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Accounting and Reporting Policy Team
Financial Reporting Council
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Dear Sirs

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

We welcome the opportunity to respond to FRED 82 and our responses our set out below.

Should you wish to discuss any of the points raised, please do not hesitate to contact us.

Yours faithfully

Russell Joseph
Partner
On behalf of Bourner Bullock

Disclosure
Our main concern relates to the increased disclosure requirements included in Section 1A. For many small entities, the inclusion of share-based payments, provisions and deferred tax disclosures feels excessive. This increased level of disclosure would only leave a minimal reduction in the number of notes when compared with the financial statements for a medium-sized entity prepared under FRS 102 'full'.

Whilst it is acknowledged that additional disclosures have been encouraged under Section 1A in order to assist with giving a true and fair view, the key point is that these were optional. It is unclear why the FRC considers that all of the additional proposed disclosures are required.

In addition small entities will soon be required to include additional information in their financial statements as a result of the Economic Crime and Corporate Transparency Bill, including the profit and loss account. The provision of the profit and loss account alongside the additional disclosures suggested by FRED 82 will result in a lot more information being available on public record. It is questionable whether such information should be publicly available.

Expected credit loss model
We believe that it is the correct decision to not introduce the Expected Credit Loss (ECL) model into FRS 102 at this point in time.

Leases
It is acknowledged that consistency with IFRS 16 is desired for UK entities that are part of large groups where consolidated accounts are prepared under IFRS. However, FRS 101 (or indeed full IFRS) exists as an option to enable such consistency.

For smaller, privately held stand-alone entities, such consistency is not desired. The model in section 20 of FRS 102 results in disclosure of the contractual lease obligations and therefore arguably provides users of the financial statements with appropriate information. This approach has existed in UK GAAP for a number of years and is understood by users of such financial statements. The inclusion of right of use assets and lease liabilities may actually serve to provide less useful information to users, by adding additional complexity for those users who may not be familiar with the requirements under IFRS.

It would be considered more appropriate if:

- The IFRS 16 requirements are only mandatory for entities that are large or those that are part of a large group preparing consolidated financial statements under IFRS;
- The IFRS 16 requirements are not required for entities qualifying as small based on the numerical criteria set out in the Companies Act 2006, so as to enable entities that are ineligible per section 384 but would otherwise qualify as small to be excluded from the requirements.

Whilst it is accepted that exceptions from adopting the IFRS 16 model are available for leases of low-value assets and short-term leases under proposed FRS 102, the primary exception (which is welcome) is that micro-entities adopting FRS 105 will not be required to apply the IFRS 16 leasing model. However, the provisions set out in Section 384B of Companies Act 2006 prevent the use of the micro entity regime by charities and those entities included in consolidated group accounts.

Therefore, very small charities and some very small subsidiary entities will be required to implement the IFRS 16 requirements where there is likely to be minimal benefit and disproportionate cost of implementation.

It is understood that there are 2.85 million entities in the UK that qualify as micro entities, but almost half of those do not use FRS 105. In our opinion this is because FRS 105 are not true and fair and are not relied upon by many users of such accounts.

It is expected that many entities that qualify as micro-entities may see the proposed changes set out in FRED 82 as the trigger to adopt FRS 105 (ultimately to avoid the IFRS 16 leading model) and would result in much less reliable financial information being prepared.

In addition, it is not clear whether consideration has been given to the fact that some small entities will be subject to audit as a result of bringing right of use (ROU) assets on to the balance sheet for the first time. This would likely cause many more to move towards adopting FRS 102.

It is clear from the above that the implications of the proposed leasing model for many small entities could be substantial.

Many small entities affected by the reporting requirements do not possess the accounting skills or software packages to deal with the implementation of the leasing requirements and therefore additional expenditure will be required on training, implementing new systems, taking advice from firms etc. At the smaller end of the market, entities will expect their accountants (who are often the auditors) to assist with the transition to the new requirements.

Many of these small entities that are currently audited (either voluntarily or due to the size of the group to which the entity belongs, for instance) will ask their auditor to assist with the new requirements. This will result in ethical conflicts and additional cost for smaller entities.

Finally, if the IFRS 16 model is to be introduced, a monetary threshold for “low value assets” should be provided, similar to that in IFRS 16. Especially given low value could be viewed differently depending on the size of the entity.

Revenue

We are generally in agreement with the proposals regarding Revenue, on the basis that additional guidance that can be provided to assist with complex revenue transactions is most welcome. Many smaller entities have fairly simple revenue transactions which should be unaffected by the changes although it is accepted that additional disclosures may be required.

Transition

For small entities, implementing new systems, engaging experts, identifying all leases that need to be accounted for in accordance with the new model, reviewing contracts with customers, training of staff, obtaining updated financial reporting products etc. will all take a significant amount of time and money. Set against the current economic circumstances and resourcing issues faced by all firms of accountants, the effective date is likely to be very challenging for smaller entities.

Again the expected result is to drive more entities to adopt FRS 105 as well as be encouraged to avoid these additional costs by relying less on professional advisors resulting in weaker financial transparency and accuracy.

Consultation Stage impact assessment

As noted in paragraph 56 of the Consultation Stage impact assessment, there are only 6,597 large entities and 30,696 medium-sized entities in the UK reporting under FRS 102. The changes set out in FRED 82 appear to be primarily aimed at these entities, rather than considering the implications for the more than 3 million small and micro entities in the UK. We would urge the FRC to carefully consider the impact of these changes for smaller entities set against a backdrop of economic uncertainty and substantial challenges on a number of fronts.