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27 April 2023

Accounting and Reporting Policy team
Financial Reporting Council
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Via Email: ukfrsperiodicreview@frc.org.uk

Dear Ms Carter,

Draft amendments to FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' and other FRSs - Periodic Review ('FRED 82')

RSM is a leading provider of audit, tax and consulting services to middle market leaders, globally, with over 4,900 partners and staff operating from 31 locations throughout the UK.

We welcome the opportunity to comment on FRED 82 which we consider, in the most part, balances IFRS-alignment with proportionate accounting requirements for preparers and users of UK GAAP accounts.

We agree that now is the right time to align with the 'on-balance sheet' lease accounting model in IFRS 16 and welcome the majority of the proposed simplifications for preparers of FRS 102 accounts. That said, we would welcome further guidance on the borrowing rates used to discount lease payments to avoid unintended consequences, as further explained in our detailed response. Allowing entities to use group borrowing rates would also be very helpful.

Similarly, we agree with introducing the 'five-step' revenue recognition model in IFRS 15 and most of the proposed simplifications to address IFRS 15 complexities. However, we do not support proposed changes to the wording used in IFRS 15, neither to replace 'performance obligations' nor within the criteria for recognising revenue over time. These could result in different outcomes to IFRS 15 and create challenges in applying Section 23 that would not exist if preparers were able to benefit from publications on IFRS 15 that provide general and sector guidance. We would also like to see the 'principal versus agent' considerations aligned with IFRS 15 so these are based on the underlying principles for revenue recognition proposed for the rest of Section 23.

For leases and revenue, the proposals could go further to provide efficiency within groups by giving entities included in an IFRS consolidation an option to use IFRS recognition and measurement for lease accounting by lessees, and for revenue recognition, given a similar option is already permitted for financial instruments. This would allow those entities to benefit from using figures already prepared for consolidation purposes in their FRS 102 accounts.

Given the complexities of the expected credit loss model, we agree that any proposals to adopt it should be deferred until further outreach has been completed to ensure this model is only applied by entities, and to financial assets, where the benefits to users outweigh the costs of implementing it.

Some further alignment with IFRS would, in our view, benefit preparers and users of FRS 102 accounts. Specifically, the definition of a ‘business’, recycling of exchange differences relating to foreign operations and fair value measurement for contingent consideration arising on a business combination. We also suggest that the performance model for government grant accounting is only retained for Public Benefit Entities, where the SORPs require it, as removing the complexities of having two models and closer alignment with IFRS will benefit other entities.

For smaller entities, we welcome the mandating of encouraged disclosures in Section 1A and ask the FRC to consider making Section 1A standalone, rather than cross-referencing to disclosures within FRS 102. We suggest the SORP working party consider challenges faced by very small charities in applying the proposals as they do not meet the definition of a ‘micro-entity’ to apply FRS 105.

Should you wish to discuss any matters included in this letter, please contact Danielle Stewart OBE, Head of Financial Reporting at DanielleStewartOBE@rsmuk.com.

Yours sincerely,

RSM UK Tax and Accounting Limited

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Detailed response
Our responses do not consider the proposed changes insofar as they relate to entities incorporated in the Republic of Ireland.

Question 1: Disclosure

Do you have any comments on the proposed overall level of disclosure required by FRS 102?

Do you believe that users of financial statements prepared under FRS 102 will generally be able to obtain the information they seek? If not, why not?

We agree with most of the proposed additions and amendments to the disclosures. Subject to our specific observations on the proposed disclosures for leases and revenue in questions 6 and 7, in our view the FRC has reached an appropriate balance between the benefits of providing users with additional understanding and the risk of key messages being lost within excessive disclosures, as well as the costs to preparers of collating information.

Question 2: Concepts and pervasive principles

Do you agree with the proposal to align FRS 102 and FRS 105 with the 2018 Conceptual Framework? If not, why not?

We agree in principle with the proposal to align FRS 102 and FRS 105 with the 2018 Conceptual Framework since that is consistent with other sections of FRS 102 and FRS 105 being more closely aligned with IFRS.

We note that Section 10 says management 'shall refer to and consider the applicability' of Section 2 when using its judgement to develop and apply an accounting policy for a transaction, other event or condition, which is not specifically addressed in FRS 102. In our view, some elements of Section 2 are more likely to be used by standard setters than management, such as 'the cost constraint on useful financial reporting', and these could be moved to a separate Appendix of the standard.

We appreciate that Section 2 is considerably shorter than the 2018 Conceptual Framework, but in our view, it could be made even more succinct without the loss of key conceptual points. For example, referencing defined terms to the Glossary and removing some duplication, examples and cross-references would achieve further brevity, as set out in more detail in our Appendix 1 below. This would align Section 2 with other areas of FRS 102 that only contain key elements from IFRS and the aim of FRS 102 "to provide entities with succinct financial reporting requirements".

Do you agree with this approach [for the definitions of an asset and a liability]? If not, why not?

We agree with the approach of aligning the definitions of assets and liabilities to those stated in the 2018 Conceptual Framework, and also agree with the continuing use of extant definitions of an asset in Section 18, and a liability in Section 21.

Do you have any other comments on the proposed revised Section 2?

We have some minor observations around wording and inconsistencies which are included at Appendices 1 and 2.

Question 3: Fair value

The proposed Section 2A Fair Value Measurement of FRS 102 would align the definition of fair value, and the guidance on fair value measurement, with that in IFRS 13 Fair Value Measurement. Do you agree with this proposal? If not, why not?

We agree with the proposed alignment between Section 2A of FRS 102 and IFRS 13, and we welcome the creation of a separate section of FRS 102 to capture the requirements in respect of fair value measurement and believe that this gives due prominence to the subject matter.

FRS 102 currently states that the best evidence of fair value for a quoted asset is usually the current bid price. It is unclear whether the proposals to remove this and include the narrative "*The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required*" is a shift towards mid-market pricing. Particularly as mid-pricing is mentioned in paragraphs 70 and 71 of IFRS 13 that this wording comes from, and preparers may look to IFRS 13 for further context. We ask the FRC to revisit this wording to clarify that bid-price and mid-price have equal footing and leave the SORP working parties to determine whether one provides better evidence of fair value than the other for users of their sector's financial statements. In considering this point, we would highlight that the investment accounting systems of Pensions Scheme are set up to report currently on bid prices and any change to mid-pricing is likely to result in some cost implications to reconfigure these systems.

We have some observations about the omission of certain requirements from IFRS 13 Fair Value Measurement in the proposed Section 2A.

Section 2A does not refer to non-performance risk, including an entity's own credit risk, in measuring fair value. We note that, where non-performance risk could have a material impact on the calculated fair value, there is no prohibition in Section 2A as drafted, that would prevent a preparer looking to IFRS 13 and incorporating non-performance risk in the fair value measurement. This is because paragraph 2A.3 states that fair value is measured using the assumptions that market participants would use when pricing the asset or liability. Valuers incorporate credit risk adjustments, where appropriate, as part of the overall valuations process, rather than as a separate calculation distinct from other elements of the fair value calculation. As such, we believe that this proposed simplification is pragmatic and proportionate to users and preparers of financial statements under FRS 102.

We would encourage the FRC to consider expanding the draft wording in paragraph 2A.6 to include the requirement from IFRS 13 paragraph 17 for entities to 'take into account all information that is reasonably available' to identify the principal or most advantageous market. We believe inclusion of this additional requirement will guard against preparers selectively ignoring information that may lead to a different market being identified.

Do you agree with the proposed consequential amendment to Section 26 Share-based Payment of FRS 102 to retain the extant definition of fair value for the purposes of that section? If not, why not?

We agree with retaining the extant definition of fair value in section 26 as this aligns with IFRS 2 and is an established method for determining the fair value of share-based payments. We also note and agree with the IASB's comments in the basis for conclusions to IFRS 13 that *"amending IFRS 2 to distinguish between measures that are fair value and those based on fair value would require new measurement guidance for measures based on fair value … [and] … such guidance might result in unintended changes in practice with regard to measuring share-based payment transactions.",*

Question 4: Expected credit loss model

The FRC intends to defer its conclusion as to whether to align FRS 102 with the expected credit loss model of financial asset impairment from IFRS 9 Financial Instruments pending the issue of the IASB's third edition of the IFRS for SMEs Accounting Standard. Any proposals to align with the expected credit loss model will therefore be presented in a later FRED. Do you agree with this approach? If not, why not?

We agree with the proposal to defer alignment of FRS 102 with the expected credit loss impairment model from IFRS 9 pending the issuance of IASB's third edition of the IFRS for SMEs Accounting Standard and given the IASB's post-implementation review of the IFRS 9 Financial Instruments impairment requirements.

The FRC's preliminary view is that, in the context of FRS 102, it may be appropriate to require certain entities to apply an expected credit loss model to their financial assets measured at amortised cost, but allow other entities to retain the incurred loss model. Do you agree with this view? If not, why not?

As noted below, we suggest applying the expected credit loss model to certain financial assets that are generally recovered over longer time periods and priced using forward looking information.

We consider that the incurred cost model should be retained for other financial assets. Given their shorter financial asset collection periods, the increased measurement uncertainty and cost of implementing the expected credit loss model would in our view not provide additional benefits to users of the financial statements.

Do you have any comments on which entities should be required to apply an expected credit loss model?

We suggest that the FRC consider applying the expected credit loss model to financial assets resulting from the activity of providing regulated lending or activities similar to regulated lending.

Question 5: Other financial instruments issues

In preparation for the eventual removal of the IAS 39 option, the FRC proposes to prevent an entity from newly adopting this accounting policy. Do you agree with this proposal? If not, why not?

We agree with the proposal to remove the option for entities to newly adopt the recognition and measurement of IAS 39.

Temporary amendments were made to FRS 102 in December 2019 and December 2020 in relation to interest rate benchmark reform (IBOR reform). The FRC intends to consider, alongside the future consideration of the expected credit loss model, whether these temporary amendments have now served their purpose and could be removed. Do you support the deletion of these temporary amendments? If so, when do you think they should be deleted? If not, why not?

We consider that the temporary amendments relating to IBOR reform should be retained for now. IBOR reforms are still relevant to some longer-term hedging contracts and entities applying FRS 102 are affected by global, not just UK, reforms.

In our view, these temporary amendments should only be deleted once financial statements prepared under FRS 102 are no longer being affected by the introduction of alternative benchmark rates as a consequence of the global regulatory reform of key interbank offered rates.

Question 6: Leases

Do you agree with the proposals to revise Section 20 of FRS 102 to reflect the on-balance sheet lease accounting model from IFRS 16, with simplifications? If not, why not?

As noted in the firm's response on 29 October 2021 to the FRC's request for views, we support the adoption of the single model in IFRS 16 for lessees to include leases on the balance sheet as a right of use asset and a lease liability, and welcome the inclusion of the exemptions included in IFRS 16 for low-value or short-term leases.

We also welcome the variance in the definition of low value items as being the value at the start of the lease as opposed to in IFRS 16 which specifics when the item is new. The more detailed examples of what may or may not be a low value item will be of particular assistance to smaller entities.

However, we acknowledge that the tax rules, as currently drafted, will require lessees within the scope of the Corporate Interest Restriction to apply current lease accounting to existing and new leases for tax purposes only, and that the lease accounting required for tax purposes would only exist in GAAP within FRS 105. We appreciate it is a point for the tax authorities to consider the impact of a greater number of entities, including smaller entities, having to maintain two different lease accounting models, one for tax and the other for the financial statements.

<u>Scope</u>

We note that the scope has been included in line with that in IFRS 16 with the welcome addition of the scope exclusion for leases that could be at a loss to the lessor and lessee due to unusual contractual terms as this will assist the implementation in certain sectors.

<u>Discount rate</u>

The simplification to the discount rate to be applied when determining the lease liability is a welcome addition. Allowing the lessee's 'obtainable borrowing rate' (OBR) to be applied will greatly assist a wide range of reporting entities who would otherwise struggle to determine the 'incremental borrowing rate' (IBR) for a lease.

However, the definition of OBR is wide and could result in entities applying a borrowing rate for existing financing which may be significantly different to the rates that an entity could currently borrow at to finance the lease commitment. A definition which allows existing borrowing rates in certain circumstances, such as within a certain timeframe, would be welcomed.

In providing free choice between IBR and OBR, we note that the selection of IBR or OBR can have a tax cash impact in relation to the interest relief and because capital allowances for some right-of-use assets are based on the accounts figure, which may have a bearing on the rate an entity chooses to use.

One final point on discount rates, we raised concerns in our response to the FRC's request for views over certain sectors being able to determine IBRs, for example academies that are not allowed to have external borrowing or overdrafts, and the simplification to allow the use of gilt rates when IBR and OBR cannot be determined will be of great help to such sectors.

<u>Efficiency within groups</u>

Paragraph 20.6 of Appendix B to FRED 82 says an entity electing not to take the simplifications is expected to arrive at a lease accounting outcome which is comparable with that of IFRS 16. We would ask the FRC to go further and include in Section 20 an accounting policy choice to use IFRS 16 recognition and measurement in the same way that IFRS 9 is permitted in Sections 11 and 12. This would avoid the need for entities that already prepare IFRS 16 numbers for group consolidation purposes having to rework their IFRS 16 right of use assets and lease liabilities in accordance with Section 20. Using the IFRS 16 basis of measurement could give rise to transitional adjustments which will, in turn, create additional complexity in tax calculations and may have a tax cash impact, but we feel the measurement simplifications this option would bring justify the additional tax complexity.

Sale and leaseback

In our view, it would be useful if Section 20 incorporated the amendments to IFRS 16, including the illustrative examples, to specify the requirements a seller-lessee applies in measuring the lease liability arising in a sale and leaseback transaction. As the IFRS 16 amendments apply to periods commencing on or after 1 January 24, FRS 102 reporters would have an additional year to apply these requirements.

Definition of lease incentives

The staff draft of FRED 82 retains the original FRS 102 definition of lease incentives and in our view should be aligned with the definition in IFRS 16.

Public benefit entities

From a public benefit entity perspective, the ability to use the deposit rate in the lease liability calculation is a positive as it is in line with some of the existing discounting provisions in the Charities SORP and therefore familiar to charities, easy to obtain and reflective of their financial situation.

The proposals require entities to recognise leases at market rent, with public benefit entities recognising a non-exchange transaction for favourable leasing terms. There is a concern that, for public benefit entities especially, obtaining the appropriate market rent for leases in order to account for the non-exchange transaction would be difficult, particularly for unusual and some heritage assets where there are no readily available market rents for comparison.

Disclosures

Given paragraph 1.44 and Section 20 appear to give equal footing to IBR and OBR, we would welcome the addition of a requirement to disclose which of these rates has been applied and a broad indication of the extent to which each rate has been applied.

We would like to see additional disclosures to provide a maturity analysis of undiscounted cash flows for the lease liabilities. In our view, these disclosures provide useful information to users of the financial statements. We also note that the disclosures in 20.125 are not aligned with those in IFRS 16.95, for example, there is no reference to disclosures for investment properties or biological assets.

Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?

In our previous response to the FRC's request for views, we also requested an expedient to allow use of a group borrowing rate and guidance for informal arrangements between related parties that allows one of the parties to make use of assets owned or leased by the other party.

Question 7: Revenue

Do you agree with the proposals to revise Section 23 of FRS 102 and Section 18 of FRS 105 to reflect the revenue recognition model from IFRS 15, with simplifications? If not, why not?

We welcome the FRC's proposal to incorporate IFRS 15's five-step revenue recognition model in FRS 102 together with IFRS 15's requirements for specific revenue streams, such as licensing, which will increase comparability. Having a consistent framework for a key line item of revenue in financial statements is important and it will reduce the need for GAAP consolidation adjustments for groups with mixed reporting frameworks. We also support the references to each of the five steps in the standard itself.

We recognise the FRC's reasons for proposing simplifications to some of the revenue recognition requirements in IFRS 15 and are supportive of those that address complex areas such as contract modifications and put options. Similarly, the simplifications for variable consideration in paragraph 23.43 make the requirements easier to understand without changing their meaning or application.

However, the proposed simplifications for 'performance obligations' and principal versus agent considerations may have the unintended consequence of making it more challenging for preparers of FRS 102 accounts to apply the requirements if they are unable to benefit from the guidance and practical experience that is available for IFRS 15 because terminology differs.

<u>Promises</u>

In our view, the reference to 'promises' in Section 23 rather than 'performance obligations' could result in unnecessary disaggregation of revenue streams. It could also change the recognition profile for origination fees under FRS 103. We request that the FRC should revert to using 'performance obligations' and incorporate the associated guidance in IFRS 15 within Section 23. As well as retaining IFRS-alignment on this fundamental principle of revenue recognition, this will also more closely align FRS 102 with the requirements in US GAAP, which is important for groups with international presence.

<u>Principal versus agent</u>

We would like to see the proposed 'principal versus agent considerations' aligned with IFRS 15 so these are based on the underlying principles for revenue recognition that are being proposed for the rest of Section 23. This would also negate the potential for the proposed rewording to have unintended consequences. We consider that the indicators the entity is acting as principal in IFRS 15, paragraph B37 (i.e. being primarily responsible for fulfilling the promise, having inventory risk and discretion in establishing the price) have proved to be useful and therefore warrants them being specifically included in Section 23. The considerations in IFRS 15 have worked well in practice so in our view do not require simplification.

<u>Recognition over time</u>

For the 'over time' recognition criteria in paragraphs 23.78 to 23.82 of FRED 82, the proposed changes to the words used in IFRS 15 could result in different outcomes to IFRS because the revised wording has a different meaning and/or could be interpreted or applied differently, particularly:

- 23.78 (a) Removing 'simultaneously' could imply that the receipt and consumption of benefits may not need to happen at the same time.
- 23.78 (b) appears to add a further criterion for recognition over time when really it is an extension of the criterion in paragraph 23.78 (a). We consider that this should be given the same supporting status as it has in IFRS 15 application guidance (paragraph B4) rather than being elevated to a primary criterion.
- 23.78 (c) considers whether the customer 'obtains control' of the created or enhanced asset as it is created or enhanced, whereas IFRS 15 considers whether the customer 'controls' the asset as it is created or enhanced. The wording in IFRS 15 is clearer that control is continuous. The proposed wording could be interpreted as control being 'obtained' at a point in time.
- 23.78 (d) refers to the customer being 'obliged to compensate the entity for work carried out' whereas IFRS 15 uses the term 'enforceable right to payment for performance completed'. The term 'obliged' could go beyond legal rights to include actions the customer is morally bound to take.

- 23.79 refers to 'substantial' contractual restrictions, whereas IFRS 15 uses the term 'substantive' and 23.80 uses the term 'substantially' when IFRS 15 uses 'substantively'. Substantial changes are sizeable whereas substantive change alter the substance. We acknowledge that these changes may have been unintentional.

We would like to see the requirements for 'over time' recognition aligned with IFRS 15 to enable FRS 102 preparers to benefit from published guidance on the application of IFRS 15, including sector guidance.

It would also be helpful if key elements of paragraphs B4 to B5 to IFRS 15 were included alongside each of the criteria in the proposed paragraph 23.78, specifically:

- B4 If an entity is unable to readily identify whether a customer simultaneously receives and consumes the benefits from the entity's performance as the entity performs, a performance obligation is satisfied over time if an entity determines that another entity would not need to substantially re-perform the work that the entity has completed to date if that other entity were to fulfil the remaining performance obligation to the customer.
- B5 In determining whether a customer controls an asset as it is created or enhanced, an entity shall apply the requirements for control in paragraphs 23.75 to 23.77 and 23.83.

<u>Efficiency within groups</u>

We note the practical expedient in paragraph 1.41 for group entities to use the lease liability and right-of-use asset calculated under IFRS 16 and ask the FRC to consider providing a similar expedient to allow group entities to use revenue calculated under IFRS 15.

As paragraph 23.8 of Appendix B to FRED 82 says the IFRS for SMEs ED has been adapted so an entity applying FRS 102 is not prevented from using an accounting policy that meets the requirements of IFRS 15, we would also ask the FRC to go further and include in Section 23 an accounting policy choice to use IFRS 15 recognition and measurement, in the same way that IFRS 9 is permitted in Sections 11 and 12. This would avoid the need for entities that already prepare IFRS 15 numbers for group consolidation purposes having to rework their IFRS 15 revenue in accordance with Section 23.

<u>Customer options</u>

We agree that simplifications to the accounting for customer options are beneficial, but would welcome guidance on the proposals in paragraph 23.35 to clarify when accounting for an option that provides a material right to a customer as a separate promise is not significant to the accounting for the individual contract. Otherwise, entities will be required to perform the mechanics of the accounting for a separate promise in order to determine whether the exemption is available.

<u>Time value of money</u>

We welcome the inclusion of the exemption from adjusting the promised amount of consideration for the effects of the time value of money. However, we consider the period between the transfer of the good or service to a customer and when the customer pays should be extended to twelve months or less. We do not see the rationale for requiring a shorter timeframe than that required in IFRS 15.63. Many adjustments for shorter timeframes will reverse out in the same financial period and twelve months or less is used elsewhere in FRS 102 e.g. to discount defined contribution payments (28.13A) and in the measurement of termination benefits (28.37).

<u>Costs of obtaining a contract</u>

The inclusion of an accounting policy choice to expense the costs of obtaining a contract will provide entities with a welcome option not to assess the capitalisation criteria as already permitted for borrowing costs and development costs.

Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?

We would welcome inclusion of the following IFRS 15 guidance:

- IFRS 15.B49-51 on non-refundable upfront fees, which explain how these fees can relate to an activity the entity is required to undertake at or near contract inception but do not result in the transfer of a promised good or service to the customer at that time and, therefore, provide useful clarity as to why such fees may be an advance payment for future goods or services which is recognised when those future goods or services are provided; and

- IFRS 15.6 on collaborative arrangements where counterparties share risks, which may be useful to refer to within the scope of section 23, as complex collaborative arrangements are becoming more common, for example in the digital economy, and sometimes it is difficult to identify whether a counterparty is a customer.

Question 8: Effective date and transitional provisions

The proposed effective date for the amendments set out in FRED 82 is accounting periods beginning on or after 1 January 2025, with early application permitted provided all amendments are applied at the same time. Do you agree with this proposal? If not, why not?

If the final amendments are issued, as expected, by the end of 2023, we agree with the proposed effective date of 1 January 2025. In our view this gives entities sufficient time to prepare for transition given the proposed practical expedients. We also agree with the proposals to permit early application as some entities may find it advantageous to do so, for example those included in consolidated financial statements prepared in accordance with IFRS.

In respect of leases, FRED 82 proposes to permit an entity to use, as its opening balances, carrying amounts previously determined in accordance with IFRS 16. This is expected to provide a simplification for entities that have previously reported amounts in accordance with IFRS 16 for consolidation purposes, promoting efficiency within groups. Do you agree with this proposal? If not, why not?

We agree that this proposal will greatly reduce the burden on subsidiaries of applying the changes to Section 20. However, as referred to earlier in our response, using the IFRS 16 basis of measurement gives rise to transitional adjustments which, in turn, create additional complexity in tax calculations.

Otherwise, FRED 82 proposes to require the calculation of lease liabilities and right-of-use assets on a modified retrospective basis at the date of initial application. Do you agree with this proposal? If not, why not?

We agreed with mandating the simplified approach seen in the transition arrangements for IFRS 16 along with associated practical expedients will ensure consistency between entities as well as simplifying the initial application of the changes.

FRED 82 does not propose to permit the revised Section 23 of FRS 102 to be applied on a prospective basis. However, FRED 82 proposes to require micro-entities to apply the revised Section 18 of FRS 105 on a prospective basis. Do you agree with these proposals? If not, why not?

We agree with these proposals.

Do you have any other comments on the transitional provisions proposed in FRED 82?

We ask that Section 1 is updated to include transitional arrangements for the proposed changes in Section 2A on fair value measurement to require prospective application as of the beginning of the annual period in which the changes are initially applied, in line with the transitional arrangements in IFRS 13.

We have no other comments on the transitional provisions proposed in FRED 82.

Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.

For lessees, we would like to see disclosure to explain any difference between the lease liability recognised on transition and previously disclosed operating lease commitments discounted using the applied borrowing rate at transition, as this would provide useful information to users of the financial statements.

Question 9: Other comments

Do you have any other comments on the proposed amendments set out in FRED 82?

We agree with a number of the proposed amendments to the FRS, as set out in more detail in Appendix 1. We also set out in Appendix 1 some further explanations of points raised in the main body of our response and some further areas we would ask the FRC to consider.

Areas where we consider the proposals should be amended or could be further improved are detailed below.

<u>Section 1A – small entities</u>

We welcome the mandating of encouraged disclosures from section 1A.E to 1A.C for UK entities as these have essentially become part of GAAP and so should not cause any tangible increase in the cost to preparers. We also support the clarification that additional disclosures may still need to be provided to show a true and fair view.

However, as the proposals will include further disclosures in Appendix C to Section 1A that are in addition to those required by company law, it would be beneficial to highlight the need to consider materiality, in line with paragraph 3.16B, i.e.:

1AC.1 As a minimum, when relevant to its transactions, other events and conditions, a small entity in the UK shall provide the disclosures set out in this appendix. An entity need not provide a specific disclosure if the information resulting from that disclosure is not material, and provided that disclosure is not required by company law regardless of materiality.

In addition, we question the rationale for some of the additional disclosures, such as deferred tax when current tax disclosures are not mandated, and the addition to the related party disclosures.

Given more than two million small entities are potentially within the scope of section 1A, as well the countless unincorporated entities that use it as best practice, we encourage a think small first approach to the layout and content of the section. Using this as a guiding principle, we encourage the FRC to ensure all required disclosures are included in full within section 1A, rather than via cross reference. By way of example, 1AC.31A-C, 1AC.32A-B, 1AC.35, 1AC.36A, 1AC.40, 1AC.41 include mandatory disclosures via cross reference to the main standard which we do not believe is helpful for preparers.

Whilst the small company regulations currently stipulate minimum disclosures, we believe a longer term project could set out the disclosure requirements of section 1A by area of the accounts, rather than simply copying the legislation and then saying where it may apply in the accounts – a preparer should be able to go to section 1A (as they could a corresponding section of the standard) to find all disclosures relating to (for example) fixed assets in the one place. As an alternative, an additional appendix in the form of a table of concordance would be a useful short term addition to the standard.

FRS 105 – micro-entities

With the expected change in legislation which will require micro-entities to file their income statement, we believe it is more important than ever that micro entity accounts are fit for purpose. Whilst acknowledging that a change to legislation may be needed to add disclosures to FRS 105, we would like to see a similar approach as proposed for section 1A to add disclosures to FRS 105, that are fundamental to a users' understanding of the accounts. We therefore suggest additional disclosures in four key areas:

- Going concern – where there is a material uncertainty that may cast significant doubt upon the ability of the entity to continue as a going concern, or if the entity has not applied the going concern basis of preparation.
- Prior period adjustments – it is fundamental for users to be informed if any brought forward figures do not agree to prior year signed accounts.
- Exceptional items – significant one-off transactions ought to be identified to avoid misleading users about the underlying performance of the entity and/or performance trends.
- Fundamental related party transactions – where lack of disclosure about the transactions would impact the economic decisions of users of the accounts (e.g. material sales and/or purchases are between related parties).

Section 11 Basic Financial Instruments

11.13A Initial measurement at transaction price – We agree with the additional trade receivable and contract asset measurement exception allowing such transactions to be initially measured at transaction price. However, we do not agree that this should apply when payment is expected within 6 months, but instead consider that this period should be extended to 12 months or less.

Section 9 Consolidated and Separate Financial Statements

9.18A Recycling exchange differences when control is lost - We recommend that the cumulative amount of any exchange difference that relates to a foreign subsidiary should be recycled to the income statement and included within the calculation of profit/(loss) on disposal in accordance with IAS 21. To clearly identify amounts that will be recycled, the cumulative exchange differences relating to a foreign operation that are recognised in other comprehensive income should, in our view, be accumulated in a separate component of equity (as required by IAS 21). Additionally, it would be beneficial to users if the presentation of other comprehensive income were aligned with IAS 1 to separately identify items that will not be reclassified subsequently to profit or loss from those items that will be reclassified subsequently to profit or loss when specific conditions are met.

We note that FRS 23 permitted recycling of such exchange differences in-line with IAS 21, and that the 'Notes on the Standard's Application' acknowledged the IASB's review of the use of recycling at the time. We consider now is the right time to revert to the position taken in FRS 23 as FRED 82 (paragraph 2.105) is proposing to align with the 2018 Conceptual Framework (paragraph 7.19). This recognises the principle of reclassification from other comprehensive income into the statement of profit or loss '*when doing so results in the statement of profit or loss providing more relevant information, or providing a more faithful representation of the entity's financial performance for that future period*'. In our view recycling achieves this as without it a gain on disposal can be recognised for an investment eroded by exchange movements which will never reverse. We appreciate that this will result in a difference to IFRS for SMEs but consider recycling to be proportionate to the size and complexity of the information needs of users of FRS 102 accounts.

Section 19 Business Combinations and Goodwill

19.3 Definition of a business - We recommend alignment with the definition of a business under IFRS 3. We also recommend that the 'concentration test' under IFRS 3 App B B7A should be included to enable users of FRS 102 to benefit from this simplified assessment of whether an acquired set of activities and assets meets the definition of a business. We recognise the FRC's point in Appendix B to FRED 82, that aligning to the IFRS 3 definition of a 'business combination' would exclude a number of transactions that are currently within the FRS 102 definition, including group reconstructions and combinations of entities that are not combinations of businesses. However, in our view this need not prevent alignment of the definition of a 'business' with IFRS 3 as the current definition of a 'business combination' in FRS 102 already refers to 'entities or businesses'.

19.12 & 19.13 Adjustments to the cost of a business acquisition contingent on future events - In our view, it would be helpful to align the accounting treatment regarding the recognition of contingent consideration with IFRS 3, i.e. to say that contingent consideration should be recognised at fair value at the acquisition date, whether it is considered to be probable or not, with subsequent changes in fair value (other than for equity consideration and measurement period adjustments) recognised in profit or loss. This would also align the accounting with the proposals for IFRS for SMEs which the board notes have been included:

- to improve users' ability to understand the cost of the business combination, so the amount of goodwill recognised is a more faithful representation of the underlying economics of the business combination; and
- as delaying recognition fails to consider that the acquirer's agreement to make contingent payments is the obligating event in a business combination.

We appreciate that the proposals for IFRS for SMEs include an 'undue cost or effort' exemption which is not permitted in FRS 102, but do not consider that such an exemption would be necessary given micro-entities have the option to use FRS 105. In our view the measurement of contingent consideration at fair value under IFRS 3 has been in place for sufficient time to provide useful practical guidance if the same requirements are incorporated into FRS 102. Additionally, aligning with IFRS now would go alongside the proposed guidance on fair value and the revised definition of a liability in Section 2A.

Section 24 Government Grants

We suggest alignment of Section 24 with IAS 20 to remove the accounting policy choice for government grants and require the accruals model. We recognise that removal of the performance model would have a significant impact on sectors where the SORP prescribes it (e.g. Charities), but there is no such prevalence of its use outside of PBE sectors where the accruals model is better understood. In our view, retaining the performance model as a 'PBE' paragraph would allow Public Benefit Entities to continue with long-standing accounting used under the SORPS and retain consistency within those sectors, whilst providing IFRS-alignment and simpler accounting for other entities.

Section 26 Share-based Payments

26.1B Replacement share-based payments in a business combination – In our view, accounting for share-based payments cancelled, replaced or otherwise modified due to a business combination or other equity restructuring wholly within section 26 may not reflect the commercial substance in all cases. IFRS 3 recognises such arrangements may be wholly/partially consideration for the acquisition rather than remuneration. We do not consider it is necessary to incorporate the detailed guidance from IFRS 3 as the ability to reflect the commercial substance could be achieved with a slight rewording, as suggested in Appendix 1.

26.15B Net settlement features – We agree a settlement choice that relates only to a net settlement feature should be wholly equity-settled in line with the accounting in IFRS 2, but to avoid unintended consequences, consider it should be clarified that this only applies to net settlement features where the entity has a legal/regulatory obligation to withhold amounts for the employee's tax (per IFRS 2). Additional clarity on how to account for shares withheld in excess of the monetary value of the employee's tax obligation in line with IFRS 2 would also be useful. Both points could be addressed by rewording paragraph 26.15B, as suggest in Appendix 1.

Charities

Whilst we are generally supportive of the proposals on leases and revenue recognition, we recognise the challenges for very small charities in applying these new requirements as they do not meet the definition of a 'micro-entity' to apply FRS 105, and suggest these challenges are considered by the SORP working party.

Pension schemes

We would have liked to see more of the comments raised in our response to the FRC's request for views addressed in FRED 82, in particular, our requests to:

- remove or simplify credit risk and market risk disclosures, as the costs of compliance are disproportionate to the benefits to the users of retirement benefit plan financial statements; and
- consider alternatives to recognising annuity policies at fair value in the statement of net assets, as annuity policies offset an unrecognised equal and opposite liability so recognising these at their fair value adds little value.

Question 10: Consultation stage impact assessment

Do you have any comments on the consultation stage impact assessment, including those relating to assumptions, sources of relevant data, and the costs and benefits that have been identified and assessed? Please provide evidence to support your views.

We have no comments to make on the consultation stage impact assessment.

Appendix 1 Additional Comments

Section of FRS 102	Additional Comments
1A Small Entities	**1A.17A** (with minor amendment) says disclosures need not be provided "if the information resulting from that disclosure is not material, except when required by the Act regardless of materiality." If the FRC are minded to recast section 1A in the order of the accounts then it would be helpful to identify what disclosures are required by the Act regardless of materiality.
2 Concepts and Pervasive Principles	**2.18** – The proposals on Neutral Depiction elevate some of the discussion on asymmetric prudence which are only included in BC2.45 to the 2018 Conceptual Framework. We consider further guidance from the Basis for Conclusions to the 2018 Conceptual Framework is warranted to achieve clarity, for example: "*The exercise of prudence does not imply a need for asymmetry, and asymmetry can be consistent with neutrality. ~~Although p~~ Particular sections may contain asymmetric requirements if these are a consequence of decisions intended to select the most relevant information that faithfully represents what it purports to represent. The selection of neutral accounting policies means selecting accounting policies in a manner that is not intended to increase the probability that financial information will be received favourably or unfavourably by users.*" **2.21** – The proposals on Comparability would benefit from retaining the current paragraph 2.11 wording on accounting policies, i.e. *"2.21 Information about a reporting entity is more useful if it can be compared with similar information about other entities and with similar information about the same entity for another period or another date. Comparability is the qualitative characteristic that enables users to identify and understand similarities in, and differences among, items. It is diminished when alternative accounting methods are applied to the same economic events. It is enhanced by informing users of the accounting policies employed in the preparation of the financial statements, and of any changes in those policies and the effects of such changes."* **2.59 –** It will be difficult to apply the proposed wording, that not all items meeting the definitions of assets, liabilities, equity, income or expenses are recognised, without the additional explanatory paragraphs 5.7 to 5.11 in the 2018 Conceptual Framework. We ask the FRC to consider incorporating key elements from these paragraphs in FRS 102, perhaps by amending 2.59 as follows: *2.59 Only items that meet the definition of an asset, a liability or equity are recognised in the statement of financial position. Similarly, only items that meet the definition of income or expenses are recognised in the statement(s) of financial performance. However, not all items that meet the definition of one of those elements are recognised. For example, because the costs of recognition may outweigh its benefits, or because of accounting policy to capitalise or expense. Even if an item meeting the definition of an asset or liability is not recognised, an entity may need to provide information about that item in the notes.* **Glossary –** We also suggest defining the term 'statement of financial performance' as it is not currently used in FRS 102. The definition could be included in the Glossary as: *"Statement(s) of financial performance include the single statement of comprehensive income,*

Section of FRS 102	Additional Comments
	the separate income statement and statement of comprehensive income, or the statement of income and retained earnings." As set out in our response to Q2, we believe Section 2 could be further shortened by: • Removing definitions of terms that are defined in the Glossary – including in paragraphs 2.79 'Amortised cost', 2.81 'Fair value', and 2.82 'Value in use'. • Removing duplicate wording – including in paragraph 2.7 (duplicates some of 2.5), paragraph 2.19 (duplicates some of 2.16), paragraph 2.22 (duplicates some of 2.20), paragraph 2.56 (duplicates some of 2.34) and also within paragraphs 2.24, 2.25 & 2.55. • Removing some examples – such as those in paragraphs 2.87 to 2.89. • Removing cross-references that may be useful in the 2018 Conceptual Framework due to its length but are not as necessary in the shorter Section 2 – including those in paragraphs 2.35, 2.92 and 2.99. • Condensing some of the wording, for example as illustrated below for paragraphs 2.1 and 2.2: *2.1 This section describes the objective of financial statements of entities within the scope of this FRS~~. It also sets out~~ and the concepts and basic principles underlying those ~~the~~ financial statements ~~of entities within the scope of this FRS~~.* *2.2 ~~Although this section sets out the concepts and pervasive principles underlying financial statements, in some circumstances~~ If there are ~~may be~~ inconsistencies between the concepts and principles in this section and the requirements in another section of this FRS~~. In these circumstances,~~ the requirements in the other section ~~within this FRS~~ take precedence ~~over this section~~.*
2A Fair Value Measurement	For clarification, we would suggest including paragraph 24 from IFRS 13 that: *"Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique."*
3 Financial Statement Presentation	**3.8A** – We support the cross-reference to highlight the requirement to disclose significant judgements in respect of going concern.
8 Notes to the Financial Statements	**8.5 to 8.5D** – We agree with the disclosure of material, rather than significant, accounting policies and welcome the associated guidance on materiality.
9 Consolidated and Separate Financial Statements	**9.3** – We agree with the clarification of circumstances in which an intermediate parent entity can take the exemption from preparing consolidated financial statements. **9.20A** – We agree with moving the accounting for non-controlling interests to Section 9 from Section 22.

Section of FRS 102	Additional Comments
10 Accounting Policies, Estimates and Errors	**10.14A to 10.15** – We agree that the additional guidance on accounting estimates will be beneficial to preparers.
11 Basic Financial Instruments	**PBE11.1A** – We agree with highlighting that PBE concessionary loans are out of scope, irrespective of the accounting policy choice adopted regarding initial measurement and recognition. **11.7 (j)** – We agree with the additional scope exception relating to rights and obligations within the scope of Section 23 because of the alignment to IFRS 15. **11.14A** – We agree with including discussion on when dividends are recognised in profit and loss. **11.48ZA & 11.48ZB** – We agree with adding clarification that, once the option to apply IFRS 9 is chosen (per paragraph 11.2), entities must follow the recognition and measurement under IFRS 9 in its entirety, including ECL.
12 Other Financial Instruments Issues	Proposed amendments are similar to Section 11 above where applicable.
14 Investments in Associates	**14.3A** – We agree with the inclusion of guidance on assessing whether an investor has significant influence. **14.8(d)** – We agree that the carrying value of an entity's investment in an associate tested for impairment should include any financial instruments that in substance form part of the investor's net investment in that associate, such as a long-term receivable.
16 Investment Property	**16.2A** - We agree with the reference to Section 19 in determining whether the acquisition of an investment property meets the definition of a business combination.
17 Property, Plant and Equipment	**17.3A** - We agree with the reference to Section 19 in determining whether the acquisition of property, plant and equipment meets the definition of a business combination.
18 Intangible Assets other than Goodwill	**18.3A** - We agree with the reference to Section 19 in determining whether the acquisition of an intangible asset meets the definition of a business combination. **18.3B** - We agree with the insertion to clarify whether an asset that incorporates both tangible and intangible elements should be within the scope of Section 17 or Section 18.
19 Business Combinations and Goodwill	**19.11B** - We agree with the clarification that a transaction remunerating employees or former owners of the acquiree for future services is not part of the cost of the business combination and that arrangements for contingent payments to employees or selling shareholders need to be carefully assessed to see whether these are contingent consideration or a separate transaction. **19.15** - We agree that no contingent asset should be recognised at the acquisition date. **19.15D - 19.15F** - We agree with combining the recognition criteria for when a provision and contingent liability should be recognised in a business combination.

Section of FRS 102	Additional Comments
	19.19A - We agree with the clarification as to when a right-of-use asset and a lease liability should be recognised. **19.25** - We welcome the proposed new requirements for disclosures on business combinations which brings in some of the IFRS 3 requirements such as disclosure of NCI recognised, reasons for non-recognition of contingent liabilities and an indication if fair values allocated are provisional at the reporting date.
Appendix Guidance on identifying the acquirer	We agree that the proposed Guidance is helpful in providing several indicators that an entity should consider to identify the acquiror. The Guidance brings in B14-B18 of IFRS 3 which ensures consistent interpretation between GAAPs which we consider to be helpful.
20 Leases	We agree with the proposed changes to align lessor accounting with IFRS 16, including the accounting for lease modifications. **20.15, 20.41 & 20.42** – We support the proposed simplification of the portfolio approach and rebuttable presumptions for terminations and term extensions. These will benefit many lessees as portfolios of leases with similar characteristics (such as car fleets) and clauses to terminate or extend a lease are relatively common. **20.72, 20.74 & 20.78** – Simplifications in relation to the remeasurement of leases as well as modifications of leases are welcomed, and the simplification to allow entities to retain the original index rates rather than remeasure will greatly reduce the administrative burden. **20.80** – The simplified accounting for leases transferred between entities included in the same consolidated financial statements is welcome. **20.113** – We question whether this paragraph on lease incentives is necessary given the proposed alignment of the definition of 'lease payments' with IFRS 16 which includes lease incentives. There is no equivalent paragraph in IFRS 16. **20.128** – The inclusion of an accounting policy choice that is essentially keeping the simplification from FRS102 for the accounting for sale and lease-back arrangements is welcomed given the complexity of this area.
25 Borrowing Costs	**25.2C** – We support the proposed changes to this section to align with IAS 23.
26 Share-based Payment	**26.1B** – We agree with the additional clarification on when an issue of equity instruments does, and does not, fall within the scope of Section 26. As explained in our response to Q9, we suggest rewording this paragraph to reflect the commercial substance of changes made to awards due to business combination: *Equity instruments issued in a business combination in exchange for control of the acquiree are not within the scope of this section. However, equity instruments granted to employees of the acquiree in their capacity as employees (e.g. in return for continued service) are within the scope of this section. Similarly, the cancellation, replacement or other modification of share-based payment arrangements because of a business combination or other equity restructuring shall be assessed to determine whether they are issued in exchange for control*

Section of FRS 102	Additional Comments
	of the acquiree, and not within this section, or granted to employees of the acquiree in their capacity as employees, and within the scope of ~~accounted for in accordance with~~ this section. **26.13A** – We agree with settlements in cash (or other assets) being a deduction from equity in-line with IFRS 2 and the repurchase of equity instruments. **26.14A-26.14C** – We welcome alignment of the accounting for vesting conditions in cash-settled share-based payments with IFRS 2 as this provides missing guidance that will result in greater consistency with IFRS and between entities applying FRS 102. **26.15B** – As explained in our response to Q9, we suggested rewording this paragraph to clarify the scope of the proposed accounting for net settlement features and the accounting for any excess amounts withheld: *(b) the choice of settlement relates only to a **net settlement feature** for which there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with the share-based payment.* *In circumstances (a) and (b) the entity shall account for the transaction as a wholly equity-settled transaction in accordance with paragraphs 26.7 to 26.13A. If the entity withholds an amount of shares that exceeds the monetary value of the employee's tax obligation in circumstance (b), the entity shall account for the excess shares withheld as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee.*
27 Impairment of Assets	We support the proposed changes to this section.
28 Employee Benefits	**28.15** – We agree with referencing fair value to Section 2A, as IAS 19 similarly refers to IFRS 13. **28.21B&C** – We agree with the alignment to IAS 19 on using current fair values and actuarial assumptions to remeasure the defined benefit liability, as this provides more relevant information to users. **28.25** – We agree with the proposed accounting for the costs of managing plan assets in line with IAS 19 as it is not expected to be excessively costly or difficult to estimate these costs. **28.41** – We agree with the proposed additional analysis within the reconciliations in line with IAS 19.
29 Income Tax	**29.17A-29.17C** – We welcome alignment with IFRIC 23 as this provides missing guidance on uncertain tax positions that will result in greater consistency with IFRS and between entities applying FRS 102. We consider that including guidance from IFRIC 23 on the following will further aid comparability: • *If an uncertain tax treatment affects current tax and deferred tax an entity shall make consistent judgements and estimates for both current tax and deferred tax.* • *An entity shall reassess a judgement or estimate required by this Interpretation if the facts and circumstances on which the judgement or estimate was based change or as a result of new information that affects the judgement or estimate.*

Section of FRS 102	Additional Comments
	• *An entity shall apply IAS 10 Events after the Reporting Period to determine whether a change that occurs after the reporting period is an adjusting or non-adjusting event.*
33 Related Party Disclosures	**33.11 & 33.12** – We agree with the additional disclosures for commitments as these can be significant to users.
34 Specialised Activities Retirement Benefit Plans: Financial Statements	**34.42** – We note that the valuation techniques included in the draft Section 2A Fair Value Measurement remain inconsistent with the hierarchy presented in paragraph 34.42. Whilst we consider that FRED 82 presents an opportunity to align the valuation techniques described by FRS 102 with the fair value hierarchy disclosure requirements, we believe preparers and users of Retirement Benefit Plan financial statements understand and accept the mismatch, and the continued misalignment will not disadvantage any parties. **34.43** – We would welcome further details from the FRC as to what the reference to '[risks] which may impact the ability of the plan to pay the promised retirement benefits to members' is intended to capture and what changes the FRC expects to see in the risk disclosures presented by Retirement Benefit Plans as a result. We also ask the FRC to remove the word "promised" from this paragraph (copied below) as there are no promises associated with a defined contribution scheme. *34.43 A retirement benefit plan shall disclose information that enables users of its financial statements to evaluate the nature and extent of credit risk and market risk arising from financial instruments to which the retirement benefit plan is exposed at the end of the reporting period and which may impact the ability of the plan to pay the ~~promised~~ retirement benefits to members.*
35 Transition to this FRS	We have commented on the transition exemptions for leases and revenue in our response to Q8. We agree with the other proposed changes to the transition exemptions to remove exemptions that are no longer needed, clarify other exemptions and provide new exemptions to use previous GAAP cost for certain assets and align the transition exemption for development costs with the existing exemption for borrowing costs. We also agree that disclosure of the exemptions applied and material changes in financial position will provide useful information to users and greater comparability between entities.

Appendix 2 Noted inconsistencies, references and minor mark-ups

Section of FRS 102	Noted inconsistencies, cross-references and minor mark-ups
General	Defined terms are not identified in 'bold' in a number of places.
1A Small Entities	We believe it would be helpful to use a standard keyboard character for the dagger/crucifix as it doesn't copy into Word or email.
2 Concepts and Pervasive Principles	**2.44** - We assume that showing the term 'constructive obligation' in bold in this paragraph is an error, as the proposed revision to the definition of a 'constructive obligation' in paragraph 2.44 to align with the 2018 Conceptual Framework will differ from the unchanged definition of a 'constructive obligation' in the Glossary. We presume this difference is intentional to avoid unintended consequences on other sections of FRS 102 that use the current definition of 'constructive obligation' in the Glossary that is aligned with the definition in IAS 37, including (i) Section 21, in the definition of a provision; (ii) Section 28, in the recognition of profit-sharing and bonus plans, the definitions of defined contribution plans and termination benefits, and obligations under defined benefit plans; and (iii) Section 14, in the conditions for recognising additional losses under the equity method. **2.60 –** The reference to 'those criteria' is unclear and could be clarified as follows: *2.60 The failure to recognise an item that satisfies ~~those~~ the recognition criteria is not rectified by disclosure of the accounting policies used or by notes or explanatory material'.* **2.66** - (copied below) sits under the heading 'Measurement uncertainty and outcome uncertainty' but applies to recognition more broadly and may be better placed under the heading 'Recognition criteria', perhaps after the current paragraph 2.59. *"2.66 An item that fails to meet the recognition criteria may qualify for recognition at a later date as a result of subsequent circumstances or events."*
3 Financial Statement Presentation	**3.8A** - Given the requirements in paragraph 3.8 apply to management, we assume it is intended that management, rather than 'the entity', provide the confirmations in paragraph 3.8A, i.e.: *When management ~~an entity~~ prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that it has considered information about the future as set out in paragraph 3.8.*
20 Leases	**Remove unnecessary wording from 20.27:** A contract may contain multiple components, of which some may relate to the lease of an asset and some may relate to other items such as services. ~~Such components are separated into lease components and non-lease components for the purposes of lease accounting.~~ **Typo in the title above 20.65:** Other measurement models **Reword and embolden the Glossary defined term in the opening line of 20.77:** For a lease modification that is not accounted for as a separate lease, at the **effective date of the ~~lease~~ modification** a lessee shall:

Section of FRS 102	Noted inconsistencies, cross-references and minor mark-ups
	Incorrect cross-reference in 20.83: Unless applying the recognition exemptions in paragraph 20.5, lease incentives/premiums and prepaid/accrued rentals are taken into account when measuring right-of-use assets and lease liabilities as described in paragraphs 20.50 ~~20.48~~ and 20.52… **Typo in 20.85:** A lessee shall provide a general description of its significant leasing arrangements, and, if necessary to enable users to understand these arrangements, additional qualitative and quantitative information. This additional information may include, but is not limited to, details of: **Typo in 20.125 to align with IFRS 16.95:** In applying the disclosure requirements in Sections 17,~~ 18 and 27,~~ a lessor shall disaggregate each class of property, plant and equipment into assets subject to operating leases and assets not subject to operating leases. **Incorrect cross-reference in 20.128(a)(ii):** … measure the right-of-use asset arising from the leaseback according to paragraph 20.49 ~~20.48~~, with any gain or loss arising (being the difference between the fair value of the consideration and the previous carrying value of the asset immediately prior to transfer) deferred, and amortised over the lease term.
28 Employee Benefits	**Additional cross-reference in 28.21B:** … (b) determine the service cost, net interest and interest income after the introduction, change, curtailment or settlement using the actuarial assumptions, discount rate and plan assets determined in accordance with paragraphs 28.21 or 28.21A and paragraph 28.21C, as applicable.
34 Specialised Activities Agriculture	**Incorrect cross-reference in 34.6A**: If the fair value of a biological asset cannot be measured reliably, the entity shall apply the cost model to that biological asset in accordance with paragraphs 34.8 to 34.9A ~~and 34.10~~ until such time that the fair value can be reliably measured.
Glossary	**Definition of 'material'** – is not quite aligned with IAS 8: Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. **Definition of 'market vesting condition'** – is not quite aligned with IFRS 2: A performance condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price (or value) of the entity's equity instruments (or the equity instruments of another entity in the same group) …