Consultation Triennial review of UK and Ireland a File

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

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

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

4. Do you have any suggestions for how the simplified approach to impairment losses for trade receivables, contract assets and lease receivables in IFRS 9 might be developed into a suitable model for entities applying FRS 102 (other than financial institutions, or a sub-set such as banks and building societies)?
   In agreement with the content as per IFRS 9.

5. Presently, in paragraph 11.2 (and paragraph 12.2), FRS 102 permits an accounting policy choice in relation to financial instruments, allowing an entity to choose the recognition and measurement requirements of FRS 102, IAS 39 Financial Instruments: Recognition and Measurement or IFRS 9 Financial Instruments (and elements of IAS 39 as amended by IFRS 9). The FRC proposes to retain the option to choose IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102 (ie for all accounting periods beginning before 1 January 2022). From 1 January 2022 the FRC proposes that the available options will be the requirements of FRS 102 or IFRS 9. Do you agree? If not, why not?
   No comment

6. Do you have any suggestions for how the requirements of IFRS 16 Leases might be developed into a suitable model for entities applying FRS 102? In particular, do you have any suggestions relating to the application of the short-term lease exemption or the exemption for leases when the value of the underlying asset is low?
   - IFRS 16 has no specified threshold for what are 'low value' assets. Providing a figure would achieve consistency but needs to be balanced with a practical solution. Therefore a suggested approach could be to apply a ruling which states the higher of materiality or £x (valued amount).
   - The guidance needs to be succinct to avoid users utilising the low value asset threshold or short term lease exemption to shape their lease contracts going forward. Anti-avoidance measures should be detailed to avoid disaggregation of leases.

7. The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 Consolidated Financial Statements. Company law specifies when consolidated

financial statements are prepared and any changes would supplement these existing requirements by providing further guidance on what is meant by 'control'. Are you aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements?
No comment

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

9. Do you have any comments on the cost-effectiveness of the requirements for share-based payments, currently set out in Section 26 Share-based Payment of FRS 102? If you consider that alternative requirements would be more cost-effective, please provide details of how you would adapt the current requirements whilst still providing useful information to users.
   No comment

10. Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from 1 January 2019 and more fundamental changes effective from 1 January 2022?
    Yes in agreement and value a three year implementation period being granted for the Phase 2 significant amendments.
    However a number of the IFRS's proposed to be incorporated into FRS 102 are yet to be effective and/or endorsed by the EU. Therefore issues on implementation are currently unknown and entities applying full IFRS will be in the early stages of implementation when the Phase 2 amendments are released in Q4 2018. The FRC need to be willing to defer the effective date, to retain a three year implementation period for FRS 102 changes, if major issues arise on full implementation.

11. Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?
    No further comments

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

13. The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.
    Anticipated costings which could arise from the fundamental changes anticipated to be effective from January 2022:

- Loan covenant renegotiations maybe required with lenders on adoption of new leasing standards
- Briefings of stakeholders on impact of changes in FRS 102.

- Possible increased board member training
- Increased audit fees resulting from prior year adjustments and reviewing judgment areas
- Changes to reporting and systems
- Cost of updating long term financial plan