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Dear Madam

FRED 67 - Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* Triennial review 2017: Incremental improvements and clarifications

Ernst & Young LLP welcomes the opportunity to comment on FRED 67 issued by the Financial Reporting Council ('the FRC').

We agree with the overall approach to FRED 67 to focus on incremental improvements and clarifications. However, there have been a large number of editorial amendments and consequentially we have a number of suggested further changes where we believe that the editorial amendments have not been implemented consistently, especially in Sections 11, 12 and 26 of FRS 102.

In addition, we have suggested some wording changes to make it clearer that certain loans used by housing associations meet the definition of a basic financial instrument (see response to Q2) and also suggest that the FRC clarifies which type of intangible assets are not expected to be recognised separately from goodwill in a business combination (see response to Q5).

However, we disagree with the proposed amendments to revenue recognition to introduce certain IFRS 15 guidance into a recognition model that is based on IAS 18 (see response to Q6).

If you have any matters arising concerning the content of our response, please contact Tony Clifford on 0207 951 2250.

Yours faithfully,

Ernst & Young LLP

Ernst & Young LLP

Responses to FRC questions

FRED 67 Draft amendments to FRS 102 – Triennial review 2017

Question 1

Overall do you agree with the approach of FRED 67 being to focus, at this stage, on incremental improvements and clarifications to FRS 102? If not, why not?

As explained in our covering letter, we agree with the overall approach to FRED 67 to focus on incremental improvements and clarifications. However, there have been a large number of editorial amendments and consequentially we have a number of suggested further changes where we believe that the editorial amendments have not been implemented consistently, especially in Sections 11, 12 and 26 of FRS 102 (see responses to Q2 and Q6 below).

We have also suggested clarifications to some of the matters for which the FRC has invited specific comment and disagree with a few of the proposals. These are detailed in our responses below.

Question 2

FRED 67 proposes to amend the criteria for classifying a financial instrument as 'basic' or 'other'. This will mean that if a financial instrument does not meet the specific criteria in paragraph 11.9, it might still be classified as basic if it is consistent with the description in paragraph 11.9A.

Do you agree that this is a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments, which will allow more financial instruments to be measured at amortised cost, whilst maintaining the overall approach that the more relevant information about complex financial instruments is fair value? If not, why not?

We agree that it is helpful to make amendments to the criteria. However, we have a number of comments on the proposed changes to Sections 11 and 12 of FRS 102 as follows:

Paragraph 11.9A

It is unclear that this wording would result in loans with two-way compensation clauses of the type addressed in the FRC's press release of 2 June 2016 and that are common in the social housing sector being considered basic. This is because, as drafted, it appears to refer only to compensation given to the issuer. To this end, we suggest that paragraph 11.9A is amended to be explicit that 'compensation' can be two-way (i.e. it can be paid to either the holder or the issuer).

Paragraph 11.9A – Example 6

Paragraph 47 of the Draft Corporate Reporting Council advice states that negative interest rates can represent reasonable compensation for the risks of a basic debt instrument issued. Therefore, we believe that the wording in the first sentence of Example 6 should be modified to state that:

"The effect of ~~combining a negative variable rate~~ deducting a variable rate ~~with~~ from a positive fixed rate is that..."

Paragraph 11.9(a)(iv) may also require modification to clarify that a variable rate such as LIBOR can be negative.

Paragraph 11.9A - Example 8

There are a few typos as follows:

- in the last line of the first paragraph – the loan is from Entity P not to Entity P.

- In the first line of the third paragraph – the loan is from Bank A not to Bank A

We also believe the Example could be clarified by amending the last sentence as follows:

"The restriction on Entity S's ability to exercise the prepayment option in the loan from Entity P would not therefore cause the loan ~~from Entity P~~ to be measured at fair value by Entity S in accordance with Section 12.

Paragraph 11.9A – Example 9

There is a minor typo – Small Companies Regulations rather than Small Company Regulations

Paragraph 11.11

The reference in paragraph 11.11 to paragraph 11.9 should be followed by the words "*...or the description in paragraph 11.9A...*"

Paragraph 11.11(a)

This wording in paragraph 11.11(a) needs to be updated to replicate the amendments made to paragraph 11.8(d) by replacing the text with:

"an investment in another entity's equity instruments other than a non-derivative instrument that is equity of the issuer (e.g. most ordinary shares and certain preference shares) (see paragraph 11.8(d)); and"

Paragraph 11.13 – Examples financial assets

We believe that the revised wording in the third paragraph is unclear as to which cash sales price is being referenced and suggest that it is amended as follows:

"...using the prevailing market rate of interest for a similar receivable. In transactions conducted on ~~an arm's length basis~~ normal business terms the cash sales price for immediate settlement or without interest free credit would normally approximate to the present value".

Paragraphs 11.14(a)-(b)

We believe that "...the conditions in paragraph 11.8(b)..." should be amended to "*...the conditions in paragraphs 11.8(b) or 11.8(bA)*"

Paragraph 11.14(d)(i)

In the first line, the word *shares* should be replaced by *investments.*

Paragraph 11.27(a)

As paragraphs 11.28 to 11.32 also include financial liabilities we believe that the words *"or ask price as appropriate"* should be added to the end of the paragraph.

Paragraph 11.28

In the first sentence we believe that the following words should be added for consistency with paragraph 11.27:

"Valuation techniques include using recent arm's length market transactions *and any binding sale agreements* for an identical asset..."

Paragraph 11.44

The marked-up version of FRS 102 on the FRC website is missing the word "*for*" from this paragraph (although it is included within FRED 67 itself).

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Paragraph 12.7

This paragraph should be amended for consistency with draft paragraph 11.13 (i.e. it is still the September 2015 wording).

Paragraph 12.8 (a)

This paragraph should be amended for consistency with draft paragraph 11.8D (i.e. it is still the September 2015 wording).

Paragraph 12.8(b)

We believe the words *"...or 12.24"* should be added at the end of the paragraph.

Paragraph 12.9

This paragraph should be amended for consistency with paragraph 11.30 as follows:

"If a reliable measure of fair value is no longer available for a ~~an equity instrument (or a contract linked to such an instrument)~~ financial asset or financial liability that is not publicly traded..."

Paragraph 12.12

This paragraph appears to replicate narrative already contained in paragraph 12.7 and we believe that it should be deleted.

Paragraph 12.15A footnote

Entities now permitted to use the guidance in draft paragraph 12.15A may not previously have applied the EU carve-out (since they could have been applying Sections 11 and 12 of FRS 102 and not IAS 39). Therefore, we believe that the wording in the footnote is incorrect since it appears to restrict the use of the EU carve-out to those entities that have already applied it. Instead, we believe all entities applying section 12.15A should be permitted to use the EU carve-out if applicable.

Paragraph 12.29(e)

We believe that this paragraph could be expressed more clearly as follows:

"the amount, if any, of any hedge ineffectiveness ~~excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was~~ recognised in profit or loss for the period".

Paragraph 22.3

We note that this paragraph defines a **financial liability** and **equity** in full even though these definitions are also contained in ***Appendix 1: Glossary*** and many other definitions contained in the glossary would be removed from the detailed text by FRED 67.

In respect of the definition of a financial liability, contained in Appendix 1: Glossary and paragraph 3 of Section 22, we believe that the FRC should consider making the following amendments to ensure consistency with the IFRS definition:

- In (b) add "...is" to the end of the sentence;
- In the first line of (b)(i) replace "under.." with "a non-derivative for..."; and
- In the first line of (b) (ii) replace "which..." with "a derivative that".

Paragraph 22.8

It is unclear from this paragraph whether group reconstruction relief can be applied when shares are issued to acquire non-financial assets such as property, plant and equipment. This is because Section 22's requirements to do apply to transactions within the scope of Section 26. However, unlike IFRS 2, Section 26 does not define the meaning of goods and services. It would be helpful if this matter could be clarified.

Appendix to Section 22 (last paragraph)

We believe that the text in the concluding paragraph of the example of a written option that fails the fixed-for-fixed criteria should be re-written as follows:

"The option contract does not meet the definition of a basic financial instrument, as it is linked to the value of Entity A's shares and its earnings which are both risks that are not consistent with a basic lending arrangement, and so is measured in accordance with Section 12".

Question 3

FRED 67 proposes that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) can be accounted for at transaction price, rather than present value (see paragraph 11.13A). This practical solution will provide relief to small entities that receive non-interest-bearing loans from directors, by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value. Do you agree with this proposal? If not, why not?

We agree with the proposal to provide relief to small entities that receive non-interest bearing loans from a director (or from a close member of the director's family) by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value.

We have one observation as to whether the proposed amendments set out in FRED 67 (and also in the FRC's recent press notice) would apply to all situations they are intended to. Our understanding is that the relief will only apply if the director is also a shareholder, but consider a husband and wife where the wife is a director and the husband holds all the shares and makes the loan – this might occur if the wife has put the investments into her husband's name for tax reasons. We do not believe this situation would qualify for the exemption as currently proposed, since the director would not also be a shareholder. If the intention is that it should, the wording would need amending to reflect the FRC's intention.

Question 4

FRED 67 proposes to amend the definition of a financial institution (see the draft amendments to Appendix I: Glossary), which impacts on the disclosures about financial instruments made by such entities. As a result, fewer entities will be classified as financial institutions. However, all entities, including those no longer classified as financial institutions, are encouraged to consider whether additional disclosure is required when the risks arising from financial instruments are particularly significant to the business (see paragraph 11.42). Do you agree with this proposal? If not, why not?

We agree with the amendments to the definition of a financial institution and that the amendments will result in fewer entities being classified as financial institutions. In our view, many users will welcome these changes which remove some of the ambiguity in the existing definition.

However, we believe that, following the draft amendments, the last two sentences of Paragraph 37 of the *Accounting Council's Advice to the FRC to issue FRS 102* should also be modified to align to the revised definition. In particular, the concluding words in the paragraph that *"a subsidiary entity engaged solely in treasury activities for the group as a whole is likely to meet the definition of a financial institution"* should be deleted as we believe that a group treasury company is unlikely to be a financial institution under the revised definition as proposed in the ED.

Additionally, although Q4 implies that all entities are within the scope of paragraph 42 of Section 11, we note that qualifying entities are exempt from this paragraph and therefore need not consider this guidance.

Question 5

FRED 67 proposes to remove the three instances of the 'undue cost or effort exemption' (see paragraphs 14.10, 15.15 and 16.4) that are currently within FRS 102, but, when relevant, to replace this with an accounting policy choice. The FRC does not intend to introduce any new undue cost or effort exemptions in the future, but will consider introducing either simpler accounting requirements or accounting policy choices if considered necessary to address cost and benefit considerations.

As a result, FRED 67 proposes:

(a) an accounting policy choice for investment property rented to another group entity, so that they may be measured at cost (less depreciation and impairment) whilst all other investment property are measured at fair value (see paragraphs 16.4A and 16.4B); and

(b) revised requirements for separating intangible assets from the goodwill acquired in a business combination, which will require fewer intangible assets to be recognised separately. However, entities will have the option to separate more intangible assets if it is relevant to reporting the performance of their business (see paragraph 18.8 and disclosure requirements in paragraph 19.25B).

Do you agree with these proposals? If not, why not?

We agree with the proposal to remove the three instances of the 'undue cost or effort exemption' that are currently within FRS 102. In our experience the exemption is difficult to interpret and apply in practice.

In respect of the two other proposals:

Investment property rented to another group entity

We agree with the proposal to introduce an accounting policy choice so that these properties may be measured at cost less depreciation whilst all other investment property are measured at fair value through profit or loss. In our experience, many preparers will welcome this change as the previous accounting in FRS 102 (i.e. fair value through profit or loss) has been onerous for entities that rent properties to other group companies. It will also create more consistency with FRS 101 and IFRS which allow an accounting measurement choice of cost less depreciation or fair value through profit or loss for all investment properties.

Intangible assets acquired in a business combination

In our view, it would be helpful if the final amendments could indicate the type of intangible assets which the FRC believe will no longer be required to be measured separately from goodwill since the new wording appears to include most types of intangible. Under paragraph 2 of FRS 10, it was clear that a portfolio of clients should be not recognised separately from goodwill but the wording proposed by the FRC is less explicit. Therefore, we do not consider that this change has the effect of returning the recognition criteria to that used under previous UK GAAP.

To that end, we believe that the FRC should provide a list similar to that contained in the Illustrative Examples to IFRS 3 explaining which intangible assets are unlikely to meet the new criteria. In our view, customer lists and non-contractual customer relationships as well as unpatented technology and databases do not meet the revised criteria for mandatory recognition of an acquired intangible asset because they are not contractual. However, an order backlog, customer contracts, contractual customer relationships, marketing-related intangible assets (such as trade names and internet domain names), artistic-related intangible assets (such as plays and videos) and contract-based intangibles (such as employment contracts or patents) would meet the criteria, unless there are specific restrictions meaning that such assets are not separable.

Additionally, we do not believe the amended wording in the last paragraph of 18.8 is sufficiently clear as to whether the alternative method is applied consistently by class of intangible assets across <u>all</u> business combinations or on a business combination by business combination basis as might be implied by paragraph 71 of the Corporate Reporting Council's advice to the FRC which refers to 'an asset-by-asset basis'. We therefore believe the wording in the last paragraph of 18.6 should be clarified.

Question 6

Please provide details of any other comments on the proposed amendments, including the editorial amendments to FRS 102 and consequential amendments to the other FRSs.

We have the following comments to make on the other proposed amendments to FRS 102:

Section 2 – Concepts and pervasive principles

- Paragraph 2.47(a) should be amended to reflect the revised wording in draft paragraph 11.8(d) and refer to *"an investment in a non-derivative instrument that is equity of the issuer (e.g. most ordinary shares and certain preference shares)"* rather than *"investments in non-convertible preference shares and non-puttable ordinary and preference shares"*.

Section 5 – Statement of Comprehensive income and Income Statement

- In our opinion, consistent with the accounting treatment required by paragraph 20(c) of FRS 3 under previous UK GAAP, many entities do not regard profits or losses from the sale of fixed assets, particularly pubs, hotels, hospitals or other similar business premises, as an item 'clearly related to operations' and therefore part of operating profit. Further, paragraph 43(b) of the Accounting Council's Advice explains that paragraph 5.9A is based on guidance in IAS 1 and it is not uncommon for entities applying IFRS to present such profits or losses outside of operating profit. We therefore believe that the proposed wording in paragraph 5.9B which asserts that profits or losses on the sale of fixed assets are part of operating profit should be deleted. If the FRC does consider it appropriate to proceed with this change, we believe the Corporate Reporting Council's Advice section should be updated to reflect this divergence from IFRS.
- In addition we would suggest the following additional amendment to this paragraph, which is based on paragraph BC56 of IAS 1, to ensure that entities can't easily circumvent this requirement by using slightly different labels for subtotals such as "trading profit": "...operating profit<u>, or a similar line item,</u> the entity ...".

Section 7 – Statement of cash flows

- Paragraphs 7.5(a) and (b) have been amended to add the words *"including the **gross** cash flows arising from acquisitions of subsidiaries"* (our emphasis). This appears to create a GAAP difference with IFRS since paragraph 42 of IAS 7 requires that the aggregate amount of cash paid or received as consideration for obtaining or losing control of subsidiaries and other businesses is reported in the statement of cash flows ***net*** of cash and cash equivalents acquired and disposed of as part of such transactions. We would welcome clarity on this matter, including guidance as to where the cash flows received or disposed of in a business combination or disposal of subsidiary should be disclosed in the statement of cash flows.
- The proposed changes to paragraphs 7.7(a) and 7.8 appear to be designed to permit the statement of cash flows prepared under the indirect method to begin with a subtotal presented in in accordance with paragraph 5.9B, e.g. operating profit. We support such a change but think this intention could be clarified, e.g. by adding an additional sentence to this effect to the end of paragraph 7.8.

Section 9 – Consolidated and separate financial statements

- Paragraph 23(f) of Section 9 introduces a new disclosure requirement for consolidated financial statements to disclose the nature and extent of interests in unconsolidated special purpose entities and the risks associated with these entities. This wording is similar to paragraph 24 of

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IFRS 12 but Section 9 does not contain the various additional paragraphs of guidance contained in paragraphs 25 to 31 and B25-26 of IFRS 12 which elaborate the disclosure objective and mandate certain quantitative disclosures (such as the requirement in paragraph 29 of IFRS 12 to disclose, in a tabular form, an investee's interests in structured entities and the maximum exposure to loss from those interests). Consequently, we are unclear whether the intent of this disclosure requirement is merely qualitative in nature or whether entities would be expected to look to IFRS 12 as to the meaning of paragraph 23(f) and make numerous quantitative disclosures. We would appreciate further guidance as to the intent of this paragraph.

Section 13 – Inventories

- Paragraph 13.22(d) has been amended to require a reconciliation of inventory impairment losses. This reconciliation is not required by IAS 2, the equivalent IFRS, and no rationale for its inclusion in FRS 102 is provided in The Corporate Reporting Council's Advice to the FRC. Therefore, we do not believe this change meets the FRCs overriding objective to provide succinct financial reporting standards that have consistency with IFRS and does not make FRS 102 easier to use or result in more cost-effective reporting. We recommend that paragraph 13.22(d) is restored to its original wording.

Section 16 – Investment Property

We observe that some of the minor FRED 67 amendments do not appear in the 'marked-up' version of FRS 102 available on the FRC website as follows:

- Paragraph 16.1A – the reference should be 16.4**A** rather than 16.4.
- Paragraph 16.4A – the words 'individual financial statements', 'fair value' and 'profit or loss' should be bold.
- Paragraph 16.4B – this is missing closing parenthesis after the word 'owner-occupied'. Also, compared to FRED 67, the marked-up version seemed to include a phrase i.e. '...and the remainder **of the property** is used...'.
- Paragraph 16.9B – 'carrying amount' should be bold.

Section 23 – Revenue

- We disagree with the proposal to add paragraph 3A and to amend paragraph 8 of Section 23 to introduce some aspects of IFRS 15 recognition and measurement into FRS 102. In our view, changing the recognition and measurement guidance in Section 23 should be part of a wider decision as to whether Section 23 is replaced in its entirety with principles based on IFRS 15 and IFRS 15 should not be introduced piecemeal into accounting requirements that are derived from IAS 18. We do not agree with the assertion that this provides 'greater clarity' to section 23 since, in our view, the words 'where practicable' and 'other basis better reflects substance' seem to provide less clarity as to what is required. We believes these amendments should be deleted.
- The presentation method required by paragraph 23.35 does not appear to be applicable if the adapted formats are used. This should be clarified.

Section 26 – Share-based payment

- Definition of share-based payment arrangement – now that the glossary of terms includes definitions of both 'share-based payment arrangement' and 'share-based payment transaction', the whole of Section 26 should be reviewed to refer more precisely to these terms. For example, there are currently references to 'share-based payments' in paragraphs 26.5 and 26.6, to 'share-based payment award' in paragraph 26.16 and to 'share-based payment plan' in paragraph 26.22.

- Definition of vesting conditions – in our view, basing the definition on that in the IFRS for SMEs is a backwards step compared with the definitions of 'service condition', 'performance condition', 'market condition' and 'vesting condition' in the current version of IFRS 2. On the assumption that the definitions and accounting treatment of such conditions in FRS 102 are intended to be similar to those in IFRS 2, we suggest that the IFRS 2 wording is used in FRS 102 and that the separate definition for each of the conditions is included in the glossary of terms. This will help to eliminate differences that could be read into the definitions – for example, the omission in the FRS 102 definition of 'market condition' of any reference to the value of the entity's equity instruments or to the price or value of the equity instruments of another group entity (both of which form part of the proposed definition of 'share-based payment arrangement').

- Definition of cash-settled share-based payment transaction – the proposed second paragraph of the definition appears to outline one aspect of the accounting for group schemes rather than provide a definition. An entity applying Section 26 and looking for the accounting treatment applicable to entities settling an award would have no prompt to go to the glossary definition of a 'cash-settled share-based payment transaction'. We believe that a clearer approach would be either, (i) to include this paragraph in the main text of Section 26; or (ii) to include a signpost in the main text and split the draft paragraph between the definitions of cash-settled share-based payment transaction and equity-settled share-based payment transaction (see suggested split below).

  The following words could be added to the cash-settled definition:

  "The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as a cash-settled share-based payment transaction only if it is settled other than in the entity's own equity instruments".

  The following words could be added to the equity-settled definition:

  "The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments".

- Paragraph 26.1 as revised removes all references to 'equity-settled share-based payment transaction' and 'cash-settled share-based payment transaction'. These are defined terms in the FRS 102 glossary of terms, are used elsewhere in Section 26 and their inclusion would be helpful at the start of Section 26. In our view the wording of paragraph 2 of IFRS 2 more succinctly expresses the matters covered in the draft paragraphs 26.1 and 26.1B. We therefore suggest that the following wording is used for paragraph 26.1 and that paragraph 26.1B is deleted:

"This section applies in accounting for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:
(a) ***equity-settled share-based payment transactions,***
(b) ***cash-settled share-based payment transactions****, and*
(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.
In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this [section] applies."

This suggested wording omits the reference in paragraph 2 of IFRS 2 to the scope exceptions noted in paragraphs 3A-6 of that standard. We observe that Section 26, as currently drafted (and as proposed), does not include similar exceptions other than in the final words of 26.1A. We suggest that the wording relating to this (and any other) scope exception is incorporated into 26.1 instead of, or in addition to, 26.1A.

- In our view, the interaction of paragraphs 26.1B and 26.17 is unclear. The proposed wording of paragraph 26.1B seems, similar to paragraphs 2 and 13A of IFRS 2, to be broad in scope and to bring any arrangements with unidentifiable goods and services within the scope of Section 26. However, paragraph 26.17 is more restrictive and refers (including in its heading) only to government-mandated plans. In our view, there is an inconsistency to be addressed. As part of this, it would be helpful if more clarity were given about the scope of paragraph 26.17 if, as currently written, it is intended to be restricted only to certain government-mandated arrangements. The proposed wording of paragraph 26.1B appears to bring far more arrangements within the scope of Section 26 than would currently be the case based on the wording of paragraph 26.17 alone.
- In paragraph 26.9, there seems no need to amend *"where"* to *"when"*. However, we think that the sentence about conditions related to service could helpfully be amended in other respects. The draft amendments include a glossary definition of vesting conditions that refers specifically to 'service conditions' and it would be helpful to use this term in paragraph 26.9. For example, the wording could be *"An example of a service condition is when a grant of shares or options ..."* The same applies to 'Examples of vesting conditions relating to performance' – we suggest that *"performance condition"* is used.
- In paragraphs 26.9 the proposed wording introducing bullets (a) and (b) refers to 'non-vesting conditions'. No definition, explanation or example of a 'non-vesting condition' is given. We acknowledge that IFRS 2 also does not define 'non-vesting condition' but note that that standard includes examples of non-vesting conditions in its implementation guidance and has some discussion of the term in the Basis for Conclusions. In our view, greater clarity would be achieved in paragraph 26.9 if the term 'non-vesting condition' were replaced with wording such as *"conditions other than vesting conditions"*.
- In paragraph 26.9(a), we suggest a simplification of the wording at the start of the bullet so that it reads *"all vesting conditions other than market performance conditions shall not be taken into account when estimating the fair value of the equity instruments granted at the measurement date. Instead, such service and non-market performance conditions shall be taken into account ..."* On this basis, the draft wording at the end of bullet (a) would not be required.
- Paragraph 26.16 - it is frequently the case that the 'group entities' will be subsidiaries of a parent that does not apply FRS 102. Application of paragraph 26.16 to date has resulted in some diversity of interpretation as to whether 'the expense for the group' must be measured in accordance with FRS 102 or whether a reasonable allocation may be applied to a group expense measured in accordance with, say, IFRS or US GAAP. Clarification of the wording would be helpful in eliminating such differing interpretations.
- Paragraph 26.22 should be fully aligned with paragraph 26.16 with the deletion of *"recognised"* (in 'expense recognised for the group') as this word has been deleted from paragraph 26.16 as part of the proposed amendments above.

Section 28 – Employee benefits

- Paragraphs 28.28 now includes the sentence "The cost of a defined benefit plan recognised in accordance with paragraph 28.23 may be presented net of amounts relating to changes in the carrying amount of the right to reimbursement". This wording is slightly different to the equivalent wording in paragraph 116(b) of IAS 19 which refers to "The components of defined benefit cost..." rather than "The cost of a defined benefit plan..." Consequently, read literally, the new FRS 102 wording implies that all such costs should be recognised in profit or loss which we do not believe is the FRC's intention. Therefore, we believe the wording in paragraph 28.28 should be aligned to IAS 19 and refer to the components of defined benefit cost rather than the cost of a defined benefit plan.

- Paragraph 28.38 has been amended to replace "legally responsible" with "the sponsoring employer". We are not clear whether this is intended to result in a change in practice and observe that neither the old wording nor the new wording are exactly the same as the equivalent wording in paragraph 41 of IAS 19 which is "legally the sponsoring employer". Unless this is intended to create a difference with IFRS we suggest that the words in paragraph 28.38 (and also paragraph 2 of section 33) are aligned to IAS 19.

Section 29 – Income tax

- We believe that there is a drafting error in the new paragraph 11A since amounts that can be deducted for tax in a business combination should consider the manner of recovery at the date of the business combination rather than the end of the reporting period. Therefore, we believe paragraph 11A should be amended as follows:

  "In applying paragraph 29.11 and determining the amount that can be deducted for tax an entity shall consider the manner in which the entity expects, ~~at the end of the reporting period~~ as at the date of the acquisition, to recover or settle the carrying amount of the asset or liability."

- Paragraph 29.23 applies only when the statutory formats are used. When an entity applies the adapted formats, paragraph 4.2A(p) requires that deferred tax assets and liabilities are shown as separate items on the face of the balance sheet, but classified as non-current. We therefore believe that paragraph 29.23 should be modified to this effect.

Question 7

FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not?

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

We agree with the proposed transitional provisions.

Although not explicitly stated, based on the glossary term 'date of transition', it appears that the 'date of transition to the 2017 triennial review amendments' (as described in paragraph 1.19) is the beginning of the earliest period for which an entity presents full comparative information when applying the 2017 triennial review amendments (i.e. 1 January 2018 for an entity applying the triennial review amendments for the first time in its financial statements for the year beginning 1 January 2019). We would welcome a clarification on this matter as this affects the transitional exceptions to full retrospective application.

Question 8

Following a change in legislation the FRC is now required to complete a Business Impact Target assessment. A provisional assessment for these proposals is set out in the Consultation stage impact assessment within this FRED.

The overall impact of the proposals is expected to be a reduction in the costs of compliance. In relation to the Consultation stage impact assessment, do you have any comments on the costs or benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

We have no comments to make.