

Periodic review of UK and Ireland accounting standards



Project update — September 2023

Which entities will be most interested in the periodic review?

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* are applied by an estimated 3.5 million entities in preparing their general-purpose financial statements.

Publicly listed companies are required by law to apply adopted IFRS Accounting Standards in the preparation of their group accounts; otherwise, FRS 102 is available for use by all entities. Micro-entities may choose instead to apply FRS 105.

Why is the FRC reviewing FRS 102?

FRS 102 and the FRC's other Financial Reporting Standards (FRSs) are subject to review at least every five years. The changes after the first periodic review were effective from 1 January 2019.

The second periodic review began in March 2021; in December 2022 we published our proposed changes to the FRSs for public comment in FRED 82 *Draft amendments to FRS 102 and other FRSs — Periodic Review*. The comment period closed on 30 April 2023. We have engaged with stakeholders throughout the process, including through podcasts, webinars and roundtables. The next key milestone is the publication of final amendments to the FRSs.

What other projects may affect the periodic review?

The IASB has been conducting its second comprehensive review of the *IFRS for SMEs Accounting Standard*, with publication of the third edition currently expected in 2024. Our FRSs are based on IASB principles so in finalising our amendments we will take into account the progress of this project.

The UK Government's *Smarter regulation non-financial reporting review* is considering whether the current company size thresholds remain appropriate. The publication and/or effective date of our final amendments will take into account the progress of this review.

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What we proposed	What we heard	What we're working on
<p>Overview of FRED 82 FRED 82 proposed significant amendments to FRS 102 and FRS 105 affecting revenue recognition, lease accounting, and a number of other incremental improvements and clarifications.</p>	<p>We received 54 response letters to FRED 82, which contained many helpful comments across all aspects of the proposals.</p>	<p>We are preparing final amendments for issue, taking into account the responses received. The final amendments are likely to differ in a number of respects from the FRED 82 proposals; the basis for conclusions will explain our key judgements and decisions.</p>
<p>Revenue recognition FRED 82 proposed aligning both FRS 102 and FRS 105 towards the five-step model of revenue recognition from IFRS 15.</p>	<p>Respondents generally supported the proposed amendments to FRS 102, subject to some specific feedback, much of which suggested greater alignment with IFRS 15. Although there was some support for consistency, respondents raised concerns about the proportionality of the corresponding amendments to FRS 105.</p>	<p>We continue to work towards a 'five-step model' for all FRS 102 and FRS 105 preparers. We are working on fine-tuning the FRS 102 amendments in light of feedback received, and monitoring with interest the progress of the IASB's <i>IFRS for SMEs</i> project, which includes similar proposals. We are seeking further simplifications to ensure proportionality for micro-entities.</p>
<p>Lease accounting FRED 82 proposed aligning FRS 102, but not FRS 105, towards the on-balance sheet lease accounting model from IFRS 16.</p>	<p>Many respondents agreed that off-balance sheet operating lease accounting should be replaced, but some were concerned that the costs of aligning with IFRS 16 principles at this point would outweigh the benefits, particularly for smaller companies and charities.</p>	<p>We continue to work towards bringing leases on balance sheet for all FRS 102 preparers. We are reconsidering how to ensure that the model is proportionate and understandable for FRS 102 preparers of all sizes. This may include, for example, clarifying the scope of the recognition exemption for leases of low value assets.</p>
<p>Effective date and next steps FRED 82 proposed that the amendments would be effective for periods commencing on or after 1 January 2025.</p>	<p>Some respondents supported this proposal, presuming an implementation period of at least 12 months. Others felt that a longer implementation period was required.</p>	<p>We currently expect to issue the final amendments in the first half of 2024, with an effective date not before 1 January 2026.</p>