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Representation 08/2023

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28 April 2023

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

To whom it may concern

Subject: FRED 82 Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs

We, the Financial Reporting Technical Committee of Chartered Accountants Ireland (FRTC), welcome the opportunity to respond to this Exposure Draft.

Please refer to Appendix 1 for our responses to the questions included in the "Invitation to Comment".

There are several items included in our response that FRTC would like to draw to your attention and these are set out below under the various sections impacted:

1. Leases (section 20)

   1.1. Impact of capitalisation on certain preparers of financial statements

   As explained in our answer to question 6, FRTC conceptually agrees with the proposal to align lease accounting requirements in FRS 102 to reflect the on-balance sheet model from IFRS 16. Nevertheless, considering the wide variety of preparers under FRS 102, this may have unintended implications for certain companies. Companies currently close to meeting certain size thresholds may find themselves moving up into new size categories resulting in increased compliance demands whilst many smaller companies will need to consider the need for additional resources to fulfil the increased reporting demands. As outlined further in our response to question 6 we are recommending that the FRC consider allowing small companies additional time to implement the proposed revisions to Section 20.

   1.2. Definition of obtainable borrowing rate (OBR)

   Whilst simplification of terms and application for preparers under FRS 102 is welcome, FRTC believes further guidance is required in defining the obtainable borrowing rate and how this differs from the definition of incremental borrowing rate under IFRS 16.

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2. Revenue (section 23)

2.1. Inclusion of examples of revenue recognition under the proposed revisions to Section 23

FRTC agrees with the proposal to revise Section 23 of FRS 102 and Section 18 of FRS 105 to reflect the revenue recognition model from IFRS 15, with simplifications. To help companies identify the differentiating factors that may lead to changes in their revenue recognition, we strongly recommend the inclusion of worked examples in an appendix to the revised section similar to the current section 23 of FRS 102.

2.2. Principal versus agent and point-in-time versus over-time determination

FRTC have concerns over the 'simplifications' made to IFRS 15 principles in section 23. These are to the principal versus agent guidance in paragraph 23.38 (and particularly the introduction of sub-paragraph 23.38(a)) and to the point-in-time versus over-time guidance in paragraph 23.78 (and particularly the introduction of sub-paragraph 23.78(b)). FRTC agrees that these two areas were complex when IFRS 15 was first applied and were the subject of significant intellectual effort to apply the concepts to the facts and circumstances of various industries and sectors. However, this analysis has been done and there are numerous publicly available documents that set out clearly how IFRS 15 concepts should be applied to the type of contracts that are common in a wide variety of industries and sectors. If the revised FRS 102 amends those concepts it puts at risk the ability of FRS 102 reporters to rely on the intellectual effort already made. FRTC believes that these simplifications will instead add complexity.

If you would like to discuss any of the comments in more detail, please do not hesitate to contact me at

Yours sincerely

Mike O'Halloran
Secretary to the Financial Reporting Technical Committee of Chartered Accountants Ireland

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Appendix 1

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?

Overall, the proposed disclosures appear reasonable. In terms of the ability of preparers to obtain the required information, please refer to responses below at questions 6, 7, 8 and 10.

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?

FRTC agrees with the proposal to align FRS 102 and FRS 105 with the 2018 Conceptual Framework. This will contribute to FRC's aim of developing financial reporting standards that have consistency with global accounting standards. Given this objective, FRTC understands the position taken in relation to the definition of an asset for the purposes of Section 18 Intangible Assets other than Goodwill and the definition of a liability for the purposes of Section 21 Provisions and Contingencies of FRS 102.

However, in relation to paragraph 22.3, of the proposed revised standard, we suggest applying the new definition of a liability rather than retaining the old definition.

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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?

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?

FRTC supports the proposal in FRED 82 to align fair value measurement to IFRS 13. We also agree with the proposed consequential amendment to Section 26.

The following are specific comments on certain paragraphs within Section 2A:

2A.1	It is not clear why leasing transactions within the scope of Section 20 are excluded here as a fair value measurement is required for sale and leaseback accounting.
2A.8	This paragraph states that market prices should be adjusted for costs incurred to transport the asset from current location to market "if applicable". The IFRS for SME says this adjustment is made "if location is a characteristic of the asset". FRTC believe the IFRS for SME approach is more appropriate.
2A.12	This paragraph states that if the highest and best use of an asset is to use it in combination with other assets the fair value should reflect that use. This is a paraphrase of what is in IFRS 13.31. However, what is missing is the guidance in the next paragraph IFRS 13.32 which states that the fair value of a non-financial asset assumes that the asset is sold consistently with the unit of account specified in other IFRSs. This applies even when the best use is in combination with other assets that a market participant could hold. The principle in IFRS 13.32 is very important as if not in place there is a risk that non-financial assets may be valued on a portfolio basis such that the value of the portfolio may be higher than the sum of the individual assets either because of economies of scale or because the larger portfolio may provide access to different forms of investor.
2A.21	This paragraph is the last paragraph in the section. FRC could consider if it would be more appropriate to have the fair value hierarchy set out here rather than in section 34. This would make it clear the fair value hierarchy applies to all assets and liabilities measured at fair value (including non-financial assets). We also believe reasonably consistent disclosures should be made where fair value measurement is used. For these reasons, we would suggest that paragraphs 12.23 to 12.32 of the IFRS for SME Standard should be incorporated into this section 2A.

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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?

In IASB/ED/2022/1 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?

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?

FRTC supports the decision to defer conclusion of the application of the expected credit loss model. The proposals within the IASB's Exposure Draft *Third edition of the IFRS for SMEs Accounting Standard* (IASB/ED/2022/1) are welcome. However, the fact that this is now under consideration means there is still movement within international standards on this topic which further supports the approach of deferring the implementation of the expected credit loss model into FRS 102.

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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?

FRTC agree with the FRC's proposal to prevent an entity from newly adopting a policy to follow the recognition and measurement requirements of IAS 39.

In relation to temporary amendments for IBOR reform, FRTC notes it is expected there will be changes on this topic before the proposed effective date which will render the temporary amendments redundant. As a consequence, these temporary amendments could be removed but guidance should be given to preparers as to how the revised standard will track developments on this topic over the intervening period.

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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?

FRTC conceptually agrees with the proposal to align lease accounting requirements in FRS 102 to reflect the on-balance sheet model from IFRS 16. However, while the optional simplifications are helpful, particularly in the context of a standard to be adopted by such a wide variety of preparers, there are a couple of matters the FRTC felt should be noted:

1. All else being equal, preparers may find the changes required by the revised standard mean they move up a tier from a company law perspective (from small to medium or medium to large). Larger Irish companies could fall into CSRD requirements sooner than otherwise expected. Previously audit-exempt entities may no longer be able to claim that exemption.
2. Large companies that adopted IFRS 16 spent time and resources implementing information systems to support the required reporting. Many companies that will now be required to implement the same requirements do not have the same level of resources.

The FRTC present the above matters as points of caution for further consideration. For the reasons outlined above we believe it would be appropriate to grant smaller companies more time to implement the proposed revisions to Section 20. As larger companies adopt the standard, guidance and software applications will evolve allowing smaller companies to adopt the principles later in a more cost-effective manner. FRTC suggest allowing smaller companies a further 3 years to implement these changes and suggest incorporating this provision within Section 1A of the revised standard.

Further guidance in defining the obtainable borrowing rate (OBR) is necessary. We suggest aligning the incremental borrowing rate (IBR) definition to IFRS 16. Once the IBR definition is aligned it is not clear how the OBR is different. If the OBR is to be retained, as a simplification, we suggest further guidance on how it should be derived is needed as well as a clear explanation as to how it is different to the IBR.

The following are specific comments on certain paragraphs within Section 20:

20.1(f)	The language here is loose. Recognising exactly what constitutes "non-typical" contractual terms puts a significant onus on prepares to be able to identify what is typical and what is non-typical. This adds to the complexity of the Standard. FRC could consider using the language in 20.1(e) of The IFRS for SMEs – "leases that could lead to a loss to the lessor or the lessee as a result of contractual terms that are unrelated

	changes in the price of the leased asset, changes in foreign exchange rates, changes in lease payments based on variable market interest rates or a default by one of the counterparties.”
20.4	It is not clear why the old definition of fair value has been retained here. We suggest applying the new definition.
20.22	It would be helpful to clarify here that the lessor must benefit economically from making the substitution throughout the period of use. In line with the recent IFRIC decision.
20.35	We believe that the reference to 20.34 should be removed here as that paragraph only refers to lease components and does not refer to non-lease components.
20.72	We feel the first sentence needs clarification – if the lease term changes how could “the value of each lease payment for the remainder of the lease term” be unaffected by the change? If this should be read as “the value of each lease payment for the remainder of the original lease term” (?), we would not support the relief.
20.74	FRTC generally support the optional relief given here for remeasurement of the lease liability for market rent reviews. However, where the change due to the market rent review has become an in-substance fixed rent for the remainder of the lease (i.e. where there are upward-only rent reviews) then we believe the liability should be remeasured. Upward-only rent reviews are common features of rental agreements in the Irish marketplace.
20.80	The final sentence of this paragraph needs to clarify that the “receiving entity” is the entity receiving the lease as referenced in the first sentence and not the entity ‘receiving’ the premium.

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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?

FRTC agrees with the proposal to revise Section 23 of FRS 102 and Section 18 of FRS 105 to reflect the revenue recognition model from IFRS 15, with simplifications. The experience of IFRS 15 adoption demonstrated that companies spent considerable time to understand how their contracts aligned with the provisions of the standard. In some cases, the conclusion did not point to a significantly different accounting treatment.

The FRTC strongly recommend the addition of an appendix to the revised section to include worked examples similar to the current section 23 of FRS 102. These examples should help companies identify the differentiating factors that lead to different recognition policies. The examples should also identify circumstances where there will be no differences on transition to IFRS 15. This will help preparers apply the standard in a clear, consistent and efficient manner.

The FRTC suggest that paragraph 23.59 of the proposed standard be aligned with IFRS for SMEs. While interest rates are currently volatile, we suggest the standard take a more medium to long-term view. We appreciate this could impact negatively on the quality of performance reporting by financial institutions. Therefore, we suggest Section 34 contain specific guidance on this point to bring back 6 months as the relevant time period for those entities covered by Section 34.

The following are specific comments on certain paragraphs within Section 23:

23.38	FRTC does not support the simplifications introduced into the analysis of whether an entity is acting as principal or agent. We think the amendments have actually made the determination more complex. A considerable amount of work has been done at an industry level under IFRS 15 to provide guidance on this matter. Ensuring consistency with IFRS 15 will allow preparers to leverage that guidance. Notwithstanding this suggestion for further alignment we note previous guidance contained within FRS 5 Application Note G wherein there was a rebuttable presumption that an undisclosed agent was acting as a principal. Including this rebuttable presumption in the revised Section 23 would assist preparers in forming their conclusions in relation to how their revenue should be presented.

23.78	FRTC considers that the introduction of para 23.78(b) as a 'criterion' is not helpful. This is inconsistent with IFRS 15 and instead, it should be retained as an indicator and also should be expanded to deal with whether or not access to WIP would be available to the new entity appointed to perform the work. Similar to the concern above regarding the applicability of existing guidance in sectors and industries on when entities are principals or agents, there is also a vast amount of publicly available sector-specific guidance on the timing of revenue recognition and for that guidance not to be wasted it would appear beneficial to have the same language in the revised standard.
23.102	Should there be a heading above this paragraph – "Costs to obtain a contract"?
23.121	There is confusion between the requirement in 23.121 to breakdown revenue "at a minimum" to the (a) to (d) categories and the language in 23.121A which says alternative bases may be used – we support 23.121 being a minimum requirement and the other analysis in 23.121A being further analysis that may be provided if it better reflects the nature of the entity's performance.

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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?

FRED 82 proposes transitional provisions (see paragraphs 1.35 to 1.60 of FRS 102 and paragraph 1.11 of FRS 105).

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?

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?

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. 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?

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

FRTC supports the effective date but notes it will be important to maintain progress with all project milestones in the intervening period.

The option of using opening balances, previously determined in accordance with IFRS 16, is welcome. For companies not applying this option, the modified retrospective basis is reasonable and will support preparers in the transition.

Modified retrospective treatment in relation to Section 23 of FRS 102 is also welcome. The FRTC don't expect that the alternative approach in Section 18 of FRS 105 will impact quality of financial statements prepared in accordance with that framework.

Please also see our answer to question 6 where we have recommended that small companies should be granted additional time to implement the revised leasing proposals set out in Section 20.

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Question 9: Other comments

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

The following are specific comments on certain paragraphs within other sections of the proposed standard:

2.62-2.63	Paragraph 2.62 identifies two reasons why information about assets and liabilities may not be relevant information – (i) it is uncertain whether the asset or liability exists or (ii) they exist but the probability of inflows and outflows of benefits are very low. The first is then addressed in paragraph 2.63. Additional guidance on the second point would be helpful.
10.15	This paragraph states that a change in a measurement basis is a change in an accounting policy. However, 10.9(c) contains an exception to this which should be cross-referenced.
12.3(m)	FRTC feel it would be useful to include examples of what type of financial instruments are expected to be excluded by this paragraph.
18.3B	FRTC suggest rewording the first sentence as the final element ("in or on a physical substance") is difficult to interpret.

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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 (Section 4 of the consultation stage impact assessment); and appropriate data sources to use to refine the assumption of the prevalence of leases by entity size (Table 23 of the consultation stage impact assessment).

As noted in response to question 6, the capitalisation of leases may impact companies currently on the edge of meeting certain thresholds. For example:

1. Company size thresholds per company law.
2. Companies currently availing of audit exemption.
3. Larger Irish companies not yet set to be brought into CSRD reporting requirements.

In all of the above scenarios, bringing leases on balance sheet could lead to an incremental additional cost that should be considered in the impact assessment. As outlined further in our response to question 6 we are recommending the FRC consider allowing small companies additional time implement proposed revisions to Section 20.