By email to: ukfrsperiodicreview@frc.org.uk
Accounting and Reporting Policy team
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28 April 2023

Dear Madam

Consultation document - FRED 82 Draft amendments to FRS 102 the Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review

We welcome the opportunity to comment, on behalf of PricewaterhouseCoopers LLP, on FRED 82. Our detailed responses to the specific questions in the invitation to comment are provided in Appendix A to this letter.

Approach to reviewing FRS 102

We support the FRC's broad approach to reviewing FRS 102, which is to seek consistency with global accounting standards through the application of an IFRS-based solution unless an alternative is clearly better. In particular we support alignment with:

- IFRS 15's principles for accounting for revenue, although, in our view, some of the proposed guidance is too detailed, complex to understand, and includes unnecessary and unexplained departures from IFRS.
- IFRS 13's fair value definition and guidance, although we recommend the inclusion in FRS 102 of an accounting policy choice to either include or exclude changes in own credit risk after inception of a contract when determining its fair value. In our view, such an option would provide an appropriate simplification, while maintaining the possibility of alignment with IFRS for those entities who wish it.
- the IASB's 2018 Conceptual Framework for Financial Reporting, although we believe Section 2 of FRS 102 could be significantly simplified.

Similarly, we support not introducing IFRS 9's expected credit loss model into FRS 102 as a good example of where an IFRS-based solution would not represent a clear improvement in reporting for the vast majority of entities reporting under FRS 102.

Lease Accounting

We do not agree with the proposed revisions to Section 20 on lease accounting. We acknowledge that the proposed revisions would more closely align FRS 102 with IFRS 16, thus meeting the FRC's objective for consistency in principle with global standards, which we support. However, in our view, many of the proposed simplifications of IFRS 16's requirements could result in a standard that will not be operational and enforceable, which could unduly compromise the quality of reported information. In addition, we are not aware of any practical problems currently faced by users of FRS 102 financial statements with regard to lease accounting. IFRS 16 was extremely costly for many entities to implement, and we expect that the same would likely be true of the proposed revisions to Section 20. In the absence of a particular reporting problem that needs to be solved, we do not think those costs are currently justified.

Instead, we believe the FRC should allow entities the choice of applying FRS 102 as currently written, or IFRS 16 in its entirety. This approach would be beneficial for group entities who may want to align their accounting policies across their groups, while avoiding a cost burden for those entities for which an IFRS 16 accounting model is not proportionate to their users' needs. If, however, the FRC does decide to pursue a simplified IFRS 16 model, we think there are number of issues that will need to be addressed, which we set out in Appendix C to this letter.

Transition and effective date

We broadly agree with the proposed effective date and transitional provisions, provided the proposed changes to Section 20 are not made and the revised standard is finalised well before the end of 2023. However, we have some concern that the cost analysis within the consultation stage impact assessment is understated and, in our view, the proposed effective date and estimated implementation cost for companies are interdependent.

If you have any questions or would like to discuss any of the comments we have made in this letter, please contact Peter Hogarth on [redacted].

Yours faithfully

PricewaterhouseCoopers LLP

Appendix A

Question 1: Disclosure

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

We have no specific comments on the proposed overall level of disclosure required by FRS 102. However, we qualify this comment on the basis that we consider there is no clarity over who the users of FRS 102 financial statements are assumed to be, and hence whether the level of disclosure is suitable for their needs. We expand on this point below.

We comment on the proposed changes to Section 1A in our response to Question 9. These changes, and the resultant complexity, bring into sharp focus the challenge of respecting and reflecting Companies Act disclosure requirements in the drafting of FRS 102. We have similar concerns regarding the various balance sheet format options in Section 4. Another example is in the proposed amendment to paragraph 8.5A, which states that *"accounting policy information that relates to immaterial transactions, other events or conditions is generally immaterial and need not be disclosed, subject to the requirements of the Regulations and the LLP Regulations"*. We cannot support a requirement that explicitly might require disclosure of immaterial information.

In each of these cases, we do not believe that the interaction of company law and accounting standards enhances the quality of financial statements. Indeed, the added complexity in FRS 102's drafting might well detract from that objective.

While we recognise that it is beyond the FRC's remit as part of its review of FRS 102, and we acknowledge that different considerations apply in the Republic of Ireland, we would nevertheless encourage FRC to work with the Department for Business and Trade towards eliminating, wherever possible, the overlap of company law and accounting standards. We observe that in the Government's recently published 2023 Green Finance Strategy, 'Mobilising Green Investment', there is mention of *"a broader review of the UK's non-financial reporting framework"*. We believe there is a need to include the Companies Act's financial statement disclosure requirements within the scope of this review.

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?

We are unable to answer this question in the absence of information about who the users of FRS 102 financial statements are and hence what their information needs might be.

Currently, FRS 102 does not provide a definition for 'users', and no such definition is proposed in FRED 82. Paragraph 2.6 of FRED 82 refers in passing to "*existing and potential investors, lenders and other creditors*", which is the same phrase as used in chapter 1 of the IFRS Foundation's 2018 Conceptual Framework for Financial Reporting (the '2018 Conceptual Framework'). However, bearing in mind the profile of FRS 102 reporters identified in the FRC's impact assessment, we are unconvinced that the user base for FRS 102 financial statements will be the same as for IFRS financial statements.

The vast majority of entities preparing financial statements under FRS 102 are private companies, and most of these are small. In our view, many of the equity owners of those companies would not need to rely on the financial statements, given that they would have access to information beyond what is normally disclosed in the financial statements. It might be the case, therefore, that the information needs of lenders and other creditors, and perhaps major customers, are of greater importance than those of potential and future equity investors. We accept that in practice their information needs might be similar to those of investors, but in the absence of a clear objective for FRS 102 financial statements, we consider it is inappropriate to pass comment on whether an undefined population of users can obtain the information they seek.

To illustrate our point, consider the disclosure of a maturity analysis for financial liabilities, including leases. While this is a legal requirement, albeit at a very high level, there is currently no such disclosure requirement in FRS 102, other than for financial institutions. However, one might reasonably conclude that, if the users of FRS 102 financial statements include a higher proportion of lenders and other creditors, then they might have a particular interest in an entity's exposure to liquidity risk. Indeed, the FRC acknowledged during its 2016/17 cycle of amendments to FRS 101 that users of FRS 101 financial statements might find a maturity analysis of lease liabilities useful. Ultimately, the revised FRS 101 provided entities with an exemption from disclosing a maturity analysis for leases provided that the company law disclosure was presented separately for lease liabilities and other liabilities, and in total. But this conclusion was largely founded on the view that it would be inconsistent and burdensome for entities to provide a maturity analysis of leases when there was an existing exemption from presenting a maturity analysis of other financial liabilities. We are not convinced that this logic applies in an FRS 102 context.

We would not propose at the current time that additional disclosures, including a requirement for a maturity analysis of financial liabilities and leases, should be added piecemeal to FRS 102. However, we do believe that in order to address the question of whether "*users of financial statements prepared under FRS 102 will generally be able to obtain the information they seek*" the FRC should perform a reasoned analysis of who the users of FRS 102 financial statements might be and therefore how their disclosure needs are to be satisfied. A similar, but separate, research topic might be to consider the users of FRS 101 financial statements, although those users will also have access to information in the parent's consolidated financial statements; an opportunity not afforded to users of FRS 102 financial statements.

Question 2: Concepts and pervasive principles

The proposed revised Section 2 Concepts and Pervasive Principles of FRS 102 and FRS 105 would broadly align with the IASB's 2018 Conceptual Framework for Financial Reporting.

The IASB's Exposure Draft Third edition of the IFRS for SMEs Accounting Standard (IASB/ED/2022/1) contains similar proposals. The FRC considers it appropriate that FRS 102 and FRS 105 should be based on the same concepts and pervasive principles as IFRS Accounting Standards including the IFRS for SMEs Accounting Standard, given the FRC's aim of developing financial reporting standards that have consistency with global accounting standards.

The FRC has made different decisions from the IASB in some respects in developing proposals to align FRS 102 and FRS 105 with the 2018 Conceptual Framework in a proportionate manner.

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

In principle, we agree that FRS 102 should follow the latest thinking and developments in IFRS. However, we believe that the proposed update to Section 2 of FRS 102 should be considered differently on the basis that the main purpose of the 2018 Conceptual Framework is to assist the International Accounting Standards Board to develop IFRS Standards that are based on consistent concepts. By contrast, we believe that the main purpose of Section 2 of FRS 102 is to assist preparers in preparing financial statements. Therefore, we believe that Section 2 should include solely guidance in the form of concepts and principles that are useful to preparers and other stakeholders who need to access the relevant information about the preparation of financial statements.

Therefore, we would suggest that Section 2 is reduced to focus solely on information that might be useful for preparers and other stakeholders who need to understand the application of FRS 102. We believe that the reduced Section should include the following:

- <u>The purpose of Section 2</u> - A clear statement of the purpose of Section 2 and an acknowledgment that the specific requirements of other sections override it.

- <u>Definitions of the main components</u> - Assets, liabilities, equity, income and expenses.

- <u>Qualitative characteristics</u> - The fundamental qualitative characteristics of useful financial information, which are 'relevance' and 'faithful representation'. Then it can be expanded to definitions (only) of the 'comparability', 'verifiability', 'timeliness' and 'understandability' characteristics that enhance the usefulness of information in terms of both relevance and faithful representation of what it purports to represent.

- <u>Recognition, measurement and disclosure</u> - In general terms only.

- <u>Other pervasive concepts such as accrual basis and offsetting</u> - We support including other pervasive concepts that are not covered by other sections. As an example, the instruction to use the accrual basis (except for cash flow statements) currently in paragraph 2.36 (also discussed in paragraphs 1.17-19 of the IFRS Conceptual Framework) does not appear in the proposed Section 2, whereas it should have been included given the importance of that concept to this standard.

Preparers only need Section 2 when another part of FRS 102 directs them to it or when there is a matter that is not covered by any other section of the standard. In terms of direct references from other sections, we can only see three cases: fair presentation override (paragraph 3.5), creating accounting policies in the absence of specific guidance (paragraph 10.5) and funding commitments (paragraph 34.58). In practice, preparers will often look to other parts of FRS 102 rather than relying solely on Section 2. We would therefore suggest excluding the more detailed guidance on topics such as recognition and measurement because such guidance provides limited useful information in this regard. This approach would also limit the need for a detailed analysis of consistency with the rest of FRS 102. We do not believe such an analysis is necessary for preparers and would be challenging to maintain as requirements change going forward.

If the FRC does not take the recommendation outlined above to significantly limit Section 2, we suggest that there are other improvements and simplifications that might be made, which we have set out in Appendix B.

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?

We agree with this approach to some extent.

As noted above, we believe Section 2 would be more useful if it provided solely guidance that is relevant and useful for preparers and other stakeholders who need to understand the application of FRS 102. This view is equally applicable to other sections of FRS 102.

Paragraphs B18.2 (for intangible assets other than goodwill) and B21.2 (for provisions and contingencies) of the Basis for Conclusions explain that the proposed approach is to avoid unintended consequences. However we are not convinced that this risk is significant.

Sections 18 and 21 never ask a preparer to apply the definitions of an asset or liability in isolation. The new paragraphs 18.4A and 21.4A make statements of fact, which might be relevant for those interested in the development of the respective sections, but they do not impose any accounting requirements. To take the example of intangible assets, paragraph 18.4 anyway restricts the recognition of assets to those where there is a probable inflow of expected future economic benefits, therefore in practice we cannot envisage a situation where the different definitions might result in different outcomes.

Notwithstanding the above, we would not expect the FRC now to embark on a project to consider how, if at all, Sections 18 and 21 might need to be revised to reflect revisions to the 2018 Conceptual Framework. Hence, we understand why it might be desirable to align the wording of FRS 102 and IFRS in this respect. The IASB's approach in IASB/ED/2022/1 is to insert the old definitions as footnotes to paragraphs 18.4 and 21.4, rather than as standalone paragraphs. In our view, this approach is preferable because it is less intrusive and less confusing to readers.

Accordingly, while we accept that Sections 18 and 21 use language from the old definitions of assets and liabilities, and we would not propose to change that, we believe it would be more helpful to refer to those definitions as footnotes and not as separate paragraphs.

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

As noted above, please refer to Appendix B.

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?

We generally agree with this proposal. However, we are not convinced that the benefits of incorporating an entity's own credit risk into fair value measurement outweigh the costs.

Paragraph 42 of IFRS 13 requires that the fair value of a liability reflects the effect of non-performance risk, which includes an entity's own credit risk. Although the proposed amendments to FRS 102 are not explicit on the inclusion of own credit risk, an entity or user might expect fair value measurement under the revised Section 2A to include own credit risk since the definition of fair value has been aligned with that in IFRS 13.

Incorporating own credit risk into fair value measurements often requires complex models and the use of experts. With this in mind, we expect that many FRS 102 reporters would not have the resources or ability to determine the adjustments required to incorporate their own credit risk.

In addition, we believe that the inclusion of own credit risk in fair value measurement is not relevant to many users of financial statements because it often produces counterintuitive information, such that when an entity's financial position deteriorates, it recognises fair value gains due to changes in credit risk that the entity might not have the practical ability to realise. As a result, many FRS 102 reporters currently exclude changes in own credit risk in determining fair value.

We therefore recommend the inclusion in Section 2A of an accounting policy option to either include or exclude changes in own credit risk after inception of a contract when determining its fair value. In our view, such an option would allow an appropriate simplification, while maintaining the possibility of alignment with IFRS for those entities that need to prepare IFRS information for consolidation purposes.

Additionally, paragraphs 16 to 20 of Section 2A define a reliable measure of fair value and preclude an entity from measuring an asset at fair value when a reliable measure of fair value is not available. Determining whether a reliable measure of fair value is available can require substantial judgement and different interpretations of the requirements could lead to divergence in practice. To assist FRS 102 reporters in applying these requirements, we recommend including examples or further guidance about circumstances where an entity might conclude that a reliable measure of fair value is not available.

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 do not agree.

Paragraph 26.1C conflicts with paragraphs 26.9 and 26.14B on measuring the fair value of share-based payments via the indirect method. Paragraph 26.1C says that, for the purpose of Section 26, fair value is defined as *"the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction"*. Paragraphs 26.9 and 26.14B then require entities to exclude non-market and service conditions from the measurement of fair value, but in our view, a knowledgeable, willing party would reflect them in considering the fair value of the equity/liability in an arms' length transaction.

We propose that paragraph 26.1C is re-written as follows: "*This section uses the term 'fair value' in a way that differs in some respects from the definition of fair value in Appendix I Glossary.* ***Except for the treatment of vesting conditions other than market vesting conditions when applying paragraphs 26.9 and 26.14B,*** *for the purposes of this section, fair value is the amount for which an asset could be exchanged, a liability settled or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.*"

Question 4: Expected credit loss model

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?

We agree with this approach.

IFRS 9's expected credit loss model was developed to address concerns that large banks and other financial institutions were providing 'too little, too late' when it came to credit losses. Whilst the expected loss model is an equitable response to that problem for those entities, we do not believe that its benefits would exceed its costs for the general population of FRS 102 preparers.

For example:

- FRS 102 reporters tend to have less timely financial statement preparation, meaning that credit losses incurred at the reporting date are more likely to be known and adjusted for. Consequently, changing to expected credit loss accounting would not likely result in a significant change in the impairments recognised.

- FRS 102 reporters often have a greater number of intercompany and director loans. Our implementation experience of IFRS 9 is that the expected loss model created a series of complications and challenges, which we believe would be amplified for an FRS 102 preparer.

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?

We do not agree with this view.

In addition to our afore-mentioned comments on an expected credit loss model for FRS 102 reporters, we believe that a two-tier approach to impairment of financial assets would create unnecessary complexity and have the potential for confusion.

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?

For the reasons outlined above, we do not believe that any FRS 102 reporters should apply an expected credit loss model.

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?

We agree with this proposal.

As explained in our response to Question 4, we do not believe that the expected credit loss model should be introduced into FRS 102. Nevertheless, we believe that it is now appropriate and proportionate to remove the options in paragraphs 11.2(b) and 12.2(b), on the basis that IAS 39 is effectively redundant for an IFRS preparer.

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?

We understand that IBOR transition activities are still taking place in some territories, for example Canada and Singapore. There is potential for a small number of FRS 102 preparers to be affected, and therefore we recommend proceeding with caution if deciding to delete the temporary amendments at this stage.

That being said, should they be deleted, we would not want to prevent a company from having regard to these temporary amendments at a later date, providing that the matter genuinely was in relation to IBOR reform.

If so, when do you think they should be deleted? If not, why not?

In our view, the optimal time to delete the temporary amendments would be once all major global territories have finalised their IBOR transition activities.

Question 6: Leases

FRED 82 proposes to revise the lease accounting requirements in FRS 102 to reflect the on-balance sheet model from IFRS 16 Leases, with largely-optional simplifications aimed at ensuring the lease accounting requirements in FRS 102 remain cost-effective to apply. An entity electing not to take these proposed simplifications will follow requirements closely aligned to those of IFRS 16, which is expected to promote efficiency within groups.

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 do not agree with the proposed revisions to Section 20 of FRS 102.

This is principally because we believe many of the proposed omissions from, and simplifications to, IFRS 16's requirements and guidance could result in a standard that will not be operational or enforceable, and therefore could unduly compromise the quality of reported information. Our specific concerns are summarised in Appendix C and include, by way of example:

- Insufficient guidance on key judgements such as the definition of a lease and the 'reasonably certain' lease term assessment. The absence of sufficient guidance in these areas could result in requirements that are difficult to apply and enforce consistently.

- The inclusion of four discount rate options. We believe this adds complexity and would likely result in incomparable information across entities.

As summarised in our response to Question 1, FRED 82 does not adequately identify who the users of FRS 102 financial statements are. Relatedly, Section 20 does not identify any practical problems currently faced by those users with regard to lease accounting. It is therefore difficult to understand what problem the proposed revisions are intended to fix, other than to align with IFRS. We accept that there might be other benefits to having a single model for accounting by lessees in the UK (such as the reduced training burden for accountants), but we are not convinced that these benefits of the proposed revisions would outweigh the costs.

IFRS 16 was extremely costly for companies to implement and we expect the same would be true of the proposed revisions to Section 20. In the absence of a reporting problem that needs to be solved, we do not think those costs are justified.

We note that one of the FRC's stated objectives is to "*have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective*". We acknowledge that the proposed revisions to Section 20 would more closely align FRS 102 with IFRS 16, thus seemingly meeting this objective. However, we also note that the FRC's overriding objective includes "*financial reporting proportionate to the size and complexity of the entity and users' information needs*." In the absence of any identifiable current reporting problem for users of FRS 102 financial statements, we think requiring all entities to apply an IFRS 16 accounting model would fail to be suitably proportionate given the likely costs involved.

While we do not support the proposed revisions to Section 20, we understand and agree with the FRC's objective to promote efficiency in reporting within groups. For example, there may be some entities applying FRS 102 that want to apply an IFRS 16 model to facilitate consistent accounting policies and reporting systems across a group. Of course, such entities have the option to apply FRS 101. Nevertheless, with consistency in mind, we recommend that, instead of the proposed revisions to Section 20, entities applying FRS 102 should be offered a similar choice for lease accounting as they are for financial instruments. That is, we think the FRC should allow entities the choice of applying FRS 102 as currently written, or IFRS 16 in its entirety. This approach would have the advantage of facilitating alignment where it is helpful, whilst avoiding an unjustified cost burden for those entities for which an IFRS 16 model is not proportionate to either their circumstances or their users' needs.

If, notwithstanding our above comments, the FRC does decide to pursue a simplified IFRS 16 model, we strongly recommend that the issues listed in Appendix C are resolved.

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

As above, please refer to Appendix C.

Question 7: Revenue

FRED 82 proposes to revise the revenue recognition requirements in FRS 102 and FRS 105 to reflect the revenue recognition model from IFRS 15 Revenue from Contracts with Customers. The revised requirements are based on the five-step model for revenue recognition in IFRS 15, with simplifications aimed at ensuring the requirements for revenue in FRS 102 and FRS 105 remain cost-effective to apply. Consequential amendments are also proposed to FRS 103 and its accompanying Implementation Guidance for alignment with the principles of the proposed revised Section 23 of FRS 102.

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?

As noted in our response to Question 6 above, we understand the FRC's aim to "*have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective*". We had limited concerns about the fundamental principles in existing guidance in Section 23 of FRS 102 but acknowledge that the proposed changes address certain problems regarding areas where guidance is currently limited (for example, on how to account for variable consideration and contract modifications). Therefore, we support alignment in accounting for revenue.

However, in our view, in some cases the proposed guidance is too detailed, complex to understand, and includes unnecessary and unexplained departures from IFRS.

We believe that the guidance should be simple to understand and apply. There should be a balance between simplifications for FRS 102 preparers and maintaining consistency with IFRS. Differences from IFRS in the way the guidance is written can create unintended consequences and/or the impression of unintended consequences - both of which create complexity and challenges in application. IFRS 15 is a complex standard but the proposed guidance appears in the main to be a copy of IFRS 15 with some simplification, accompanied by various minor differences and limited explanation of the purpose of those differences.

We acknowledge that the proposals introduce a number of simplifications and policy options. We support many of these including: the choice about whether to capitalise cost to obtain a contract (paragraph 23.102); the requirement to only assess deferred payments for a significant financing component, which appears to us to provide a policy option of applying this guidance either only to deferred payments or to both deferred and advance payments (paragraph 23.58); and the simplification to the guidance on contract modifications (paragraph 23.14 and 23.15). We would however recommend that the Basis for Conclusions provides some explanation of these departures from IFRS 15, even at a high level.

We have identified a number of areas outlined below where we do not support the proposals. These relate to departures from IFRS 15 that we believe have added unnecessary complexity or might have unintended consequences.

- <u>Variable consideration where the price has not been agreed</u> - Paragraph 52 of IFRS 15 clarifies how to apply the contract modification guidance in situations where the price has not been agreed. No such corresponding guidance appears in the proposed amendments to FRS 102, but we believe it should as in practice there are many examples of where the pricing of a variation has not been agreed.

- <u>Significant financing components</u> - We do not support a limitation of six months on the exception for considering whether there is a significant financing component for deferred payments (paragraph 23.59). The Basis for Conclusions is unclear on the case for the difference and it seems to contradict the simplification objective, given that the IFRS 15 limitation is longer at 12 months.

- <u>Criteria for recognition over time</u> - We note that the criteria for recognising revenue over time are different from those of IFRS 15. The differences are not clearly explained in the Basis for Conclusions and there is a risk of unintended consequences. Specifically:

    - Paragraph 23.78(d) requires that an asset is present for this criterion to be met. We understand that this criterion is derived from paragraph 35(c) of IFRS 15; however, under IFRS 15 the equivalent criterion for over time recognition can be met when no asset is created. We understand that paragraph 35(c) was designed to capture certain service contracts for which it was difficult to conclude that the customer was consuming the benefit as it is performed (such as audit and legal services). This could mean that revenue for certain service contracts that is recognised over time under IFRS 15, and which we believe should be recognised over time, will not meet the criteria for recognition over time under FRS 102. We agree that paragraph 35(c) of IFRS 15 can be difficult to understand, so its first half could be clarified to say that either the entity's performance does not create an asset or it creates an asset with no alternative use to the entity.

    - Paragraph 23.78(b) would lead to recognition over time where the entity's work carried out to date would not need to be substantially reperformed if another entity were to fulfil the remainder of the promise to the customer. We believe that including this as an indicator on its own could result in the sale of certain goods (such as sales of private housing) being inappropriately recognised over time. This is potentially a difference from IFRS 15, where this forms part of the application guidance (specifically paragraph B4) accompanying paragraph 35(a) (the customer simultaneously receives and consumes the benefits provided by the entity's performance as the entity performs).

We have also identified a number of other concerns that relate either to departures in language from IFRS 15 or where we believe that there is further scope to simplify the principles in the proposed FRS 102 guidance. Please refer to Appendix D.

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

As noted above, please refer to Appendix D.

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?

We broadly agree with this proposal although, as outlined in our response to Question 10, we have some concern that the cost analysis within the consultation stage impact assessment is understated and, in our view, the proposed effective date and estimated implementation cost for companies are interdependent. We also have some concerns about the impact of the revised Sections 20 and 23 on some entities.

One area where we disagree is on lease accounting. As outlined in our response to Question 6, we have significant concerns about the proposed revisions to Section 20 as written. Therefore, without further amendment, we would have concern about companies adopting the proposed changes as early as for accounting periods beginning on or after 1 January 2025.

As regards the proposed revenue amendments, we tentatively agree with the proposed effective date. However, our experience of IFRS 15 adoption was that even the entities that concluded that IFRS 15 did not create a material change to their existing revenue recognition models were required to invest a considerable amount of time to be able to reach that conclusion. Accordingly, we would support an effective date of accounting periods beginning on or after 1 January 2025 only if the revisions to FRS 102 are finalised well before the end of 2023.

We also observe that IFRS 15 has not yet been subject to a post-implementation review. There are certain matters, such as the accounting for licences and determining whether an entity is acting as agent or principal, which continue to raise issues and which, potentially, might be re-considered when IASB does perform such a review. Therefore, if FRC does proceed with its proposal, it should be on the understanding that further changes may be necessary at some future date.

FRED 82 proposes transitional provisions (see paragraphs 1.35 to 1.60 of FRS 102 and paragraph 1.11 of FRS 105).

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 agree with this proposal as a pragmatic response for entities that have previously reported amounts in accordance with IFRS 16 for consolidation purposes.

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 with this proposal.

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 agree with this proposal.

Do you have any other comments on the transitional provisions proposed in FRED 82?

In respect of leases, specifically paragraph 1.38, we agree in principle that not applying the requirements of the revised Section 20 to contracts that were not previously identified as a lease is the right approach. However, because the existing FRS 102 does not include the IFRIC 4 content, we believe there could be practical differences arising between contracts that met the definition of a lease under existing Section 20 and that meet the new definition proposed in FRED 82. We think that if the FRC does finalise the proposals in Section 20, it is important to identify these differences. In particular, we think it would be useful information to identify any contracts that fall within the definition of a lease under the proposed new Section 20 but that would nevertheless be omitted from the balance sheet on initial application by entities applying the practical expedient in paragraph 1.38 because they were not identified as leases previously.

Have you identified any additional transitional provisions that you consider would be necessary or beneficial? Please provide details and the reasons why.

In respect of leases, the transitional provisions should include a disclosure to explain the movement from the entity's previous operating lease commitment disclosure note to the lease liabilities added to the balance sheet on initial application, similar to that required by paragraph C12(b) of IFRS 16. From our experience of IFRS 16, not only was the disclosure meaningful for readers, it was helpful for entities, and auditors alike, to assess the completeness of the new lease liability.

Question 9: Other comments

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

Please refer to our general comments on the proposed amendments within Appendix E.

As regards Section 1A, we agree that small entities are currently required to apply significant judgement in determining which disclosures need to be provided in order to give a true and fair view. Following the UK's exit from the European Union, we support the FRC's approach in proposing to specify, for UK small entities, the additional disclosures that are expected to be made in order to give a true and fair view, thereby reducing the amount of judgement required. In this regard, we note the FRC's observation, in paragraph A45 of the Basis for Conclusions that *"in practice, as the requirement to give a true and fair view is unchanged, it is expected that the disclosures provided by small entities may not change, but that the process of deciding which disclosures to provide should be simplified"*.

However, because FRS 102 cannot specify any additional disclosures for entities in the Republic of Ireland, the proposed Section 1A is now rather complex. We believe it might be preferable to separate the requirements for the UK and the Republic of Ireland, for example into a Section 1A for one jurisdiction and Section 1B for the other. We suspect that few people will need to consider the requirements in both jurisdictions, so providing separate sections will, in our view, result in much clearer guidance.

We have another reason for suggesting separate sections for small entities, relating to how entities in the Republic of Ireland might exercise judgement regarding the disclosures that are necessary to give a true and fair view. In making its statement in paragraph A45, which we reference above, the FRC appears to have set a minimum level, which some preparers, auditors and regulators in the Republic of Ireland might view as a de facto standard. This goes against the principle within the European Union that member states cannot impose disclosure requirements over and above those set out in company law. If there were to be a separate section for small entities in the Republic of Ireland, rather than different appendices to a single section, this might help to reinforce that the legal requirements in the Republic of Ireland are different and that disclosure requirements introduced in the UK are not to be imported.

In addition to our comments on FRS 102, we have the following observations on the consequential amendments to FRS 103 to align with the principles of the revised Section 23 of FRS 102.

A number of drafting changes are proposed to FRS 103's Implementation Guidance, most of which we expect to be inconsequential in nature, other than the proposed revisions to IG2.4. For context, general insurers currently include an estimate for pipeline premiums (such as on binder business in the London Markets) in gross written premiums ('GWP'). The proposed revisions to IG2.4 suggest that only actual amounts reported to the insurer prior to issuance should be reflected in GWP. We think such a change to the guidance is unnecessary and unhelpful for the following reasons:

- IFRS 17 is now effective for IFRS reporters and is a significant change for many entities. We do not believe that any changes to existing insurance accounting practice under FRS 103 are beneficial until the FRC considers in more depth, as part of a broader project, what the future of insurance accounting should be under UK GAAP. Until such time, we do not support changes to FRS 103 or its Implementation guidance that might be unnecessary once a more comprehensive review of insurance accounting is undertaken.

- The consequential amendments are targeted at GWP, which is not a concept that is synonymous with 'revenue' in Section 23. Rather than GWP, 'gross earned premiums' or 'net earned premiums', might be more reflective of what one might consider to be 'revenue'. Therefore, proposing changes to GWP, which some consider to be a 'non-GAAP' measure in nature and a concept that no longer exists under IFRS 17 (having been replaced by 'insurance revenue'), to align with 'revenue' in Section 23 does not really help comparability between an insurer and other revenue-generating businesses.

We also note that FRED 82 proposes to replace the word 'contingent' with 'variable' in paragraph 1.7(a) of FRS 103 to reflect IFRS 16 terminology. We suggest replacing 'contingent' with 'variable and other contingent' instead, as this would better align this paragraph with paragraph 7(c) of IFRS 17 and reflect the intention of this exemption more clearly.

Question 10: Consultation stage impact assessment

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.

In particular, feedback is invited on the assumptions used for quantifying costs under each of the proposed options (Section 3 of the consultation stage impact assessment); any evidence which might help the FRC quantify the benefits identified or any benefit which might arise from the options proposed which the FRC has not identified (Section 4 of the consultation stage impact assessment); and appropriate data sources to use to refine the assumption of the prevalence of leases by entity size (Table 23 of the consultation stage impact assessment).

We have the following comments in relation to the consultation stage impact assessment:

Leases

Paragraph 125 assumes a range of 5 to 20 hours of 'professional' time to implement the changes to systems and processes required for IFRS 16-aligned lease accounting.

Firstly, it is unclear what constitutes 'professional' time and whether or not this includes the use of specialists. In our experience of IFRS 16 adoption, companies did not have the capacity and/or the required knowledge to perform the exercise themselves, so often engaged with external specialists, at greater cost.

Secondly, in our experience of helping companies with their IFRS 16 implementation, our working assumption is that to review a complex lease in its entirety, extract the relevant data, and then validate, takes on average 3 hours. This does not include modelling the data, as well as the time companies spend collecting data and performing their own review.

Thirdly, the cited literature that supports the one-off cost, is from a study that took place before IFRS 16's implementation, and therefore does not reflect companies actual cost of implementing IFRS 16.

As such, we anticipate that in practice the range will exceed the current assumption.

Revenue

As referenced within our response to Question 8, our experience of IFRS 15 was that the entities who ultimately made no material change to their revenue recognition models, did still require a considerable time investment to reach that conclusion.

Paragraph 99 assumes a familiarisation cost of only 2 hours per accountant, but it appears only to account for the time to familiarise with the new accounting requirements and not a detailed review of an entity's existing models and customer contracts to determine whether they are in scope. The cost estimates made in table 14 and 15 appear to be hours of analysis for individual contracts, once an entity has identified which are in scope. We believe, therefore, that there is a gap in time for an entity's scope determination.

As such, we anticipate that in practice the number of familiarisation hours for the proposed Section 23 will significantly exceed the current estimate.

Audit Hours

Tables 16 and 26 estimate that only 20 hours per standard is required for large firms to develop new audit processes in response to new revenue recognition principles and IFRS 16-aligned lease accounting.

Whilst acknowledging that there will be available synergies from audit firms' IFRS 15 and 16 audit processes, the appropriate simplifications proposed to FRS 102 will need to be carefully embedded so that audit teams recognise and understand the GAAP differences that will remain.

As such, we anticipate that the number of audit hours will significantly exceed the current estimate.

Small companies threshold

The impact assessment does not appear to have considered the impact of existing small companies exceeding the £5.1m balance sheet total threshold as a result of IFRS 16-aligned lease accounting.

Table 1 within paragraph 56 estimates that there are 317,291 small companies applying FRS 102. We would reasonably expect a portion of this population to exceed the £5.1m balance sheet total threshold if applying IFRS 16-aligned lease accounting because, in our experience, it is often this threshold that qualifies companies as small.

In addition to the IFRS 16-aligned lease accounting implementation cost, there would be additional costs associated with the additional disclosure and administrative requirements of no longer being part of the regime.

APPENDIX B

Specific comments on proposed Section 2

As explained in our response to Question 2, should the FRC not take our recommendation to significantly limit Section 2, we suggest below some other improvements and simplifications that might be made.

Topics which do not appear to be relevant to other concepts in the section

We consider that the below topics are neither relevant for, nor well-linked to, other concepts included in Section 2.

- The concept of 'unit of account' (paragraph 2.50 – 2.51) is only referred to twice in Section 2 (paragraph 2.012 on classification and paragraph 2.106 on offsetting) and it is not mentioned in the rest of FRS 102. The concept is important in the context of recognition and measurement (as per paragraph 4.49 of the Basis for Conclusions of the 2018 Conceptual Framework) but there is no reference to it from those topics. Also we do not believe that unit of account is explained in a way that is useful for preparers. For these reasons, we suggest including only the definition of 'unit of account' in the glossary.

- The definition of an 'executory contract' in paragraph 2.52 could be added to the glossary. This is because executory contracts are referred to in the scope of Section 21 (paragraph 21.1B) only and there are no other references in FRS 102.

- Paragraph 2.53 could be removed because it does not provide any additional guidance on recognition and measurement criteria that are already in FRS 102.

- Classification and aggregation guidance (Paragraphs 2.100 – 2.105 and 2.110 – 2.112) would be more appropriately included in Section 3 because these paragraphs refer to classification and aggregation as elements of financial statements presentation.

Concepts not explained adequately

The following concepts are not explained adequately because they are only partially extracted from the 2018 Conceptual Framework. If the purpose of amending or excluding those paragraphs is to simplify the content for FRS 102 users, we consider it is not effective in the cases set out below:

- Paragraph 2.10 should discuss predictive and confirmatory value, as it is the core benefit of the 'relevance' characteristic. Paragraph 2.6 of the 2018 Conceptual Framework has been copied, but paragraphs 2.7 to 2.10, which explain predictive and confirmatory value, have been excluded. Paragraph 2.5 of the current FRS 102 brings this to light as follows:
  - *"Information has the quality of relevance when it is capable of influencing the economic decisions of users by helping them evaluate past, present or future events or confirming, or correcting, their past evaluations."*

- Paragraph 2.18 refers to "*certain asymmetric requirements in relation to particular sections*", but the following example from the 2018 Conceptual Framework is missing, and therefore makes it difficult to understand.
  - "*For example, a systematic need for more persuasive evidence to support the recognition of assets or income than the recognition of liabilities or expenses.*"

- Paragraph 2.19 states that "*free from error does not mean perfectly accurate in all respects*". This statement should be accompanied by an example to ensure it is not interpreted too widely. The following examples from the 2018 Conceptual Framework could be included:
  - Paragraph 6.60: "*A high level of measurement uncertainty does not necessarily prevent the use of a measurement basis that provides relevant information. However, in some cases the level of measurement uncertainty is so high that information provided by a measurement basis might not provide a sufficiently*

faithful representation. In such cases, it is appropriate to consider selecting a different measurement basis that would also result in relevant information."

  - Paragraph 2.18: "*For example, an estimate of an unobservable price or value cannot be determined to be accurate or inaccurate. However, a representation of that estimate can be faithful if the amount is described clearly and accurately as being an estimate, the nature and limitations of the estimating process are explained, and no errors have been made in selecting and applying an appropriate process for developing the estimate.*"

- Paragraph 2.31 omits the text underlined below and as a result we consider that the context of paragraph 2.31 is obscured.

  - "*Financial statements provide information about transactions and other events viewed from the perspective of the reporting entity as a whole**, not from the perspective of any particular group of the entity's existing or potential investors, lenders or other creditors***".

Detailed topics that do not add value for preparers and should be considered for deletion

We consider that there are certain details that have contributed to the length of Section 2, but add minimal value and reduce the simplicity of the standard. For example, we suggest deleting paragraphs 2.14, 2.26, 2.43 and some parts of paragraphs 2.79 and 2.87.

- We do not believe that paragraph 2.14 provides useful information for the preparation of financial statements and it could confuse the user by over-emphasising the concept of 'material' which has already been explained. If the paragraph is to be retained, it might be considered as a part of defining the users of FRS 102 financial statements as discussed in our response to Question 1.

- Paragraph 2.26 related to cost-benefit analysis is largely addressed to standard-setters and not to preparers.

- Paragraph 2.43 repeats paragraph 2.42.

- A portion of the content in paragraphs 2.79 and 2.87 is already included in another section. In particular, Sections 11 and 12 already provide specific information on amortised cost and fair value. We note two examples:

  - It is not useful in paragraph 2.79 to specify that one way to measure financial assets is amortised cost.

  - It is not useful in paragraph 2.87 to specify that the cost basis would be unsuitable for derivatives.

There are a number of definitions that are included in both Section 2 and the glossary. We suggest keeping them only in one place. The best place might depend on the final structure of Section 2. The definitions we identified are as follows:

- Carrying amount - Paragraph 2.57.
- Derecognition - Paragraph 2.68.
- Expenses - Paragraph 2.55 (b).
- Fair value - Paragraph 2.81.
- Income - Paragraph 2.55 (a).
- Liability - Paragraph 2.42.
- Material - Paragraph 2.11.
- Recognition - Paragraph 2.5

APPENDIX C

Specific comments on proposed Section 20

As explained in our response to Question 6, we do not agree with the proposed revisions for Section 20. However, if the FRC nevertheless decides to proceed with finalising the proposals, we strongly recommend that the following matters are addressed.

	FRS 102 paragraph	**Comment**	**Possible solution**
C.1	20.1(f)	***Leases that could result in a loss to the lessor or the lessee as a result of non-typical contractual terms*** These leases are scoped out of Section 20 and referred instead to Section 12. However, Section 12 does not provide requirements as to how these leases should be accounted for. For example, it is not clear whether these leases are to be recognised on balance sheet and, if so, how the asset should be measured. It is also unclear which fact patterns this paragraph is intended to capture.	Either provide requirements for accounting for these leases in Section 12, or delete this scope exception. If the scope exception is kept, we suggest explaining the types of contract it is intended to capture in the Basis for Conclusions.
C.2	20.5 – 20.14	***Leases for which the underlying asset is of low value*** We do not believe this recognition exemption, as written, would be either operational or enforceable. No basis is provided on which to perform an assessment of what constitutes a low value asset. Consequently, application relies on entities applying a common sense approach when reading the words 'low value'. While we recognise that the preparation of financial statements always requires the exercise of judgement, we think that this particular principle will be difficult to apply consistently and to enforce. We highlight—as an example of the problem—the inclusion of tablet computers in the list of assets that would typically be considered low value (paragraph 20.11(a)). Twenty years ago, tablet computers did not exist. In twenty years' time there will be other assets that we currently cannot imagine and the proposals provide nothing that will help entities to assess whether those future assets are of low value. We also note that paragraph 20.13 acknowledges that judgement may be required for determining whether an asset is of low value. As noted above, there is no basis on which to make that judgement. For example, and considering the list of assets in paragraph 20.13, how should an entity determine which printers are of low value and which are not?	Provide a similarly clear low value threshold to that contained in paragraph BC100 of the Basis for Conclusions to IFRS 16. This would be operational, enforceable and simple for entities to apply, as has been our experience since IFRS 16 was adopted. If the FRC prefers not to do this, then it should either: ● consider the field testing performed by the IASB in arriving at the similar recognition exemption in IFRS 16. That field testing focussed on how to make the exemption operational and enforceable; or ● perform its own field testing with preparers of financial statements to ensure that any recognition exemption in the final Standard is operational.

	FRS 102 paragraph	Comment	Possible solution
C.3	20.18	***Definition of a lease—period of use*** This paragraph does not contain any reference to the period of use conveyed by the contract. We think this could lead to unintended outcomes. For example, if an entity leased a machine with a 10-year useful life for 5 years, the entity might conclude that it does not obtain substantially all the economic benefits of the machine because it only obtains half of them. On this basis, the entity could conclude that the contract is a service rather than a lease, despite having the right to obtain economic benefits *throughout the period of use* conveyed by the contract.	Amend paragraph 20.18 as follows (suggested addition bold and underlined): *"A contract conveys the right to control the use of an identified asset when the customer has both the right to obtain substantially all the economic benefits from use of the identified asset* ***<u>throughout the period of use, and …</u>*** *."*
C.4	20.24	***Definition of a lease—scope of a lessee's right of use*** This paragraph does not contain any reference to the scope of the customer's right to use the asset. We think this could lead to unintended outcomes. For example, if an entity leased a car with a 500 miles/month limit, the entity might conclude that it does not have the right to obtain substantially all the economic benefits of the car because the car is capable of driving further. On this basis, the entity could conclude that the contract is a service rather than a lease, despite having the right to obtain all the economic benefits of the car *within the scope of the right of use* conveyed by the contract.	Include guidance similar to that contained in paragraph B22 of IFRS 16.
C.5	20.25	***Definition of a lease—right to direct the use*** This section does not contain any guidance on what constitutes directing how and for what purpose the asset is used, or what 'relevant decisions' are. These are fundamental to the application of judgement on the definition of a lease. For example, in the absence of guidance an entity could conclude that one decision left with the supplier is the only relevant decision and conclude the contract is a service on that basis only.	Include requirements similar to those in paragraphs B24-B31 of IFRS 16 on the right to direct how and for what purpose the asset is used, and on what 'relevant decisions' are.
C.6	20.34	***Practical expedient permitting a lessee to not separate lease components if at least half of the consideration for the contract is allocated to a single lease component*** The only way to determine whether half of the consideration is allocated to a single lease component is to separate the components and allocate the contract consideration among them. Consequently, we do not think this practical expedient would save any costs for a lessee.	We think this expedient would only offer real cost relief if it: (a) could be applied on a contract-by-contract basis rather than a lease-by-lease basis, as the expedient relates to identifying lease components of a contract; and (b) eliminated any need for a lessee to allocate consideration to lease components in order to establish whether the practical expedient was available. This might be achieved in

	FRS 102 paragraph	Comment	Possible solution
			many cases if wording similar to that used by the IASB in paragraph 4 of IFRS 15 regarding 'reasonable expectation' was used. Accordingly, we suggest that paragraph 20.34 should be reworded as follows: *"As a practical expedient, when **<u>an entity reasonably expects that</u>** at least half of the total consideration for a contract that is, or contains, a lease is allocated to a single lease component, a lessee may elect, on a* ~~***lease-by-lease***~~ ***<u>contract-by-contract</u>*** *basis, not to separate lease components from each other, and instead account for all lease components (and any associated non-lease components, if applying paragraph 20.33) as a single lease."*
C.7	20.40	***Reasonably certain lease term assessment*** The proposals contain no guidance on what constitutes 'reasonably certain'. Consequently, there is nothing to prevent an entity concluding they are *not* reasonably certain to take the longer term in every case. Similarly, there is nothing in the proposed requirements that would prevent an entity rebutting the presumptions in paragraphs 20.41 and 20.42 in every case. We acknowledge that the 'reasonably certain' concept is included in the existing FRS 102 definition of lease term, and existed in UK GAAP for long before that. It could therefore be argued that the term is already understood. However, its application is currently given little focus because it does not affect the primary financial statements. Applying the proposed lessee accounting model, the outcome of the reasonably certain assessment would materially affect the assets and liabilities recognised on balance sheet. Consequently, a lack of guidance on this term could introduce problems that do not exist today.	Include, as a minimum, content similar to that in paragraph B37 of IFRS 16. We note that, as written, the proposals would have the same practical effect as requiring a lessee to recognise only the minimum committed lease term. We do not agree with this outcome. However, if this is the FRC's intention, we think it could be stated simply and clearly, with no need for any reasonably certain assessment.

	FRS 102 paragraph	Comment	Possible solution
C.8	20.41 and 20.42	***Reasonably certain assessment—rebuttable presumptions*** Notwithstanding point C.7 above, if the FRC does intend the reasonably certain assessment to be based on economic incentives to extend (or not extend) a lease, we cannot see any practical scenario in which the rebuttable presumptions would be relevant or useful. Paragraph 20.41 contemplates a scenario in which a lessee pays the same amount to receive either nothing or an extended lease term. We think it would be difficult to conclude there is no economic benefit to extending the lease in this scenario. Similarly, paragraph 20.42 contemplates a scenario in which a lessee can extend a lease for a peppercorn or nominal rent. Again, we think it would be difficult to conclude that a lessee is not economically incentivised to do this.	We suggest these rebuttable presumptions are deleted. This is because: ● If the FRC adopts our above suggestion to include guidance on applying the reasonably certain assessment similar to that in paragraph B37 of IFRS 16 then we do not think the rebuttable presumptions would ever be relevant. ● If the FRC does not adopt our above suggestion we believe that the presumptions would be of no practical value. This is because, in the absence of a clear rationale in the standard, they could simply be rebutted in every case (see point C.7 above).
C.9	20.52	***Discount rate*** We think offering a choice of four discount rates adds complexity rather than simplicity. It would also impair comparability between entities. In addition, by allowing the use of discount rates that do not take account of lessee-specific factors, the resulting discounted lease liability may not reflect economic reality. Similarly, the definition of obtainable borrowing rate would allow a lessee to use a borrowing rate for a large unsecured loan that would be much higher than the rate used by the lessor when pricing the lease. This would result in a lease liability that is materially smaller than it should be. We think these potentially material consequences of overly simplified discount rates may defeat the object of requiring a lessee to put leases on balance sheet in the first place.	If simplification of the IFRS 16 discount rate requirements is considered necessary, then it would be better to select one of the 'simpler' discount rate options proposed and require all lessees to use that same rate. This would be far simpler than the proposed approach and, although it would not resolve the measurement issue, it would result in all lessees applying a similar (and therefore more comparable) approach.
C.10	20.61	***Obligations to dismantle or remove the underlying asset*** We do not think this paragraph is necessary. Part (a) repeats the same content as paragraph 20.50(d). We think this would cause confusion as to what additional or different requirement is being conveyed by paragraph 20.61(a). Similarly, part (b) is already addressed in paragraph 20.51.	Delete this paragraph. If the FRC would like to provide additional guidance to entities on accounting for obligations to dismantle or remove the underlying asset, then we think an illustrative example would be more helpful than repetitive requirements.

	FRS 102 paragraph	Comment	Possible solution
C.11	20.71 – 20.72	***Remeasurement using a revised discount rate*** The practical expedient in paragraph 20.72, as written, is only relevant to a change in lease term (paragraph 20.71(a)) and not to a change in the assessment of an option to purchase the underlying asset (paragraph 20.71(b)).	If the practical expedient is intended to apply only to the scenario in paragraph 20.71(a), we suggest amending the cross reference in paragraph 20.72 accordingly. However, if the FRC's intention is to not require a lessee to use a revised discount rate when remeasuring a lease liability following reassessment of a purchase option, it should clearly scope paragraph 20.71(b) into the optional practical expedient. It could do this by, for example, adding the following words to paragraph 20.72: *"…a lessee may 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* ***<u>or if the only change to the lease payments relates to the reassessment of a purchase option</u>****"*.
C.12	20.74	***Optional remeasurement of variable payments that depend on an index or a rate*** Offering this practical expedient as a lease-by-lease choice could lead to significant incomparability both within an entity and across different entities. There are significant volumes of index linked leases and their remeasurement often has a material effect. Consequently, not remeasuring index linked leases for changes in payments could lead to materially understated lease liabilities.	If the FRC takes the view that simplifying the requirements is more important than the recognition of a complete lease liability, then it would be better to prohibit remeasurement than to provide it as an option.
C.13	20.83	***Lease incentives and premiums; and prepaid and accrued rentals*** We do not understand what this paragraph is requiring. Lease incentives are deducted from lease payments and right-of-use assets applying paragraphs 20.51(a) and 20.46(b). Thus, they are clearly captured within the measurement of the lease liability and right-of-use asset regardless of this additional requirement.	Delete this paragraph.

	FRS 102 paragraph	Comment	Possible solution
		With regard to prepaid and accrued lease payments: there is no such concept under these proposals. All payment timing differences that would have led to prepaid or accrued payments for an operating lease are dealt with in the proposals via measurement of the lease liability. Consequently, there are no separate prepaid or accrued lease payments to account for.	
C.14	20.83 – 20.84	***Scope out of leases to which recognition exemptions have been applied*** Notwithstanding point C.13 above, it is not clear why these two paragraphs explicitly scope out leases to which the recognition exemptions have been applied. These paragraphs could not be relevant to exempt leases because, for those leases, there is no right-of-use asset or lease liability to measure and present (paragraph 20.83) or to impair (paragraph 20.84).	Delete the opening words *"Unless applying the recognition exemptions in paragraph 20.5,"* from both of these paragraphs.
C.15	20.87	***Lease commitment disclosures*** We understand that one of the FRC's objectives in developing the Section 20 proposals was to simplify the requirements in IFRS 16. We do not understand, therefore, why this paragraph proposes a disclosure requirement that is not required by IFRS 16 and that we are not aware has been requested by users of IFRS 16 information. The proposed disclosure requirement would introduce a need to keep records for leases to which the recognition exemptions have been applied and, consequently, would substantially reduce the cost savings provided by the exemptions. In addition, we do not understand how a requirement to disclose commitments later than one year can be relevant to short-term leases.	Delete this paragraph.
C.16	20.128(a)(ii)	***Alternative measurement option for gain on sale and leaseback*** We think the measurement option in paragraph 20.128(a)(ii) would only lead to sensible outcomes if a substantial proportion of the sold asset was leased back. If that proportion were small, then the gain on sale could dwarf the value of the lease to the point where amortisation of the gain could be larger than depreciation of the right-of-use asset. In this instance, the seller-lessee may end up recognising a net gain through P&L every year for the remainder of the life of the lease.	We suggest either: ● Limiting the use of the measurement option in paragraph 20.128(a)(ii) only to those arrangements in which a specified minimum proportion of the sold asset is leased back; or ● Delete paragraph 20.128(a)(ii).

	FRS 102 paragraph	Comment	Possible solution
C.17	Section 20 generally	***Cross references*** There are numerous cross-references in this section that do not appear to be correct.	We suggest that, if the proposed revisions are finalised, all cross-references are thoroughly checked before the new Standard is issued.
C.18	1.37	***Transition disclosures*** The transition disclosures do not include a requirement for a lessee to explain any differences between its operating lease commitment note immediately before initial application and the lease liabilities added to the balance sheet on initial application. We think this is a critical disclosure because, in the absence of restated comparatives, it enables users of financial statements to bridge the gap between old and new lessee accounting models. It also facilitates entities interrogating the completeness of their lease liabilities on initial application.	Include a disclosure requirement similar to that in paragraph C12(b) of IFRS 16.
C.19	1.38	***Definition of lease—practical expedient on transition*** We think there could be unanticipated practical differences arising between contracts that met the definition of a lease under existing Section 20 and that meet the new definition proposed in FRED 82. This is because current FRS 102 does not contain all of the content that was previously in IFRIC 4 and is not in IFRS 16. Consequently, we think there could be unintended consequences of this practical expedient, such as contracts that fall within the definition of a lease under the proposals but that would nevertheless be omitted from the balance sheet on initial application because they were not identified as leases previously.	We recommend the FRC undertake an exercise to identify contracts that would meet the definition of a lease in the proposed requirements, but that are not currently accounted for as leases. As a minimum, we think such differences should be identified in the basis for conclusions such that users of financial statements and others can clearly identify any leases that might be excluded from the balance sheet as a result of this practical expedient.

APPENDIX D

Specific comments on proposed Section 23

As explained in our response to Question 7, we summarise below a number of concerns that relate either to departures in language from IFRS 15 or where we believe that there is further scope to simplify the principles in the proposed guidance in Section 23.

	FRS 102 paragraph	Comment
Consistency of language to describe principles when no GAAP difference is intended		
We note that some wording is different from IFRS 15. The difference is not always clearly explained in the Basis for Conclusions; albeit we acknowledge that the FRC's objective is to use simpler language. However, in some cases we believe that the change could create unintended differences from IFRS 15, or even the perception of intended differences from IFRS 15. This adds complexity for certain preparers who are familiar with the principles of the IFRS 15 (either because their competitors apply them or through other means). If there is no change in outcome intended, or another clear reason to use different language to explain the same principle, we would support more consistency of language between IFRS 15 and the proposed FRS 102 guidance. We outline several examples below.		
D.1	23.46	Variable consideration - paragraph 23.46 refers to the amount of consideration that will become due when the uncertainty is resolved. This differs from paragraph 50 of IFRS 15 which refers to the amount of consideration to which the entity will be entitled. There is no clear guidance on when something is due and there has been some debate about how this is interpreted with regards to the classification of contract assets and trade receivables in the application of IFRS 15. We do not think the word 'due' should be used, we recommend aligning to IFRS 15 terminology of 'entitled to'.
D.2	23.44	Variable consideration - The language used in paragraph 23.44 implies a free choice between the 'expected value' and 'most likely amount' methods for estimating variable consideration. Paragraph 53 of IFRS 15 however is clear that the method which best predicts the consideration the entity expects to be entitled to should be used. If no GAAP difference is intended, then the language should be aligned.
D.3	23.38	Principal versus agent - The principle in IFRS 15 is focused on whether an intermediary takes control of the goods or services. This principle is not clearly articulated in the proposed Section 23 guidance and seems to have been relegated to an indicator in paragraph 23.38. We also suggest that this guidance, if lifted from IFRS 15, could be simplified as noted below in Appendix D.8.
D.4	23.35	Material rights - Paragraph 23.35 refers to an entity not needing to account for an option that provides a material right as a separate promise if the effect of doing so would not be significant. It is not clear how significance should be determined, and an entity might find it challenging to know how to assess when a 'material' right would not be considered 'significant'. No such similar reference to significance appears in IFRS 15 and it is unclear whether a difference from IFRS 15 is intended here. In particular, we are concerned

	FRS 102 paragraph	Comment
		that the proposed guidance may lead to diversity in practice in accounting for options such as customer loyalty programmes that are material when assessed on a cumulative basis.
D.5	23.87F	Put options - We do not support the proposal in paragraph 23.87F to base the accounting for put options on whether the customer is probable to exercise, as opposed to the assessment of whether the customer has ‘significant economic incentive’ to exercise, in IFRS 15. The assessment of the likelihood of a customer exercising a put option when considering the existence of a significant economic incentive is a factual analysis, whilst probability could be read to incorporate other non-economic considerations to be made by the customer, and could be interpreted inconsistently in practice.
D.6	23.112	Impairment of assets arising from contract costs - Paragraph 23.112 refers to the amount of consideration that the entity expects to receive when assessing whether that asset is impaired. This would imply that variable consideration that is not part of the transaction price due to the ‘highly probable’ constraint is not considered. This is not consistent with paragraph 102 of IFRS 15. We believe that an entity should consider variable consideration that is constrained when testing such assets for impairment.
On the assumption that the intention with respect to the above items was not to create a GAAP difference, we would suggest that the language is aligned to IFRS 15. Again, these are relatively simple changes that would not add volume to the section and would still result in guidance that is proportionate to the size and complexity of the entities applying FRS 102. We suggest that, if the FRC retains these differences, it should provide a clear explanation in the Basis for Conclusions.		
Areas where we believe that there is further scope to simplify the principles in the proposed FRS 102 guidance.		
We note that in certain cases there is an opportunity to reduce the amount of guidance provided.		
D.7	23.63-67	Allocation of transaction price for discounts and variable consideration - The principle is currently not included in the section on allocation until paragraphs 23.69 and 23.71, where it is used to explain the allocation of discounts and variable consideration. We believe that the FRC could achieve both simplification and more concise language by removing paragraphs 23.63 to 67 and simply stating: *“23.X1 A contract might include variable consideration or discounts. An entity shall allocate variable consideration and discounts based on a relative stand-alone selling price basis unless this basis does not depict the amount of consideration that the entity expects in exchange for satisfying each promise in the contract. This may be the case, for example, if the terms of a variable payment or discount relate specifically to the entity’s efforts to satisfy one or more, but not all, promises in the contract.”*
D.8	23.37-38	Principal versus Agent - As noted above, we believe that the principle should remain focused on whether the intermediary takes control of the goods or services. We suggest however that this could be described more simply as follows:

	FRS 102 paragraph	Comment
		"23.X1 When another party is involved in providing goods or services to a customer, the entity shall determine whether the nature of its promise is to provide the specified goods or services itself (ie the entity is a principal) or to arrange for those goods or services to be provided by the other party (ie the entity is an agent). An entity determines whether it is a principal or an agent for each specified good or service promised to the customer. *23.X2 An entity is a principal if it controls the specified good or service before that good or service is transferred to a customer. A principal might obtain control of any one of the following:* ● *a good or another asset from the other party that it then transfers to the customer.* ● *a right to a service to be performed by the other party, which gives the entity the ability to direct that party to provide the service to the customer on the entity's behalf.* ● *a good or service from the other party that it then combines with other goods or services in providing the specified good or service to the customer.* *23.X3 When assessing whether an entity obtains control, indicators that an entity should consider include, but are not limited to, the following:* ● *the entity is primarily responsible for fulfilling the promise to provide the specified good or service.* ● *the entity has inventory risk before the specified good or service has been transferred to a customer or after transfer of control to the customer* ● *the entity has discretion in establishing the price for the specified good or service.* *23.X4 An entity that is an agent shall recognise revenue in the amount of any fee or commission to which the entity expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party as it satisfies its promise. An entity's fee or commission might be the net amount of consideration that the entity retains after paying the other party the consideration received in exchange for the goods or services to be provided by that party."*
We believe there are other opportunities to limit the guidance without compromising clarity. We have included two examples below:		
D.9	23.27, 23.7A, 23.28	Warranties - Paragraphs 23.27, 23.27A and 23.28 could be removed and replaced with a sentence which suggests an entity should consider "*the length of the warranty, nature of services and whether the warranty is required by law*" in assessing whether the entity provides the customer with a service in addition to the assurance that the product complies with agreed-upon specifications.

	FRS 102 paragraph	Comment
D.10	23.17	Series guidance - When considering some of the simplifications above, we suggest the FRC revisits the series guidance in paragraph 23.17 and potentially makes it optional. The series guidance in IFRS 15 was designed to be a simplification when applying the definition of a performance obligation to lots of individual goods or services; however, we feel that it might not be necessary to include the series guidance at all in the proposed FRS 102, particularly if other areas such as modifications and allocations are limited to more simple principles.

APPENDIX E

General comments

	FRED 82 paragraph	FRS 102 paragraph	Comment
Section 1A			
E.1	24	Para 1AC.2A	Paragraph 1A.6A requires a statement that the financial statements are prepared in accordance with the provisions of the small companies regime to be made in the statement of financial position (in a prominent position above the signature). In contrast, paragraph 1AC.2A requires a statement of compliance to be made in the notes. It is unclear what specific information is to be conveyed by this disclosure over and above the statement made under paragraph 1A.6A in the statement of financial position.
E.2	31	Para 1AC.31	"*leases for which the lessee has taken a recognition exemption*". In order for such a recognition exemption to be taken, it must be a short term or low value lease. As such, we wonder whether it is appropriate to include these leases as an example of an off-balance sheet arrangement that is material in nature. We appreciate that this is a non-exhaustive list of examples, however this particular one seems a little contradictory. Furthermore, paragraph 1AC.32A then indicates that a small entity must make disclosure of its "significant leasing arrangements". Therefore, perhaps it would be clearer to remove this as an example from paragraph 1AC.31, and allow companies to make a judgement around which of their leasing arrangements are significant, as opposed to trying to determine whether a short term/low value lease is material by nature.
E.3	36	Para 1AC.40	We suggest removing reference to paragraph 6.5(b) to avoid confusion. Paragraph 6.5(b) relates to presentation of the 'statement of income and retained earnings'. A small entity is only required by paragraph 1A.8 to prepare an 'income statement'. It would be also consistent with paragraph 1AD.35 which does not contain reference to paragraph 6.5(b).
Section 3			
E.4	61	Para 3.17	'**statement of changes in equity'**, which is in bold, does not currently appear within Appendix I: Glossary. Reference is made within the definition of "note (to the financial statements)", but again, this is in bold indicating that it should have a corresponding definition.
Section 4			
E.5	N/A	N/A	Whilst not specific to an amendment proposed to Section 4, we have the following observation regarding the statutory formats that FRS 102 preparers are required to use in accordance with paragraph 4.2. FRS 102 preparers will often adopt a Companies Act format for their financial statements. The amendments proposed in FRED 82, primarily

	FRED 82 paragraph	FRS 102 paragraph	Comment
			around revenue and leases, will result in new financial statement line items that are not in the existing Companies Act formats. For example, contracts assets/liabilities and right-of-use assets. Whilst acknowledging that this is not a new issue, as it is an existing consideration for an FRS 101 preparer adopting a Companies Act format, the amendments to FRS 102 will increase the number of entities needing to make this presentational decision, many of which will be less familiar with IFRS terminology than an FRS 101 preparer. Therefore, we believe that guidance would be helpful.
Section 7			
E.6	74	Para 7.6 (e)	We note that "*principal*" is not defined in Section 20, and it is only used to describe lessor accounting. We think that it would be helpful to provide a definition or to use alternative wording, perhaps similar to IAS 7, paragraph 17(e); "*payments by a lessee for the reduction of the outstanding liability related to a lease*", in order to avoid the unintended consequence of interest payments on a lease being incorrectly classified.
Section 14			
E.7	136	Para 14.8 (d)	*"A financial instrument for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, part of the investor's net investment (for example, this may include preference shares or long-term receivables or loans)."* We think this should be extended to make clear that this would not include any long term receivables for which adequate collateral exists, similar to IAS 28, paragraph 38.
E.8	136	Para 14.8 (e)	*"...transactions to the extent of the investor's ownership interest in the associate."* We think that it would be helpful to add "existing" before "ownership interest" to better align with IAS 28, and to provide clarity that potential voting rights, as an example, should not be factored into this decision.
E.9	136	Para 14.8 (i)	Similar to the examples provided in paragraph 14.3A for where significant influence exists, we recommend that examples of when the investor loses significant influence should be added to this paragraph. Paragraph 9 of IAS 28 would be a good source for such examples.
Section 16			
E.10	158	Para 16.7	"*...,and not the underlying property, at fair value.*" Paragraphs 41 and 50(d) of IAS 40 were consequential amendments to IFRS 16 as a result of concerns raised about

	FRED 82 paragraph	FRS 102 paragraph	Comment
			significant fair value remeausrements shortly after entering into a lease. We believe that it might be helpful to consider something similar for FRS 102.
Section 17			
E.11	169	Para 17.21 (c)	"*Expected future reductions in the selling price...*" In our view, this may not be the best indication of technical or commercial obsolescence of an asset, given that selling prices will be impacted by inflation. Following a period of high inflation, a reduction may be moving back to 'normal'. Instead, we would consider "*expected future reductions in the demand of an item*" to be a better indicator.
Section 19			
E.12	186	Para 19.11B	We believe that this paragraph should be more closely aligned with IFRS 3, paragraph B55. In particular, B55(a) makes it clear that forfeiture is considered compensation. We also believe that including the indicators in paragraph B55(b-h) would be helpful.
E.13	191	Para 19.19	We recommend that the final sentence of this paragraph be extended to make it clear that adjustments after 12 months, which are not errors, do still need to be recognised, but in the profit & loss account instead. Furthermore, it could be added that there are different rules in relation to contingent consideration and provide a cross reference to paragraphs 19.12-19.13B. In relation to those paragraphs, we think it would be helpful to specify that any such adjustments to contingent consideration are to be made prospectively as changes in estimates, as there is no clear guidance at the moment on this.
Section 23			
E.14	220	Para 23.116	"*...has transferred to a customer when that right is conditioned on something...*" Conditioned should be replaced with "*conditional*".

	FRED 82 paragraph	FRS 102 paragraph	Comment
E.15	220	Para 23.1(d)	Dividend income is within the scope of the existing Section 23 (paragraph 23.1(d)) and is measured at fair value (paragraph 23.3). The revised Section 23 does not contain any guidance on dividend income. Rather, FRED 82 paragraph B11.3 says "*...therefore, it is proposed to relocate the requirements for recognition of dividend income to Sections 11 and 12*". However, this relocation appears to relate only to recognition. Section 11 is less clear on the implications for initial measurement of dividend income. Section 11 (paragraph 11.13) does refer to the "*transaction price*" which we believe generally represents fair value, but it is less explicit for dividends, particularly dividends in kind, as paragraph 11.13 focuses on measurement of financial assets. Does the removal of the more explicit dividend measurement guidance (fair value) from the existing Section 23 to a less explicit measurement guidance in Section 11 represent an intentional change? Should it be made clearer in Section 11 that dividend income is to be recognised at fair value? This would be particularly relevant for dividends in-kind such as investments in subsidiaries or non cash assets.
Section 24			
E.16	224	Para 24.3	Paragraph B24.1 is explicit that the FRC's objective is to clarify that certain types of government assistance delivered through the corporation tax system, like Research & Development Expenditure Credit (RDEC), may be in the scope of Section 24. However, we think that the proposed wording in paragraph 24.3 remains confusing, specifically if we contrast the following: ● Paragraph 24.3: "This section does not cover government assistance that is provided for an entity in the form of reliefs and deductions that are available in determining taxable profit (tax loss)..." ● Paragraph B24.1: "Government assistance would be within the scope of Section 24 if it is: (a) recorded as income in determining taxable profit (tax loss)..." We suggest updates to paragraph 24.3 that more closely align with paragraph B24.1.
E.17	226	Para 24.5A	*"The recognition of a new or increased liability for this purpose shall be recognised immediately in income."* Firstly, instead of "income", we believe that if amended, this should be "profit or loss", on the basis that it might not have been appropriate to recognise the initial grant as income. Secondly, there might be instances where the grant income has not yet been recognised in the income statement, in which case, any repayment should also not be recognised in the income statement. On that basis, we would see no issue with this amendment being removed, and entities would continue to apply the existing liability derecognition guidance in Section 11.

	FRED 82 paragraph	FRS 102 paragraph	Comment
E.18	228	Para 24.5E	*"A grant relating to revenue..."* We note that compensation for losses or expenses already incurred are not always going to be 'revenue related'. It is unclear what this amendment is seeking to clarify.
E.19	230	Para 24.6 (b)	We believe that the existing reference to "amounts" provides clearer guidance than the proposed "extent". "Amount" makes it clear that it is the quantum of grants that shall be disclosed, "extent" is more vague and could lead to different interpretations.
Section 26			
E.20	241	Para 26.14	We believe it would be helpful to specifically refer to employers' NIC being a cash settled share-based payment transaction/provision where the obligation arises throughout the vesting period and therefore should be recognised as a liability (that is, bringing forward the guidance that was in UITF Abstract 25).
E.21	243	Para 26.16	In our view, the paragraph should be changed from allowing entities to measure the 'share-based payment expense' based on a reasonable allocation of the group 'expense' to measuring the 'share-based payment charge' based on a reasonable allocation of the group 'charge', on the basis that sometimes share based payments are capitalised into the cost of assets and are therefore not recognised immediately as expenses.
Section 28			
E.22	252	Para 28.15 (b)	We encounter situations where an entity is fully reimbursed by a third party for its employer contributions into a defined benefit pension scheme. In such cases, measuring the fair value of the reimbursement asset at an amount equal to the gross pension liability would seem to provide useful information to users as it reflects the substance of the entity's risks and also avoids the cost and expense of measuring the fair value of the reimbursement asset. This approach is not currently available under paragraph 28.15(b) because the reimbursements received by the entity do not match the scheme's payment of benefits to members. In our view, it would be helpful to extend paragraph 28.15(b) to include this scenario. We suggest some revised text below: "*(b) the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled. Section 2A Fair Value Measurement provides guidance on determining the fair values of those plan assets, except that, if the asset is (i) an insurance policy or reimbursement asset that exactly matches the amount and timing of some or all of the benefits payable under the plan; or (ii) a reimbursement asset that exactly matches the amount and timing of*

	FRED 82 paragraph	FRS 102 paragraph	Comment
			employer contributions into the plan, the fair value of the asset is deemed to be the present value of the related obligation."
E.23	253	Para 28.17	The new definition of government covers international, national and local government. Where there is no deep market in high quality corporate bonds, entities should use the market yield on government bonds. However, it is unclear which level of government this should be interpreted as. We suggest amending paragraph 28.17 to state that it should be "*national government bonds*".
E.24	254	Para 28.21B and 28.21C	The proposed paragraphs 28.21B and 28.21C effectively align the standard with IAS 19 paragraphs 122A and 99 respectively by requiring an actuarial valuation whenever a plan amendment, settlement or curtailment occurs. We note that there is a significant cost for entities in obtaining an additional valuation - and indeed a cash cost of engaging the actuaries. We are not convinced that the financial reporting benefits of requiring this outweigh the costs to entities of doing so - particularly as FRS 102 is designed to be a simpler accounting standard. We suggest that the FRC reconsiders its proposal to include these requirements. If the FRC does decide to proceed with the proposed changes, we would strongly suggest adding some guidance on how significant a plan amendment etc. needs to be to trigger this requirement. For example, we note that one employee transferring their benefits to another scheme does, technically, meet the definition of a settlement and so would trigger the requirement, whereas currently, actuarial assumptions typically assume a small number of such transfers and they are then treated as experience gains/losses.
E.25	255	Para 28.25	The proposed amendment to paragraph 28.25(b) effectively aligns the treatment of administration costs with IAS 19. However, unlike paragraph 130 of IAS 19, the changes do not explicitly state that "*other administration costs are not deducted from the return on plan assets*". We suggest adding such wording here, or alternatively adding "*other administration costs*" as a separate item in paragraph 28.23 - for example: "*(e) administration costs (other than those of managing the plan assets) in profit or loss*".
Section 29			
E.26	258	Para 29.17B	The reference to "*tax bases*" within this paragraph is not included again within FRED 82, or within the extant FRS 102. Our suggestion is that "*timing differences*" would be more appropriate. If not, then "*tax bases*" should be defined.

	FRED 82 paragraph	FRS 102 paragraph	Comment
Section 34 - Agriculture			
E.27	279	Para 34.6 (b)(iii)	This existing sector-specific guidance is useful and we believe should be retained in Section 34.
Section 34 - Service Concession Arrangements			
E.28	N/A	Overall	Paragraphs 34.14 and 34.15 require the operator to recognise a financial asset and/or an intangible asset. Although neither of them explicitly state that the operator recognises revenue for construction in accordance with Section 23, this is implicit in the requirements (and paragraph 34.16C requires the amount of revenue recognised to be disclosed). Under the proposed changes to Section 23, the operator would initially recognise a contract asset rather than a financial asset or intangible asset. In accordance with paragraph 23.117, it would not recognise a financial asset (trade receivable) until its right to consideration is unconditional, that is, only the passage of time is required before payment is due. Under the 'financial asset model', the operator will typically need to continue to make the infrastructure asset available and provide the associated services in order to receive payment in future. Therefore, the contract asset is likely to remain in place and only switch to a trade receivable when, and to the extent that, the operator fulfils its ongoing obligations. For the intangible asset model, the operator receives the right to charge users, which typically only becomes unconditional once the infrastructure asset has been completed. We suggest that additional guidance should be added to paragraphs 34.14 and 34.15 to reflect this interaction with the revised Section 23.
E.29	283	Para 34.12C	We believe guidance is needed to indicate that the operator should apply Section 23 to determine the promises in the contract and measure and recognise revenue. The present wording effectively pre-determines a promise for construction services and a promise for operating services, but there might be others. Also, the wording does not explicitly require that revenue for construction services should be recognised in accordance with Section 23.

	FRED 82 paragraph	FRS 102 paragraph	Comment
E.30	286	Para 34.12F	At present, in a 'user pays' arrangement (where the operator recognises an intangible asset) a grantor can only recognise an infrastructure asset to the extent that it pays for the asset itself. This requirement is set out in the second sentence of paragraph 34.12F, for the reasons given in paragraph B34C.3 of the Basis for Conclusions. The proposed revisions to paragraph 34.12F will delete this prohibition. We also note that the grantor will be required to apply paragraph 20.50 in measuring the lease liability and note that 20.50(e) sets out a principle for recognising the difference between the fair value of the underlying asset and the right of use asset based on the lease liability. This principle might be seen as being equally applicable to 'user pays' arrangements. These factors raise the question as to whether a grantor that controls an infrastructure asset in accordance with paragraph 34.12A, may, or must, recognise the entire asset even where it has no obligation to pay the operator for some, or all, of the asset. We suggest that guidance on this point is needed, either way.
E.31	286	Para 34.12F (b)	The wording in this last sentence of paragraph 34.12F assumes that all the payments under the arrangement will be for the asset. However, there will be a service component as well, and so the grantor will need to separate the lease and non-lease components. The wording here needs to reflect this, for example by referring to paragraphs 20.27 and 20.28.
Section 34 - Heritage Assets			
E.32	298	Para 34.51	The revised Section 20 only allows fair value for subsequent measurement of investment properties, which a heritage asset will not be. We advise that the wording here is amended to clarify this difference.
Section 35			
E.33	323	Para 35.10 (i)	We suggest deleting this paragraph now. The main transition from old UK GAAP to FRS 102 has passed, with the prior accounting treatments grandfathered in. Anyone newly adopting FRS 102 will either be a new company or one transitioning from IFRS/FRS 101 where the requirements are essentially similar to paragraphs 34.12I to 34.16A.
Appendix I - Glossary			
E.34	327	net settlement feature (of a share-based payment)	To assist with group scenarios where a parent withholds the shares but a subsidiary is obliged to pay the relevant tax authority, we recommend that rather than "*the entity*" it should be "*an entity within the group*" or "*the entity settling the share-based payment arrangement*".

	FRED 82 paragraph	FRS 102 paragraph	Comment
E.35	328	expenses	Paragraph 26.4 refers to the defined term for "*expenses*". However, in the case of an equity-settled share-based payment transaction, there is no decrease in assets or increase in liabilities, so it does not fit the revised definition.
E.36	328	transaction costs	It is unclear to us why the reference to the principal (or most advantageous) market has been introduced into the definition of transaction costs. This seems to imply that if, for some reason, an entity does not sell in the principal or most advantageous market, then in the context of a financial instrument and initial recognition under paragraph 11.13, the reporting entity could not use the actual transaction costs paid as 'transaction costs' for the purpose of FRS 102. However, we would expect this to apply more broadly than just to this example. Moreover, we can not think of any parallel in IFRS, so would strongly suggest that it is removed.
FRS 103			
E.37	375	Para 1.7(c)	We suggest "*variable and other contingent lease payments*" to align with paragraph 7(c) of IFRS 17.
FRS 104 Appendix I - Glossary			
E.38	405	Carrying amount	A definition for "*carrying amount*" is currently in both the FRS 102 and the FRS 104 glossaries. The definition has changed in the draft FRS 102 glossary. It is unclear to us why the definition should not also be amended in FRS 104.
E.39	405	Fair value	The wording here needs tweaking to refer to "*the relevant section of FRS 102*". For example, the fair value of share-based payments does not use Section 2A of 102.
E.40	406	Timely or timeliness	FRS 104 currently has a definition for "*timely or timeliness*", FRS 102 currently has a definition for "*timeliness*" (which is identical) but that is proposed for deletion. We therefore wonder if the "*timely or timeliness*" definition should also be deleted from FRS 104.