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Reply to: Alex Kelly

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Dear Accounting and Reporting Policy team

MHA Moore and Smalley response to FRED 82 consultation

MHA Moore and Smalley welcomes the opportunity to comment on the FRED 82 draft amendments to FRS 102.

Overall we are broadly supportive of the proposals suggested. However, we do have detailed comments to the specific questions asked in the consultation document, as set out in appendix 1.

Yours faithfully

[redacted]

Alex Kelly
Audit Compliance Partner
[redacted]

Appendix 1 Responses to Questions

Question 1: Disclosure	
Do you have any comments on the proposed overall level of disclosure required by FRS 102?	We are broadly supportive of the proposed overall level of disclosure required. However, we are mindful that FRS 102 1A is designed to reduce the burden on small entities when preparing their accounts and these proposals may increase that burden without significant benefit to the users of the financial statements. For example, we consider that paragraphs such as 1AC.31C and 1AC.32B may be onerous for small entities.
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?	Yes, we agree that users of financial statements prepared under FRS 102 should be able to obtain the information needed.

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?	We agree with the proposal to align the Standards with the Conceptual Framework, although we observe that the content as drafted is very long and believe that it could be condensed.
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	We agree with this approach and have no other comments on the proposed revised Section 2.

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?	

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 proposal to align the definition of fair value with IFRS 13. However, we believe that there needs to be transitional arrangements provided for the move to fair value accounting, such as the prospective application allowed by IFRS 13 on its introduction.
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.

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 the decision and believe that this will be welcomed by preparers of FRS 102 financial statements.
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?	We agree with this proposal.
	We have no specific comments in this area.

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?	

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?	We agree with this proposal.
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 these temporary amendments.

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.	We believe that the move to on-balance sheet lease accounting has been well-signalled within the accounting industry and is generally accepted for larger entities. The valuation of right of use assets can be a complex area and one that many smaller companies may not have the expertise to prepare, needing to seek professional advice to be able be comply. It does therefore add an additional burden on the directors of smaller entities.
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 believe that the amount of guidance, and time, that will be required for preparers of FRS 102 financial statements should not be underestimated. The conceptual move from the current accounting method to the on-balance sheet method is a large one for those who have not been exposed to IFRS 16, notwithstanding the potential complications that can exist in identifying embedded leases, for example.

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?	We broadly agree with the proposal to revise the revenue recognition requirements in FRS 102. However we are mindful of having standards that are cost effective to apply and with the proposal to introduce the same requirements for FRS 105, they may be a disproportionate cost to micro entities and this is also inconsistent with not introducing the proposal for on-balance sheet lease accounting to FRS 105.

Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?	We do not believe the use of the term 'promises' instead of 'performance obligations' is providing further clarity. 'Promises' is not a clearly defined term and does not suggest the inherent contractual agreement that exists in the term 'performance obligation'. As stated above in response to question 6, we believe that the amount of guidance, and time, that will be required for preparers of FRS 102 financial statements should not be underestimated. For practitioners who have not been exposed to IFRS 15, the inclusion of specific examples will be a great help, for example regarding principal v agent situations as well as warranties.

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 believe that the proposed date of implementation for accounting periods beginning 1 January 2025 is possible, but, as mentioned above, the time and guidance needed for preparers of financial statements to learn, understand and absorb the amendments should not be underestimated. We believe that the FRC should lead on providing such resources freely to practitioners.
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?	We agree with this proposal.
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 believe that the option that prospective application should also be allowed.
In respect of revenue, FRED 82 proposes to permit an entity to apply the revised Section 23 of FRS 102 on	As stated above, we believe that the application of the revenue recognition model

a modified retrospective basis with the cumulative Financial Reporting Council 7 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?	from IFRS 15 on FRS 105-prepared financial statements is disproportionate and therefore we do not concur with the proposal to require micro-entities to apply revised Section 18 on a prospective basis. With regards to the proposed changes relating to revenue recognition in FRS 102, we believe that allowing for prospective application would be preferable.
Do you have any other comments on the transitional provisions proposed in FRED 82?	We have no additional comments.
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 additional comments.

Question 9: Other comments	
Do you have any other comments on the proposed amendments set out in FRED 82?	We have no additional comments.

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).	We have no comments on this area.