Financial Reporting Council

December 2017

Impact Assessment and Feedback Statement

Triennial review 2017

Incremental improvements and clarifications

Payments by subsidiaries to their charitable parents that qualify for gift aid

The FRC's mission is to promote transparency and integrity in business. 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

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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, the FRC issued FRED 67 *Draft amendments to FRS 102 – Triennial Review 2017 – Incremental improvements and clarifications* in March 2017, and FRED 68 *Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid* in September 2017, setting out draft amendments to FRS 102.

(ii) This Feedback Statement summarises the 35 responses received to FRED 67 and 29 responses to FRED 68 and the FRC's response to them.

Overall approach

(iii) Respondents supported the idea that the triennial review should focus on incremental improvements and clarifications. At present many entities have prepared no more than one or two sets of financial statements applying FRS 102 and respondents supported and emphasised the importance of allowing FRS 102 to bed down and become more familiar before more fundamental changes are proposed.

(iv) As noted in the Feedback Statement *Consultation Document – Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS* issued in June 2017, further evidence-gathering and analysis after the standards have been implemented 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 originally proposed. In May of this year, the IASB issued IFRS 17 *Insurance Contracts* and the FRC will similarly only consider any changes to FRS 103 *Insurance Contracts* in light of evidence gathered from the practical implementation of IFRS 17 by UK listed companies.

FRED 67 – Incremental improvements and clarifications

(v) Respondents largely supported the key proposals outlined in FRED 67 including the following:

(a) Improvements to the classification of financial instruments with the introduction of a description of a basic financial instrument.

(b) An exemption for small entities with directors' loans from present value accounting.

(c) Amendments to the definition of a financial institution to remove retirement benefit plans and improve the drafting of the 'catch-all' definition.

(d) The removal of all undue cost or effort exemptions.

(e) The introduction of an option to allow entities renting investment property to another group entity to measure such properties at cost less depreciation and impairments.

(f) Revised requirements in relation to the separate recognition of intangible assets acquired in a business combination.

(vi) Many respondents offered useful suggestions on further improvements which have been considered in finalising these amendments.

FRED 68 – Payments to subsidiaries to their charitable parents that qualify for gift aid

(vii) Respondents supported the proposal to allow the tax effects of an expected gift aid payment to be taken into account in measuring current tax. However, views were more mixed on whether a liability should be recognised at the reporting date for the expected gift aid payment. After considering the responses, the amendments have been made broadly as proposed.

Impact Assessment

Introduction

1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

2 The overriding objective is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

3 This impact assessment accompanies *Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications* issued in December 2017.

4 The proposals preceding the amendments were set out in two Financial Reporting Exposure Drafts (FREDs), both of which were accompanied by a Consultation stage impact assessment.

Amendments to FRS 102

Background

5 New UK and Ireland accounting standards were issued between 2012 and 2015. The effective date was 1 January 2015, with requirements for small entities and micro-entities becoming effective from 1 January 2016. Early adoption was permitted.

6 Within a suite of six standards FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is the 'main' standard. When it was issued the FRC committed to a review after three years, which was subsequently extended to four years. These amendments have been made after completing that review. The aim of the review was to make any necessary amendments to accounting standards, predominantly FRS 102, to continue to require high-quality financial reporting, keep the standard up-to-date and consider implementation feedback on areas for improvement, including those that have been costly to implement.

7 All sectors and sizes of entities are potentially affected by these amendments, including companies and other legal structures, unless the entity is required or chooses to apply EU-adopted IFRS. The number of entities is estimated at 4 million. The impact on each entity will vary depending on factors such as size, the nature of the business, the transactions it undertakes and whether or not it is part of a group.

Rationale for the amendments and intended outcome

8 As part of the triennial review stakeholders contributed feedback on the implementation of FRS 102 and provided suggestions for improvements that could be made. A periodic review also allows other changes to be made which balance keeping the standards up-to-date as financial reporting evolves with the benefits of stability, address potential emerging issues and improve clarity, and overall improve the cost-effectiveness of FRS 102.

9 In order to achieve positive outcomes from the triennial review it is necessary to make amendments to the standard that will improve the quality of financial reporting and improve the usability and cost-effectiveness of the standard.

Options considered

10 Two options were considered:

(a) do nothing; and

(b) make amendments to FRS 102.

11 In addition, in order to respond to some of the stakeholder feedback received, we intend to adopt a non-regulatory approach, for example by providing informal guidance on a number of topics.

Do nothing

12 The 'do nothing' option would involve either not carrying out a triennial review, or carrying it out but deciding not to make any changes to FRS 102, or the other standards, as a result.

13 Not carrying out a review is not an effective option. Reporting requirements need to be reviewed periodically with the aim of reflecting, in a proportionate manner, evolving financial reporting practices and changing business transactions. Also, the FRC had committed to it on a number of occasions (eg when FRS 102 was issued and by inviting stakeholder feedback). Stakeholder feedback supported a periodic review and identified a number of issues that warranted further consideration.

14 In addition, although stakeholders value stability and, at this stage in the implementation of FRS 102 (for many entities only one or two sets of financial statements complying with FRS 102 will have been prepared), do not support fundamental changes, they do support incremental improvements and clarifications (see the responses to question 1 of FRED 67, paragraphs 36 to 38).

15 Further, having carried out a review and obtained valuable stakeholder feedback, not making changes to FRS 102 would be a missed opportunity to make improvements (including simplifications), clarifications and increase the cost-effectiveness of FRS 102.

Make amendments to FRS 102

16 Making amendments to FRS 102 to respond to stakeholder feedback and make other improvements enables the FRC to:

(a) maintain and improve the quality of financial reporting required of entities;

(b) clarify aspects of the requirements by, for example, addressing areas where FRS 102 is silent or improving the readability and accessibility of FRS 102; and

(c) improve the cost-effectiveness of FRS 102.

Costs and benefits

17 The FRC believes that, whilst acknowledging that there will be transitional costs, overall the amendments will reduce the cost of compliance with UK and Ireland accounting standards. This view was supported by respondents (see the responses to question 7 of FRED 67, paragraphs 73 to 78).

Do nothing

18 The costs of doing nothing include:

(a) any improvements in financial reporting are delayed until the implementation of a future review; and

(b) any simplifications or clarifications that would reduce the cost of preparing financial statements are delayed until the implementation of a future review.

19 The benefits of doing nothing include stakeholders not needing to spend time familiarising themselves with the changes and making any one-off adjustments on implementation.

Make amendments to FRS 102

20 The costs of making amendments to FRS 102 include the time stakeholders (including preparers, users and auditors/advisors) will spend understanding the changes and making any adjustments on implementation.

21 The benefits of making amendments to FRS 102 include:

(a) some simpler accounting policies will be available for some entities, resulting in cost savings in the financial statements production process;

(b) some clarifications will reduce the amount of time preparers and auditors will need to spend determining an appropriate accounting policy when FRS 102 is silent; and

(c) further improvements in accounting for and reporting of financial instruments, and therefore better information available for users in making economic decisions.

22 The benefits will generally be felt on an ongoing basis (in comparison to the previous requirements of FRS 102) and will outweigh the transitional costs.

Familiarisation costs

23 Entities will need to understand the changes and determine whether they are relevant to their financial statements or not, and if so, what the implications are.

24 However, entities will be impacted differently by the amendments, depending on their size and more importantly the transactions they undertake. Overall, smaller entities are likely to be the least affected; micro-entities will see almost no changes when compared to existing accounting standards and legal requirements.

25 In practice, although there are approximately 4 million entities[1] potentially affected by these amendments, it will be the accountants that work for the entities or provide accountancy services to the entities, as well as their auditors, that will seek initially to familiarise themselves with the changes. When an accountant advises a number of businesses, the costs of familiarisation will be shared amongst those businesses. As at 31 December 2016 there were 350,912 accountants in the UK and Republic of Ireland[2]. In addition there were 47,670 members of the Association of Accounting Technicians (AAT) in the UK and Republic of Ireland[2] and there were approximately 3,500 practising book-keepers in the UK[3]. This gives a total of 402,082 accountants and book-keepers.

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1 Source: There are approximately 4,000,000 entities applying UK and Ireland accounting standards:

(a) 3,593,602 companies on the effective register as at 31 December 2016 according to Companies House;

(b) approximately 195,000 charities in total registered in England and Wales (167,109), Northern Ireland (5,409) and Scotland (24,063);

(c) entities with other legal forms (there figures may not be mutually exclusive), including building societies (44 according to the Building Societies Association), credit unions (329 according to the Bank of England), education institutions (including 164 universities (Universities UK), 90 Sixth Form Colleges in England alone (Sixth Form Colleges Association) and 209 General Further Education Colleges (Association of Colleges)), 1,760 registered providers of social housing (Government), mutual insurers, 4,994 co-operatives (Co-operatives UK) and others (the Mutuals Public Register has 9,824 entities registered across a variety of legal forms), limited liability partnerships (57,957 on the effective register at 31 December 2016 according to Companies House); and

(d) entities in the Republic of Ireland (approximately 200,000, Companies Registration Office Report 2015).

2 Source: *Key Facts and Trends in the Accountancy Profession* (July 2017) issued by the FRC.

3 Source: Impact Assessment BISBE113, as advised by the Institute of Certified Book-keepers.

26 Depending on the entities the accountant or book-keeper works for, advises or audits, more or less time will be required for familiarisation; some accountants will not currently be involved in financial reporting and therefore not necessarily need to familiarise themselves with the changes. There will be different routes to familiarisation, for example self-study or attending training courses (which may cover this as one of a number of recent developments), but for many this will form part of their ongoing commitment to Continuing Professional Development (CPD).

27 We have assumed an average of one hour per accountant or book-keeper will be spent on familiarisation. This estimate takes into account the fact that some will not need to familiarise themselves with the changes, whilst others will spend longer than one hour. Using an estimate of hourly earnings of £24.19[4] this gives a familiarisation cost of £9.7 million.

Implementation costs

28 It is not possible to determine a reasonable estimate of the initial implementation costs. When there are implications for an entity from the changes in accounting standards they may confirm an existing accounting treatment, or be straightforward to implement and therefore any implementation costs will be minimal. In other cases implementation costs may be greater. For many entities they will be zero.

Ongoing savings from simpler accounting policies, clarifications and improvements

29 The amendments to FRS 102 are intended to improve the cost-effectiveness of FRS 102 without impacting significantly on the usefulness of the resulting information for users of the financial statements. This has been achieved by simplifying some of the more challenging requirements (including requiring fewer fair value measurements in some areas), by introducing more accounting policy choices and by clarifying existing requirements meaning that less time is required to determine an appropriate accounting policy in those cases.

30 Examples include:

(a) removing the requirement for small entities to measure directors' loans at present value;

(b) permitting investment property let to another group entity to be measured based on cost, rather than fair value;

(c) requiring fewer intangible assets to be separated from goodwill when acquired as part of a business combination;

(d) making it easier to determine whether a financial instrument is 'basic' or 'other';

(e) amending the definition of a financial institution to focus more clearly on certain types of entity that shall provide enhanced disclosures about financial instruments; and

(f) clarifying requirements in certain areas, for example by addressing issues on which FRS 102 was previously silent.

31 Cost savings will be achieved through not having to obtain valuations, being able to apply simpler accounting with fewer calculations required, reducing disclosure requirements and reducing the time spent by entities in determining an appropriate accounting policy.

[4] Source: ONS median professional occupation earnings.

Conclusion

32 The FRC expects there to be an overall cost saving to preparers as a result of these changes when measured over the lifetime of their implementation. FRS 102 will be more cost-effective to apply without impacting significantly on the usefulness of the resulting information for users of the financial statements.

Feedback Statement

33 The purpose of this Feedback Statement is to summarise the comments received to:

(a) FRED 67 *Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*; and

(b) FRED 68 *Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid.*

FRED 67 was issued in March 2017 and the comment period closed on 30 June 2017. FRED 68 was issued in September 2017 and the comment period closed on 20 October 2017.

34 The table below shows the number of respondents to the consultations and analyses the respondents by category. One of the responses to FRED 67 was marked as confidential and therefore has not been published on the FRC website.

Table 1: Respondents by category

	No. of respondents	
	FRED 67	**FRED 68**
Accountancy firms	15	12
Accounting bodies	8	2
Representative bodies of preparers	5	3
Preparers	3	8
Other	4	4
	35	29

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

35 FRED 67 posed eight questions, and the feedback and FRC response to them are summarised below.

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?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	31
Agreed with reservations	1
Disagreed	–
	32
No response	3
	35

36 All respondents that commented on this question agreed with the approach taken in FRED 67. The one respondent that agreed with reservations believed that more substantial changes could have been considered alongside the incremental improvements and clarifications, with a deferred effective date.

FRC response

37 Respondents supported the idea that the triennial review should focus on incremental improvements and clarifications. Although these amendments will be effective from 1 January 2019 (four years after the initial effective date of FRS 102 and three years after small entities were brought within its scope), at present many entities have prepared no more than one or two sets of financial statements applying FRS 102 and respondents supported and emphasised the importance of allowing FRS 102 to bed down and become more familiar rather than proposing fundamental changes.

38 The amendments to FRS 102 are intended to improve the quality of financial reporting, the usability and/or the cost-effectiveness of the standard.

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?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	24
Agreed with reservations	3
Disagreed	1
	28
No response	7
	35

39 Almost all respondents that commented on this question agreed with the introduction of the new description proposed in paragraph 11.9A, agreeing that it was a practical and proportionate solution which would address many of the concerns about the rules-based nature of the current standard. Those respondents that agreed but with reservations noted the following points:

(a) The new description in paragraph 11.9A makes much (or all) of paragraph 11.9 redundant, and is potentially confusing.

(b) The benefits of having the new description in paragraph 11.9A will not be fully realised without further explanation or application guidance.

(c) Whether the cost of applying the distinction between a 'basic' and 'other' debt instrument outweighs the benefits of doing so. In particular, the need to analyse the terms of a debt instrument under FRS 102 to determine if it is classified as 'other' and, if it is, then under IFRS to ascertain whether fair value measurement is allowable under the Companies Act, is unnecessarily complex and at risk of being overlooked.

40 The one respondent that disagreed believed that if the current criteria in paragraph 11.9 sometimes fail to classify an instrument as basic, then either the criteria are deficient and should be revised, or, if the criteria are considered 'correct' then the instrument should not be basic. This respondent suggested that if the FRC wishes to pursue a general means of classification, paragraph 11.9A should be the primary classification test with the existing conditions being examples (but not an exhaustive list) of when this is met.

41 Respondents raised a number of other points for consideration:

(a) Some queried whether the examples accurately illustrate the application of paragraphs 11.9 and 11.9A; some requested that further examples be added, particularly for instruments that would previously have been classified as 'other' that would now be 'basic'.

(b) Paragraph 11.9A will not provide a conclusive solution to the classification of loans with two-way compensation clauses and the FRC should consider the output from the

IASB's ongoing project on Symmetric Prepayment Options in determining its approach, but should not automatically assume that the IASB's approach will be appropriate or proportionate for FRS 102 reporters.

(c) The standard should signpost that applying the description in paragraph 11.9A is a significant area of judgement when the debt instruments are material.

FRC response

42 FRS 102 has been amended to include paragraph 11.9A and a number of further changes have been made to the examples following it for clarity and consistency, including providing additional examples.

43 In addition, paragraph 11.9(c) has been amended to note that reasonable compensation for the early termination of a debt contract to be paid by either the holder or the issuer does not in itself breach the conditions for classification as basic. This is also consistent with the finalisation of the IASB's project *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*.

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?

Table 4: Respondents' views on Question 3

	No. of respondents
Agreed	12
Agreed with reservations	14
Disagreed	1
	27
No response	8
	35

44 All but one respondent that commented on this question either agreed, or agreed with reservations, to the introduction of an exemption for small entities with loans received from a director who is a natural person and a shareholder.

45 The one respondent that disagreed with the proposal believes that the requirement to fair value such loans is correct and the exemption should only be made where it is so difficult to determine an appropriate interest rate that any accounting would not be objective. The same respondent also commented that it was unclear why the exemption could not be extended to other similar situations where the same measurement issue arises (such as those noted below).

46 Those that agreed but with reservations raised the following points:

(a) Almost all respondents with reservations suggested that the exemption should be extended to include some of the following scenarios:

(i) loans from directors who are not shareholders;

(ii) loans from shareholders that are not directors;

(iii) intra-group loans;

(iv) loans to companies under common control;

(v) loans from members of a small LLP to the LLP;

(vi) loans from any connected parties (not just close family members);

(vii) loans to directors / shareholders / connected parties etc; and

(viii) loans from directors to any entity, not just a small entity.

(b) Some respondents highlighted the need for guidance on the accounting treatment when an entity no longer qualifies as 'small'.

(c) A small number of respondents noted that they either did not support a divergence in recognition and measurement bases between small and larger entities (and suggested that the exemption be made available for all entities or not be introduced at all) or acknowledged that this was a particularly problematic issue for small entities and therefore supported some form of exemption, but did not support any further divergence in future. One respondent commented that the FRC should set out a clear set of principles against which any future divergence in recognition and measurement would be assessed.

FRS response

47 The FRC continues to believe that, generally, all entities within the scope of FRS 102 should be subject to consistent recognition and measurement requirements. However, occasional specific exemptions may be granted in order to meet the principle of providing proportionate and practical solutions.

48 Following the interim amendment made in May 2017 to permit early adoption of the directors' loan proposals, permanent amendments have been made to FRS 102 to provide small entities with the option to account for loans from anyone in a directors' group of close family members, when that group also includes shareholders in the entity, at transaction price.

49 The FRC considered respondents suggestions for further extension of the relief, but did not agree. The exemption is intended to provide relief to small owner-managed businesses.

50 In addition, paragraph 11.13B provides transitional provisions for entities that cease to be small and need to remeasure any relevant financial liabilities to present value.

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?

Table 5: Respondents' views on Question 4

	No. of respondents
Proposed amendment to definition of financial institution	
Agreed	17
Agreed with reservations	7
Disagreed	4
	28
No response	7
	35
Proposed amendment to paragraph 11.42	
Agreed	8
Agreed with reservations	10
Disagreed	1
	19
No response	16
	35

51 A significant majority of respondents to this question agreed with the proposal to amend the definition of a financial institution.

52 A significant minority agreed with reservations, making the following points:

(a) Some queried whether group treasury companies are captured by the new definition or not, with many noting that the original Accounting Council's Advice to the FRC to issue FRS 102, which stated that 'a subsidiary entity engaged solely in treasury activities for the group as a whole is likely to meet the definition', would cause confusion.

(b) Some believed that stockbrokers should not be included in the definition.

(c) Some questioned how the 'catch all' definition should be applied in practice, with some asking whether, for example, an insurance broker would be considered 'similar' to a stockbroker.

(d) Some believed that public benefit entities engaging in concessionary loans would be inadvertently captured by the revised definition.

53 Four respondents disagreed because the amendments did not resolve the existing interpretational issues or inadvertently would capture entities that previously would not have been financial institutions (eg entities that provide credit but do not accept deposits like public benefit entities engaged in giving concessionary loans).

54 All but one respondent that commented on the second proposal agreed with the proposed amendment to paragraph 11.42. A significant majority of these respondents had reservations and raised the following comments:

(a) The drafting was not strong enough with particular concerns over the terms 'particularly significant', 'encouraged' and 'may be required'.

(b) One respondent wanted a stronger reference to the requirement to give a true and fair view.

(c) As currently drafted qualifying entities that take advantage of the reduced disclosure regime are exempt from paragraph 11.42. A number of respondents questioned whether it was intended that qualifying entities were exempt or not from this requirement and commented that clarity was required.

FRC response

55 The definition of a financial institution has been amended as proposed and additionally stockbrokers have been removed from the list of entities that are financial institutions.

56 The Basis for Conclusions notes that change to the definition may have an impact on group treasury companies, and that, as with any entity, whether or not a group treasury company is a financial institution will depend on the individual facts and circumstances.

57 In relation to paragraph 11.42 it has been made clearer when additional disclosure might be required by noting that the risks arising from financial instruments might be particularly significant to the business when they are principal risks for the entity.

58 The FRC notes respondents' comments that paragraph 11.42 is not applicable to qualifying entities, and that this is consistent with FRS 101 *Reduced Disclosure Framework*.

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?

Table 6: Respondents' views on Question 5

	No. of respondents
(A) Proposed amendment to remove all undue cost or effort exemptions	
Agreed	18
Agreed with reservations	7
Disagreed	2
	27
No response	8
	35
(B) Proposal to introduce accounting policy choice for measurement of investment properties rented to another group entity (paragraphs 16.4A and B)	
Agreed	17
Agreed with reservations	10
Disagreed	–
	27
No response	8
	35

(C) Proposed amendment in relation to the separation of intangible assets acquired in a business combination (paragraph 18.18 and 19.25B)

Agreed	16
Agreed with reservations	6
Disagreed	5
	27
No response	8
	35

(A) Proposed amendment to remove all undue cost or effort exemptions

59 There was overwhelming support for the removal of the existing undue cost or effort exemptions, with nearly all respondents that commented either agreeing, or agreeing with reservations, with this proposal.

60 The respondents with reservations all cautioned against ruling out the possibility of introducing new undue cost or effort exemptions in the future and that there may be unforeseen circumstances where this may be a sensible option. One respondent cautioned against introducing too many accounting policy choices as, by their nature, they reduce comparability and another respondent noted that there are other options available such as using the term 'impracticable'.

61 The two respondents that disagreed noted the following:

(a) Some of the proposed amendments (particularly for directors' loans and intangible assets) effectively apply the principle of 'undue cost or effort'.

(b) The undue cost or effort exemptions were brought into the IFRS for SMEs to address a real issue faced by smaller entities; balancing usefulness of financial information with the cost and/or effort required to provide that information, and would result in greater divergence between the IFRS for SMEs and FRS 102.

FRC response

62 Given the strong support from respondents, the FRC has amended FRS 102 as proposed.

(B) Proposal to introduce accounting policy choice for measurement of investment properties rented to another group entity (paragraphs 16.4A and B)

63 There was unanimous support from respondents that commented for the proposed amendment to allow entities an accounting policy choice to measure investment properties rented to another group entity at cost less depreciation and impairment.

64 Those respondents with reservations raised the following points:

(a) The removal of the undue cost or effort exemption now results in more onerous requirements in respect of investment properties not rented to another group entity and for mixed use properties; being more onerous than IAS 40 *Investment Property* and FRS 101 *Reduced Disclosure Framework*.

(b) Some suggested that the accounting policy choice be introduced for all investment properties, regardless of whether they are rented to another group entity or not, citing concerns that for a small number of properties a reliable measure of fair value is not available. However, one respondent commented that it would be a retrograde step to allow a cost option for investment properties that would have been measured at fair value under previous UK accounting standards.

(c) One respondent suggested that an exemption be introduced akin to that of paragraph 11.30 of FRS 102, rather than allowing an undue cost or effort exemption.

FRC response

65 Given the unanimous support from respondents who commented, the FRC has proceeded to amend FRS 102 as proposed.

66 The FRC notes that prior to the introduction of FRS 102 all investment properties were required to be measured at open market value and that the Appendix to Section 2 *Concepts and Pervasive Principles* provides guidance on situations when a reliable measure of fair value is not available.

(C) Proposed amendment in relation to the separation of intangible assets acquired in a business combination (paragraph 18.18 and 19.25B)

67 There was strong support from respondents that commented on this proposal with a significant majority agreeing, or agreeing with reservations.

68 Concerns raised by those that agreed but with reservations, and those that disagreed, included the following:

(a) The accounting policy as proposed introduces too much flexibility which could result in issues with comparability.

(b) One respondent objected to the option to separately recognise more intangibles on a class by class basis.

(c) Several respondents suggested that the option should be an 'all or nothing' policy, rather than a choice where entities are able to 'cherry pick' the intangibles they wish to separate from goodwill.

(d) A number of respondents suggested that illustrative examples and / or additional guidance would help entities to apply the revised requirements consistently.

(e) A couple of respondents queried what was meant by 'class by class' basis and some queried if the policy election is on an acquisition by acquisition basis.

(f) Several respondents suggested that additional disclosures should be required outlining details of intangible assets that make up goodwill.

FRC response

69 FRS 102 has been amended as proposed, albeit with greater clarification on how the revised requirements should be applied in practice.

70 The FRC still believes that the option to separately recognise intangible assets acquired in a business combination, in addition to those required to be separated as a minimum, will lead to proportionate reporting.

71 Further guidance on which intangible assets are expected to meet the criteria for separate recognition has been included in the Basis for Conclusions at paragraph 71.

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.

72 The vast majority of respondents raised additional issues for consideration. All issues have been considered and a number of amendments to the proposals have been made. The key issues raised were as follows:

(a) Disaggregation of revenue

Respondents did not support the proposal to encourage greater separation of revenue citing that Section 23 *Revenue* was not causing any notable implementation issues to date and the section should be considered in more detail when the incorporation of IFRS 15 *Revenue from Contracts with Customers* is considered.

FRC response

After further consideration, the FRC agrees and therefore FRS 102 has not been amended in this respect.

(b) Net debt reconciliation

A number of respondents welcomed the introduction of a net debt reconciliation, although some raised queries regarding the definition of net debt, namely the meaning of ‘related derivatives’ and ‘borrowings’.

FRC response

The definition of net debt is adapted from FRS 1 *Cash Flow Statements* where neither ‘related derivatives’ nor ‘borrowings’ were defined. The FRC does not feel that further definitions are required.

(c) Key management personnel compensation

A number of respondents welcomed the introduction of the key management personnel compensation exemption where key management personnel and directors are the same, but some raised queries as to how the exemption would work in practice when the key management personnel and directors are not the same, with some suggesting a reconciliation between the two amounts.

FRC response

Clarification has been added into the Basis for Conclusions at paragraph 95 that when the exemption is not available, total key management personnel compensation shall be disclosed, including that relating to the directors.

As a reconciliation would have been an additional disclosure in relation to a deregulatory measure it has not been required.

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.

Table 7: Respondents' views on Question 7

	No. of respondents
Agreed	17
Agreed with reservations	6
Disagreed	–
	23
No response or responded with no comments	12
	35

73 All respondents to this question supported the transitional exemptions as proposed.

74 Those with reservations noted that further consideration of the need for transition provisions for the following transactions was required:

(a) Directors' loan exemption – when an entity ceases to qualify, or initially qualifies as small.

(b) Financial instruments – how to account for financial instruments that were previously accounted for as 'other' that would now be classified as 'basic'.

75 One respondent questioned the need for the proposed transitional exemption for investment property rented to another group entity as it believed that entities should have the information to apply the accounting policy choice retrospectively.

FRC response

76 The transitional provisions have been provided as proposed, except that it has been made clear that the changes to the recognition of intangible assets acquired in a business combination shall take place prospectively.

77 The FRC agrees that the information should be available for retrospective application of the change in accounting policy for investment property rented to another group entity. However, the transitional provision enables a revaluation to be treated as deemed cost going forward, a choice that would have been available on first-time adoption of FRS 102, if the property were not treated as an investment property at that time.

78 As noted in paragraph 50, the FRC agrees that transitional provisions are required for entities that cease to qualify for the directors' loan exemption.

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.

Table 8: Respondents' views on Question 8

	No. of respondents
Responded with comments	20
Responded without comments	9
	29
No response	6
	35

79 All respondents that responded with comments agreed that, in general, the proposals would reduce the costs of compliance.

80 The following comments were raised by respondents:

(a) Greater consideration of the impact of proposals on not-for-profit entities is required.

(b) Some of the assumptions and variables are questionable and unclear, for example the methodology used to determine 1 hour of accountants' time is unclear, an adviser's fees are significantly more than £24 per hour and some entities will require significantly more than half a day to understand and implement these changes.

(c) Impact assessments are too broad brush, and rely on estimates too uncertain to be informative.

(d) A commitment should be made to attempt to monetise the benefits at some future date.

FRC response

81 The potential impact on all entities has been considered. The source of data is provided and assumptions are discussed – the time spent by individual accountants will vary, the impact assessment now more clearly separates familiarisation from implementation.

82 The FRC expects there to be an overall cost saving to preparers as a result of these changes when measured over the lifetime of their implementation. FRS 102 will be more cost-effective to apply without impacting significantly on the usefulness of the resulting information for users of the financial statements.

FRED 68 *Draft amendments to FRS 102 – Payments by subsidiaries to their charitable parents that qualify for gift aid*

83 FRED 68 posed two questions, and the feedback and FRC response to them are summarised below.

Question 1

> Do you agree with the proposed amendments to FRS 102 and that this will improve the relevance of information provided to users of the financial statements? If not, why not?

Table 9: Respondents' views on Question 1

	No. of respondents
Agreed	15
Agreed with reservations	8
Disagreed	5
	28
Did not comment	1
	29

84 No respondents that commented have disagreed with our proposal regarding the treatment of the tax relief. Instead the key issue is whether or not a liability can be recognised for an expected gift aid payment at the reporting date.

85 Of those that agreed with our proposals, 12 agreed that a liability for an expected gift aid payment cannot be recognised unless a legal obligation has been created, such as through a deed of covenant. The other three respondents that agreed noted in their comments that in their view an obligation could be created through a board decision.

86 All but one of those that agreed with reservations considered that a liability could be recognised for the expected gift aid payment either because in their view it is a constructive obligation and/or through a board decision. The other respondent expressed reservations about the overall benefits of the proposals.

87 Those respondents that disagreed did not comment on the proposals relating to the tax treatment, but disagreed that expected gift aid payments shall not be accrued unless there is a legal obligation.

88 Some of the respondents that agreed with the proposal also set out their view that a constructive obligation cannot be created for an expected gift aid payment, because it is a distribution for company law purposes.

FRC response

89 After considering all the comments made, the FRC continues to believe that FRS 102 requires such gift aid payments to be accounted for consistently with dividends. Therefore a liability shall not be recognised at the reporting date unless there is a legal obligation. Further discussion has been included in the Basis for Conclusions on this.

90 The amendments regarding the tax effects have been made as proposed, subject to certain drafting amendments, and early adoption is permitted separately from the rest of the *Triennial review 2017 amendments*.

Question 2

> In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs and benefits of these proposals.

Table 10: Respondents' views on Question 2

	No. of respondents
Responded with comments	19
Responded without comments	1
	20
No response	9
	29

91 Of those respondents commenting, approximately three quarters agreed that there would be no, or minimal costs associated with the proposals and the possibility of a saving of management time through greater clarity over the requirements and avoiding the need for calculations of tax that will not be paid. Approximately half also recognised the benefits to users from more consistent and relevant information.

92 Other respondents' comments included that:

(a) for entities that had previously recognised a liability for an expected gift aid payment when there wasn't a legal obligation, there would be costs associated with a prior year adjustment; and

(b) there will be additional administrative costs if entities choose to put deeds of covenant in place.

FRC response

93 The costs and benefits of these amendments have been included in the Impact Assessment for the *Triennial review 2017 amendments*. Overall, the amendments are a simplification of FRS 102 and the FRC expects they will have a positive impact on the relevance of information provided in the financial statements and improve the consistency of reporting by public benefit entity groups and the entities within those groups.

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

+44 (0)20 7492 2300

www.frc.org.uk