Financial Reporting Council

AT A GLANCE

Triennial review 2017 – Proposed incremental improvements and clarifications to FRS 102

As a result of the triennial review of UK and Ireland accounting standards, in March 2017 the FRC issued FRED 67[1] which proposes incremental improvements and clarifications to FRS 102[2] (the 'main' UK and Ireland accounting standard). FRED 67 was developed after asking for stakeholder feedback on the implementation of FRS 102. Comments are requested by 30 June 2017.

On the basis of the initial feedback provided, and other outreach, the FRC concluded that FRS 102 is working well in practice, but there are a small number of areas where a significant improvement could be made to the cost-effectiveness of FRS 102 without loss of useful information.

Further amendments are proposed to improve the readability of FRS 102 or clarify existing requirements. In general these amendments do not change the underlying requirements of FRS 102, but will still contribute to improved cost-effectiveness by reducing the time taken to determine a suitable accounting policy in certain circumstances.

Principal amendments proposed

The principal areas where changes are proposed are:

(a) Directors' loans – small entities will no longer need to estimate a market rate of interest when measuring loans from a director who is also a shareholder.

(b) Intangible assets acquired in a business combination – fewer intangible assets will be required to be separately identified from goodwill and valued.

(c) Investment property rented to another group entity – entities will now be able to choose to measure these investment properties at cost less depreciation and impairment instead of fair value. At present, such property must be measured at fair value unless the entity can conclude that determining fair value would require 'undue cost or effort'. The undue cost or effort exemption will be removed for all investment property.

(d) Classification of financial instruments – additional financial instruments will be considered 'basic' (and thereby measured on a cost rather than fair value basis) beyond those meeting the prescriptive conditions, if they are consistent with a new principle-based description.

(e) Definition of a financial institution – financial institutions are required to provide additional disclosures about financial instruments. Fewer entities should be financial institutions following changes to the definition, although all entities will need to consider if the risks

[1] FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*

[2] FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

associated with the financial instruments they hold are significant enough to warrant further disclosures.

What does it mean for business?

The impact will vary from business to business, depending on the size of the business, its principal activities and the transactions it undertakes.

However, businesses should find FRS 102 is more cost-effective to apply. The FRC has taken on board the feedback received to date and responded by making compliance with FRS 102 easier, without imposing additional burdens.

When will it be effective?

The proposals are expected to be effective for accounting periods beginning on or after 1 January 2019.

Early application will be permitted if all of the amendments are applied at the same time.

When will the proposals be finalised?

The FRC expects to finalise the amendments to FRS 102 in December 2017.

What about incorporating major changes in IFRS?

These proposals do not incorporate into FRS 102 major changes in IFRS.

The FRC will consider whether, and if so how, to incorporate elements of the expected loss model of IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* as a separate phase of the triennial review. Any proposals for changes will only be made after consideration of responses received to the Consultation Document issued in September 2016. Any resulting amendments to FRS 102 will not be effective before 1 January 2022.

What about standards other than FRS 102?

Consequential amendments are proposed to the other UK and Ireland accounting standards for consistency with FRS 102. For example, common definitions or phrases will be updated.

Most of the consequential amendments apply to the micro-entities regime (FRS 105[3]) because it was developed from FRS 102. However, they will not result in significant changes in accounting for micro-entities because the principal changes to FRS 102 relate to areas where FRS 105 is already simplified.

However, some of the changes proposed address specific feedback or legal requirements, for example disclosure requirements for micro-entities.

Where can I found out more?

FRED 67 is available on the FRC website. This includes all the proposed amendments and an explanation of the more significant issues discussed during its development.

Also available on the FRC website is a staff draft of FRS 102 incorporating and highlighting the proposed amendments. This will enable stakeholders to review the proposals in context, rather than as isolated paragraphs.

How can I comment on the proposals?

Comments on the proposals should be sent to ukfrs@frc.org.uk by 30 June 2017.

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[3] FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*