

# Discussion paper

**To:** Charities SORP Committee

**From:** Alison Bonathan, CIPFA Secretariat

**Date:** 27 March 2023

**Subject:** High level summary of FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review*

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## Purpose

The purpose of this discussion paper is to seek feedback from the Charities SORP Committee on the initial discussion draft of the joint SORP-making body's response to the consultation on FRED 82 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review* (the FRED).

## Discussion Paper

### 1. Introduction

- 1.1 The initial discussion draft of the SORP-making body's response to FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs Periodic Review* (the FRED) is provided in Appendix 1 to this paper. The Secretariat has not provided a traditional covering report but has provided this discussion paper as a walk through of the topics to be discussed to seek the views and feedback of the Charity SORP Committee. The Secretariat will also provide additional commentary on how the draft response was developed during the meeting. This paper therefore includes discussion questions to allow Committee Members to frame thoughts in advance of the meeting. The questions in the FRED and further questions from the CIPFA Secretariat are included below and should be read alongside Appendix 1.
- 1.2 The table of questions follows the order of questions in the FRED. The first two columns are as presented to the Charities SORP Committee at its most recent meeting – the question number and any additional commentary or background information to the question, followed by the question itself. The third column includes an additional commentary by the Secretariat to highlight discussion points and questions for the Committee to help the SORP-making body formulate its response. Cross references are provided to Appendix 1 where relevant.

Question Number/Topic/Additional Commentary	Consultation Questions from the FRED	Discussion Points and Questions for the Charities SORP Committee
<b>Question 1 – Disclosure</b>		
NA	<ul style="list-style-type: none"> <li>• Do you have any comments on the proposed overall level of disclosure required by FRS 102?</li> <li>• 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?</li> </ul>	<p>In addition to general comments made by various members of the Charities SORP Committee during its meetings, the Secretariat has received specific feedback by email from two members of the Committee expressing concern that the financial reporting requirements of FRS 102 are onerous for small charities.</p> <p>For the Secretariat to refer to this concern when drafting the joint SORP-making body’s response to the FRED, it would be beneficial to have specific examples of disclosure requirements that the Committee feels should be addressed by other means to meet the reporting needs of charities without compromising the quality of financial reporting information for the users of the accounts (this might include PBE specific paragraphs for these requirements).</p> <p><b>1. Is the Charities SORP Committee of the view that the disclosure requirements of FRS 102 could be amended to better reflect the reporting needs of Charities?</b></p> <p><b>2. If so, which specific disclosure requirements does the Charities SORP Committee recommend the joint SORP-making body refers to in its response to the FRED?</b> (This will need to be supported by examples and evidence as why this would not be useful to the users of charity accounts.)</p>

<b>Question 2 – Concepts and pervasive principles</b>		
<p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>Do you agree with the proposal to align FRS 102 and FRS 105 with the 2018 Conceptual Framework? If not, why not?</li> </ul>	<p>See sections 2.1 and 2.2 of the draft response.</p> <p>The Secretariat anticipates that the joint SORP-making body would be broadly supportive of the steps taken to align FRS 102 with the IASB's Conceptual Framework (except for the definition of "economic resource"). If this is confirmed, the Secretariat will draft a more detailed section noting such support.</p> <p>Note that the Secretariat expects the joint SORP-making body will not comment on FRS 105 as it is not applicable for charities.</p>
<p>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</p>	<ul style="list-style-type: none"> <li>Do you agree with this approach? If not, why not?</li> </ul>	<p>See section 2.3 of the draft response.</p>

<p>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.</p>		<p><b>definitions of assets and liabilities in Sections 18 and 21 of FRS 102?</b></p>
	<ul style="list-style-type: none"> <li>Do you have any other comments on the proposed revised Section 2?</li> </ul>	<p><b>7. Does the Charities SORP Committee recommend the inclusion of any further commentary about Section 2 of the FRED?</b></p>
<p><b>Question 3 – Fair value</b></p>		
<p>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.</p>	<ul style="list-style-type: none"> <li>Do you agree with this proposal? If not, why not?</li> </ul>	<p>The Secretariat would suggest support with the overall approach in FRS 102 regarding the new Section 2A Fair Value Measurement.</p> <p><b>8. Does the Charities SORP Committee have any further comments about the approach to application of section 2A Fair Value Measurement to charities?</b></p>
	<ul style="list-style-type: none"> <li>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?</li> </ul>	<p>n/a</p>
<p><b>Question 4 – Expected credit loss model</b></p>		
<p>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 <i>Financial Instruments</i> pending the issue of the IASB's third edition of the <i>IFRS for SMEs Accounting Standard</i>. Any proposals to</p>	<ul style="list-style-type: none"> <li>Do you agree with this approach? If not, why not?</li> </ul>	<p>The Secretariat anticipates that the joint SORP-making body will broadly support the proposed approach to defer conclusions on the incurred loss model until more information is available to the FRC on the model.</p>

<p>align with the expected credit loss model will therefore be presented in a later FRED.</p>		<p><b>9. Does the Charities SORP Committee support the approach in the FRED?</b>  <b>10. Are there any additional comments it would like to make?</b></p>
<p>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.</p>	<ul style="list-style-type: none"> <li>• Do you agree with this view? If not, why not?</li> </ul>	<p><b>11. Does the Charities SORP Committee have any views on whether it considers that FRS 102 should apply to other financial assets measured at amortised cost (in line with the IASB's proposals) or should it be on an entity-based approach in accordance with the preliminary views of the FRC?</b></p>
<p>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.</p>	<ul style="list-style-type: none"> <li>• Do you have any comments on which entities should be required to apply an expected credit loss model?</li> </ul>	<p><b>12. Does the SORP Committee have any views on whether it is appropriate to define the scope based on an entity's activities?</b></p>

<b>Question 5 – Other Financial Instruments Issues</b>		
<p>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 <i>Financial Instruments: Recognition and Measurement</i>. 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.</p>	<ul style="list-style-type: none"> <li>Do you agree with this proposal? If not, why not?</li> </ul>	<p>The Secretariat anticipates that the joint SORP-making body would be broadly supportive of this proposal.</p> <p><b>13. Does the Charities SORP Committee have any specific views on the eventual removal of the IAS 39 option?</b></p>
<p>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.</p>	<ul style="list-style-type: none"> <li>Do you support the deletion of these temporary amendments? If so, when do you think they should be deleted? If not, why not?</li> </ul>	<p>CIPFA might suggest a response where the joint SORP-making body is broadly supportive of this approach though does not consider that there is widespread application for charities.</p> <p><b>14. Does the Charities SORP Committee agree with these comments?</b></p>
<b>Question 6 – Leases</b>		
<p>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.</p>	<ul style="list-style-type: none"> <li>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?</li> <li>Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?</li> </ul>	<p>See section 6.1 of the draft response, which suggests general support for the overall approach.</p> <p><b>15. Does the Charities SORP Committee agree with this comment? If not, what commentary would it wish to pursue to best represent useful information for Charities reporting of leases which still represents high quality financial information?</b></p> <p>See section 6.2 of the draft response.</p>

Paragraph 20.36 requires PBEs to account for the difference between the lease payments and market rents as a contribution to the cost of the right-of-use asset. The Secretariat anticipates that charities may face practical difficulties in applying this requirement, for example in situations where reliable measurement (or estimation) of the market rent is not possible, or where the costs of obtaining a reliable measurement exceed the benefits to users of the accounts of doing so. The Secretariat is of the view that inclusion of specific examples of such practical difficulties in the joint SORP-making body's response to the FRED would strengthen it.

**16. Does the Charities SORP Committee have any specific examples of charities renting assets at a rent below market value, but that would face practical difficulties in identifying or estimating the market value of the rent reliably? If so, what are the examples and the practical problems that would be faced?**

Paragraph 20.52 requires that at the commencement of the lease, the lease liability be discounted using the rate implicit in the lease or, if that rate cannot be readily determined, the lessee's incremental borrowing rate or the lessee's obtainable borrowing rate. Paragraph PBE20.53 states that "Public benefit entities may choose to replace the lessee's obtainable borrowing rate with the rate of interest otherwise obtainable on their deposits held with financial institutions."

The Secretariat notes that the rate chosen should reflect the economics of the leasing transaction, as closely of possible and as being one similar in substance to a loan.

		<p><b>17. The Secretariat therefore seeks the views of the Charities SORP Committee as to whether use of a rate obtainable on deposits is appropriate in discounting a lease liability to present value at the commencement of a lease in the context of charity reporting of useful financial information and information availability.</b></p> <p><b>18. Does the Committee anticipate that charities will face practical problems in identifying an interest rate when discounting a lease liability to present value?</b></p> <p><b>19. Does the Committee have any further comments or feedback from the text of the draft response included in Section 6.3?</b></p>
<p><b>Question 7 – Revenue</b></p>		
<p>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.</p>	<ul style="list-style-type: none"> <li>• 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?</li> <li>• Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?</li> </ul>	<p>The Secretariat anticipates that the joint SORP-making body would be broadly supportive of these proposals.</p> <p>There may be issues of application and initially at least there is likely to be an increased reporting burden.</p> <p><b>20. What are the views of the Charities SORP Committee in relation to the new proposals for the recognition and measurement of revenue?</b></p> <p><b>21. Are there any further simplifications which should be proposed?</b></p>



<b>Question 8 – Effective date and transitional provisions</b>		
<p>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.</p>	<ul style="list-style-type: none"> <li>Do you agree with this proposal? If not, why not?</li> </ul>	<p>The Secretariat anticipates that the joint SORP-making body and the Charities SORP Committee would support a later effective date to allow for time to consult on and finalise the text of the SORP, and to allow charities to prepare themselves for any new accounting requirements.</p> <p><b>22. What is the view of the Committee on the appropriate effective date for FRS 102?</b></p>
<p>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.</p>	<ul style="list-style-type: none"> <li>Do you agree with this proposal? If not, why not?</li> </ul>	<p>The Secretariat does not suggest making a response to this question.</p>
<p>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.</p>	<ul style="list-style-type: none"> <li>Do you agree with this proposal? If not, why not?</li> </ul>	<p>The Secretariat would suggest that this is a useful simplification which should be supported.</p> <p><b>23. What are the views of the Charities SORP Committee?</b></p>
<p>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</p>	<ul style="list-style-type: none"> <li>Do you agree with these proposals? If not, why not?</li> </ul>	<p>The Secretariat would suggest that this is a useful simplification which should be supported.</p> <p><b>24. What are the views of the Charities SORP Committee?</b></p> <p><b>25. What are the views of the SORP Committee on whether there should be</b></p>

<p>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.</p>		<p><b>prospective application for the revised section 23 regarding revenue?</b></p>
<p><b>Question 9 – Other Comments</b></p>		
	<ul style="list-style-type: none"> <li>Do you have any other comments on the proposed amendments set out in FRED 82?</li> </ul>	<p>See section 9.1 of the draft response.</p> <p>Paragraph PBE34.69A states that “Resources that can usually be measured reliably include donations of cash or goods, facilities such as free use of office accommodation or event space, and services usually provided by an individual or an entity as part of their trade or profession for a fee.”</p> <p>At the most recent meeting of the Charities SORP Committee, Committee Members discussed whether the assumption that donations of goods, facilities or services can usually be measured reliably is sound. The Secretariat is of the view that the joint SORP-making body’s response to the FRED would be enhanced by the inclusion of a range of examples of the difficulties charities may face when measuring such donations.</p> <p><b>26. Does the Charities SORP Committee have specific examples of instances where donations of goods, facilities or services cannot be measured reliably? The Secretariat notes that the Committee has provided the example of</b></p>

		<p><b>small donations to food banks in previous meetings and would welcome a range of additional examples for consideration.</b></p> <p><b>27. Does the Charities SORP Committee have any further comments or feedback from the text of the draft response included in Section 9?</b></p>
<p><b>Question 10 – Consultation stage impact assessment</b></p>		
	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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).</li> </ul>	<p><b>28. Does the Charities SORP Committee have any comments on the impact assessment?</b></p>

*Disclaimer*

*This Charities SORP Committee paper including its Annexes has been developed to assist in the development and drafting of the Charities SORP. Readers should not treat the information contained in these papers as being definitive for the production of the Charities SORP FRS 102 (Third Edition) which will be subject to due process including a detailed consultation.*