Deloitte.

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Phone: +44 (0)20 7936 3000
Fax: +44 (0)20 7583 1198
www.deloitte.co.uk

Direct phone: +44 20 7007 0884
vepoole@deloitte.co.uk

4 May 2023

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

By email: ukfrsperiodicreview@frc.org.uk

Dear Ms Carter,

Financial Reporting Exposure Draft 82 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs*

We welcome the opportunity to respond to Financial Reporting Exposure Draft 82 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs* ("FRED 82").

In general, we consider that the UK financial reporting regime is working well and is achieving the intended objectives. We have developed our response in the context of the FRC's overriding objective when developing financial reporting standards and, in particular, the aim to achieve consistency with global accounting standards through the application of an IFRS-based solution unless an alternative solution is clearly better.

While we believe that it has been worthwhile taking into account changes proposed in the IASB's exposure draft IASB/ED/2022/1 ("the IFRS for SMEs ED") in informing the FRC's decisions and thought processes when developing FRED 82, in our view it does not necessarily follow that FRS 102 needs to remain consistently aligned to the IFRS for SMEs. The standards have already diverged in significant respects, both on and since their initial publication, and they serve different markets and user needs.

The population of entities applying FRS 102 is both broad in size and diverse in nature. The standard therefore needs to contain sufficient requirements which are comprehensive and understandable, enabling preparers to account appropriately for complex arrangements. While this may result in sections of FRS 102 which are longer than in previous versions, we believe this is appropriate and necessary in maintaining an effective standalone financial reporting standard that preparers are able to understand and apply to achieve an appropriate accounting outcome.

With this in mind, we strongly support incorporating the principles of both IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases* into Section 23 *Revenue* and Section 20 *Leases* of FRS 102, with appropriate simplifications, clarifications and transitional provisions to achieve a proportionate solution. We are broadly supportive of the overall proposals for Sections 20 and 23 and commend the FRC for its work in these areas. We provide detailed comments in Appendix 1 to our response.

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We are also supportive of aligning the definition of fair value with that in IFRS 13 *Fair Value Measurement* and including a new Section 2A *Fair Value Measurement* to address this topic. We note that entities applying FRS 101 *Reduced Disclosure Framework* as well as those adopting an accounting policy of applying the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* under FRS 102 are already required to apply this definition and we consider that it is generally unhelpful to have more than one definition of such a core concept in common usage. However, there are currently no transitional provisions proposed in relation to the change in the definition of fair value. We suggest that, consistent with IFRS 13, provisions are included in Section 1 *Scope* to apply the revised definition of fair value prospectively from the start of the reporting period in which the requirements of Section 2A are first applied.

We agree with delaying the consideration of introducing an expected credit loss (ECL) model into FRS 102, at least until after the IASB has issued the third edition of the IFRS for SMEs Accounting Standard. However, we do not support an approach that involves incorporating a simplified ECL model directly into the requirements of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. Instead, we propose that the FRC follows the simplest approach of requiring the application of the full recognition and measurement requirements of IFRS 9 for a subset of entities. That subset should be determined based on the activities of the entity, and not the entity's size or whether it meets the definition of a public interest entity.

Although we are broadly supportive of the other changes to FRS 102 and the other FRSs, we have concerns that proposed changes to FRS 103 *Insurance Contracts* may have unintended consequences. Further, we do not agree with the inclusion of IFRS 15 revenue principles in FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*; the cost of requiring micro-entities to work through these requirements would exceed the benefit of doing so, and we consider it likely that in the majority of cases the resulting answer would not differ materially from that arrived at under the extant Section 18.

In principle, we are supportive of the proposed effective date of 1 January 2025, provided that the FRC consults and engages with SORP-making bodies to ensure that they will have sufficient time, once the revised standard is published, to develop, consult on and finalise updates to their respective SORPs. We also believe it is essential that the FRC conducts appropriate outreach and stakeholder engagement in the time between publication of the final standard and the effective date to help stakeholders understand and prepare for the changes, particularly in respect of lease accounting which will affect a very broad range of entities. Finally, if the effective date is to be 1 January 2025, we also believe it is essential that the FRC issues the revisions to FRS 102 in final form by the end of 2023 so as to allow preparers sufficient time for implementation.

Our detailed comments on specific areas are set out in the following Appendices:

- Appendix 1: Response to detailed questions
- Appendix 2: Other substantive comments on proposed amendments to FRS 102
- Appendix 3: Comments on proposed amendments to other FRSs
- Appendix 4: Minor drafting comments

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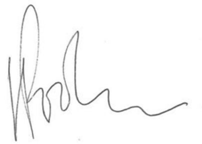
If you have any questions, please contact Robert Carroll on 020 7303 2458 or rcarroll@deloitte.co.uk, or Anne Warner on 020 7007 5636 or annewarner@deloitte.co.uk.

Yours sincerely



Veronica Poole

Vice-Chair and UK National Head of Accounting and Corporate Reporting
Deloitte LLP

Appendix 1: Responses to detailed questions

Question 1: Disclosure

Do you have any comments on the proposed overall level of disclosure required by FRS 102?

We believe that overall, the level of disclosure required by FRS 102 is appropriate. However, we have made some specific recommendations regarding new or amended disclosure requirements in Appendix 2 and Appendix 4.

Do you believe that users of financial statements prepared under FRS 102 will generally be able to obtain the information they seek? If not, why not?

Yes.

Question 2: Concepts and pervasive principles

Do you agree with the proposal to align FRS 102 and FRS 105 with the 2018 Conceptual Framework? If not, why not?

We agree that Section 2 *Concepts and Pervasive Principles* should be aligned with the 2018 Conceptual Framework and support the general approach of taking the proposals in the IFRS for SMEs ED as a starting point. Whilst this does result in a longer Section 2, as noted in our cover letter, we consider that this is necessary to ensure that the requirements are understandable and address the relevant concepts and pervasive principles that underpin the framework.

Although the 2018 Conceptual Framework is presented as a separate document under IFRS Accounting Standards, we believe that it remains appropriate for the section on concepts and pervasive principles to form part of FRS 102; preparers are required by Section 10 *Accounting Policies, Estimates and Errors* to make reference to Section 2 when developing appropriate accounting policies in certain situations and the standard is intended to stand alone without requiring reference elsewhere.

For consistency, we also agree with aligning FRS 105 with the 2018 Conceptual Framework, to the extent relevant for that accounting standard.

This FRED, and IASB/ED/2022/1, propose to continue using the extant definition of an asset for the purposes of Section 18 *Intangible Assets other than Goodwill* and the extant definition of a liability for the purposes of Section 21 *Provisions and Contingencies* of FRS 102. This is consistent with the approach taken in IAS 38 *Intangible Assets* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which use the definitions of an asset and a liability from the IASB's 1989 Framework for the Preparation and Presentation of Financial Statements. Do you agree with this approach? If not, why not?

Yes, we agree.

Do you have any other comments on the proposed revised Section 2?

We set out detailed drafting comments and corrections in Appendix 4.

Question 3: Fair value

The proposed Section 2A *Fair Value Measurement* of FRS 102 would align the definition of fair value, and the guidance on fair value measurement, with that in IFRS 13 *Fair Value Measurement*. Do you agree with this proposal? If not, why not?

Yes, we agree with the proposal to align the definition of fair value with that in IFRS 13. We note that entities applying FRS 101 as well as those adopting an accounting policy of applying the recognition and measurement requirements of IAS 39 or IFRS 9 under FRS 102 are already required to apply this definition and we consider that it is generally unhelpful to have more than one definition of such a core concept in common usage. We believe that the benefits of a consistent definition of fair value across FRS 101, FRS 102 and IFRS Accounting Standards outweigh the potential costs, even if these could be significant for some entities in the short term. We also note that the IASB's decision to propose aligning the definition of fair value in the IFRS for SMEs with that of IFRS 13 following its IFRS 13 post-implementation review offers persuasive evidence that the IFRS 13 definition is viewed as an established concept that operates well in practice.

We understand that the proposed change in definition has led to concerns by some in relation to the prospect of entities recognising gains in the income statement when their creditworthiness declines. However, we observe that this already occurs to an extent under the current FRS 102 definition of fair value, which does not eliminate the need to consider own credit risk entirely. Under the extant definition, own credit risk must still be incorporated in measuring fair value to the extent that a counterparty would take it into account when agreeing to settle that liability. Therefore, when an entity is in severe financial difficulty, it is likely there would still be a significant reduction in the fair value of its liabilities even under the extant definition.

Under IFRS 9, we observe that entities choosing to measure a liability at fair value through profit or loss are generally required to recognise changes in fair value due to own credit risk in other comprehensive income. However, this requirement is used infrequently and complex to apply in practice and, were it to be introduced into FRS 102, it would conflict with the application of the fair value accounting rules under Schedule 1 to the Accounting Regulations. Although FRS 101 preparers, and those FRS 102 preparers electing to apply the recognition and measurement requirements of IFRS 9, are required to use the true and fair override to comply with IFRS 9 in this respect, we do not believe it is appropriate to introduce a requirement into FRS 102 which is in direct conflict with company law. Additionally, due to differences in the classification and measurement model in IFRS 9 and FRS 102, the FRC would need to change the scope of the IFRS 9 requirements in order to capture a similar population of instruments. Accordingly, we are not in favour of introducing a requirement similar to that in IFRS 9 into FRS 102.

We observe that there are currently no transitional provisions proposed in respect of the change in the definition of fair value. We would suggest that, consistent with IFRS 13, provisions are included in Section 1 *Scope* to apply the revised definition of fair value prospectively from the start of the reporting period in which the requirements of Section 2A are first applied. This is because the cost of determining historic fair values would outweigh the benefits, even where this is possible without the use of hindsight.

In addition, we recommend stating explicitly that any change in fair value arising on initial application of Section 2A should be accounted for as a change in estimate to be recognised in profit or loss in the same period as the revised definition is adopted. This is because we believe it would be difficult to distinguish between the change in methodology used to measure fair value from other changes in the measurement of fair value. The FRC may also wish to consider the wider implications of any potential changes in fair

value resulting from adopting the revised definition, such as the effect on hedge effectiveness; we do not believe that a change in the fair value arising from the cumulative catch-up adjustment made in relation to own credit risk should negate the economic relationship that would otherwise exist. However, the FRC may wish to include an explicit statement in the Basis for Conclusions if not in the body of the standard.

As things stand, we believe there is a risk that entities will not notice the potential significance of the change in the definition of fair value, especially given the other significant changes to the standard, and consequently there is a risk that the revised definition may be applied improperly or inconsistently. We therefore recommend including additional guidance to highlight this change and support preparers. In our view, this guidance should include:

- an explanation of the meaning of, and assumptions in relation to, 'a transfer' of a liability, particularly in respect of non-performance risk; and

- the use of the value of an identical or similar liability held by another party as an asset, particularly in respect of liabilities that may benefit from a third-party guarantee or other credit enhancement.

We include detailed drafting recommendations to address this point in Appendix 4.

There are further instances where concepts or principles contained in IFRS 13 either have been omitted from FRS 102 but in our view should be included, or have been included in FRS 102 but in our view the associated guidance needs to be amended or developed further. These are summarised in the following paragraphs and set out in more detail in Appendix 4.

Unit of account
We believe it would be useful to clarify that when determining the fair value of an asset or a liability, or a group of assets or a group of liabilities, the entity should determine the unit of account in accordance with the Section of FRS 102 relevant for the recognition of that asset, liability or group of assets or group of liabilities. We suggest including the following requirement within the 'measurement' subsection of Section 2A:

"Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the Section that requires or permits the fair value measurement".

Own equity
The current proposals are silent on whether an entity's own equity instruments measured at fair value are in scope of Section 2A. There are circumstances in which an entity reporting under FRS 102 may be required to determine a fair value for their own equity instruments (e.g. as part of a business combination or in respect of a financial liability linked to an entity's own equity instruments). It is clear that such instruments are in the scope of IFRS 13, as that standard contains specific requirements in relation to how an entity should obtain a fair value for its own equity instruments. Whilst we do not believe that it is necessary to include equivalent requirements in Section 2A, we recommend that Section 2A should explicitly state whether or not it is applicable to an entity's own equity instruments to avoid divergence in practice.

Calibration of valuation techniques
Proposed Section 2A is silent on the calibration of valuation techniques as set out in IFRS 13.64. In the absence of equivalent requirements, any difference between the transaction price and the modelled value at the date of the transaction would be recognised in profit or loss in the first period following the recognition of an instrument. Significant differences between the transaction price and modelled fair value most often occur when an entity (usually a corporate entity) does not have access to the most advantageous market (usually the interbank market) for a particular asset or liability. This most commonly arises in respect of long-dated inflation or interest rate swaps entered into for economic hedges of those risks in the long term. We suggest including the following requirement within the 'valuation techniques' subsection:

"If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price."

Bid and ask prices
The bid-ask spread in relation to inputs to valuation techniques is distinct from the range of reasonable valuations that may be obtained using a valuation technique for an asset that is not quoted in an active market. Therefore, we believe it is not appropriate for the requirements in relation to bid and ask prices to be included in paragraph 2A.17. We suggest removing the sentence "the use of bid prices for asset positions and ask prices for liability positions is permitted, but not required" from 2A.17 and including the relevant requirements in an additional paragraph, either in the subsection of Section 2A that addresses valuation techniques generally, or in a new subsection addressing appropriate inputs into valuation techniques.

We note that a rigorous application of the principles in Section 2A, as with those in IFRS 13, would result in the use of bid prices for assets and ask prices for liabilities, and using a different value within the range is a practical expedient. The current wording could be interpreted as suggesting that the appropriate use of bid and ask prices is the exception rather than the norm. We therefore suggest the following alternative wording: "the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread is permitted, i.e. the use of bid prices for assets and ask prices for liabilities is permitted but not required".

Do you agree with the proposed consequential amendment to Section 26 *Share-based Payment* of FRS 102 to retain the extant definition of fair value for the purposes of that section? If not, why not?

We agree with the proposed consequential amendment to Section 26 to retain the definition of fair value for the purposes of that section. This is also consistent with IFRS Accounting Standards which exclude IFRS 2 from the scope of IFRS 13. The definition of fair value in Section 26 does not consider market conditions subsequent to the determination of fair value at the grant date, whereas the definition of fair value in Section 2A would require market participants to consider market conditions at the time of valuation. There may be unintended consequences if the Section 2A approach to fair value is brought into Section 26.

<u>Question 4: Expected credit loss model</u>

The FRC intends to defer its conclusion as to whether to align FRS 102 with the expected credit loss model of financial asset impairment from IFRS 9 *Financial Instruments* pending the issue of the IASB's third

edition of the IFRS for SMEs Accounting Standard. Any proposals to align with the expected credit loss model will therefore be presented in a later FRED. Do you agree with this approach? If not, why not?

Yes, we agree with delaying the consideration of introducing an expected credit loss (ECL) model into FRS 102, at least until after the IASB has issued the third edition of the IFRS for SMEs Accounting Standard.

As explained more fully below, we do not support an approach that involves incorporating a simplified ECL model directly into the requirements of Sections 11 and 12, including an ECL model based on the final requirements that will appear in the third edition of the IFRS for SMEs Accounting Standard. However, should the FRC choose this approach, we do not believe that it would be an efficient use of resources to develop such a model in parallel with the IASB. Waiting for the finalisation of the requirements in the IFRS for SMEs would enable the FRC to evaluate more fully both the detail of the final model and the overall approach taken to develop a simplified model. The FRC should also consider the differences in the range and type of entities reporting under the two frameworks in determining the appropriate approach for FRS 102.

In IASB/ED/2022/1 the IASB proposes to retain the incurred loss model for trade receivables and contract assets, and introduce an expected credit loss model for other financial assets measured at amortised cost. The FRC's preliminary view is that, in the context of FRS 102, it may be appropriate to require certain entities to apply an expected credit loss model to their financial assets measured at amortised cost, but allow other entities to retain the incurred loss model. Do you agree with this view? If not, why not?

Yes, we agree. We consider that the most appropriate approach under FRS 102 would be to require only a subset of entities to apply an ECL model and allow other entities to retain the current incurred loss model.

The ECL model in IFRS 9 was developed in response to the economic downturn and 'credit crunch' several years ago and is most relevant for financial institutions which hold significant assets in a fiduciary capacity. The approach currently set out in Section 11 of FRS 102 is well understood and relatively straightforward for both users and preparers of FRS 102 accounts to understand and apply. The broad range of entities applying FRS 102 includes many small entities which are subject to the same recognition and measurement requirements as large and medium-sized entities. We believe that an ECL model would be unduly complex and onerous to apply for many entities and would not necessarily result in more relevant, reliable, or understandable information for users in most cases. Requiring only a subset of entities to apply an expected loss model would target application to where benefits are greatest and most relevant. To the extent that there are perceived weaknesses in the application of the existing requirements, we recommend that the FRC considers issuing targeted material to assist preparers in improving their reporting in this respect. If preparers find the current model challenging to apply, this is unlikely to be resolved by requiring them to implement a more conceptually complex ECL model.

We would caution against any approach that involves incorporating a simplified ECL model directly into the requirements of Sections 11 and 12, including an ECL model based on the final requirements that appear in the third edition of the IFRS for SMEs Accounting Standard. Doing so would prove very challenging in practice as the ECL model in IFRS 9 is detailed and cannot easily be simplified or shortened and to do so would risk omitting crucial pieces of the model which are necessary for it to function as intended. Similarly, the interaction of the impairment requirements of IFRS 9 and the remaining recognition and measurement provisions of Sections 11 and 12 is likely to be complex, and the identification and resolution of any potential issues may be time consuming. Accordingly, we propose that the FRC follows the simplest approach of requiring the application of the full recognition and

measurement requirements of IFRS 9 for a subset of entities (i.e. they would be required to adopt an accounting policy of applying IFRS 9 as set out in paragraphs 11.2(c) and 12.2(c) of FRS 102).

Based on stakeholder feedback received to date, the FRC does not intend to use the existing definition of a financial institution to define the scope of which entities should apply an expected credit loss model. The FRC's preliminary view is that it may be appropriate to define the scope based on an entity's activities (such as entering into regulated or unregulated credit agreements as lender, or finance leases as lessor), or on whether the entity meets the definition of a public interest entity. Do you have any comments on which entities should be required to apply an expected credit loss model?

We agree that it would not be appropriate to use the existing definition of a financial institution to define the scope of the entities that should apply an ECL model. The definition of a financial institution is too broad for these purposes and could result in unnecessary complications for some entities, for example in groups where a corporate treasury company meets the FRS 102 definition of a financial institution.

In defining the subset of entities subject to an ECL model, we would favour criteria based on the activities of the entity rather than criteria based on size or whether the entity meets the definition of a public interest entity. We believe the subset of entities required to apply an ECL model should include banks, building societies and other similar entities that hold significant assets in a fiduciary capacity.

Question 5: Other financial instruments issues

When it has reached its conclusion as to whether to align FRS 102 with the expected credit loss model, the FRC intends to remove the option in paragraphs 11.2(b) and 12.2(b) of FRS 102 to follow the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. This intention was communicated in paragraph B11.5 of the Basis of Conclusions to FRS 102 following the Triennial Review 2017. In preparation for the eventual removal of the IAS 39 option, the FRC proposes to prevent an entity from newly adopting this accounting policy. Do you agree with this proposal? If not, why not?

Yes, we agree both with the proposal of preventing an entity from newly adopting the accounting policy in paragraphs 11.2(b) and 12.2(b) of FRS 102, and the eventual removal of this option for entities that currently apply it once the FRC has concluded whether or not to incorporate an ECL model into FRS 102.

The option in paragraphs 11.2(b) and 12.2(b) was initially included to assist with transition to FRS 102 for entities previously applying FRS 26, and to bridge the gap until IFRS 9 was complete and in force. However, now that the requirements of both FRS 102 and IFRS 9 are well established and understood, it is appropriate to signal clearly the intention to withdraw the option altogether, whilst considering the needs of those who currently apply IAS 39. Restricting application now to those already applying the recognition and measurement provisions of IAS 39 is an effective way of conveying the ultimate intention to withdraw it fully in future.

The FRC's conclusion in relation to the incorporation of an ECL model into FRS 102 (whether that conclusion is to amend the requirements of Sections 11 and 12 or to mandate the application of the IFRS 9 model by a subset of entities) is likely to require some entities to make significant changes to their accounting for financial instruments. Removing the option to apply the recognition and measurement requirements of IAS 39 prior to the introduction of any amendments related to the ECL model could result in entities being required to make two fundamental changes in relatively rapid succession. In contrast, waiting until the FRC reaches a conclusion in relation to the ECL model would provide entities with a

choice between two relatively stable sets of requirements. Therefore, removing the option in paragraphs 11.2(b) and 12.2(b) once the FRC finalises any changes for the ECL model seems to be the most appropriate course of action.

We note that entities transitioning from applying the recognition and measurement provisions of IAS 39 to applying the recognition and measurement provisions of IFRS 9 are required by paragraph 10.11 of FRS 102 to apply the extensive transitional requirements set out in IFRS 9. However, there are no equivalent provisions for entities transitioning from applying the recognition and measurement provisions of IAS 39 to applying the requirements of Sections 11 and 12 in full. We strongly recommend that the FRC considers developing appropriate transitional provisions, for example to minimise the potential disruption to hedge accounting. One possible way to achieve this would be to allow application of relevant exceptions and exemptions in paragraphs 35.9 and 35.10 of FRS 102. However, the development of specific transitional provisions may be preferable as it could allow any optional designations required to be made at the start of the first reporting period in which the policy is changed rather than at the start of the earliest comparative period.

Temporary amendments were made to FRS 102 in December 2019 and December 2020 in relation to interest rate benchmark reform (IBOR reform). The FRC intends to consider, alongside the future consideration of the expected credit loss model, whether these temporary amendments have now served their purpose and could be removed. Do you support the deletion of these temporary amendments? If so, when do you think they should be deleted? If not, why not?

We are in favour of removing the temporary amendments made in December 2019 and December 2020 in relation to IBOR reform but only once they have served their purpose. The timing of this will depend on the prevalence of 'tough legacy contracts' (i.e. contracts that have an inappropriate or no fallback rate alternative and no realistic ability to be renegotiated or amended), noting that this timing may vary both by jurisdiction and the particular IBOR referenced.

We believe that it would be better to remove the temporary amendments completely, rather than to include additional transitional requirements for any tough legacy contracts which may still be outstanding at the time of removal. It may therefore be better to delay the removal of the temporary amendments until such time as the FRC can be reasonably confident that their removal would not result in unintended consequences for entities across relevant jurisdictions. It may be reasonable to combine the consideration of the removal of the temporary amendments with that of the ECL model, noting that the FCA currently intends to cease requiring the production of the last synthetic IBOR rates (used for tough legacy contracts in the UK) in September 2024.

Question 6: Leases

Do you agree with the proposals to revise Section 20 of FRS 102 to reflect the on-balance sheet lease accounting model from IFRS 16, with simplifications? If not, why not?

We strongly agree that it is appropriate to revise Section 20 of FRS 102 to reflect the principles of IFRS 16. Operating leases are by far the most prevalent form of lease entered into by FRS 102 preparers and the off-balance sheet treatment of such leases for lessees and lack of adequate disclosures restrict the ability of users to obtain sufficient information about an entity's leverage and commitments that will result in cash outflows in future periods. The right-of-use asset model set out in IFRS 16 is conceptually preferable and appropriately depicts the rights and obligations for lessees. We also agree with the general approach

that simplifications compared to IFRS 16's requirements should be optional, so as to avoid unnecessary differences within groups that report under both FRS 102 and IFRS.

Although we are supportive overall of how the principles of IFRS 16 have been reflected in FRED 82, we do have one main concern with the proposals for Section 20 in relation to the discount rate, which we set out immediately below. We also have broader comments on the proposals which are described below in the same order as the associated material appears in draft Section 20. We also believe it is essential that the FRC conducts appropriate outreach and stakeholder engagement in the time between publication of the final standard and the effective date to help stakeholders understand and prepare for the changes.

Discount rate
Our main concern regarding draft Section 20 relates to the proposal to permit or require the use of a gilt rate in certain circumstances in the determination of the lessee's discount rate.

Under IFRS 16, in many cases the interest rate implicit in the lease is not viewed as being readily determinable since it often requires insight into lessors' pricing. Determining the lessee's incremental borrowing rate has also often proved challenging for IFRS preparers. Therefore, we are pleased that simplifications regarding how best to arrive at the appropriate discount rate have been considered in paragraph 20.52. We are supportive of the ability to use the lessee's obtainable borrowing rate as a helpful simplification available to entities, and we believe such a rate has conceptual merit because it reflects an entity's own credit risk whilst providing some cost relief to preparers because most entities have some level of borrowings that could serve as a reference point. However, we recommend the FRC clarifies whether entities have a free choice as to whether they use an incremental borrowing rate or an obtainable borrowing rate, and whether that choice is available on a lease-by-lease basis.

However, we do not believe it is appropriate to permit or require the use of a gilt rate where none of the other rates suggested can be readily determined. While the assessment of whether the rate implicit in a lease is readily determinable depends on knowledge specific to the lessor which an entity is often unable to obtain in practice (i.e. whether it is capable of being determined), the assessment of whether the lessee's borrowing rate is readily determinable instead will likely focus on the level of effort required by the entity in determining its borrowing rate (i.e. whether it is easy to determine). Although the proposals envisage the use of a gilt rate as only arising in "exceptional cases", in practice, assessments as to whether incremental or obtainable borrowing rates can be readily determined are likely to be very subjective and could lead to significant debates between companies and their auditors, resulting in a gilt rate being used more often than envisaged. We are also concerned that the attractiveness of a gilt rate's simplicity could increase the risk of bias in making these assessments and lead to diversity in practice in determining whether the suggested borrowing rates can be readily determined. The resulting diversity in the type of discount rates used would lead to a lack of comparability between entities' financial statements. We therefore suggest that the possibility to use a gilt rate is removed.

If the option to use a gilt rate is retained within revised Section 20, we would suggest that it only be available in more restricted circumstances, such as being an option for entities that are permitted to prepare their accounts using Section 1A (i.e. small companies as defined by the Companies Act 2006, or other entities that would qualify as small were they companies) or for leases with terms of, for example, three years or less. We also note the potential for unintended consequences if it is retained, such as a scenario where a lower discount rate leads to a higher lease liability and hence right-of-use asset, which in turn increases the risk of impairments being required.

Scope
We do not believe it is necessary to specifically exclude leases that could lead to loss to the lessor or the lessee as a result of non-typical contractual terms as proposed in paragraph 20.1(f). In our view, this scope-out may be used by entities as a way to avoid the recognition of leases on their balance sheet, particularly in light of difficulties in identifying what constitutes non-typical features. Our experience suggests that non-typical contractual terms are not very common in practice and if there is indeed a lease with a genuine non-typical contractual term, we believe there are sufficient requirements within Section 20 to address the variable lease payments that would arise.

Exemptions and practical expedients
We strongly support the retention of recognition exemptions for low-value and short-term leases and consider that by not specifying a monetary threshold for low-value leases, the proposal is more future-proof and avoids the need to consider the effects of inflation. We believe that the list of examples set out in paragraph 20.11 is sufficient to inform preparers in concluding whether the underlying asset is of low-value and to ensure consistency and ease of application. We recommend clarifying that the materiality requirements in paragraph 20.9 extend to underlying asset(s) assessed on an aggregated basis. However, we note that the requirements in paragraph 20.9 refer to the assessment of the value of an underlying asset based on the value of the asset at the start of the lease rather than the value of the asset when it is new. This appears an unnecessary deviation from IFRS 16.B3 and may introduce unnecessary differences in the accounting.

It is not clear to us how the practical expedient set out in paragraph 20.34 provides relief to preparers. To take advantage of it, a preparer would still need to determine that at least half of the total consideration for a contract is allocated to a single lease component. In our view, one of the main difficulties for many preparers in such a situation is determining what portion of the consideration should be allocated to each lease component. Having determined the allocation of the consideration to each lease component, this practical expedient will not then provide much relief by allowing preparers to account for the components as a single component. It also appears to introduce unnecessary complexities when considering how to apply the subsequent depreciation requirements in paragraph 20.63.

Initial measurement of the right-of-use asset
Paragraph 20.51 indicates that costs associated with restoring the underlying asset should be capitalised as part of the cost of the right-of-use asset when an entity incurs an obligation for those costs. However, capitalisation as part of the right-of-use asset (as distinct from subsequent leasehold improvements) only appears to be an appropriate treatment where such costs arise on lease commencement. In other instances, as acknowledged by paragraph 20.61, obligations for such costs can arise over time through gradual 'wear and tear', with the associated costs typically being expensed as the obligation accumulates. As currently drafted, we believe the proposal could result in such provisions being capitalised continually, leading to back end-loaded depreciation profiles.

Reassessment of the lease liability
The requirement to reassess the lease liability as set out in paragraph 20.71 is subject to paragraph 20.72 which permits the lessee to use an unchanged discount rate if the value of each lease payment for the remainder of the lease term is unaffected by the change in the lease term. It is unclear to us how to assess whether the 'value of each lease payment […] is unaffected', for example where fixed uplifts were already set out in the lease or where future lease payments will continue being subject to revision for movements in an inflation index.

We acknowledge the broader need for simplifications compared to IFRS 16, but we do not agree with the proposal in paragraph 20.74 to allow the lessee a choice to avoid remeasuring its lease liability following a change in cash flows arising from movements in an index or rate, such as a market rent review. Bearing in mind that many leases can exist for 20 years or more, often with rent reviews every few years or even more regularly for changes to inflation indices (which at present see significant movements year-on-year), we believe that continuing to record the lease liability based on the original amounts due on lease commencement fails to provide useful information to a user of the financial statements.

Transactions under common control
We recommend removing any requirements which specifically address transactions under common control as set out in paragraph 20.80. This is because transactions under common control may not necessarily be at arms' length and often involve complex considerations as to the appropriate accounting treatment. It is possible that paragraph 20.80 could have unintended consequences and lead to attempts to draw analogies to it in cases where to do so would be inappropriate. We also note that paragraph 20.80 appears to assume implicitly that any premiums payable would be based on arms'-length pricing; if this paragraph is retained we would suggest that this is clarified.

Presentation and disclosure
In paragraph 20.84, it would be helpful to clarify that, consistent with IFRS Accounting Standards, prior to commencement a lease contract can be onerous and therefore require recognition of a provision. We concur that after lease commencement the impairment requirements of Section 27 are relevant instead.

Paragraph 20.86 sets out the required disclosures for a lessee but omits any requirements to disclose any disposals. It would be useful to align with the requirements in Paragraph 51(1) of Schedule 1 to the Accounting Regulations to provide a fixed asset reconciliation. It would also be helpful to aid users' understanding for disclosures to be required setting out which simplifications offered by Section 20 have been applied by lessees. Although an entity's description of its accounting policies under Section 10 might be expected to include such information anyway, we believe an explicit requirement in Section 20 would be helpful, noting that the proposed transitional provisions in Section 1 explicitly call for disclosure of transitional provisions and expedients applied.

Sale and leaseback transactions
Paragraph 20.128 permits an accounting policy choice for the seller-lessee either to recognise a portion of the gain or loss relating to the sale and leaseback transaction or to defer all gains and losses at the transaction date and amortise the deferred element over the lease term. We are supportive of this proposal, noting that the latter approach would also be relatively straightforward to apply where the subsequent lease payments are variable (whereas IFRS 16's requirements are more complex).

Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?

A common scenario in the UK, particularly for small and medium-sized entities, is the expiry of written leases over commercial property but continued occupation by the tenant under holdover arrangements. This typically arises because of protections afforded to lessees under the Landlord and Tenant Act 1954. A common view is that this does not represent an optional extension period to be considered at the outset of a lease, and once leases are in such a holdover period the enforceable period of the lease is typically limited to six months. However, there is some diversity in practice, and guidance from the FRC, whether in

FRS 102 or in an accompanying Staff Fact Sheet, could improve the quality and comparability of entities' financial statements.

In our experience, there can be a misunderstanding that where one entity in a group enters into an external lease but another group entity uses the associated asset, the latter should record the resultant right-of-use asset and lease liability, even when there is no sublease in place. It would therefore be helpful to provide guidance that reinforces the principle that entities should only account for leases where they are party to a contract that gives rise to enforceable rights and obligations and that contract meets the definition of a lease.

It may be useful to include the examples set out in IFRS 16.B41 in paragraph 20.44 as these are helpful in assessing whether the lessee is reasonably certain to exercise an extension option.

Consideration could be given to providing guidance for lessors on whether finance lease receivables should be classified as fixed or current assets. Under old UK GAAP, SSAP 21's Guidance Notes indicated that such amounts should be included as current assets under 'debtors'. As it stands, FRS 102 no longer provides any such guidance.

The FRC may also wish to consider reiterating key messages from past thematic reviews addressing IFRS 16 matters in an accompanying Staff Fact Sheet. This could include the impact on impairment testing, previously discussed in the FRC's October 2019 thematic review on impairment of non-financial assets, as this was an area historically that gave rise to some confusion.

Question 7: Revenue

Do you agree with the proposals to revise Section 23 of FRS 102 and Section 18 of FRS 105 to reflect the revenue recognition model from IFRS 15, with simplifications? If not, why not?

We strongly agree that it is appropriate to revise Section 23 of FRS 102. Revenue is one of the most important metrics in the financial statements and it is essential that FRS 102 provides a robust framework for recognising and measuring revenue and providing associated disclosures for all entities applying it. In our view, the existing guidance in Section 23 is no longer fit for purpose for entities within the scope of FRS 102. It is too high-level and does not result in reliable, comparable reporting of revenue. To the extent that entities are currently applying the appropriate accounting treatment for revenue under FRS 102, we believe that this is either because their revenue streams are so straightforward that largely the same accounting would result regardless of the requirements, or because they are looking to alternative GAAPs such as IFRS Accounting Standards for guidance because the limited guidance in FRS 102 is inadequate to guide them to the appropriate accounting treatment.

We are therefore very supportive of implementing the core principles of IFRS 15 into FRS 102 and consider that there is no other option which would be consistent with the FRC's objective to apply an IFRS-based solution unless an alternative is clearly better. Although we acknowledge that this results in a much longer Section 23, as noted in our cover letter we believe that FRS 102 needs to be able to stand alone in providing sufficiently clear and understandable requirements for all entities that apply the standard, and in our view the revised Section 23 is necessary to achieve this. We believe it would be helpful for the FRC to conduct appropriate outreach and stakeholder engagement in the time between publication of the final standard and the effective date to help stakeholders understand the extent to which these changes may affect their revenue accounting.

Conversely, we do not agree that it is appropriate to revise Section 18 of FRS 105; in general, micro-entities have relatively straightforward revenue streams and, in any case, their financial statements are presumed true and fair under company law. We therefore consider that the cost of implementation for micro-entities would significantly outweigh the benefit. Further comments on FRS 105 can be found in Appendix 3.

Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?

Although we have made some suggestions below for additional changes, many of which are to increase alignment with IFRS 15 to ensure consistency of application, overall we are very supportive of the way in which the principles of IFRS 15 have been reflected in FRED 82. We are also pleased to see that certain issues identified with the proposals set out in the IFRS for SMEs ED have been addressed in FRED 82.

Agent/Principal
In our experience, entities find the IFRS 15 guidance on this topic confusing, and therefore we are supportive of the FRC's efforts to make it easier to understand and apply. However, we believe that the draft guidance needs to be expanded further to ensure it is clear that control remains the key concept.

We believe it would be helpful for FRS 102 to explain that, when a customer is seeking to purchase goods or services, a principal may be promising to transfer either (1) the goods or services themselves (including where the entity has the right to require a third party to supply those goods or services on its behalf) or (2) a third party's promise to provide such goods or services (e.g. a mobile phone top up card), as this distinction is one of the aspects that entities find least clear. In the former scenario, the entity's promise is only satisfied when the goods or services are transferred to the customer; but in the latter case, the entity's promise is satisfied when it transfers control to the customer of the third-party promise.

It would also be helpful for FRS 102 to explain the importance of identifying which party has primary responsibility to the customer for the underlying goods or services: if the entity itself has primary responsibility, it will be in the first scenario above, but if the third party has primary responsibility, the entity will either be in the second scenario (if it controls the third party promise) or it will be an agent (if it does not).

Changes in terminology
We believe the wording from IFRS 15.35 (criteria for recognising revenue over time) and IFRS 15.56 (variable consideration constraint) should not be amended in FRS 102, as redrafting tends to have unintended consequences. In addition, FRED 82 refers to a 'promise' instead of a 'performance obligation', and we understand this has been done to reduce the amount of technical language. However, the word 'promise' has a natural meaning that is wider than the meaning that has been assigned to it in FRED 82 as a defined term, which creates a risk of misinterpretation. Accordingly, if FRS 102 is ultimately to include a defined term in relation to an obligation to deliver a distinct good or service, we think there is less risk of misinterpretation if the term 'performance obligation' is retained.

Suggested relaxation in relation to series requirements
We would favour softening the series requirements in paragraph 23.17. Rather than always requiring a series to be a single performance obligation, we believe the guidance would often be much easier to apply (while still recognising revenue on an appropriate basis) if an entity was permitted to regard a series as being made up of distinct time units (e.g. months, quarters, years), as this would often allow better alignment with how a particular multi-period contract has been priced. Although this is already possible

where variable consideration is present, we do not believe it is always possible where consideration is purely fixed.

Significant financing components
We support the proposed simplification that makes it optional to account for a significant financing component when a customer pays in advance, and the retention of a practical expedient when a customer pays in arrears. However, although we understand the FRC's reasons for restricting the practical expedient to a period of six months we do not believe it is appropriate for FRS 102 to be more onerous than IFRS 15 in this regard. We also think the proposed restriction is unhelpful for FRS 102 reporters that are consolidated into an IFRS group. As such, we believe the practical expedient should be set at a period of 12 months, consistent with IFRS 15.

Accounting for material rights
Like IFRS 15, FRED 82 describes two different approaches when accounting for material rights, one of which (the alternative approach) is only available in certain circumstances. However, whereas IFRS 15 makes the alternative approach optional, FRED 82 proposes to mandate it when available. We believe this causes unnecessary differences with IFRS 15, and we therefore recommend making the alternative approach optional in FRS 102, consistent with IFRS 15.

Repurchase agreements
We note that the guidance on put options focuses on the likelihood of exercise, which is different from IFRS 15's focus on whether there is a significant economic incentive. In some scenarios, it appears that this will lead to a different accounting outcome. For example, many mobile phone contracts allow a customer to return and upgrade the handset, and a reasonably high proportion of customers may be likely to return their old handset even though there is no economic incentive to do so as the customer would usually be better off selling the old handset privately. IFRS 15 would treat such scenarios as a sale with a right of return, with handset revenue recognised at a point in time, and we believe this is appropriate. However, based on the wording included in FRED 82, it appears such arrangements would be treated as operating leases, with the result that income relating to the handset would be recognised over time. We believe it is undesirable to have such a difference between IFRS 15 and FRS 102; accordingly, we believe that FRS 102, like IFRS 15, should focus on whether there is a significant economic incentive.

Contract modifications
We believe it is important that FRS 102 makes it clear, consistent with IFRS 15, that a contract modification may have occurred before the associated pricing has been finalised. This is a key aspect of contract modifications in some industries, such as construction.

Subsequent measurement of assets recognised in respect of costs to fulfil a contract
Paragraph 23.113 states that in determining the remaining amount of consideration that an entity expects to receive for the purpose of arriving at the recoverable amount of the asset, the entity should adjust the "transaction price" for consideration received to date and the effects of the customer's credit risk. This diverges from the requirement in IFRS 15.102 which makes explicit reference to the "unconstrained" transaction price. The implication is that FRS 102 would therefore require use of the constrained transaction price, which may lead to more impairments under FRS 102 compared to IFRS 15. We recommend aligning the wording of paragraph 23.113 with that in IFRS 15.

Interaction with statutory disclosure requirements
Paragraph A3.38A notes that qualifying entities taking an exemption from disclosure of disaggregated information under paragraphs 23.121 and 23.121A must still comply with the statutory requirement to disclose disaggregated turnover in paragraph 68 of Schedule 1 to the Accounting Regulations. As currently drafted, we believe there is a risk that paragraph A3.38A may be read as implying that making disclosures in line with paragraphs 23.121 and 23.121A would be sufficient to meet the statutory disclosure requirement. We do not believe this would be the case for two reasons: firstly, revenue and turnover are defined in different ways and secondly, paragraph 23.121A does not mandate the disaggregation of revenue by geographical region or class of business, but gives examples of the types of disaggregation which may be appropriate. We therefore recommend that paragraph A3.38A is amended to clarify that the statutory disclosure requirement must be met irrespective of whether the entity makes disclosures under paragraphs 23.121 and 23.121A.

Question 8: Effective date and transitional provisions

The proposed effective date for the amendments set out in FRED 82 is accounting periods beginning on or after 1 January 2025, with early application permitted provided all amendments are applied at the same time. Do you agree with this proposal? If not, why not?

In principle, we are supportive of the proposed effective date of 1 January 2025, provided that the FRC consults and engages with SORP-making bodies to ensure that they will have sufficient time, once the revised standard is published, to develop, consult on and finalise updates to their respective SORPs. Some FRS 102 reporters may also find the proposals challenging to apply, especially those relating to lease accounting, and we believe it is essential that the FRC conducts appropriate outreach and stakeholder engagement in the time between publication of the final standard and the effective date to help stakeholders understand and prepare for the changes. Finally, if the effective date is to be 1 January 2025, we also believe it is essential that the FRC issues the revisions to FRS 102 in final form by the end of 2023 so as to allow preparers sufficient time for implementation.

In respect of leases, FRED 82 proposes to permit an entity to use, as its opening balances, carrying amounts previously determined in accordance with IFRS 16. This is expected to provide a simplification for entities that have previously reported amounts in accordance with IFRS 16 for consolidation purposes, promoting efficiency within groups. Do you agree with this proposal? If not, why not?

We are supportive of this proposal and agree that it will promote efficiency within groups.

Otherwise, FRED 82 proposes to require the calculation of lease liabilities and right-of-use assets on a modified retrospective basis at the date of initial application. Do you agree with this proposal? If not, why not?

We agree that entities should have the option to apply the modified retrospective basis for calculation of lease liabilities and right-of-use assets. However, we would not object if the FRC elected to offer entities the choice of applying the new Section 20 with full retrospective effect, in order that they could present comparable historical balances should they wish to do so.

In respect of revenue, FRED 82 proposes to permit an entity to apply the revised Section 23 of FRS 102 on a modified retrospective basis with the cumulative effect of initially applying the revised section recognised in the year of initial application. This is expected to ease the burden of applying the new revenue recognition requirements retrospectively by removing the need to restate comparative period

information. Unlike IASB/ED/2022/1, to ensure comparability between current and future reporting periods, FRED 82 does not propose to permit the revised Section 23 of FRS 102 to be applied on a prospective basis. However, FRED 82 proposes to require micro-entities to apply the revised Section 18 of FRS 105 on a prospective basis. Do you agree with these proposals? If not, why not?

We support the transitional provisions proposed in respect of Section 23. In considering the effective date, and to ensure that full retrospective application of Section 23 is a realistic option, it is essential that the FRC issues the revisions to FRS 102 in final form by the end of 2023 to allow preparers sufficient time for implementation.

As noted above, we do not agree with amending FRS 105 to bring in requirements based on IFRS 15.

Do you have any other comments on the transitional provisions proposed in FRED 82? Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.

As noted in our response to Question 3, currently no transitional provisions are included in respect of the change in the definition of fair value set out in proposed Section 2A. We would suggest that, consistent with IFRS 13, provisions are included in Section 1 to apply the revised definition of fair value prospectively from the start of the reporting period in which the requirements of Section 2A are first applied. This is because the cost of determining historic fair values would outweigh the benefits, even where this is possible without the use of hindsight. In addition, we recommend stating explicitly that any change in fair value arising on initial application of Section 2A should be accounted for as a change in estimate to be recognised in profit or loss in the same period as the revised definition is adopted.

We also observe that there are no transitional provisions in respect of the new requirements proposed in Section 29 regarding uncertain tax treatments. IFRIC 23 *Uncertainty over Income Tax Treatments*, on which the proposed requirements are based, permitted fully retrospective application only if possible without the use of hindsight. Otherwise, it required entities to restate retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings (or other component of equity as relevant) at the start of the first reporting period in which IFRIC 23 was first applied. We therefore recommend including a similar provision in Section 1 of FRS 102.

<u>Question 9: Other comments</u>

Do you have any other comments on the proposed amendments set out in FRED 82?

We have set out a number of further substantive comments in Appendices 2 (FRS 102) and 3 (other FRSs) to our response and some detailed drafting suggestions in Appendix 4 to our response.

<u>Question 10: Consultation stage impact assessment</u>

Do you have any comments on the consultation stage impact assessment, including those relating to assumptions, sources of relevant data, and the costs and benefits that have been identified and assessed? Please provide evidence to support your views.

We have no detailed comments on the consultation stage impact assessment and other than as noted above, we believe that the benefits of implementing the changes proposed by FRED 82 outweigh the associated costs. However, we do observe that there will be an additional cost of implementation for those entities that have qualified as small prior to the application of revised Section 20, as the recognition

of right-of-use assets on balance sheet may increase their total assets such that they breach the criteria for qualification as small. This is more likely to happen where such entities use a gilt rate, if that proposal is retained in the final standard, since the initial carrying value of the right-of-use asset will be higher.

Deloitte.

Appendix 2: Other substantive comments on proposed amendments to FRS 102

We are broadly supportive of the other changes proposed to FRS 102 and we include specific comments in this appendix. We also draw the FRC's attention to our detailed drafting suggestions in Appendix 4, and to our previous response letter, issued in October 2021, where we made further suggestions for clarifying existing requirements or providing additional guidance.

Section 1A *Small Entities*

We agree with the proposal to require additional disclosures for small entities in the UK, now that the FRC is able to do so, and we consider the revised set of mandatory disclosures broadly appropriate.

However, because this section applies both to UK and Irish small entities and the requirements for UK small entities have now diverged from those for Irish small entities, we believe that the structure of the proposed section is now problematic and difficult to interpret. This is because Irish small entities are still subject to the "maximum harmonisation" principle laid down in EU law and are therefore only subject to the minimum disclosures as set out in the EU Accounting Directive (Directive 2013/34/EU). As a result, it is still necessary in the case of such entities to strongly encourage the consideration and inclusion of disclosures over and above the minimum legal requirements in order for the accounts to give a true and fair view.

In contrast, UK small entities are no longer subject to maximum harmonisation since the UK's withdrawal from the EU, meaning that FRS 102 is now able to mandate additional disclosure requirements for such entities covering a much wider range of transactions and balances. This means that a UK small entity making all of the proposed disclosures should typically produce a set of accounts that gives a true and fair view, subject to looking to the wider requirements of FRS 102 where material transactions or balances are not addressed by the requirements set out in Section 1A.

The two different legal positions, in addition to the existing challenge of addressing references to both Irish and UK company law in one place, mean that it is now very difficult to address both UK and Irish small entities in a single section of the standard and the result is confusing for users to read and apply. For example, paragraph 1A.7 attempts to address the requirements that apply for three different types of small entity depending on whether they are a small UK entity, a small Irish entity or a small Irish entity that is a qualifying partnership, with an additional footnote for small Irish entities as well; this makes for an unwieldy and complicated paragraph.

Therefore, rather than attempting to address all of the requirements for both UK and Irish small entities in one section, we recommend separating the requirements into two sections – Section 1A for small entities in the UK and Section 1B for small entities in the Republic of Ireland. While this may result in limited duplication across sections, we believe that this will make the standard much easier and clearer to interpret and apply and will result in less confusion. We have not offered detailed drafting comments for Section 1A at this stage as we believe that it is necessary to restructure the content. However, we do not consider that restructuring the content would necessitate a further exposure draft as the underlying requirements would not be subject to change but would simply be presented in a more user-friendly fashion.

Section 3 *Financial Statement Presentation*

We note that proposed paragraph 3.8A requires that when an entity prepares financial statements on a going concern basis, it shall disclose that fact, together with confirmation that it has considered information about the future as set out in paragraph 3.8. Although this disclosure is not required by IFRS Accounting Standards, the IFRS for SMEs or the IFRS for SMEs ED, we agree with the proposal in FRED 82 as we believe it is essential that entities make clear disclosures relating to the adoption of the going concern basis and their reasons for doing so.

We also note that proposed paragraph 3.8A requires an entity to disclose, in accordance with paragraph 8.6, any significant judgements made in assessing the entity's ability to continue as a going concern. Although there is no direct equivalent in IFRS Accounting Standards, we agree with this proposal, which we note is consistent with the IFRS Interpretation Committee's July 2014 Agenda Decision and is thus consistent with how IFRS Accounting Standards are applied.

Section 7 *Statement of Cash Flows*

We observe that the IASB's exposure draft ED/2021/10 *Supplier Finance Arrangements* proposes amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* to add disclosure requirements relating to supplier finance arrangements. Supplier finance arrangements are equally prevalent for UK GAAP reporters, and we therefore believe that additional disclosures in line with those proposed for IFRS Accounting Standards should be considered by the FRC, especially as the requirements in IAS 7 and Section 7 are broadly consistent. We recommend that the FRC issues a further exposure draft of proposed disclosures relating to supplier finance arrangements once the IASB has issued its amendments in final form. We believe the effective date of any changes to FRS 102 in this regard should be aligned with that for the other periodic review changes proposed in FRED 82. Unlike FRED 82, we do not believe it is essential for any additional requirements in this regard to be finalised by the end of 2023 to facilitate a 1 January 2025 effective date as the amendments would affect disclosure only and will not need the same degree of 'lead time' for preparers to assess and implement.

We also consider that it would be useful for FRS 102 to prescribe how to account for changes in ownership interests in the cash flow statement, as currently it is necessary to look to IAS 7 for guidance when this issue arises in practice.

As set out in our previous response letter, issued in October 2021, we also recommend introducing a requirement to disclose cash flows arising from government grants relating to assets.

Section 8 *Notes to the Financial Statements*

We agree with the proposed amendments to paragraph 8.5 and the proposed new paragraphs 8.5A to 8.5D in relation to disclosure of material accounting policies, which we note are derived from recent changes to IAS 1 *Presentation of Financial Statements*.

Section 10 *Accounting Policies, Estimates and Errors*

We agree with the proposed new paragraph 10.10B, which will align the approach on adoption of the fair value model for biological assets with that on adoption of a policy of revaluation under Section 17 *Property, Plant and Equipment* and Section 18 *Intangible Assets other than Goodwill*. We also support the proposed changes in paragraphs 10.14A to 10.15 with regard to accounting estimates, which will maintain substantive alignment between FRS 102 and IFRS Accounting Standards in this area.

<u>Section 11 *Basic Financial Instruments* & Section 12 *Other Financial Instruments Issues*</u>

We are largely supportive of the changes to these sections.

Although the requirements in FRED 82 paragraphs 11.14A and 12.9A addressing the recognition of dividends also appear in IFRS 9 (IFRS 9.5.7.1A) and IAS 39 (IAS 39.55A), the application of these IFRS requirements is clearly limited to equity investments where the entity has elected to present changes in fair value in other comprehensive income ('FVTOCI equity investments') under IFRS 9 or has classified the instrument as available for sale under IAS 39. We acknowledge that these requirements have simply been moved from current paragraphs 23.29 and 23.30. However, we feel that the change in location necessitates further clarification in this respect.

We therefore recommend that the application of 11.14A and 12.9A is similarly limited to equity investments measured at cost (in accordance with FRS 102.11.14(d)(i), FRS 102.11.14(v) or FRS 102.12.8(a)) or measured at fair value through other comprehensive income (in accordance with FRS 102.14(d)(ii)). Clarifying the application of 11.14A and 12.9A will avoid confusion in relation to the treatment of dividends for shares measured at either amortised cost or fair value through profit or loss, where the measurement model already incorporates expected dividend payments.

In addition, we note that the requirements in current paragraphs 23.29 and 23.30 also apply to investments in subsidiaries, associates and joint ventures other than those accounted for under the equity method. Therefore, amendments equivalent to those included in Sections 11 and 12 should also be made in Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* and Section 15 *Investments in Joint Ventures*.

IFRS 9 also does not allow dividends on FVTOCI equity investments that clearly represent a recovery of part of the cost of the investment to be recognised in profit or loss. This is an issue which arises frequently in practice under IFRS Accounting Standards. We therefore recommend that this restriction is added to the proposed requirements in paragraphs 11.14A and 12.9A in respect of equity investments held either at FVTOCI or at cost, and that this should also go further to set out the appropriate accounting treatment for a dividend that is in substance a recovery of part of the cost of the investment. Although this would go beyond the words in IFRS 9, we believe it would be helpful and reduce diversity in practice to specify that where the economic substance is clearly that the dividend represents a return of investment, it should be deducted from the carrying amount of the investment. We believe it would also be helpful to reflect the same wording as we propose for paragraphs 11.14A and 12.9A in Sections 9, 14 and 15 for consistency.

We are in favour of increasing the level of disclosure required in relation to the application of the ECL model for entities that have made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9. However, we believe that the additional detailed disclosures proposed in paragraphs 11.48ZA and 11.48ZB are most relevant for financial institutions and should therefore be included in the disclosure requirements for financial institutions in Section 34 *Specialised Activities* rather than being applicable to all entities. We also recommend that further detailed requirements are included in relation to the entity's exposure to credit risk in Section 34 to complement these proposed additions. For other entities, an additional paragraph in Section 11 based on the three objectives set out in paragraph 35B of IFRS 7 may be more appropriate.

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Section 14 *Investments in Associates*

We agree with the changes proposed but we include some detailed drafting comments in Appendix 4. As set out in our previous response letter, issued in October 2021, we believe it would be helpful to address the accounting treatment for contingent consideration on the purchase of an associate.

Section 18 *Intangible Assets other than Goodwill*

We are supportive of the proposed changes to this section. In addition, we believe it would be helpful to incorporate the guidance from paragraph 5 of IAS 38 *Intangible Assets* regarding research and development activities which may give rise to a physical asset, as this would provide useful clarification.

Section 19 *Business Combinations*

While we are supportive of the changes that have been proposed for this section, we made additional recommendations in our previous response letter, issued in October 2021, which we believe would provide useful clarification; in particular, we consider that it would be helpful to include additional guidance on the definition of a business and to adopt the more straightforward IFRS 3 (2008) approach to measuring contingent consideration.

Section 24 *Government Grants*

We agree with the FRC's decision to retain the two recognition and measurement models for government grants; the performance model aligns to practice in certain sectors (e.g. charities) while the accruals model facilitates consistency with IFRS Accounting Standards.

We note that the phrase "recognised in income" appears in paragraph 24.5B in the context of recognition under the performance model, and in paragraphs 24.5D-F in respect of the accruals model. It has also been introduced in new text proposed for paragraph 24.5A. It is not clear why this phrase has been retained from the IFRS for SMEs. The more commonly used expression is "recognised in profit or loss" and the use of "recognised in income" represents an inconsistency with the rest of the standard. If there is no intended difference, we recommend using the phrase "recognised in profit or loss" to avoid misunderstanding. If the phrase "recognised in income" is retained, we do not believe that it is correct to use the phrase "recognised in income" in paragraph 24.5A as it relates to the recognition of a new or increased liability, which would not result in recognition of income but expenditure.

We also draw attention to the additional disclosures we proposed in our previous response letter, issued in October 2021, as we believe that these would provide useful information to users, commensurate with the increased profile, frequency and complexity of government grant arrangements.

Section 26 *Share-based Payment*

While we are supportive of the changes that have been proposed for this section, we made a number of suggestions to improve this section in our previous response letter, issued in October 2021, including the addition of requirements addressing situations where vesting is linked to a change in control or initial public offering, and other circumstances when the method of settlement depends on the occurrence of an event outside the control of either party to the transaction; and accounting by groups, drawing on the substantial guidance on accounting for group share-based payment arrangements in Appendix B to IFRS 2 *Share-based Payment* (paragraphs B45-B61 inclusive). We also believe it would be helpful for Section 26 to

address modifications to cash-settled share-based payments that result in the share-based payment becoming equity-settled, based on IFRS 2.B44A.

Section 28 *Employee Benefits*

We agree with the proposed paragraphs 28.21B and 28.21C as we believe these are helpful amendments that align with IAS 19 *Employee Benefits*.

We observe that FRS 102 does not explicitly address the presentation of a defined benefit liability or asset in the balance sheet under either the statutory formats or the adapted formats. In a statutory format balance sheet, a defined benefit liability will be included within the format heading 'Provisions for liabilities'. However, the presentation in a statutory format balance sheet of an asset in relation to a surplus is not so clear because it does not appear to fit well within any of the standard current asset headings (e.g. debtors). FRS 102.4.3 requires an entity to present additional line items, headings and subtotals when such presentation is relevant to an understanding of the entity's financial position. When a defined benefit asset in relation to a surplus meets this requirement, we believe it would be appropriate to present it separately on the face of the balance sheet, for example below debtors. This approach is consistent with paragraph 3(2) of Schedule 1 to the Accounting Regulations, which states that the balance sheet or profit and loss account may include an item representing or covering the amount of any asset or liability, income or expenditure not otherwise covered by any of the items listed in the format used. In other cases, the amount would usually be included in debtors and disclosed separately in the notes to the accounts. Other approaches may also be acceptable. It may be helpful to address this point in FRS 102, for example in Appendix III.

When an entity adapts its balance sheet presentation and distinguishes between current and non-current assets and liabilities, FRS 102 does not currently address whether the entity should distinguish between current and non-current portions of post-employment benefit assets or liabilities recognised in its balance sheet. In IFRS Accounting Standards, there is no requirement to make such a distinction in respect of a liability or asset arising from post-employment benefits. IAS 19.BC200 states that the International Accounting Standards Committee decided not to specify whether an entity should distinguish between the current and non-current portions of such assets and liabilities because such a distinction may sometimes be arbitrary. It seems sensible to adopt a similar approach under FRS 102 when the adapted balance sheet presentation is used and we believe it would be helpful to clarify this point in FRS 102.

We also draw attention to the additional proposals made in our previous response letter, issued in October 2021, as we believe that these would provide useful information to users.

Section 29 *Income Tax*

We agree with the proposed inclusion of requirements to address uncertain tax positions, although as noted in our response to Question 8, we recommend including a transitional provision.

Section 34 *Specialised Activities*

In general, we are supportive of the changes proposed for this section.

However, we do not believe that the proposed changes to the requirements for heritage assets are entirely clear. In particular, we are unsure of the intention behind paragraphs 34.50A and 34.50B regarding the treatment of assets that have characteristics of a heritage asset, but which are used by the entity itself. These paragraphs do not seem to have any clear practical effect as:

a) the accounting treatment under paragraph 34.50A is the same as that under paragraphs 34.51-34.54 inclusive (i.e. account in accordance with Section 17, 18 or 20 as appropriate);

b) application of these paragraphs is permissive rather than mandatory, meaning that an entity may elect not to apply paragraph 34.50A (and in so doing, be able to access the cost/benefit exception in paragraph 34.53);

c) paragraph 34.50B encourages, but does not require, the inclusion of disclosure requirements as set out in paragraphs 34.55-56 inclusive, yet it is unclear whether entities opting to apply paragraph 34.50A are required to make the disclosures under Section 17, 18 or 20. This is because 34.50A simply says that they may be "accounted for" in accordance with those sections and does not address disclosure.

In addition, proposed changes to paragraph 34.51 now require accounting for a heritage asset under Section 20, as appropriate. As a consequence, entities with heritage assets may find that, under these proposals, they are required to record certain heritage assets in the balance sheet as right-of-use assets with a corresponding lease liability. This could prove onerous for some entities – for instance, museums and galleries which loan their exhibits to other similar institutions, often for long periods of time.

Although we acknowledge that the option remains to exclude heritage assets from the balance sheet where information is not obtainable at a cost commensurate with the benefits to users ("the cost/benefit exception"), it is not clear how this option in paragraph 34.53 might be applied in the case of leased heritage assets. In particular, it notes that where "heritage assets have previously been capitalised or are recently purchased, information on the cost or value of the asset will be available" but there is no equivalent guidance for leased heritage assets. This could lead to challenges in practice in establishing whether the cost/benefit exception applies.

Section 35 *Transition to this FRS*

We are largely supportive of the changes proposed to this section. However, as noted in our previous response letter, issued in October 2021, we believe it would be helpful for entities transitioning from FRS 105 to FRS 102 to have specific additional transitional provisions to facilitate the significant changes that may be required such as the use of fair values for the first time or more complex accounting requirements. Such entities may therefore find it challenging to apply the requirements of FRS 102 retrospectively. We consider that the small entity transitional provisions in respect of financial instruments in paragraphs 35.10(u) and (v) could be repurposed for general application by entities transitioning from FRS 105 to FRS 102. The transitional provisions in respect of share-based payment arrangements could also be extended to allow entities transitioning from FRS 105 to account prospectively for arrangements entered into in the first FRS 102 reporting period, rather than retrospectively from the date of transition.

We also note a potential conflict in the proposed requirements that have been introduced in respect of borrowing costs and development costs in paragraphs 35.10(o) and (w) and in respect of deemed cost in paragraph 35.10(z). Paragraph 35.10(o) and (w) state that where a policy of expensing borrowing and development costs is adopted on transition to FRS 102, such costs should not be included as part of the cost of an asset on transition. However, paragraph 35.10(z) states that a first-time adopter previously applying IFRS Accounting Standards or FRS 101 may measure inventory, property plant or equipment or intangible assets on the date of transition at the cost determined under the previous financial reporting

framework. Given that FRS 105 preparers are not permitted to capitalise such amounts, it seems that the requirements in 35.10(o) and (w) are only relevant to those transitioning from IFRS or FRS 101, and therefore the requirements in (o) and (w) seem to contradict those in (z).

Deloitte.

Appendix 3: Comments on proposed amendments to other FRSs

Amendments to FRS 100

We have no comments on the proposed amendments to FRS 100. However, we have identified an error in existing paragraph AG1 which states (emphasis added): "An intermediate parent in the United Kingdom whose **immediate** parent is not established under the law of any part of the United Kingdom may be exempt from the requirement to prepare group accounts if it meets the conditions of section 401 of the Act."

S401 of the Companies Act 2006 does not require the parent that is not established under UK law to be an immediate parent; this is only a requirement of s400 and we recommend that the wording in FRS 100 should be amended to be consistent with that in the Act. The rationale for the difference in wording is to address the scenario where a UK intermediate parent company (Company A) has an immediate UK parent (Company B) which is not itself preparing group accounts because they are prepared at a higher level in the group by a non-UK entity (Entity C). Accordingly, the s400 exemption does not apply for Company A because Entity C is not a UK entity and Company B takes the s401 exemption so there are no UK group accounts. S401 therefore omits the word "immediate" to enable Company A to exempt itself from preparing group accounts by applying s401. The same wording should be reflected in FRS 100.

Amendments to FRS 101

We consider that FRS 101 is working well for UK companies, particularly those that report up to a parent preparing consolidated accounts in accordance with IFRS Accounting Standards. We do, however, continue to question whether conditions about equivalent disclosures in consolidated accounts are still needed; application of the reduced disclosure framework may be more straightforward if this requirement were to be removed.

We agree with the proposed amendments to paragraphs A2.3A and A2.21, which helpfully clarify that the Large and Medium-Sized Regulations and the equivalent Regulations for LLPs apply when a company or LLP prepares its accounts in accordance with FRS 101.

We note that the presentation of assets held for sale required by IFRS 5.38 is not addressed in the Application Guidance to FRS 101. However, the presentation required by IFRS 5 appears to be incompatible with the example balance sheet formats, at least in relation to disposal groups held for sale. The Companies Act formats permit any item to be shown in greater detail and this would allow a class of assets to be split between those held for sale and those that are not. However, in the case of a disposal group, the amounts to be presented in accordance with IFRS 5 will be an aggregation of different classes of assets and different classes of liabilities and this appears to be incompatible with the balance sheet formats. Although this issue can be resolved by adapting the Companies Act formats, we recommend making explicit reference to this incompatibility in the Application Guidance to FRS 101.

More generally, significant complexity currently exists in applying FRS 101 related to the interaction between IFRS Accounting Standards and UK company law requirements, principally the Large and Medium-sized Accounting Regulations (SI 2008/410). We recommend that the FRC and the Department for Business and Trade work together to update and/or remove the accounting requirements contained in the Accounting Regulations as this would resolve numerous challenges across the UK corporate reporting regime, including those related to the application of FRS 101.

Amendments to FRS 103

Overall, we believe that FRS 103 is currently functioning as intended. We believe that no changes should be made to FRS 103 at this time, except for any consequential wording amendments required to remain consistent with FRS 102. The appropriate time to revisit this standard will be when IFRS preparers have applied IFRS 17 *Insurance Contracts* for a sufficient time to learn from its implementation, such as when the IASB performs its IFRS 17 post-implementation review.

We are concerned that the proposed amendments to the implementation guidance accompanying FRS 103 on gross written premiums may have some unintended consequences:

- Pipeline premiums: the proposed accounting treatment does not properly reflect the obligations of an insurer under a binding authority (or a delegated authority) arrangement in which the insurer is contractually bound to provide insurance services although written premiums are not reported to the insurer (i.e. premiums written but not reported to the insurer by the reporting date) and such premiums are required to be estimated. In practice, there can be significant delays beyond the date of signing of the financial statements in reporting by binding authorities to the insurers about premiums written at the reporting date. We believe that recognising only the written premiums reported to an insurer before its financial statements are issued may not capture all premiums that the insurer has written, resulting also in the understatement of the insurance risk assumed at the reporting date (as claims incurred but not reported can only be estimated in relation to insurance contracts issued and accounted for).
- Renewal premiums: the proposed amendment has not considered the situation when an insurer offers renewal and is therefore contractually liable to pay claims if subsequently confirmed by the policyholder (i.e. the insurer is already 'on risk' before the renewal is confirmed by the policyholder).
- Retrospective adjustments: the proposed amendment will require preparers to make impractical changes to their systems. Current systems split written premiums into both earned and unearned. Unearned premiums are then released to profit or loss when they are earned. The new proposal will result in the unearned portion of retrospective adjustments to written premiums not being recognised, and instead it will require separate subsequent adjustments as the unearned portion of the retrospective adjustment is earned, as opposed to recognising the unearned portion of the retrospective adjustment and then just releasing the unearned premiums when they are earned. Given the 'earned premium' recognised in any particular period (which is an alternative measure of 'revenue' for an insurer) is the same before and after applying the proposed amendment, we believe that the cost of implementing this change outweighs its long-term benefits.

Therefore, we recommend that no changes are made to FRS 103 at this time, except for consequential wording amendments to ensure FRS 103 remains consistent with FRS 102.

We also have concerns regarding the definition of a contract proposed to be added to the Glossary to FRS 103. Although we note that this proposed change is consistent with proposed changes made to the Glossary to FRS 102 as a result of the revised Section 23, we believe that the new definition could be misinterpreted in the context of insurance contracts as it does not consider any implied terms imposed by law or regulation. This is in contrast with the definition given in IFRS 17.2, which acknowledges that terms may be implied, and that implied terms in a contract include those imposed by law or regulation.

Although implied terms are not stated in the agreement between the parties of the contract, they form part of the understanding between the contracting parties and may impact the accounting of an

insurance contract. For example, an insurer may, based on the contract terms, revisit pricing upon contract renewal without restriction, but the pricing regulation (e.g. The Financial Conduct Authority's General Insurance Pricing Rules) may restrict this ability as there is a need to treat new and existing policyholders fairly. Many terms of 'with profit' discretionary participating contracts are also governed by law or regulation.

Under extant FRS 103, it is understood that a reading consistent with previously grandfathered accounting practice applies. If a definition of a contract is to be introduced into FRS 103, we believe it would be helpful to align the definition to IFRS 17.2 to cover implied terms in a contract that are imposed by law or regulation.

Amendments to FRS 104

We have no specific comments on the proposed amendments to FRS 104 but draw attention to our drafting comments in Appendix 4 regarding FRS 102, as some of these will also affect identical changes proposed for FRS 104.

Amendments to FRS 105

We continue to hold the view that the current micro-entity accounts regime is unfit for purpose. The limited information contained in the accounts is not sufficient to enable users to make informed decisions, meaning that stakeholders (typically shareholders, lenders and HMRC) require more detailed information to be provided to meet their needs. The value of a set of accounts which has to be presumed true and fair by law seems to be minimal. In our previous response letter, issued in October 2021, we proposed that the regime should either be removed entirely, reverting micro-entities to the small companies regime and requiring their accounts to give a true and fair view, or that the requirement for micro-entities to prepare and file accounts should be abolished, but we acknowledge that implementation of either of these options is in the hands of the Department for Business and Trade.

On the assumption that FRS 105 will continue in existence, at least in the short to medium term, we do not agree with proposals to revise Section 18 to align with the revenue proposals in FRS 102. We do not believe that the cost of requiring micro-entities to work through these requirements would exceed the benefit of doing so, and we consider it likely that in the majority of cases the end answer would not differ materially from that arrived at under extant Section 18.

In addition, due to cost/benefit considerations, we agree with the decision not to introduce the requirements of revised Section 20 of FRS 102 into FRS 105.

We have no further comments on FRS 105.

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Appendix 4: Minor drafting comments

FRS 102 paragraph	Comment	Drafting suggestion
Section 1 *Scope*		
1.8	We believe "(for the purposes of this FRS)" should also be in bold as it is part of the defined term in the Glossary.	A **qualifying entity (for the purposes of this FRS)**
1.14	This paragraph is quite dated now; we would suggest it is simplified. The following paragraphs which set out amendments that have now been in effect for some years may also benefit from revision to make them appear less dated.	~~An entity shall apply this~~ This FRS is applicable for accounting periods beginning on or after 1 January 2015. Early application was ~~is~~ permitted for accounting periods ending on or after 31 December 2012, provided that early application was disclosed. ~~For entities that are within the scope of a SORP, early application is permitted for accounting periods ending on or after 31 December 2012 providing it does not conflict with the requirements of a current SORP or legal requirements for the preparation of financial statements. If an entity applies this FRS before 1 January 2015 it shall disclose that fact.~~
1.35	We believe our suggested drafting would be clearer for users.	An entity shall not reassess the accounting for any business combination which took place prior to the ~~date~~ start of the accounting period in which the entity first applies the Periodic Review [2023] amendments unless the initial accounting is incomplete at the start of that accounting period ~~that date~~, as set out in paragraph 19.19.
1.36(a)	We recommend deleting "annual" as the reporting period in which the revised standard is first applied may not be a year.	...the date of initial application is the beginning of the ~~annual~~ reporting period in which...
1.36 onward	The drafting has moved from using the term "accounting period" to "reporting period". We would suggest one or the other for consistency.	
1.37	We believe our suggested drafting would be clearer for users.	In the reporting period in which an entity first applies the revised Section 20, the entity is not required to disclose the information required by paragraphs 10.13(b) to (d) in relation to Section 20 ~~the section~~ only.

FRS 102 paragraph	Comment	Drafting suggestion
Section 2 *Concepts and Pervasive Principles*		
2.6	In other places in the section, the words "existing and potential investors, lenders and other creditors" have been replaced with "users". This should be done consistently.	However, general purpose financial statements do not and cannot provide all the information that users ~~existing and potential investors, lenders and other creditors~~ need. ~~Those u~~Users also need to consider pertinent information from other sources.
N/A – new paragraph proposed	We are unsure why this paragraph (see right) has been deleted compared to the IFRS for SMEs ED and the 2018 Conceptual Framework. We recommend reinstating it.	Financial information is capable of making a difference in decisions if it has predictive value, confirmatory value or both.
2.11	We believe that this paragraph and those that follow regarding materiality refer to primary users rather than just users, consistent with the 2018 Conceptual Framework.	Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users…
2.11	The definition of materiality here should be consistent with the glossary. It is currently missing the final clause.	…make on the basis of those financial statements, which provide financial information about a specific reporting entity.
2.14	The words "general purpose" should be inserted here to be consistent.	Information is obscured if it is communicated in a way that would have a similar effect for users of general purpose financial statements…
2.14	It might be helpful to clarify that it is both the characteristics of the user and their information needs. This would draw in the point made in paragraph 16 of IFRS Practice Statement 2: Making Materiality Judgements.	…financial statements~~,~~ requires an entity to consider the characteristics and needs of those users while also considering the entity's own circumstances.
2.27	In other places in the section, the words "individual investor, lender or other creditor" have been replaced with "user". This should be done consistently.	~~An individual investor, lender or other creditor~~ user also receives benefits by making more informed decisions.
2.27	We recommend deleting this insertion as we do not believe that it is accurate; typically, internally prepared financial information is very different from that prepared for general purpose financial reporting purposes.	~~The benefits may also include better management decisions because financial information used internally is often based at least partly on information prepared for general purpose financial reporting purposes.~~

FRS 102 paragraph	Comment	Drafting suggestion
N/A – new paragraph proposed	We recommend including a paragraph at the start of the section headed "Financial statements and the reporting entity" setting out the objective and scope of financial statements, consistent with extant Section 2 and the IFRS for SMEs ED. While this may have been considered duplicative of proposed paragraph 2.4, we do not believe this is the case and it is helpful to include. Our proposed drafting is based on that in the IFRS for SMEs ED, tailored to align more closely with extant paragraphs 2.2 and 2.3.	The objective of financial statements is to provide financial information about the reporting entity's assets, liabilities, equity, income and expenses that is useful for economic decision-making by users of financial statements and assessing management's stewardship of the entity's economic resources.
2.28(a)	We do not believe that the word "contingent" works and would advise reverting to "unrecognised". There are types of asset other than contingent assets that are unrecognised, such as deferred tax assets.	assets and liabilities – including unrecognised ~~contingent~~ assets and ~~contingent~~ liabilities…
2.30(a)	We do not believe that the word "contingent" works and would advise reverting to "unrecognised". There are types of asset other than contingent assets that are unrecognised, such as deferred tax assets.	assets or liabilities – including unrecognised ~~contingent~~ assets or liabilities…
2.61	We have concerns about referring specifically to the 'matching concept', as it is not a defined term in the standard and is not a concept which underpins the conceptual framework. While we acknowledge that some users continue to attempt to apply matching, we consider that on balance it may be more confusing to refer to this as a concept. We also note that the word "Generally" may be unhelpful to users. If there are specific exceptions, we recommend referring explicitly to those exceptions here, or otherwise stating "Unless explicitly required or permitted by this FRS…"	~~Generally~~ With certain exceptions [to be specified], this FRS does not allow the recognition of items in the statement of financial position that do not meet the definition of assets or of liabilities regardless of whether they result from applying the notion commonly referred to ~~as the~~ 'matching ~~concept~~' for measuring profit or loss.
2.93	We recommend reinstating the reference to the cost constraint as this continues to be a core principle (per 2.26 and 2.27) and is certainly a factor in selecting a measurement basis.	The enhancing qualitative characteristics of comparability, understandability and verifiability, and the cost constraint, have implications for the selection of a measurement basis.
2.104	The reference to the statement of profit or loss should be amended to "income statement" consistent with previous amendments.	The ~~statement of profit or loss~~ income statement is the primary source of information about an entity's financial performance for the reporting period

Deloitte.

FRS 102 paragraph	Comment	Drafting suggestion
Section 2A *Fair Value Measurement*		
2A.1	The current proposals are silent on whether an entity's own equity instruments measured at fair value are in scope of Section 2A. There are circumstances in which an entity reporting under FRS 102 may be required to determine a fair value for their own equity instruments (e.g. as part of a business combination or, in respect of a financial liability linked to an entity's own equity instruments). It is clear that such instruments are in the scope of IFRS 13, as that standard contains specific requirements in relation to how an entity should obtain a fair value for its own equity instruments. We do not believe that it is necessary to include equivalent requirements in Section 2A, but to avoid divergence in practice, Section 2A should explicitly state whether or not it is applicable to an entity's own equity instruments.	This section applies when another section requires or permits fair value measurements or disclosures about fair value measurements (including in respect of an entity's own equity instruments), except: (a) share-based payment transactions within the scope of Section 26 *Share-based Payment*; and (b) leasing transactions within the scope of Section 20 *Leases*.
N/A – new paragraph proposed	We believe it would be useful to clarify that when determining the fair value of an asset or a liability or a group of assets or a group of liabilities, the entity should determine the same unit of account in accordance with the relevant Section of FRS 102 for the recognition of that asset, liability or group of assets or group of liabilities. We suggest including this new requirement within the 'measurement' subsection.	Whether the asset or liability is a stand-alone asset or liability, a group of assets, a group of liabilities or a group of assets and liabilities for recognition or disclosure purposes depends on its unit of account. The unit of account for the asset or liability shall be determined in accordance with the Section that requires or permits the fair value measurement.
2A.8	It is unclear to us why the words 'if applicable' are included in paragraph 2A.8, given location is usually a characteristic of the physical asset. We suggest either clarifying the cases where transport costs should not be included or removing the words 'if applicable'.	The price in the market shall not be adjusted for transaction costs because they are not a characteristic of an asset or a liability; they are specific to a transaction. However, the price in the market shall be adjusted for costs incurred to transport the asset from its current location to the market~~, if applicable~~.

FRS 102 paragraph	Comment	Drafting suggestion
N/A - new section proposed following 2A.8	We recommend including some guidance to highlight the significant change in the definition of fair value. This guidance should include: • an explanation of the meaning of and assumptions in relation to 'a transfer' of a liability, particularly in respect of non-performance risk; and • the use of the value of an identical or similar liability held by another party as an asset, particularly in respect of liabilities that may benefit from a third-party guarantee or other credit enhancement.	Application to liabilities A fair value measurement assumes that a liability is transferred to a market participant at the measurement date. The transfer of a liability assumes that the liability would remain outstanding and the recipient would be required to fulfil the obligation and the liability is not settled or extinguished with the counterparty on the measurement date. Non-performance risk (e.g. the entity's own credit risk) is assumed to be the same before and after the transfer of the liability. When a quoted price for the transfer of an identical liability is not available and the identical item is held by another party as an asset, an entity shall measure the fair value of the liability from the perspective of a market participant that holds the identical item as an asset at the measurement date. An entity shall adjust the quoted price of a liability held by another party as an asset only if there are factors specific to the asset (e.g. a third-party credit enhancement) that are not applicable to the fair value measurement of the liability.
2A.11	We suggest replacing 'factors suggest' with 'clear evidence' to avoid an entity having to perform an exhaustive search for other potential uses of the non-financial asset if there is no clear evidence that the current use is not its highest and best use.	An entity's current use of a non-financial asset is presumed to be its highest and best use unless ~~factors suggest~~ there is clear evidence that a different use by market participants would maximise the value of the asset.

FRS 102 paragraph	Comment	Drafting suggestion
N/A – new paragraph proposed	Section 2A is currently silent on the calibration of valuation techniques as set out in IFRS 13.64. In the absence of equivalent requirements, any difference between the transaction price and the modelled value at the date of the transaction would be recognised in profit or loss in the first period following the recognition of an instrument. Significant differences between the transaction price and modelled fair value most often occur when an entity (usually a corporate entity) does not have access to the most advantageous market (usually the interbank market) for a particular asset or labiality. This most commonly arises in respect of long-dated inflation or interest rate swaps entered into for economic hedges of those risks in the long term. We suggest including a new requirement within the 'valuation techniques' subsection.	If the transaction price is fair value at initial recognition and a valuation technique that uses unobservable inputs will be used to measure fair value in subsequent periods, the valuation technique shall be calibrated so that at initial recognition the result of the valuation technique equals the transaction price.
2A.13	The current drafting suggests that a 'market approach' should always be used in preference to other valuation techniques which gives undue prominence to a single valuation technique. We suggest replacing the words in paragraph 2A.13 as shown.	~~The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of inputs determined by reference to a market price in an active market. An entity shall use the following methodology to estimate fair value:~~ ~~(a) The best evidence of fair value is an unadjusted quoted price for an identical or comparable asset or liability in an active market at the measurement date.~~ ~~(b) When an unadjusted quoted price is not available, the price of a recent orderly transaction between market participants for an identical or comparable asset or liability provides evidence of fair value. However, this price may not be a reliable estimate of fair value if there has been a significant change in economic circumstances or a significant period of time between the date of the transaction, and the measurement date.~~ ~~(c) If neither (a) nor (b) above are available or reliable, the fair value shall be estimated using another valuation technique. The objective of using another valuation technique is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.~~

FRS 102 paragraph	Comment	Drafting suggestion
		The entity shall use valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of inputs determined by reference to a market price in an active market. The best evidence of fair value is an unadjusted quoted price for an identical or comparable asset or liability in an active market at the measurement date, if such a price is not available the fair value shall be estimated using another valuation technique. The objective of using another valuation technique is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date.
2A.15	We suggest replacing the words in paragraph 2A.15 with those shown; in some cases, a change in fair value may be as a result of a prior period error and this sentence may be misread to suggest that a change in the valuation technique or its application could never result in a prior year restatement.	A change in the valuation technique used or in its application ~~shall be accounted for as a~~ is not a change in accounting policy but a change in accounting estimate in accordance with paragraphs 10.14D to 10.17. However, the disclosures in Section 10 *Accounting Policies, Estimates and Errors* for a change in accounting estimate are not required.
2A.16(b)	We note that paragraph 2A.16(b) of FRED 82 requires the inputs to be "reasonable" but does not explain in what context they are being assessed as being reasonable. This contrasts with both paragraph 2A.3(b) of the current version of FRS 102 and 12.18(b) of the IFRS for SMEs ED, which give context as to what are reasonable inputs, in that where inputs represent market expectations etc they are reasonable inputs and so will be expected to arrive at reliable fair values. We have also noted a separate but related issue on 2A.19 of FRED 82 (see below). Our preference is to retain the wording included in extant paragraph 2A.3(b) of FRS 102.	A valuation technique would be expected to arrive at a reliable measure of the fair value if: (a) it reasonably reflects how the market could be expected to price the asset; and (b) the inputs to the valuation technique ~~are reasonable~~ reasonably represent market expectations and measures of the risk return factors inherent in the asset.

FRS 102 paragraph	Comment	Drafting suggestion
2A.17	The bid-ask spread in relation to inputs to valuation techniques is distinct from the range of reasonable valuations that may be obtained using a valuation technique for an asset that is not quoted in an active market. Therefore, it is not appropriate for the requirements in relation to bid and ask prices to be included in paragraph 2A.17. We note that a rigorous application of the principles in Section 2A, as with those in IFRS 13, would result in the use of bid prices for assets and ask prices for liabilities, and using a different value within the range is a practical expedient. The current wording could be interpreted as suggesting that the appropriate use of bid and ask prices is the exception rather than the norm. We therefore suggest alternative wording.	Valuation techniques, or the use of multiple techniques, can often produce a range of reasonable valuations. The selection of the most appropriate fair value within the range requires judgement, considering qualitative and quantitative factors specific to the measurement. ~~The use of bid prices for asset positions and ask prices for liability positions is permitted, but is not required.~~ The use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread is permitted, i.e. the use of bid prices for assets and ask prices for liabilities, is permitted but not required.
2A.19	Paragraph 2A.19 of FRED 82 omits the wording in both 2A.5 of the current version of FRS 102 and 12.20 of the current exposure draft for IFRS for SMEs in relation to the expectation of the frequency with which an entity may not be able to establish a reliable measure of fair value. This change and the change in relation to 2A.16(b) of FRED 82 could be interpreted as being more generous in respect of when it is not possible to reliably measure fair value and is potentially less clear than the equivalent paragraphs in the current version of FRS 102 and the proposed requirements for IFRS for SMEs. Therefore, our preference is to retain the current wording in extant paragraph 2A.5 of Appendix 2 to FRS 102.	Normally it is possible to estimate the fair value of an asset that an entity has acquired from an outside party. However, if ~~If the variability in~~ the range of reasonable fair value measures is significant and the probabilities of the various measures within the range cannot be reasonably assessed, the entity is precluded from measuring the asset at fair value.

FRS 102 paragraph	Comment	Drafting suggestion
Section 4 Statement of Financial Position		
4.12(vi)	In FRS 102.4.12 it is unclear whether the requirement to disclose "shares in the entity held by the entity or by its subsidiaries, associates or joint ventures" refers to the number of shares held or the amount of the deduction from equity in respect of such holdings. No further guidance is provided in FRS 102. However, guidance in IAS 32:34 states that "[t]he amount of treasury shares held is disclosed separately either in the statement of financial position or in the notes, in accordance with IAS 1". Because of the current uncertainty regarding this disclosure requirement it is recommended that this is made clearer such that entities would be required to disclose - (a) the number of shares held by the entity and by its subsidiaries, associates and joint ventures; and (b) where relevant, the amount of any deduction from equity in respect of treasury shares (which would not apply in the case of shares held by the company's associates or joint ventures).	The number of and, where relevant, deduction within equity for, shares in the entity held by the entity or by its subsidiaries, associates, or joint ventures...

FRS 102 paragraph	Comment	Drafting suggestion
Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings		
6.3B	The new insertion at FRS 102.6B requires further disclosure relating to dividends paid in aggregate and per share. It is unclear as to whether when there are more than just 'standard' ordinary shares, the disclosures should be provided: a - in aggregate and per share for ordinary shares and in aggregate and per share amount for all other shares (i.e. one total for all other share classes); or b - in aggregate and per share for ordinary shares and in aggregate and per share for **each** class of other share. There are existing legal requirements in the Accounting Regulations and FRS 102.4.12 that require certain disclosures for each class of shares which leads us to believe that this disclosure requirement is intended to be for each class, and could be clarified in drafting as shown. We note that the equivalent proposal in the IFRS for SMEs ED states: '...in aggregate **or** per share' rather than '....**and** per share'. We prefer the FRS 102 insertion which should not be onerous to apply in practice and extends the legal requirements in paragraph 43 of Schedule 1 to the Accounting Regulations.	When an entity has more than one class of shares, it shall disclose dividends paid (in aggregate and per share) separately for ordinary shares and for each class of other shares.

FRS 102 paragraph	Comment	Drafting suggestion
Section 7 Statement of Cash Flows		
7.2	FRS 102 does not provide any further guidance on the definition of cash and cash equivalents. We suggest that FRS 102 should include the requirement in IAS 7.7 that cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This could usefully be included in FRS 102.7.2 and the glossary definition and seems reasonable due to the degree of consistency between IAS 7 and Section 7. Additional guidance could also be included for equity investments, consistent with IAS 7.	Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. For an investment to qualify as a cash equivalent it must also be held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Therefore, an investment normally qualifies as a cash equivalent only when it has a short maturity of, say, three months or less from the date of acquisition. Equity investments are excluded from cash equivalents unless they are, in substance, cash equivalents, for example in the case of preferred shares acquired within a short period of their maturity and with a specified redemption date. Bank overdrafts are normally considered financing activities similar to borrowings. However, if they are repayable on demand and form an integral part of an entity's cash management, bank overdrafts are a component of cash and cash equivalents. [FRS 102.7.2]
7.15	These words could more clearly state that these are payments made by lessees and the lease liability is measured in accordance with Section 20.	Interest paid includes cash payments made by a lessee for the interest portion of a lease liability ~~as required by~~ measured in accordance with Section 20.
7.20	We propose a minor drafting change for consistency with IFRS for SMEs and IAS 7 and to reflect that this is a disclosure requirement.	An entity shall ~~present~~ disclose….

FRS 102 paragraph	Comment	Drafting suggestion
Section 8 Notes to the Financial Statements		
8.5A	The wording here is long and potentially confusing. We believe the intent is to say that: a) Accounting policies generally need not be given if the transactions/balances to which they relate are themselves immaterial. b) Transactions etc may be qualitatively material even where they are not quantitatively material. c) Material accounting policy information should be given where the transactions/balances are qualitatively or quantitatively material, or both. We therefore propose some alternative, simpler wording.	Accounting policy information may be material where the transactions, balances or other events or conditions to which it relates are qualitatively or quantitatively material. Accounting policy information that relates to immaterial transactions, other events or conditions is generally immaterial and need not be disclosed [*footnote], subject to the requirements of the Regulations and the LLP Regulations.
Section 9 Consolidated and Separate Financial Statements		
9.20A	The first sentence of paragraph 9.20A appears to repeat 9.20 and could be deleted.	
N/A – new paragraph proposed (9.26B)	We propose an additional paragraph in line with our comments in Appendix 2 regarding 11.14A and 12.9A.	When a parent adopts a policy of accounting for its investments in subsidiaries, associates or jointly controlled entities in accordance with 9.26(a) or 9.26(b) in its separate financial statements, dividends receivable on those investments are recognised in profit or loss only when: (a) the entity's right to receive payment is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably, unless the economic substance is clearly that the dividend represents a recovery of part of the cost of the investment, in which case it shall be deducted from the carrying value of the investment.

FRS 102 paragraph	Comment	Drafting suggestion
Section 10 Accounting Policies, Estimates and Errors		
10.14A(b)	Section 17 states that recoverable amount is determined in line with Section 27. Accordingly, this reference should be to Section 27 rather than Section 17. This would then require (c) to refer to Section 17 by name. More generally it may be helpful to re-order these examples to be in Section order.	The recoverable amount of an item of property, plant and equipment, applying ~~Section 17 Property, Plant and Equipment~~ Section 27 *Impairment of Assets*.
10.15	This appears not to distinguish clearly between a change in measurement basis and a change in a measurement technique. The terms "measurement technique" and "measurement basis" are not defined and it is not obvious what the distinction is. It would be helpful to define these terms or give examples.	
Section 11 Basic Financial Instruments		
11.13(c)	This refers to the period of "six months or less" to align with equivalent drafting in Section 23. We note that a financial instrument with terms of six months or less would not normally be considered a financing transaction. Also, should the period in Section 23 be amended, this wording should also be amended to align with the time period there. We suggest removing 11.13(c) and instead including a new 11.13D with this exemption if considered necessary.	11.13D A trade receivable or contract asset when payment is expected within six months or less from when the entity transfers the good or service (see paragraph 23.59) may also be recognised initially at transaction price.
11.14A	We propose changes to the wording of this paragraph in line with our comments in Appendix 2. We also recommend clarifying that this requirement applies only to dividends receivable.	Dividends receivable on an equity instrument measured at cost or fair value through other comprehensive income in accordance with 11.14(d)(i), 11.14(d)(ii) or 11.14(d)(v) are recognised in profit or loss only when: (a) the entity's right to receive payment is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably~~.~~, unless the economic substance is clearly that the dividend represents a recovery of part of the cost of the investment, in which case it shall be deducted from the carrying value of the investment.

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FRS 102 paragraph	Comment	Drafting suggestion
11.13A	The current wording may be read as suggesting that all trade receivables or contract assets when payment is expected within six months are financing transactions; this is not the case.	As an exception to paragraph 11.13, the following, when they are financing transactions, may be measured initially at transaction price: (a) a basic financial liability of a small entity that is a loan from a person who is within a director's group of close family members when that group contains at least one shareholder in the entity; and (b) a public benefit entity concessionary loan (see paragraph PBE11.1A).; and (c) a trade receivable or contract asset when payment is expected within six months or less from when the entity transfers the good or service (see paragraph 23.59) or As an exception to paragraph 11.13, the following, when they meet the definition of a financing transactions, may be measured initially at transaction price: (a) a basic financial liability of a small entity that is a loan from a person who is within a director's group of close family members when that group contains at least one shareholder in the entity; and (b) a public benefit entity concessionary loan (see paragraph PBE11.1A).; and (c) a trade receivable or contract asset when payment is expected within six months or less from when the entity transfers the good or service (see paragraph 23.59)
11.40	The proposed wording appears narrower than the existing standard. We believe that it is important to retain the general reference to other accounting policies used for financial instruments.	In accordance with paragraph 8.5, an entity shall disclose material accounting policy information. Material accounting policy information is expected to include iInformation about the measurement basis (or bases) for financial instruments used in preparing the financial statements, and other accounting policies used for financial instruments that are relevant to an understanding of the financial statements. ~~is expected to be material accounting policy information.~~

FRS 102 paragraph	Comment	Drafting suggestion
11.48ZA and 11.48ZB, and a new paragraph	We are in favour of increasing the level of disclosure required in relation to the application of the ECL model for entities that have made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9. However, we believe that the additional detailed disclosures proposed in paragraphs 11.48ZA and 11.48ZB are most relevant for financial institutions and should therefore be included in the disclosure requirements for financial institutions in Section 34 rather than being applicable to all entities. For other entities, a brief paragraph in Section 11 based on the three objectives set out in IFRS 7.35B may be more appropriate; we propose some additional wording.	(Move proposed 11.48ZA and 11.48ZB to Section 34) When an entity has made the accounting policy choice in paragraphs 11.2(c) and 12.2(c) to apply the recognition and measurement provisions of IFRS 9, the entity shall make disclosures that enable users of financial statements to understand the effect of credit risk on the amount, timing and uncertainty of future cash flows. To achieve this objective, credit risk disclosure may provide: a) information about an entity's credit risk management practices and how they relate to the recognition and measurement of expected credit losses, including methods, assumptions and information used to measure expected credit losses; b) quantitative and qualitative information that allows users of financial statements to evaluate the amounts in the financial statements arising from expected credit losses, including changes in the amount of expected credit losses and the reasons for those changes; and c) information about an entity’s credit risk exposure including significant credit risk concentrations.
Section 12 Other Financial Instruments Issues		
12.2	We suggest a minor edit to remove a redundant word.	An entity shall not change its accounting policy ~~choice~~ from (a) to (b) or from (c) to (b).

FRS 102 paragraph	Comment	Drafting suggestion
12.9A	We propose changes to the wording of this paragraph in line with our comments in Appendix 2. We also recommend clarifying that this requirement applies only to dividends receivable.	Dividends receivable on an equity instrument which is measured at cost in accordance with 12.8(a) are recognised in profit or loss only when: (a) the entity's right to receive payment is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably., unless the economic substance is clearly that the dividend represents a recovery of part of the cost of the investment, in which case it shall be deducted from the carrying value of the investment.
Section 14 Investments in Associates		
14.8(d)	We recommend moving the requirements on impairment to appear after the section on applying the equity method and clarifying that the investor determines whether there is objective evidence that the net investment in the associate is impaired after application of the equity method, including recognition of losses in accordance with 14.8(h). This would be consistent with IAS 28.40. 14.8(h) could then include an explanation as to what forms part of the net investment in an associate as discussed below, which would be consistent with IAS 28.38.	
14.8(h)	Paragraph 14.8(h) does not specify the order in which losses are allocated to components of the net investment. IAS 28.38 states that losses in excess of the investment in ordinary shares are applied to other components of the interest in associate in reverse order of seniority. It would be helpful to include this.	Losses recognised using the equity method in excess of the entity's investment in ordinary shares are applied to the other components of the entity's interest in an associate in the reverse order of their seniority (i.e. their priority in liquidation).

FRS 102 paragraph	Comment	Drafting suggestion
14.8(h)	Paragraph 14.8(h) effectively defines the term "investment in an associate". It is not clear how this is different to the "net investment in the associate" which is the term used in paragraph 14.8(d). "Investment in an associate" is referred to throughout section 14 and it is not clear that this is always with the meaning given in 14.8(h). For example, 14.12(c) requires disclosure if a market price for the investment in an associate is quoted. We presume that this is in relation to a holding of shares which are quoted, and it would not be appropriate not to give this disclosure because the investor also has a loan forming part of the net investment in an associate which is not quoted. In relation to losses, IAS 28 uses the term "interest in an associate" and we propose to align with this term.	If an investor's share of losses of an associate equals or exceeds the carrying amount of its interest ~~investment~~ in the associate, the investor shall discontinue recognising its share of further losses. The interest ~~investment~~ in an associate is…
N/A – new paragraph proposed (14.4C)	We propose an additional paragraph in line with our comments in Appendix 2.	When an investor that is not a parent but that has an investment in one or more associates adopts a policy in accordance with 14.4(a) or 14.4(c) in its individual financial statements, dividends receivable on those investments are recognised in profit or loss only when: (a) the entity's right to receive payment is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably, unless the economic substance is clearly that the dividend represents a recovery of part of the cost of the investment, in which case it shall be deducted from the carrying value of the investment.
14.8(h)	Paragraphs 14.8(d) and 14.8(g) use the term financial instruments, whereas IAS 28 uses the term "long-term interests". It is not clear why this has been changed compared to the wording in IAS 28 or whether there may be unintended consequences of this change.	14.8(h)…the carrying amount of the investment determined using the equity method together with any ~~financial instruments~~ long-term interests…

FRS 102 paragraph	Comment	Drafting suggestion
Section 15 Investments in Joint Ventures		
15.19(c)	The revised drafting states: "fair value of its investment in a jointly controlled entity", without specifying whose investments (it does not follow from the stem). We note that the staff draft of FRED 82 also refers to "its investments" rather than "its investment". It is not clear whether disclosure of fair value is intended to be in aggregate or for each jointly controlled entity separately. We have made two drafting suggestions; the correct one will depend on whether the intention was to require disclosure for each entity or in aggregate.	Depending on the intention: …the fair value of ~~its~~ each of the venturer's investments in a jointly controlled entity, if a market price for the investment is quoted and the entity accounts for the jointly controlled entity using the equity method; and… Or: …the aggregate fair value of ~~its~~ the venturer's investment in ~~a~~ jointly controlled ~~entity~~ entities, if a market price for the investment is quoted and the entity accounts for the jointly controlled ~~entity~~ entities using the equity method; and…
N/A – new paragraph proposed (15.9C)	We propose an additional paragraph in line with our comments in Appendix 2.	When an investor that is not a parent but that has an investment in one or interests in jointly controlled entities adopts a policy in accordance with 15.9(a) or 15.9(c) in its individual financial statements, dividends receivable on those interests are recognised in profit or loss only when: (a) the entity's right to receive payment is established; (b) it is probable that the economic benefits associated with the dividend will flow to the entity; and (c) the amount of the dividend can be measured reliably, unless the economic substance is clearly that the dividend represents a recovery of part of the cost of the investment, in which case it shall be deducted from the carrying value of the investment.
Section 16 Investment Property		
16.4	Paragraph 16.4 refers to "…investment property and other property". The only possible permutations are property, plant and equipment and right-of-use assets, so we suggest that this could be stated in the paragraph rather than "other".	Mixed use property shall be separated between investment property and ~~other property~~ either property, plant and equipment or right-of-use assets if the resulting portions could be sold separately or leased out separately under a finance lease.

FRS 102 paragraph	Comment	Drafting suggestion
16.4A(b)	It would be helpful if the changes proposed to FRS 102.16.4Ab) referred to "an" owner and "a" lessee. Since the paragraph contemplates an entity renting investment property to another group entity there may be more than one "lessee" and avoiding an implication that there is only one would help avoid confusion.	(i) ~~the~~ an owner, to property, plant and equipment and applying the cost model in accordance with Section 17; or (ii) ~~the~~ a lessee, to right-of-use assets and applying the cost model in accordance with Section 20.
16.9	We suggest aligning the wording more closely to that in IAS 40.57 and the IFRS for SMEs ED as the requirements are essentially the same.	Unless otherwise required by this FRS, an entity shall transfer a property to, or from, investment property, when and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of ~~that change~~ the change in use.
Section 17 Property, Plant and Equipment		
17.1(b)	It would be clearer if the end of this paragraph referenced to paragraph 16.4A(b)(i) rather than to the whole of 16.4A as it is that sub-paragraph of the standard that permits the use of the cost model when investment property is leased to another group entity.	b) investment property rented to another group entity when the reporting entity chooses to use the cost model in this section as permitted by paragraph 16.4A(b)(i).
17.22	We note that the requirements in IAS 16 are the same as those in FRS 102 in that the depreciation method should reflect the pattern in which an asset's future economic benefits are expected to be consumed by the entity. We recommend aligning FRS 102 with the IFRS for SMEs ED and IAS 16 on this point.	An entity shall select a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. The possible depreciation methods include the straight-line method, the diminishing balance method and a method based on usage such as the units of production method. A depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate.
17.30A	The reference at the end of this paragraph should be to 16.4A(b)(i).	The following disclosures (other than those related to fair value measurement) are relevant to an entity that chooses to measure investment properties rented to another group entity under the cost model in this section, as permitted by paragraph 16.4A(b)(i).
17.31A	The reference at the end of this paragraph should be to 16.4A(b)(i).	An entity shall disclose the carrying amount at the end of the reporting period of investment property rented to another group entity, where the entity has chosen to account for such properties using the cost model in accordance with this section (see paragraph 16.4A(b)(i)).

FRS 102 paragraph	Comment	Drafting suggestion
Section 18 Intangible Assets other than Goodwill		
18.1	There is a superfluous 'and' in the paragraph. This should be deleted.	This section applies to intangible assets except for goodwill (see Section 19 *Business Combinations and Goodwill*), ~~and~~ intangible assets held by an entity for sale in the ordinary course of business (see Section 13 *Inventories*), and assets arising from contracts with customers that are recognised in accordance with Section 23 *Revenue from Contracts with Customers*.
18.3B	We suggest drafting changes to clarify this paragraph.	Some intangible assets may be contained in or on a physical substance (such as computer software on a compact disc or a motion picture on film). In determining whether an asset that incorporates both intangible and tangible elements should be within the scope of Section 17 Property, Plant and Equipment or this section, an entity uses judgement to assess which element is more significant. For example, software ~~for~~ that controls a machine ~~that cannot operate without the specific software~~ and which it could not operate without is an integral part of ~~the related hardware and it is treated as~~ that machine and would be treated as property, plant and equipment rather than as an intangible asset. The same applies to the operating system of a computer or mobile device which would be seen as integral to the operation of the related hardware. When the software is not an integral part of the related hardware, the software is treated as an intangible asset and accounted for under this section.
N/A – new paragraph proposed	We propose a new paragraph to insert additional guidance from IAS 38.5 as this would be relevant and useful to an FRS 102 reporter in relation to proposed paragraph 18.3B.	Research and development activities may give rise to an asset with physical substance (e.g. a prototype). Because the activities are primarily directed to the development of knowledge, the physical element of the asset is secondary to its intangible component, i.e. the knowledge embodied in it. In such circumstances, the activities are accounted for under this section.

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FRS 102 paragraph	Comment	Drafting suggestion
18.8C	We propose the following amendment for clarity.	In some cases, expenditure is incurred that does not meet the criteria for recognition as part of an internally generated intangible asset, for example because there is no intangible asset that can be recognised in accordance with the criteria set out in paragraph 18.8H or because the costs cannot be distinguished from the cost of developing the business as a whole.
N/A - new paragraph proposed (18.18BA)	Paragraph 18.18B indicates that an intangible asset can be carried at a revalued amount, provided that fair value can be determined by reference to an active market. IAS 38 provides guidance that an active market is unlikely to exist for intangible assets and therefore the fair value model for intangible assets is unlikely to be used much in practice. It would be helpful to bring the guidance from IAS 38 into FRS 102 as a new paragraph sitting after 18.18B.	It is quite rare for an active market to exist for intangible assets. Therefore, the revaluation of intangible assets is not expected to be common. Examples of intangible assets for which the revaluation option might be available are freely transferable taxi licences, fishing licences or production quotas.
N/A - new paragraph proposed (18.22A)	IAS 38 and the IFRS for SMEs both include the rebuttable presumption that an amortisation method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. Guidance is also provided as to when that rebuttable presumption may be overcome. As FRS 102 requires that the amortisation method chosen reflects that pattern in which the entity expects to consume the asset's future economic benefits, which is consistent with IAS 38 and the IFRS for SMEs, we consider that this guidance would also be useful to include within FRS 102.	There is a presumption that an amortisation method based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate. However, an entity can rebut this presumption and use an amortisation method based on revenue generated by an activity that includes the use of an intangible asset only in the limited circumstances: (a) in which the intangible asset is expressed as a measure of revenue (that is, when rights over the use of an intangible asset are specified as a fixed total amount of revenue to be generated); or (b) when it can be demonstrated that revenue and the consumption of the intangible asset's future economic benefits are highly correlated.
Section 19 Business Combinations and Goodwill		
19.15	We believe the word "specified" is needed here.	Except as specified in paragraphs 19.15A to 19.15F
19.15F	We believe a cross reference to 19.21 may be helpful here.	

FRS 102 paragraph	Comment	Drafting suggestion
19.30	We are not sure why the words "subject to the requirements of 9.9 and 9.9A" have been added here in respect of merger accounting, but not in the section about the purchase method, such as in 19.16 where it addresses incorporating the acquiree's profits or losses. We do not believe that this addition in 19.30 is needed but if it is included in relation to merger accounting then it should also be included in relation to the purchase method for consistency.	
Section 20 Leases		
20.8	The last sentence of this paragraph relates to leases of low value assets. We suggest moving it to 20.9 as 20.8 is in the section about short term leases.	
20.9	Is it intentional that the piece from IFRS 16 about the value of the asset "when new, regardless of the age when leased" was omitted?	
20.22	Rather than one long paragraph, we suggest presenting this with subparagraphs a) & b) as in IFRS 16.B14 and then including a follow-up explanatory paragraph. This would be easier to read and digest.	Even if an asset is specified, there is no identified asset if the supplier has a substantive right to substitute the asset throughout the period of use. A supplier’s right to substitute the asset is substantive only if it both has: a) the practical ability to substitute alternative assets throughout the period of use; and b) would benefit economically from doing so. Evaluation of substitution rights is based on facts and circumstances at the inception date and shall exclude consideration of future events that, at that date, are not considered likely to occur. If the customer cannot readily determine whether the supplier has a substantive substitution right, the customer shall presume that it does not.

FRS 102 paragraph	Comment	Drafting suggestion
20.24	The sub-heading before and the text of paragraph 20.24 omits reference to having substantially all the economic benefits. We believe that the relevant sentence from IFRS 16.B21 needs to be included, as otherwise there is the risk that the distinction of "substantially all" is lost, acknowledging that it is mentioned earlier in 20.18.	Right to obtain substantially all of the economic benefits from use To control the use of an identified asset, a customer is required to have the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use (for example, by having exclusive use of the asset throughout that period). A customer can obtain economic benefits from use of an asset directly or indirectly in many ways, such as by using, holding or sub-leasing the asset. The economic benefits from use of an asset include its primary output and by-products (including potential cash flows derived from these items), and other economic benefits from using the asset that could be realised from a commercial transaction with a third party.
20.27	The words "for the purposes of lease accounting" appear redundant here.	
20.35	We believe that this should not refer to 20.34 as that expedient is not relevant to non-lease components except to reference application of 20.33.	Unless the practical expedient~~s~~ in paragraph~~s~~ 20.33 is~~ or 20.34 are~~ applied, a lessee shall account for non-lease components by applying other sections of this FRS.
20.45-47	Paragraph 45 of Section 20 relates to assessing the length of the non-cancellable period of a lease and would more helpfully follow immediately after paragraph 39 of Section 20.	
20.52 and 20.72	Subject to our concerns and suggestion in Appendix 1 regarding the use of a gilt rate for discounting purposes, the sentence "If, in exceptional cases" ignores the possibility that the entity might be able to determine the rate implicit in the lease. We suggest some more straightforward wording.	If, in exceptional cases, ~~the lessee's incremental borrowing rate or lessee's obtainable borrowing rate, as applicable, cannot~~ none of these rates can be readily determined, the lessee shall use the gilt rate.

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FRS 102 paragraph	Comment	Drafting suggestion
20.55	This paragraph does not address the scenario set out in IFRS 16.B42 (a) (ii) for "payments that are initially structured as variable lease payments linked to the use of the underlying asset but for which the variability will be resolved at some point after the commencement date so that the payments become fixed for the remainder of the lease term. Those payments become in-substance fixed payments when the variability is resolved." We believe that this is needed as otherwise there is a risk of confusion with later guidance on how to deal with variable payments that later become in-substance fixed. 20.67 refers to "revised in-substance fixed payments" forming part of the lease liability, which implies that this point from IFRS 16 was intended to be included.	
20.65	The heading above this is missing an "s".	Other measurement models
20.66	We believe that it should be clearer that this is an accounting policy choice. We are not sure why the words "elect to" were dropped from the equivalent IFRS 16 words.	If right-of-use assets relate to a class of property, plant and equipment to which the lessee applies the revaluation model in Section 17, a lessee may elect to apply that revaluation model to all of the right-of use assets that relate to that class of property, plant and equipment.
20.67(c)	With reference to our comment on paragraph 20.55 above, if it is concluded that the guidance on variable payments that later become in-substance fixed should be included, then this paragraph should cross refer to 20.55.	remeasuring the carrying amount to reflect any reassessment of the lease liability (as set out in paragraphs 20.70 to 20.75) or lease modifications (as set out in paragraphs 20.76 to 20.79), or to reflect revised in-substance fixed lease payments (as set out in paragraph 20.55).
20.78(a)	Paragraph 78(a) specifies the lessee may continue to apply the discount rates applied in the initial measurement of the lease liability when the additional consideration from the lease modification is incidental to the total consideration of the original lease. We recommend replacing “incidental” with the more familiar term “insignificant”.	The lessee may continue to apply the discount rate applied in the initial measurement of the lease liability, when either: (a) the additional consideration from the lease modification is ~~incidental~~ insignificant to the total consideration of the original lease;
20.85	We suggest including a disclosure requirement to state the discount rate used (i.e. implicit in the lease, IBR, OBR, gilt rate).	

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FRS 102 paragraph	Comment	Drafting suggestion
20.86	We suggest including a requirement to disclose any impairment losses arising on right-of-use assets (especially if the option to use the gilt rate is retained).	
Section 23 Revenue from Contracts with Customers		
23.87A	We believe the first sentence should also include customer put options, given that they are subsequently discussed.	
23.102	We suggest inserting a subheading "Costs to obtain a contract" above this paragraph.	
23.121	It is unclear to us why the words ‘at a minimum’ are included in paragraph 23.121, given that entities are permitted to choose an alternative approach. We do not think it is particularly helpful for paragraph 23.121 to specify the categories that are listed – it would be preferable for entities to show whatever analysis is considered most useful in respect of their particular business.	
23.121A	In paragraph 23.121A, we believe the word “activities” would be better than “performance”, as the latter could be confused with satisfaction of a promise.	An entity may disaggregate revenue on an alternative basis to that required by paragraph 23.121 if doing so better reflects the nature of the entity’s ~~performance~~ activities.
23.127(a)	In the middle of paragraph 23.127(a), we believe the word “and” should be used, not “or”, and that the paragraph should make clear that separate disclosure is required in respect of costs to obtain a contract and of costs to fulfil a contract.	…the closing balances of assets recognised from the costs incurred to obtain a contract with a customer (if the entity adopts the accounting policy set out in paragraph 23.102) ~~or~~ and the costs incurred to fulfil a contract with a customer…
23.128	If an entity chooses to expense all costs of obtaining a contract, as permitted by paragraph 23.102, we believe it would be sensible for paragraph 23.128 also to require disclosure of that fact.	
23.113	As noted in our response to Question 7 in Appendix 1, we recommend aligning the wording of paragraph 23.113 with that in IFRS 15.	In applying paragraph 23.112(a), an entity shall determine the amount of consideration that the entity expects to receive by adjusting the transaction price for any consideration received to date and the effects of the customer’s credit risk, after first adding back any reduction to estimated variable consideration that has been made in accordance with paragraph 23.46.

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FRS 102 paragraph	Comment	Drafting suggestion
Section 24 Government Grants		
24.5A	We are not sure of the meaning of this paragraph. A new or increased liability would not result in income but in expense. In addition, in our last response letter we stated: "The phrase "recognised in income" appears in paragraph 24.5B in the context of recognition under the performance model, and in paragraphs 24.5D-F in respect of the accruals model. It is not clear why this phrase has been retained from the IFRS for SMEs. The more commonly used expression is "recognised in profit or loss" and the use of "recognised in income" represents an inconsistency with the rest of the standard. If there is no intended difference, we recommend using the phrase "recognised in profit or loss" to avoid misunderstanding.	When a grant becomes repayable it shall be recognised as a liability when the repayment meets the definition of a liability. The recognition of a new or increased liability for this purpose shall be recognised immediately in ~~income~~ profit or loss.
24.6B	Why change "amounts" to "extent"? This could result in a lack of clarity over what is being disclosed.	
Section 25 Borrowing Costs		
25.1(b)	We suggest aligning the wording here to that used in Section 20.86(b) to describe interest expense on lease liabilities.	~~finance charges in respect of leases~~ interest expense on lease liabilities as set out in Section 20 *Leases*…
Section 26 Share-based Payment		
26.13A	Should sub-paragraph (a) refer to where the entity has a choice of settlement and accounts for the transaction as equity-settled in accordance with 26.15A?	(a) the entity has a choice of settlement and accounts for the transaction as equity-settled in accordance with paragraph 26.15A
26.13A and 26.15B	We believe the reference to a "net settlement feature" should be "net settlement feature (of a share-based payment)", consistent with the defined term in the glossary.	net settlement feature (of a share-based payment)
Section 28 Employee Benefits		
28.4	It would also be helpful to clarify that the examples provided by Section 28 do not represent an exhaustive list.	Short-term employee benefits include (but are not limited to) items such as the following…
Section 33 Related Party Disclosures		
33.12(hA)	The reference to commitments to do "something" appears vague. We suggest that this be clarified. Additionally, should this reference also include a commitment to "not" do "something"?	

Deloitte.

FRS 102 paragraph	Comment	Drafting suggestion
Section 34 Specialised Activities		
34.8	The words "intended for continuing use in the entity's activities" are drawn from the definition of a fixed asset, which may be problematic for those applying the adapted formats.	An entity applying the cost model shall measure biological assets that are not current assets at cost less any accumulated depreciation ~~(when intended for continuing use in the entity's activities)~~...
34.51	The words in brackets are only applicable when accounting under Section 17 or 18; heritage assets accounted for in accordance with Section 20 would use the lessee accounting model. We suggest for simplicity that the words in brackets are deleted.	An entity shall recognise and measure heritage assets in accordance with Section 17, Section 18 or Section 20, as appropriate ~~(ie using the cost model or revaluation model)~~, subject to the requirements set out in paragraphs 34.52 to 34.53.
Glossary		
Definition of cash equivalents	We propose an amendment to clarify the definition of cash equivalents.	Short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.
Definition of current liabilities (for the purposes of an entity applying paragraph 1A(1) of Schedule 1 to the Regulations)	Point (d) in the definition should be aligned more closely with the revised wording in IAS 1:69 that is effective from 1 January 2024.	(d) it does not have ~~an unconditional~~ the right at the end of the reporting period to defer settlement of the liability for at least 12 months after the reporting period.
Definitions of fixed assets, non-current assets, current assets, current liabilities and non-current liabilities	There is some inconsistency between these definitions in that some refer to "the entity" whereas others refer to "an entity".	We suggest that the FRC makes minor editorial changes for consistency between these definitions.
Definition of short-term employee benefits	We believe it would be helpful if FRS 102 were to include a definition of 'short-term employee benefits' in the Glossary, consistent with that in 28.1(a). The reference to 'short-term employee benefits' in 28.1(a) should then be in bold.	short-term employee benefits Employee benefits (other than termination benefits) that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related service.