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Dear Ms Carter

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

Grant Thornton UK LLP (Grant Thornton) welcomes this opportunity to respond on the above consultation.

Our general observations

We agree with the amendments that the FRC has made to the principles that will be applied when developing the UK and Ireland financial reporting standards going forward. We also support the FRC's overall approach to keeping FRS 102 up-to-date on a triennial basis.

We believe that now is the time to allow the new UK GAAP standards to bed in fully and to give preparers further opportunity to become more familiar with the new requirements.

In our view the FRC should only use this triennial review as a basis for making limited and necessary improvements to FRS 102. At this stage we see no compelling argument for making substantial changes to FRS 102 so as to align it further with IFRS.

Contact details

We have sought to answer each question and we hope that our observations are of use during this first triennial review process.

If you have any questions regarding this response, please contact either me or Neil Parsons (t: 0121 232 5385; E: Neil.B.Parsons@uk.gt.com).

Yours sincerely

[redacted]

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For Grant Thornton UK LLP

Appendix
Detailed Response to Questions
RESPONSES TO SPECIFIC QUESTIONS

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

We agree with the amendments that the FRC has made to those principles that will be applied when developing the UK and Ireland financial reporting standards going forward.

The UK financial reporting frameworks went through fundamental change for periods beginning 1 January 2015. In addition, changes to the new UK GAAP standards as a result of implementing the EU accounting directive will apply for periods beginning on or after 1 January 2016. We believe that preparers now need a period of stability to allow them to become more familiar with the new requirements.

We therefore recommend that the FRC should use this particular triennial review as a basis for making only limited and necessary improvements to FRS 102.

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

We agree that the FRC should consider full IFRS as the primary reference point when developing the UK and Ireland financial reporting standards.

The IFRS for SMEs is too simple for larger reporting entities and IFRS is too complex for many preparers. FRS 102 needs to finely balance itself somewhere in between in order to present itself as a truly effective reporting solution for a wide variety of reporting entities.

Our key concern is that given the sheer complexity and volume of new IFRS standards, incorporating their requirements will be challenging if FRS 102 is to remain succinct. Many preparers do not have a good working knowledge of the newer IFRS standards in practice. Many of these new standards have become specialist fields in their own right and preparers may not fully understand all of the complexities without reverting to full IFRS.

Our comments by each newer IFRS standard are set out below.

Phase 1 – periods beginning on or after 1 January 2019

Standard	Comments
IFRS 3 *Business Combinations* *Section 19 of FRS 102* – Business Combinations and Goodwill	We agree that the detailed accounting requirements of IFRS 3 should not be incorporated into FRS 102. Instead we recommend that the FRC should make general improvements to FRS 102 in order to ensure clarity of accounting requirements for business combinations. This view is consistent with our response to you in regard to the FRC request for views on amending the new UK GAAP standards.
IFRS 10 *Consolidated Financial Statements* *Section 9 of FRS 102* – Consolidated and Separate Financial Statements	We do not believe that incorporating the IFRS 10 control model into FRS 102 will provide any tangible benefits that outweigh the additional cost of reporting. On the basis that IFRS 10 is so extensive incorporating it into FRS 102 would require adding a lot of implementation guidance to the body of FRS 102. Subject to some minor improvements we believe that FRS 102's control model provides a proportionate reporting solution. For example, we recommend that FRS 102 is updated to reflect guidance on de-facto control, principal and agent control arrangements and also additional guidance on how control is determined in situations where one entity holds options over the equity interests of another entity.
IFRS 11 *Joint Arrangements* *Section 15 of FRS 102* – Interests in Joint Ventures	Control is considered above. We believe that there is merit in aligning the accounting requirements of FRS 102 with IFRS 11. In our view IFRS 11's approach of considering substance over form and whether a venture is exposed to a right to net assets or a right to assets and an obligation for liabilities is a better reporting solution overall.

IFRS 12 *Disclosure of Interests in Other Entities* *Section 9 of FRS 102* – Consolidated and Separate Financial Statements	The disclosure requirements of IFRS 12 are far too extensive for inclusion in FRS 102. For financial institutions applying FRS 102 there is merit in requiring such entities to make disclosures in respect of their interests and risks associated with unconsolidated structured entities in the same way that IFRS 12 would require such disclosure were those entities to apply IFRS. [See IFRS 12 (24) to (31)] These were seen as important disclosure improvements as a result of the financial crisis.
IFRS 13 *Fair Value Measurement* *Various sections of FRS 102*	Ideally there should only be one single definition of fair value in the frameworks offered by FRS 100. This should be based on current thinking (ie IFRS 13). IFRS 13 was seen as an important improvement to financial reporting following the financial crisis. However, we have concerns that the cost of making such an amendment to FRS 102 might outweigh the benefits arising and involve adding a significant amount of application guidance to FRS 102. On balance we believe that the definition of fair value should not be aligned with IFRS 13.
IFRS 15 *Revenue from Contracts with Customers* *Section 23 of FRS 102* – Revenue	In paragraph 3.34 of the Consultation Document the FRC have stated that in situations where individual group entities report using FRS 102 but the group applies IFRS then by making certain amendments to FRS 102 based on IFRS 15 consolidation adjustments will be minimised. In our view, this does not provide sufficient support to amending FRS 102 as any affected group entities could apply FRS 101 where revenue recognition would be fully aligned with IFRS 15 We consider that FRS 102 already provides proportionate requirements for separating contracts.

Phase 2 – periods beginning on or after 1 January 2022

Standard	
IFRS 9 *Financial Instruments* *Sections 11 and 12 of FRS 102* – Basic Financial Instruments and Other Financial Instruments Issues	We do not believe that the mandating of the use of the expected loss model should extend beyond banks or building societies. Please see our response to question 3 below.
IFRS 16 *Leases* *Section 20 of FRS 102* - Leases	Please see our response to question 5 below.

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

We understand that implementing the IFRS 9 expected loss model is presenting a significant challenge for some of the most sophisticated reporting entities.

Although IFRS 9 contains a simplified model for identifying expected losses on trade receivables we believe that in the context of simple trading companies a process of identifying expected lifetime losses will be unduly complex and results may not provide the most relevant information in the context of short term customer balances.

Our preferred option, in the context of simple trading companies, is option (c); to require the application of the IFRS 9 expected loss model by a sub-set of financial institutions namely banks or building societies. Entities which are not banks or building societies would continue to apply the incurred loss model. In our view, this is the most proportionate and stable financial reporting solution.

Question 4
Presently, in paragraph 11.2 (and paragraph 12.2), FRS 102 permits an accounting policy choice in relation to financial instruments, allowing an entity to choose the recognition and measurement requirements of FRS 102, IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments* (and elements of IAS 39 as amended by IFRS 9). The FRC proposes to retain the option to choose IAS 39 until the requirements for the impairment of financial assets have been amended in FRS 102 (ie for all accounting periods beginning before 1 January 2022). From 1 January 2022 the FRC proposes that the available options will be the requirements of FRS 102 or IFRS 9. Do you agree? If not, why not?

We agree with the FRC's proposal to extend the use of IAS 39 for accounting periods beginning before 1 January 2022. In order to avoid any confusion, it would be helpful for the FRC to publish on its website the specific version of IAS 39 to be applied complete with application guidance.

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

We do not believe that IFRS 16 should be incorporated into FRS 102 until we fully understand the success of implementation by IFRS reporters. It might take at least four reporting seasons and as such we recommend that the FRC look beyond 2022 for implementation.

IFRS 16 might require redrafting for implementation issues. Only once we are satisfied that IFRS 16 is stable and that we know that it works in practice should it be incorporated into FRS 102. This might not be the case until periods beginning on or after 1 January 2025

Further, the same practical expedients should be contained (eg short leases and leases of low value items). On transition reporting entities should incur the lowest possible cost. Finally, the requirements should also reflect lessons learned from applying IFRS 16 in practice.

Question 6 **The FRC proposes to makes changes to FRS 102 to incorporate the control model of IFRS 10 *Consolidated Financial Statements.* Company law specifies when consolidated financial statements are prepared, and any changes would supplement these existing requirements by providing further guidance on what is meant by 'control'. Are you aware of any legal barriers to incorporating the control model of IFRS 10 alongside the existing legal requirements? In most situations, any changes to the definition of control in FRS 102 will have no impact in practice. However, in other cases entities may be consolidated for the first time or cease to be consolidated. Do you have any information about how significant the practical impact may be and the circumstances in which it might occur?**

We are not aware of any particular legal barriers preventing the IFRS 10 control model from being incorporated into FRS 102.

Question 7 **Do you have any comments on the cost-effectiveness of the requirements for share-based payments, currently set out in Section 26 *Share-based Payment* of FRS 102? If you consider that alternative requirements would be more cost-effective, please provide details of how you would adapt the current requirements whilst still providing useful information to users.**

We have no detailed comments on the cost-effectiveness of FRS 102's accounting requirements for share based payments.

The transitional exemptions contained in FRS 102 applicable to small entities applying Section 1A of FRS 102 for periods beginning on or after 1 January 2016 for the first time offer a cost effective implementation solution.

For the next triennial review we recommend that the FRC includes a targeted assessment of how Section 1A of FRS 102 has worked in practice. This assessment should consider the merits of accounting for share based payments and financial instruments at fair value and their reporting cost.

We hope that BREXIT might present an opportunity for the FRC and the Department of Business, Energy and Industrial Strategy to work closely in order to identify innovative ways in which company law and financial reporting standards can be simplified.

Question 8
Do you agree with the proposed effective dates for the amendments arising from the triennial review, with incremental improvements and clarifications effective from January 2019 and more fundamental changes effective from 1 January 2022?

We agree that January 2019 is an acceptable commencement date for incremental improvements. We believe that there is scope for pushing further back the commencement date for any fundamental changes to beyond 2022. For example, please see our response to question 5 in regard to our view on delaying the incorporation of IFRS 16 until January 2025.

Question 9
Do you have any other comments on the approach to keeping FRS 102 up-to-date as part of the triennial review?

We agree with the FRC's approach to keeping FRS 102 up-to-date. Should an important financial reporting issue arise outside of the triennial review cycle the FRC should not hesitate to make amendments accordingly.

Question 10
The FRC will be preparing consultation stage impact assessments to accompany the FREDs arising from the triennial review. At this stage do you have any comments on the costs and benefits likely to arise from the outline proposals in this Consultation Document that will help inform those impact assessments? Please provide evidence to support your views of any quantifiable costs or benefits.

Unless addressed in our response to other questions at this stage we are unable to quantify the costs and benefits of the proposals in this Consultation.