Financial Reporting Council

June 2017

Feedback Statement

Consultation Document
Triennial review of UK and Ireland accounting standards

Approach to changes in IFRS

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

Financial Reporting Council

June 2017

Feedback Statement

Consultation Document
Triennial review of UK and Ireland accounting standards

Approach to changes in IFRS

Contents

Overview

(i) When FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* was issued in March 2013, the FRC indicated that it would be reviewed every three years, although the first review was subsequently delayed for one year. As part of the first triennial review of UK and Ireland accounting standards, the FRC issued the Consultation Document – *Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS* in September 2016, seeking views on the principles to be applied in developing and maintaining financial reporting standards, our approach to changes in IFRS and the cost-effectiveness of the requirements relating to accounting for share-based payments.

(ii) This Feedback Statement summarises the 33 responses received to the Consultation Document and the FRC's response to them.

Revised principles

(iii) Almost all respondents that commented agreed with the proposed revised principles, with many stating support for the increased focus on stability and proportionality. The revised principles have been adopted in developing the proposals set out in FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*.

IFRS 9, IFRS 15 and IFRS 16

(iv) The Consultation Document proposed that a second phase of the triennial review would include a FRED being issued in the third quarter of 2017 containing proposals to incorporate the principles of the expected loss model of IFRS 9 *Financial Instruments*, and IFRS 16 *Leases*, into FRS 102. A significant minority of respondents did not agree with these proposals. The Consultation Document proposed that IFRS 15 *Revenue from Contracts with Customers* would be considered in more detail at the next triennial review.

(v) Respondents largely agreed that harmonisation of FRS 102 with changes in IFRS should be a long-term aim, but questioned the appropriateness of the proposed timetable for development and implementation, with many stating that more IFRS implementation experience is needed before an assessment of whether, and if so, how and when requirements based on these standards should be considered for incorporation.

(vi) The FRC agrees that further evidence-gathering and analysis needs to be undertaken before a decision is made on the most appropriate timetable and approach for reflecting the principles of the expected loss model in IFRS 9, IFRS 15 and IFRS 16 in FRS 102, if at all; therefore the FRC will not be issuing a Phase 2 exposure draft as proposed.

Approach to emerging issues

(vii) A number of respondents commented on the need for periods of stability in order for new requirements to bed down and to maximise the cost-effectiveness of financial reporting. The FRC acknowledges this view and aims to provide periods of stability when possible. However, the FRC will continue to assess emerging issues as they arise to determine whether action needs to be taken, and if so, in what form and when. When necessary this will include issuing amendments to standards outside regular review cycles.

Feedback Statement

1 The purpose of this Feedback Statement is to summarise the comments received to the Consultation Document – *Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS*. Some of the issues raised by respondents have been taken into account in the development of FRED 67 *Draft amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications*; however, this feedback statement provides a summary of all matters raised. The Consultation Document was issued in September 2016 and the comment period closed on 31 December 2016.

2 The table below shows the number of respondents to the consultation and analyses the respondents by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms:	
– Top 6	6
– Top 7 to 50	6
– Other	2
	14
Accounting bodies	7
Representative bodies of preparers	6
Preparers	4
Other	2
	33

Consultation Document – Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS

3 The Consultation Document posed 10 questions, and the feedback and FRC response to them are summarised below.

Question 1

> The FRC has reviewed its principles for developing succinct financial reporting standards for the UK and Republic of Ireland. As a result, limited changes have been made to the principles, to emphasise the need to balance improvement with stability and the need for proportionate solutions (see paragraph 1.11).
>
> Do you agree with the principles? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	17
Agreed with reservations	11
Disagreed	1
	29
No response	4
	33

4 Almost all respondents that commented on this question agreed with the revised principles with many stating support for the focus on stability and proportionality.

5 Those that agreed but with reservations noted the following points in respect of the principles themselves:

(a) FRS 102 should track changes in the IFRS for SMEs and should not get ahead of it.

(b) It should be made clear that 'stability' is referring to stability in financial reporting.

6 Those that agreed but with reservations made the following comments in respect of how the principles will be applied:

(a) It is not clear what would happen if there was a conflict or tension between different principles (for example, between having consistency with IFRS and providing stability, or between stability and improvement).

(b) The revised principles do not appear to have been applied consistently to the proposed approach to IFRS set out in the Consultation Document.

(c) The FRC needs to present a more robust and consistent analysis of any future proposed amendments against the revised principles.

(d) More consideration should be given to not-for-profit entities in assessing what is proportionate or not.

7 The respondent that disagreed believes that the principles should acknowledge that users of accounts are generally not expert accountants.

FRC response

8 In FRED 67 the FRC adopted the revised principles as proposed given the strong support from respondents.

9 The revised principles are not a set of rules, therefore judgement will need to be applied when considering potential future amendments to financial reporting standards. Striking the right balance between maintaining an IFRS-based framework, stability, improvement and proportionality may not be straightforward in some cases and the balance between these considerations may vary on a case-by-case basis, depending on the nature of the potential amendments under consideration and the number and types of entities that would be affected.

10 The FRC acknowledges that it must present a clear assessment against the revised principles for any future proposals, particularly when fundamental changes to accounting are being considered.

Questions 2, 3, 5 and 6

11 Question 2 asked an overarching question as to whether respondents agreed with the proposed approach to updating FRS 102 for changes in IFRS. For ease of interpreting, the feedback has been provided separately for each IFRS considered, and a summary of the proposal for that IFRS is also given.

12 In analysing the responses, judgement has been applied in categorising the comments. Some respondents have commented on some, but not all, individual IFRSs. Where a respondent is silent on a specific proposal, this has been recorded as a 'no response' unless the respondent has stated more generally that they agree with all proposals.

13 Questions 3, 5 and 6 asked respondents for specific feedback on how IFRS 9 *Financial Instruments*, IFRS 16 *Leases* and IFRS 10 *Consolidated Financial Statements* might be incorporated into FRS 102. To aid readers of this feedback statement, the comments to these three questions have been analysed alongside responses received to Question 2.

> **Question 2:**
>
> Significant changes in IFRS have been considered against the FRC's principles for developing succinct financial reporting standards for the UK and Republic of Ireland; see Section 3 *Changes in IFRS – Detailed analysis*.
>
> Do you agree with the proposals for updating FRS 102 as result of changes in IFRS as part of this triennial review? If not, please provide alternative suggestions.

IFRS 3 *Business Combinations (2008)*

Table 3: Respondents' views on Question 2 in relation to IFRS 3

	No. of respondents
Proposal: No changes	
Agreed	20
Agreed with reservations	3
Disagreed	1
	24
No response	9
	33

14 It was proposed that no changes would be made to FRS 102 in relation to IFRS 3 (2008 revised). All but one respondent agreed with this proposal; that respondent considered that IFRS 3 (2008 revised) should be considered further for incorporation into FRS 102. The respondents that commented with reservations made the following points:

(a) Consider changing the measurement of contingent consideration from best estimate to fair value now that company law has changed to permit this treatment.

(b) Consider changing the accounting for acquisition costs so that they are recognised as an expense.

(c) Consider changes to FRS 102 in step with the IFRS for SMEs and after IFRS 3 post-implementation review results are known.

(d) An IFRS-based solution would be likely to result in better-quality information for larger entities / group situations, but this may not necessarily be true for smaller entities.

FRC response

15 There was no evidence that there are any significant issues arising from the existing requirements in relation to business combination, therefore the FRC will not be making any changes to FRS 102, as proposed.

IFRS 9 *Financial Instruments*

16 In addition to Question 2, respondents were asked to comment on Question 3 in relation to IFRS 9:

> **Question 3:**
>
> In relation to the impairment of financial assets, the FRC proposes to amend FRS 102 in order to incorporate an expected loss model. Paragraph 3.13 sets out three options for how this may be achieved, with the FRC favouring option (b). Which option would you prefer, and why?

Table 4: Respondents' views on Question 3 in relation to IFRS 9

	No. of respondents
Proposal: Incorporate expected loss model (Phase 2, not before 2022)	
Option (a):	0
Incorporate similar detailed requirements to those in IFRS 9	
Option (b):	11
Require financial institutions (or sub-set thereof eg banks and building societies) to apply impairment requirements of IFRS 9, whilst replacing the existing impairment requirements of FRS 102 for all other entities with new requirements based on a simplified IFRS 9 (preferred option)	
Option (c):	11
Require financial institutions (or sub-set thereof eg banks and building societies) to apply impairment requirement of IFRS 9 and make no further changes to FRS 102	
Other	7
	29
No response	4
	33

17 The FRC proposed to issue a Phase 2 FRED at the end of the third quarter of 2017 which would include proposals for incorporating the expected loss model into FRS 102. The Consultation Document sought views on the best approach to take, with (b) being the FRC's preferred option.

18 Feedback from respondents was mixed. No respondents thought that the detailed requirements of IFRS 9 should be introduced into FRS 102; however, respondents were divided between options (b), (c) or some other approach.

19 There was a general concern from all respondents (irrespective of their preferred option) that the FRC should wait until more implementation experience is gained from IFRS reporters before deciding the best approach and/or trying to draft simplified IFRS 9

requirements. This was particularly true of those respondents that did not support any of the options presented. It was felt that to try and do this piece of work as part of Phase 2 of this triennial review would be too early and it should be deferred until more IFRS implementation experience is available.

20 A significant minority supported option (b) for the reasons set out in the Consultation Document. Those that opposed option (b) stated the following conflicting views:

(a) Imposing simplified IFRS 9 requirements adds unnecessary complexity and may have unintended consequences, specifically in relation to intercompany receivables.

(b) The FRC should explain why the requirements of IFRS 9 are expected to have a significant and disproportionate impact on non-financial institutions thus necessitating a simplified approach for such companies.

21 Those that favoured option (c) indicated a strong preference that IFRS 9 requirements should only be mandatory to a subset of financial institutions, with many naming banks and building societies specifically, and some noting that credit unions, investment trusts and VCTs should be specifically excluded.

FRC response

22 The FRC will not issue a Phase 2 FRED by the end of the third quarter of this year as proposed. The FRC agrees that further evidence-gathering and analysis needs to be undertaken before a decision is made on the most appropriate timetable and approach for reflecting the principles of IFRS 9 in FRS 102, if at all. This includes further consideration of whether different approaches are appropriate for financial institutions (or a sub-set thereof) and other entities within the scope of FRS 102. A different approach could be applied to both the requirements themselves and the timetable for implementation.

IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities*

23 In addition to Question 2, respondents were asked to comment on Question 6 in relation to IFRS 10.

Table 5: Respondents' views on Question 2 in relation to IFRS 10, IFRS 11 and IFRS 12

	No. of respondents
Proposal (IFRS 10 and 11): Revise definition of control and provide guidance on its application (Phase 1)	
Agreed	10
Agreed with reservations	1
Disagreed	14
	25
No responses	8
	33
Proposal (IFRS 12): No changes	
Agreed	24
Agreed with reservations	0
Disagreed	0
	24
No responses	9
	33

24 The majority of respondents that commented on the proposed introduction of the control model did not agree with it. The feedback received included the following:

(a) The cost of implementation would far outweigh the benefit given that there would be no practical effect for the vast majority of entities, yet all entities would still have to go through an exercise to determine that there is no change.

(b) The proposal did not meet with the new principle of balancing improvements with stability.

(c) A significant amount of additional implementation guidance would need to be added to FRS 102 to ensure the revised definition could be applied in practice.

(d) The main impact of implementing IFRS 10 has been felt in financial institutions that have complex structured entities and therefore was of limited relevance to entities within the scope of FRS 102.

25 Some respondents suggested that the FRC should wait until after the IASB's post-implementation review before considering if this approach is appropriate.

Question 6:

The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 *Consolidated Financial Statements*. Company law specifies when consolidated financial statements are prepared, and any changes would supplement these existing requirements by providing further guidance on what is meant by ‘control’. Are you aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements?

In most situations, any changes to the definition of control in FRS 102 will have no impact in practice. However, in other cases entities may be consolidated for the first time or cease to be consolidated. Do you have any information about how significant the practical impact may be and the circumstances in which it might occur?

26 Very few respondents made comments that identified any legal barriers to incorporating the control model of IFRS 10 or provided information about how significant the practical impact may be and the circumstances in which it might occur. Those that did, highlighted that the practical impact of IFRS 10 has been most acutely felt by financial institutions with special purpose (or structured) entities.

27 All respondents agreed with the proposal that no changes should be made to FRS 102 for IFRS 12, although two respondents commented that they would support the introduction of a disclosure that required entities to provide information about unconsolidated structured entities.

FRC response

28 The Corporate Reporting Council considered this feedback in the development of FRED 67. The FRC is not proposing to introduce the control model into FRS 102, but is proposing as part of that FRED to introduce an additional requirement which is derived from IFRS 12 to disclose the nature and extent of interest in unconsolidated special purpose entities, and the risks associated with those interests.

29 See paragraphs 38 to 40 of the Corporate Reporting Council’s Advice to issue FRED 67 for more detail.

IFRS 13 *Fair Value Measurement*

Table 6: Respondents' views on Question 2 in relation to IFRS 13

	No. of respondents
Proposal (a): Amend paragraph 11.27 of FRS 102 for greater consistency with IFRS 13 (Phase 1)	
Agreed	19
Disagreed	5
	24
No response	9
	33
Proposal (b): Consider greater consistency of key definitions with IFRS 13 (Phase 1)	
Agreed	15
Disagreed	8
	23
No response	10
	33
Proposal (c): Propose no further changes to FRS 102 for IFRS 13	
Agreed	23
Disagreed	0
	23
No response	10
	33

30 Respondents that commented on this question did not always comment separately on the three proposals presented in the Consultation Document; however, respondents largely agreed overall.

31 Those that disagreed mainly commented on proposal (b) which was to align the key definitions with IFRS 13. The main concerns noted were as follows:

(a) Inclusion of the impact of 'own credit risk' would be an issue as it is difficult to obtain.

(b) FRS 102 preparers may not understand the subtleties of the differences between FRS 102 and IFRS 13, and any changes to the existing requirements would be likely to cause confusion.

(c) The costs of any amendments would outweigh the benefits and a better case for change needs to be made.

FRC response

32 As part of the development of FRED 67 the definition of fair value in FRS 102 and the guidance supporting its implementation were reconsidered. Although a majority of respondents to the Consultation Document had supported the outline proposals for changes, on further consideration the FRC agreed that the concerns noted above by a minority of respondents were significant. It also noted that many entities are only just becoming familiar with the fair value guidance in FRS 102. Therefore FRED 67 proposes that the definition of fair value not be revised at this time.

33 See paragraphs 58 to 61 of the Corporate Reporting Council's Advice to issue FRED 67 for more detail.

IFRS 15 *Revenue from Contracts with Customers*

Table 7: Respondents' views on Question 2 in relation to IFRS 15

	No. of respondents
Proposal (a): No significant changes in this triennial review; consider in more detail in next triennial review	
Agreed	26
Disagreed	0
	26
No response	7
	33
Proposal (b): Strengthen requirements in FRS 102 relating to separating single transactions into component parts based on relative stand-alone values (Phase 1)	
Agreed	12
Disagreed	12
	24
No response	9
	33

34 There was unanimous support for the proposal that the detailed requirements of IFRS 15 should not be brought into FRS 102 during this triennial review and that it will be considered in more detail at the next review.

35 There were more mixed views with regard to the proposal to strengthen the requirements of FRS 102 for separating out single transactions into component parts. Those that did not support the proposal stated the following reasons:

(a) IFRS should not be implemented on a piecemeal basis and IFRS 15 should be considered as a whole at a later stage.

(b) The FRC should wait for more implementation experience from IFRS reporters before implementing any part of IFRS 15.

(c) Entities that are part of an IFRS group can elect to use FRS 101 if having consistent revenue recognition policies is important and therefore changes to FRS 102 are not necessary for the purposes of efficiency within groups.

(d) FRS 102 already includes requirements to separate out contracts into their component parts.

(e) Entities are permitted to look to IFRS in situations where FRS 102 does not provide specific guidance.

FRC response

36 The FRC has proposed, in FRED 67, strengthening the requirements relating to separating single transactions into component parts. The proposals in FRED 67 are not based on the detailed requirements of IFRS 15 but instead clarify the existing requirements of FRS 102. See paragraph 67 of the Corporate Reporting Council's Advice in that FRED for more detail.

37 Further evidence-gathering and analysis needs to be undertaken before a decision is made on the most appropriate timetable and approach for reflecting the principles of IFRS 15 in FRS 102, if at all.

IFRS 16 *Leases*

38 In addition to Question 2, respondents were asked to comment on Question 5 in relation to IFRS 16.

Table 8: Respondents' views on Question 2 in relation to IFRS 16

	No. of respondents
Proposal (a): Incorporate IFRS 16-based leases requirements with 2022 effective date (Phase 2)	
Agreed	16
Disagreed	12
	28
No response	5
	33
Proposal (b): Consider if lease disclosures can be enhanced in the meantime	
Agreed	11
Disagreed	11
	22
No response	11
	33

39 A small majority of respondents agreed with the proposal to introduce IFRS 16-based requirements into FRS 102 in Phase 2 of this triennial review with an effective date of 2022, with many supporting the longer implementation period and the alignment of its effective date with those of the next triennial review.

40 Those respondents that disagreed, largely disagreed with the proposed timetable for development rather than the principle of introducing IFRS 16-based requirements in general, stating it was too early to develop the detailed requirements and that the FRC should wait until more implementation experience becomes available. One respondent highlighted that the IASB only allows the adoption of IFRS 16 if IFRS 15 is applied, therefore if the FRC is only going to consider the requirements of IFRS 15 at the next triennial review, its work in relation to IFRS 16 should follow the same timetable. It is not clear whether these respondents had concerns with the 2022 effective date although one respondent specifically suggested a 2025 effective date would be more appropriate.

41 The feedback to the second proposal to enhance lease disclosures in the meantime was not easy to identify from comments made in respect of the first proposal. Feedback was, however, mixed.

> **Question 5:**
>
> Do you have any suggestions for how the requirements of IFRS 16 *Leases* might be developed into a suitable model for entities applying FRS 102? In particular, do you have any suggestions relating to the application of the short-term lease exemption or the exemption for leases when the value of the underlying asset is low?

42 Very few respondents made suggestions for how the requirements of IFRS 16 might be developed into a model suitable for entities applying FRS 102. Those that did highlighted

the importance of getting the short-life lease and low-value asset exemptions right, to ensure the requirements are proportionate and practical to apply.

FRC response

43 The FRC has not proposed to enhance lease disclosures in FRED 67 given the mixed feedback received (see paragraphs 72 and 73 of the Corporate Reporting Council's Advice to issue FRED 67 for more detail) and will not issue a Phase 2 FRED by the end of the third quarter of this year as proposed. Further evidence-gathering and analysis needs to be undertaken before a decision can be made on the most appropriate timetable and approach for reflecting the principles of IFRS 16 in FRS 102, if at all.

Question 3

In relation to the impairment of financial assets, the FRC proposes to amend FRS 102 in order to incorporate an expected loss model. Paragraph 3.13 sets out three options for how this may be achieved, with the FRC favouring option (b). Which option would you prefer, and why?

44 Responses to this question have been collated under the feedback to Question 2 in relation to IFRS 9 (see paragraphs 16 to 22).

Question 4

> Presently, in paragraph 11.2 (and paragraph 12.2), FRS 102 permits an accounting policy choice in relation to financial instruments, allowing an entity to choose the recognition and measurement requirements of FRS 102, IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* (and elements of IAS 39 as amended by IFRS 9). The FRC proposes to retain the option to choose IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102 (ie for all accounting periods beginning before 1 January 2022). From 1 January 2022 the FRC proposes that the available options will be the requirements of FRS 102 or IFRS 9. Do you agree? If not, why not?

Table 9: Respondents' views on Question 4

	No. of respondents
Proposal (a): Retain option to choose to apply the recognition and measurement requirements of IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102.	
Agreed	22
Disagreed	1
	23
No response	10
	33
Proposal (b): Once FRS 102 is amended and the revised requirements are mandatorily effective (ie 1 January 2022), option to apply recognition and measurement requirements of IAS 39 should be removed.	
Agreed	18
Agreed with reservations	2
Disagreed	3
	23
No response	10
	33

45 Almost all respondents that commented on the first proposal agreed that the option to apply IAS 39 should be retained until such time that FRS 102 is amended to reflect the principles of IFRS 9 (or it is decided that no such amendment to FRS 102 should be made). The one respondent that disagreed believes that the availability of IAS 39 under FRS 102 should reflect its availability under IFRS (ie the option should cease to be available once IAS 39 has been superseded by IFRS 9).

46 The majority of respondents that commented on the second proposal also agreed that the option to apply IAS 39 should be removed once FRS 102 had been updated and those requirements have become mandatorily effective, noted as 1 January 2022 in the Consultation Document. The two respondents that agreed with reservations noted that it was too early to decide when the option should be removed, but agreed that in principle the option should be removed once FRS 102 is amended.

47 Those that disagreed had mixed reasons; one stated that the option should be retained until 2027, one stated that there was no reason to extend it beyond 2019, one stated that the availability of the option should mirror the availability of IAS 39 in IFRS.

FRC response

48 FRED 67 proposes amendments to clarify that the option to apply IAS 39 continues to be available after the mandatory effective date of IFRS 9. See paragraphs 41 and 42 of the Corporate Reporting Council's Advice to issue FRED 67 for more detail.

Question 5

> Do you have any suggestions for how the requirements of IFRS 16 *Leases* might be developed into a suitable model for entities applying FRS 102? In particular, do you have any suggestions relating to the application of the short-term lease exemption or the exemption for leases when the value of the underlying asset is low?

49 Responses to this question have been collated under the feedback to Question 2 in relation to IFRS 16 (see paragraphs 42 and 43).

Question 6

> The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 *Consolidated Financial Statements*. Company law specifies when consolidated financial statements are prepared, and any changes would supplement these existing requirements by providing further guidance on what is meant by 'control'. Are you aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements?
>
> In most situations, any changes to the definition of control in FRS 102 will have no impact in practice. However, in other cases entities may be consolidated for the first time or cease to be consolidated. Do you have any information about how significant the practical impact may be and the circumstances in which it might occur?

50 Responses to this question have been collated under the feedback to Question 2 in relation to IFRS 10 (see paragraphs 26 to 29).

Question 7

Do you have any comments on the cost-effectiveness of the requirements for share-based payments, currently set out in Section 26 *Share-based Payment* of FRS 102? If you consider that alternative requirements would be more cost-effective, please provide details of how you would adapt the current requirements whilst still providing useful information to users.

Table 10: Respondents' views on Question 7

	No. of respondents
Responded with comments	18
No response	15
	33

51 The feedback from respondents to this question was very mixed, with some individual respondents offering a number of different options that they would find acceptable.

52 The following notable comments were made:

(a) There is some sympathy for the difficulties that private companies face in determining a reliable and relevant fair value for their share-based payments; however, the current accounting requirements are well embedded having been in place for over a decade and, on balance, there is no strong evidence that there is a need for change.

(b) The only entities that have been impacted with the introduction of new UK GAAP are those transitioning from the FRSSE to Section 1A *Small Entities* of FRS 102.

(c) There was support for the introduction of a disclosure-only approach for small entities; however, the respondents noted that this would only be feasible if legislative changes were possible, such that additional disclosures could be mandated for small entities.

(d) A small minority commented that they would support the introduction of a disclosure-only approach to a wider range of entities, not just small.

FRC response

53 The FRC does not propose at this stage to revise the requirements for share-based payment given that there is no strong evidence that change is needed. Minor drafting improvements have been proposed to Section 26 in FRED 67.

54 If there are legislative changes in the future such that additional disclosures can be mandated of small entities, the FRC will revisit the requirements of this section.

Question 8

> Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?

Table 11: Respondents' views on Question 8

	No. of respondents
(a) Do you agree with the proposed effective date for the incremental improvements and clarifications being 1 January 2019?	
Agreed	23
Agreed with reservations	2
Disagreed	0
	25
No response	8
	33
(b) Do you agree with the proposed effective date for the more fundamental changes being 1 January 2022?	
Agreed	17
Disagreed	11
	28
No response	5
	33

55 All respondents commenting agreed with the proposed 2019 effective date for any incremental improvements and clarifications. The two respondents with reservations commented that they would need to see the actual proposed amendments to assess this properly.

56 There were mixed views with regard to the effective date proposed for the more fundamental amendments:

(a) Many stated that the FRC should defer the development of any proposals until more implementation experience of the relevant IFRS has been obtained, most notably in relation to IFRS 9, IFRS 15 and IFRS 16 (see feedback from Questions 2, 3, 5 and 6).

(b) Some commented that if the FRC were to go ahead with Phase 2 of this triennial review, they supported 'dovetailing' the effective date of these amendments with those arising from the next triennial review.

(c) On the other hand, some respondents commented that there is no need for the FRC to 'dovetail' the effective dates, and that proposals in relation to fundamental changes arising from IFRS should be kept out of the triennial review cycles and undertaken separately, with the most appropriate effective date selected at that time.

FRC response

57 In FRED 67 the FRC has proposed that the amendments relating to incremental improvements and clarifications are effective for financial reporting periods beginning on or after 1 January 2019 with early adoption permitted, provided all amendments are adopted at the same time.

58 Further consideration of the most appropriate timetable for development and implementation of requirements reflecting the principles of IFRS 9, IFRS 15 and IFRS 16 is required before effective dates can be proposed. The FRC agrees that proposals to reflect major new IFRS should be considered separately from the triennial review cycle.

Question 9

> Do you have any other comments on the approach to keeping FRS 102 up to date as part of the triennial review?
>
> Please note that there is no need to repeat comments about potential areas for improvements to FRS 102 that have already been submitted to ukfrsreview@frc.org.uk as these comments have already been noted and will be considered. Detailed comments about potential improvements should continue to be submitted to ukfrsreview@frc.org.uk. Those comments received by 31 October 2016 will be taken into account in developing formal proposals for changes. Comments received after this date will be taken into account in the later stages of the review, if they cannot be considered sooner.

Table 12: Respondents' views on Question 9

	No. of respondents
Responded with no additional comments	16
Responded with additional comments	14
	30
No response	3
	33

59 Some respondents provided additional comments in relation to specific technical issues. These have been reviewed as part of the development of FRED 67 and amendments proposed when relevant.

60 Other notable comments made included the following:

(a) The FRC needs to perform greater outreach to ensure engagement from a wider range of stakeholders.

(b) The FRC should work towards providing entities with greater periods of stability.

(c) The FRC should be flexible in its approach to updating and improving FRS 102, such that it should not hesitate to respond outside the triennial review cycle if significant implementation issues are identified.

FRC response

61 The FRC undertakes a large amount of outreach, and the proposals in FRED 67 were developed after considering a significant amount of feedback from stakeholders. The FRC acknowledges that it must continually strive to ensure it offers opportunities for as wide a group of stakeholders as possible to comment on its proposals.

62 As noted above under Question 1 (see paragraphs 4 to 10 above), judgement will be applied when assessing any future proposals to amend FRS 102 against the revised principles. The revised principles acknowledge that stability is an important consideration but it is not the only one, and a careful balance needs to be struck between potentially competing factors.

63 The FRC will continue to assess emerging issues as they arise to determine whether action needs to be taken, and if so, in what form and when. When necessary this will include issuing amendments to standards outside regular review cycles.

Question 10

> The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

Table 13: Respondents' views on Question 10

	No. of respondents
Responded with no additional comments	10
Responded with additional comments	18
	28
No response	5
	33

64 The following notable additional comments were made by respondents to this question:

(a) It is difficult to quantify the costs and benefits of implementing changes arising from IFRS when the standards have not yet been implemented by IFRS reporters and proposed amendments to FRS 102 are unknown. However, a few commented that they would expect the costs to far outweigh the benefits.

(b) The assessment of costs and benefits should include those related to not-for-profit organisations.

(c) Specific costs identified included:

- Lack of audit team knowledge and experience;
- Accounting software issues and other changes to reporting and systems;
- Loan covenant renegotiations may be required on adoption of new leasing requirements;
- Briefings of stakeholders on impact of changes;
- Possible increased need for board member training;
- Increased audit fees resulting from prior year adjustments and reviewing judgment areas; and
- Cost of updating long-term financial plans.

FRC response

65 These comments will be taken into account when the FRC reconsiders the most appropriate timetable and approach for any amendments to FRS 102 to reflect the principles of IFRS 9, IFRS 15 and IFRS 16.

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk