Submitted via email to: ukfrsperiodicreview@frc.org.uk

28 April 2023

Subject: ***Fred 82*** **Draft amendments**

The Institute of Certified Public Accountants in Ireland welcomes the opportunity to provide commentary on FRC's Fred 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs.

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**?**
In general the proposed level of disclosures seems to be appropriate and necessary to provide stakeholders with the information they require when considering the financial statements and the cash flows and investing in an entity. However, we believe the proposed additional disclosures are incomplete and we recommend that current tax disclosures should also be included in the disclosure requirements in the inserted paragraph 1AC.36A. In addition, individual accountants might be required to familiarise themselves with the amendments to the standards and auditors of financial statements of affected entities that may need to implement new audit and assurance processes that address new accounting requirements and apply them in the audit of affected entities.
We agree with the mandatory going-concern disclosures to comply with para 3.8A, in particular paragraph 3.8A which also requires an entity to disclose any significant judgments made in assessing the entity's ability to continue as a going concern.

We agree that a small entity should be required to provide disclosures relating to material uncertainties related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern as set out in para 3.9. Currently, this requirement is an encouraged disclosure per FRS 102.

We agree with the additional disclosures proposed in respect of leasing arrangements (draft para 1AC.31A) including short-term leases, leases of low-value assets and variable lease payments (draft para 1AC.32A), provisions and contingencies (draft para 1AC.31B) and share-based payment transactions (draft para 1AC.31C) and promises in contracts with customers (draft para 1AC.32B).

Question 2: Concepts and pervasive principles the proposed revised Section 2 Concepts and Pervasive Principles of FRS 102 and FRS 105 would broadly align with the IASB's 2018 Conceptual Framework for Financial Reporting. The IASB's Exposure Draft Third edition of the IFRS for SMEs Accounting Standard (IASB/ED/2022/1) contains similar proposals.
The FRC considers it appropriate that FRS 102 and FRS 105 should be based on the same concepts and pervasive principles as IFRS Accounting Standards including the IFRS for SMEs Accounting Standard, given the FRC's aim of developing financial reporting standards that have consistency with global accounting standards. The FRC has made different decisions from the IASB in some respects in developing proposals to align FRS 102 and FRS 105 with the 2018 Conceptual Framework in a

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

This FRED, and IASB/ED/2022/1, propose to continue using the extant definition of an asset for the purposes of Section 18 Intangible Assets other than Goodwill and the extant definition of a liability for the purposes of Section 21 Provisions and Contingencies of FRS 102. This is consistent with the approach taken in IAS 38 Intangible Assets and IAS 37 Provisions, Contingent Liabilities and Contingent Assets which use the definitions of an asset and a liability from the IASB's 1989 Framework for the Preparation and Presentation of Financial Statements.

Do you agree with this approach? If not, why not? Do you have any other comments on the proposed revised Section 2?

We agree with the proposed revised Section 2 Concepts and Pervasive Principles of FRS 102 and FRS 105 aligning with the IASB's 2018 Conceptual Framework for Financial Reporting. Furthermore, we agree with the development of financial reporting standards that have consistency with global accounting standards including aligning with the 3rd exposure draft edition of the IFRS for SME's Accounting Standards which contain similar proposals. These proposals will ensure the application of consistent principles for accounting by all entities.

We welcome clarification regarding the accrual basis of accounting, particularly for entities preparing the financial statements and subsequently users of financial statements however, there appears to be a lack of emphasis around the accrual basis of accounting within Section 2. Whilst FRED 82 outlines that a micro-entity shall prepare its financial statements using the accrual basis of accounting it does not specify if an entity other than a micro-entity can prepare its financial statements using the same method, we therefore welcome your recommendation regarding this matter.

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

We have no further comments on the proposed revisions .

Th FRED proposes to continue using the extant definition of an asset for the purposes of Section 18 Intangible Assets other than Goodwill and the extant definition of a liability for the purposes of Section 21 Provisions and Contingencies of FRS 102. Do you agree with this approach? If not, why not?

We agree with this approach.

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 this proposal

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 this proposal and the proposed consequential amendment to Section 26 Share-based Payment of FRS 102.
We agree with this proposal

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 deferral on this and consider it to be reasonable and prudent for the (FRC to defer conclusions on alignment of this) and to await the issuance of the IABS third edition of IFRS for SME's Accounting Standard. This would therefore allow full considerations of the matter and any alignment can be included in a later FRED commentary
The IASB proposes to retain the incurred loss model for trade receivables and contract assets and introduce an expected credit loss model for other financial assets measured at amortised cost. 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?
We agree with this viewpoint.
Based on stakeholder feedback received to date, the FRC does not intend to use the existing definition of a financial institution to define the scope of which entities should apply an expected credit loss model. The FRC's preliminary view is that it may be appropriate to define the scope 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. Do you have any comments on which entities should be required to apply an expected credit loss model?
We have no comments regarding which entities should be required to apply an expected credit loss model

Further comments
A simplification of the recognition and measurement requirements for issued financial guarantee type contracts would be welcomed. As noted they are already currently measured at fair value. Also no change for SME's with regard to simple defined trade receivable or payables is also useful from an SME perspective.

The expected credit loss approach means that the entity and also other users of the financial statements needs to understand the significance of the credit risk involved and the movement from the initial recognition of the financial asset on the balance sheet. Whilst the incurred loss model approach makes the assumption that all loans will be repaid until the evidence or the crystallising event (of the loan) is identified. It's at that point the impaired loan is written down.
Therefore the expected credit loss model is able to recognise losses earlier and before they are incurred as a loss event under the incurred model approach.

We agree with the FRC preliminary view as timely recognition of expected credit losses provides an accurate picture of the value of financial assets, this will facilitate an precise presentation of a true and fair view .

We welcome that no amendments are proposed at this stage to incorporate the expected credit loss model into FRS 102 and that the FRC intends to reconsider this matter in due course, taking into account the IASB's third edition of the IFRS for SMEs Accounting Standard when finalised. -B11.4

Question 5: Other financial instruments issues When it has reached its conclusion as to whether to align FRS 102 with the expected credit loss model, the FRC intends to remove the option in paragraphs 11.2(b) and 12.2(b) of FRS 102 to follow the recognition and measurement requirements of IAS 39 Financial Instruments: Recognition and Measurement. This intention was communicated in paragraph B11.5 of the Basis of Conclusions to FRS 102 following the Triennial Review 2017. 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? 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 support the deletion of temporary amendments and would not consider it unreasonable to delete temporary amendments for financial instruments for periods, provided there is sufficient time for transition.

Question 6: Leases FRED 82 proposes to revise the lease accounting requirements in FRS 102 to reflect the on-balance sheet model from IFRS 16 Leases, with largely-optional simplifications aimed at ensuring the lease accounting requirements in FRS 102 remain cost-effective to apply. An entity electing not to take these proposed simplifications will follow requirements closely aligned to those of IFRS 16, which is expected to promote efficiency within groups. 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? Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial**?**

We agree with these proposals. We can see the benefits for larger group entities where the parent is preparing accounts under IFRS and the advantages to aligning FRS102 with IFRS. This however is an option at present and an entity could choose to prepare their accounts using IFRS, however for smaller or not for profit entities this standard may complicate the preparation of the accounts with no real benefit to the users. The application of this would be very burdensome, particularly for many small charities that must apply FRS 102, whereas small companies can opt to apply FRS 105 instead.

Users of these financial statements are usually members of the community/public and understandability of the accounts may be jeopardised for them and will become more technical and these users may struggle to understand. The right of use Asset and liabilities could for charities include a non-exchange transaction, below market rate rent leading to a contribution to the cost of the right of use asset, further complicating the transaction. The use of the discount rate for not for profit is not straight forward. Trying to ascertain the incremental borrowing rate may prove difficult resulting in the use of the gilt rate which may not align to the term of the lease. Current accounting software used would not have the functionality to unwind the lease and further expenses and development costs would be necessary.

Question 7: Revenue FRED 82 proposes to revise the revenue recognition requirements in FRS 102 and FRS 105 to reflect the revenue recognition model from IFRS 15 Revenue from Contracts with Customers. The revised requirements are based on the five-step model for revenue recognition in IFRS 15, with simplifications aimed at ensuring the requirements for revenue in FRS 102 and FRS 105 remain cost-effective to apply. Consequential amendments are also proposed to FRS 103 and its accompanying Implementation Guidance for alignment with the principles of the proposed revised Section 23 of FRS 102. 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? Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?

We agree with the proposals, a uniform method in recognising all types of revenue will aid in the comparability and integrity of the financial statements.

However charities have many sources of income including contact income in some cases. The need for sector specific guidance on revenue recognition would be required. The Charity SORP contains some specific rules for charities on the recognition of grant income from government grants but remains silent on other grants. Some additional charity specific guidance on revenue and grant recognition in the updated SORP which will accompany the new FRS102 would be welcomed. We have not identified any further simplifications.
In respect of revenue, FRED 82 proposes to permit an entity to apply the revised Section 23 of FRS 102 on a modified retrospective basis with the cumulative effect of initially applying the revised section recognised in the year of initial application.

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This is expected to ease the burden of applying the new revenue recognition requirements retrospectively by removing the need to restate comparative period information. Unlike IASB/ED/2022/1, to ensure comparability between current and future reporting periods, 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? Do you have any other comments on the transitional provisions proposed in FRED 82?
We agree with the retrospective basis of application for FRS102 as this will allow consistent treatment of comparatives in financial statements.
We disagree with the prospective approach of application for FRS105 on the basis that it hinders comparability of figures reported in the financial statements, in saying this we are aware of the limited information published in FRS105 accounts.
Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.
We have no further comments on the transitional provisions proposed in FRED 82?

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?
We partially agree with the implementation time line on the assumption that all final amendments are confirmed and published by the end of 2023 to allow users adequate time to prepare for a January 2025 roll out however the proposed changes in this consultation document are quite significant and as most entities may need additional time to adopt to the changes in this consultation paper , we suggest an effective date of 1 January 2026, this is in the context of entities who be required to implement systems and processes that will enable them to apply the amended standards, individual accountants, might be required to familiarise themselves with the amendments to the standards and auditors of financial statements may need to design new audit and assurance processes that address new accounting requirements, and apply them in the audit of affected entities.
We recommend that further consideration is given to the impact on SME practitioners and clients from IFRS16 lease accounting.

Question 9: Other comments Do you have any other comments on the proposed amendments set out in FRED 82?
To avoid any doubts regarding the availability of consolidation exemptions to intermediate parent entities, we would recommend that the wording of paragraph 9.3 could be amended to provide further clarity - B9.1
We support the FRC's decision to await the outcome of the IASB's project before making any changes to the requirements for accounting for group reconstructions in FRS 102. - B19.2
We agree with paragraphs 9.26, 14.4 and 15.that requires the entity to account for its investments either at cost less impairment or at fair value.

However for a first-time adopter (f) it requires the entity to account for the investment either at; (i)cost determined in accordance with Section 9 Consolidated and Separate Financial Statements, Section 14 Investments in Associates or Section 15 Investments in Joint Ventures at the date of transition; or (ii) deemed cost, which shall be the carrying amount at the date of transition as determined under the entity's previous financial reporting framework.
We would recommend that further guidance relating to this inconsistency be provided as an appendix to Section 19 to assist users when applying this process.

We welcome the guidance provide in section 19 in respect of B19.5, B10.6

We welcome the new appendix provided in paragraph 19.10. Guidance on identifying an acquirer. We support the new paragraph 19.11B which confirms that a transaction that remunerates employees or former owners of the acquiree for services in the future is not part of the cost of a business combination.

We welcome that other amendments to recognition and measurement requirements of FRS 102, to the extent the accounting requirements are relevant, have been included, and simplified further when possible, for the purposes of FRS 105. – Para. 210 (b)
Also no change for SME's with regard to trade receivable and contract asses is also useful from an SME perspective - A.35
Section 19 applies the purchase method to business combinations**,** whereas IFRS 3 (called the 'purchase method' in the 2004 version of IFRS 3), applies the acquisition method , we recommend that further clarification for the further steps in applying the Purchase method is included which would be useful to the preparers of the financial statements - B19.4
The new paragraph 14.3A provides examples of situations when significant influence in respect of Investments in associates which can usually be evidenced by 5 points , We support this new paragraph (points 1 to 5)
Paragraph B24.6 of the Basis for Conclusions states that the approach is aligned with the IAS 20 accruals model, however we do not believe this to be correct. As such, we would recommend changing the proposed wording in paragraph 24.5E with the existing wording in paragraph 20 of IAS 20.

We agree with 35.10 (2) that where goodwill was previously assessed as having an indefinite useful life under the entity's previous financial reporting framework, it must be re-assessed to determine its remaining useful life and then subsequently measured in accordance para 19.23. This is in line with FRS 102 where goodwill must always be amortised on a systematic basis over its useful life
We appreciate the changes in making the Going concern disclosures clearer.
The most significant change to FRS 105 is the proposal to introduce the five step model for revenue recognition B105.6, which, like the proposed amendments to FRS 102, is based on that of IFRS 15.

We recommend that further consideration is given to the impact on SME practitioners and clients from IFRS16 lease accounting.

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. In particular, feedback is invited on the assumptions used for quantifying costs under each of the proposed options (Section 3 of the consultation stage impact assessment); any evidence which might help the FRC quantify the benefits identified or any benefit which might arise from the options proposed which the FRC has not identified (sources to use to refine the assumption of the prevalence of leases by entity size (Table 23 of the consultation stage impact assessment)
We expect the options considered in this consultation stage impact assessment will have the following potential benefits:
a) increasing the quality of financial reporting of affected entities, thereby enabling investors, lenders, analysts and other users of financial statements to better assess the financial position and financial performance of an entity, with wider benefits such as the potential for a reduction in the cost of capital; and
b) improving the comparability of financial statements of reporting entities, particularly in maintaining consistency with international accounting standards, which is a long-standing policy that has been developed through consultation and reflects the wider approach taken by the FRC
We have no further comments in relation to the *Fred 82* Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs

If you have any questions on the above, please do not hesitate to contact us.

[redacted]

Yours sincerely

Cath Matthews -Secretary
On behalf of the Financial Reporting Sub Committee.