entities and LLPs for such loans much more straight-forward. 11.13A

(5) Definition of a financial institution

The final item in the definition of a financial institution has been amended to remove references to 'generate wealth' and 'manage risk'. This should reduce the number of entities meeting the definition of a financial institution. Glossary, 11.42, 34.17-34.33

> *… any other entity whose principal activity is similar to those listed above but is not specifically included in that list...*

Paragraph 11.42 has been amended to encourage all entities that are not financial institutions to provide additional disclosures when the risks arising from financial instruments are particularly significant to the business. The disclosure requirements for financial institutions may be relevant in such cases.

Retirement benefit plans have also been removed from the list as they are not similar to other entities specifically included in the list and FRS 102 already includes separate disclosure requirements for retirement benefit plans. Stockbrokers have also been removed.

Entities specifically listed in the definition (eg banks, building societies) continue to meet the definition.

Notable amendments by section

Key FRS 102 references

Section 1 *Scope*

Scope of PBE-prefixed paragraphs

Clarification that all public benefit entities (PBE) are required to apply all PBE-prefixed paragraphs that are relevant and permitted by the applicable SORP. *1.2*

Effective date and transitional provisions for Triennial review 2017 amendments

Paragraphs 1.18 and 1.19 set out the effective date (accounting periods beginning on or after 1 January 2019) and two transitional exceptions. Further details on the transitional exceptions can be found in UK GAAP Factsheet 2 *Triennial Review 2017—Transition*. *1.18, 1.19*

Section 1A *Small Entities*

Implementation of EU Accounting Directive in the Republic of Ireland

Section 1A has been updated to reflect the implementation of the EU Accounting Directive in the Republic of Ireland. Due to the way in which the Directive has been implemented in the UK compared to the Republic of Ireland, the disclosure requirements for small entities in each jurisdiction are different. A new appendix has been inserted (Appendix D) setting out the disclosure requirements applicable to small entities in the Republic of Ireland. Small entities in the UK will continue to apply Appendix C which remains largely unchanged. Appendix D has been renamed to Appendix E and continues to encourage small entities to provide certain disclosures. *Appendix D to Section 1A*

Section 2 *Concepts and Pervasive Principles*

Fair value guidance moved to Section 2

The fair value guidance that previously was contained in Section 11 *Basic Financial Instruments* has been moved to a new appendix to Section 2. The guidance is largely unchanged. *Appendix to Section 2*

Section 3 *Financial Statement Presentation*

Small entity exemption from having to provide a statement of cash flow

Clarification that any small entity, not just those applying Section 1A, can take advantage of the exemption from having to present a statement of cash flows unless it is required by an applicable SORP or other law / regulation. *3.1B*

Comparatives are required for all disclosures required by SORPs

In response to comments raised by respondents, the Basis for Conclusions clarifies that comparatives should be provided for disclosures required by SORPs. *3.14, BfC B3.2*

Section 5 *Statement of Comprehensive Income and Income Statement*

Items to include and exclude from operating profit

Clarification that should an entity choose to disclose operating profit, any profit / loss on the sale of property, plant and equipment, investment property and intangible assets should be included, and any profit / loss on the disposal of a discontinued operation should be excluded from such a measure. *5.9B Appendix to Section 5*

Notable amendments by section

Key FRS 102 references

Section 7 *Statement of Cash Flows*

Net debt reconciliation introduced

Introduction of a new requirement to disclose a net debt reconciliation. This disclosure is based on, but not identical to, the requirements of FRS 1 (Revised 1996) *Cash Flow Statements*. *7.22*

Section 9 *Consolidated and Separate Financial Statements*

Additional disclosure of unconsolidated SPEs required

Introduction of a new requirement to disclose in the consolidated financial statements the nature and extent of interests in and risks associated with unconsolidated special purpose entities (SPEs). *9.23(f)*

Clarification of single class of investment

Clarification that for parents that prepare separate financial statements which have investments in subsidiaries where some are held as part of an investment portfolio and not consolidated into the financial statements, and the others which are consolidated, they can be treated as two separate classes of investments for the purposes of selecting accounting policies. *9.26*

Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*

In addition to the introduction of the principle-based description and exemption for small entities in relation to directors' loans as outlined on page 3 of this factsheet, the following other notable amendments have been made to Sections 11 and 12.

Accounting policy choice to apply IAS 39 continues to be available

Clarification that the option to apply IAS 39 continues to be available to entities applying FRS 102 until FRS 102 is amended to reflect IFRS 9 *Financial Instruments*, or it is otherwise decided that no further amendments are to be made to FRS 102 in relation to IFRS 9. The IAS 39 EU carve-out continues to be available. *11.2(b) 12.2(b)*

Non-derivative instruments that are equity of the issuer

The reference to 'investments in non-convertible preference shares and non-puttable ordinary shares or preference shares' has been amended to 'non-derivative instruments that are equity of the issuer' to address an anomaly whereby certain preference shares that are liabilities of the issuer were treated differently by the holder. *11.5(f), 11.8(d)*

Reassessing classification subsequent to initial recognition

Clarification that reassessment of the classification of a financial instrument subsequent to initial recognition is not necessary unless the contract terms are modified. *11.6A*

Loans with two-way compensation clauses

Clarification that for these types of loans the compensation can be paid by either the holder or issuer, and that this does not in itself preclude these types of loans from being classified as basic financial instruments. *11.9(c)*

Investments in another group entity that are not subsidiaries, associates or joint ventures

An accounting policy choice has been introduced to allow such investments to be measured either at cost less impairment, fair value with changes in fair value recognised in profit or loss or at fair value with changes in fair value recognised in other comprehensive income. *11.14(d)*

Notable amendments by section

Key FRS 102 references

Fair value guidance moved to Section 2

The fair value guidance that previously was contained in Section 11 has been moved to a new appendix to Section 2. The guidance is largely unchanged. *Appendix to Section 2*

Macro-hedging

The macro-hedging requirements of IAS 39 *Financial Instruments* have been introduced into FRS 102 by way of a cross reference to IAS 39. This enables entities to apply the macro-hedging requirements of IAS 39 whilst otherwise using the recognition and measurement requirements of Sections 11 and 12. *12.15A*

Disclosures

- Paragraph 11.41 has been amended to only require the disclosure of the carrying amounts of financial assets and financial liabilities measured at fair value through profit or loss. *11.41*
- Paragraph 11.42 has been amended to note that additional disclosure may be required of risks arising from financial instruments when they are particularly significant to the business. *11.42*
- FRS 102 allows entities the option to apply the recognition and measurement requirements of IFRS 9 *Financial Instruments* whilst providing the disclosures required by Sections 11 and 12. Minor amendments were made to the disclosure requirements in Section 11 to ensure that entities applying the recognition and measurement requirements of IFRS 9 are providing relevant information about the impairment of financial assets. *11.48(b) and (c)*

Section 14 *Investment in Associates* and Section 15 *Investment in Joint Ventures*

Removal of undue cost or effort exemption when opting to measure at fair value

As noted on page 2, the undue cost or effort exemptions when opting to measure investments in associates and investments in joint ventures at fair value have been removed. *14.10, 15.15*

Section 16 *Investment Property*

Removal of undue cost or effort exemption and introduction of new accounting policy for group investment properties

As noted on page 2, the undue cost or effort exemption in relation to fair value measurement of investment property has been removed, however a new accounting policy choice has been introduced in relation to investment property rented to another group entity. *16.4A*

Section 18 *Intangible Assets*

New requirements intangible assets acquired in a business combination

As noted on page 2, Section 18 has been amended to make the requirements in relation to intangible assets acquired in a business combination more straightforward. Entities are required to recognise separately from goodwill some, but not all intangible assets acquired in a business combination (ie if the intangible asset meets the recognition critieria, is separable and arises from contractual or other legal rights). There is an additional option for entities to separately recognise more intangible assets from goodwill although if this option is taken, it must be applied consistently to a class of intangible asset and to all business combinations. *18.8*

Notable amendments by section

Key FRS 102 references

Section 19 *Business Combinations and Goodwill*

Definition of a group reconstruction expanded

The definition of a group reconstruction has been expanded to incorporate, in certain circumstances, the transfer of a business, in addition to the transfer of equity holdings. *19.27-19.33 and Glossary*

Section 22 *Liabilities and Equity*

New guidance on debt for equity swaps

Additional guidance on how entities should account for debt for equity swaps has been inserted. *22.8A*

Section 23 *Revenue*

Additional guidance on agents and principals

Additional guidance on revenue recognition for agents and principals taken from IAS 18 *Revenue* was inserted to provide greater clarity. *Appendix to Section 23*

Section 26 *Share-based Payments*

Minor improvements only

A number of minor improvements were made to Section 26 to align some of the definitions to IFRS 2 *Share-based Payment.* It is not expected that any of these amendments will change the accounting treatment. *Section 26 and Glossary*

Section 29 *Income Taxes*

New exemption introduced in relation to tax effect of gift aid payments

A new exemption has been introduced in relation to gift aid payments made by wholly-owned trading subsidiaries to charitable parents. The exemption allows the tax effects of gift aid payments to be taken into account when it is probable that the gift aid payment will be made within nine months of the reporting date. The Basis for Conclusions also noted that trading subsidiaries should not accrue for gift aid payments unless a legal obligation to make the payment exists at the reporting date. *29.14A*

Section 33 *Related Party Disclosures*

New exemption introduced in relation to key management personnel compensation

A new exemption has been introduced that allows companies (who are required by company law to disclose directors remuneration) not to disclose key management personnel compensation if there is no difference between key management personnel and directors. *33.7A*

Section 34 *Specialised Activities*

Definition of a financial institution

As noted on page 3, the definition of a financial institution has been revised. The new definition should result in fewer entities meeting the definition. *34.17 to 34.33 and Glossary*