Paper 4

Report

To:	Charities SORP Committee
From:	Sarah Sheen, Acting Head of Standard Setting, CIPFA
Date:	22 February 2023
Subject:	Overview 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*

Purpose

The purpose of this report is to provide a 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* (the FRED), including an initial indication of how the Charities SORP may be affected by the proposed amendments to FRS 102. This will support the SORP-making body's consideration of how to respond to the FRC's consultation on the FRED.

Report

1. Introduction

1.1 Charities SORP Committee Members will be aware that **FRED 82 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and other FRSs – Periodic Review*** (FRED 82) was published on 15 December 2022. The FRC has also published a variety of supplementary material to assist with the understanding of the proposed changes they are presented for the Charities SORP Committee in Annex 1. The Secretariat would recommend review of that material for a further understanding of the changes and their impact.

1.2 The FRC in the supporting materials to the FRED has highlighted the following summary headings for the main changes, slightly adapted for ease of reference:

Heading	Summary/Basis of Changes
Revenue	Based on the IFRS 15 *Revenue from Contracts with Customers,* 5-step model for revenue recognition
Leases	Based on the 'on balance sheet' model in IFRS 16 *Leases*

Heading	Summary/Basis of Changes
Conceptual framework/concepts and pervasive principles	Amendments are based on the IASB 2018 *Conceptual Framework for Financial Reporting*
Fair Value	A new Section 2A Fair Value Measurement, replacing the Appendix to Section 2, based on the definition in IFRS 13 *Fair Value Measurement*
Small Entities	Greater clarity for small entities in the UK applying Section 1A Small Entities regarding which disclosures need to be provided to give a true and fair view
Other incremental improvements and clarifications	See further detail in Annex 2

1.3 The FRC has indicated that in developing FRED 82, it has considered changes to IFRS Accounting Standards, the IASB's proposed changes in developing the third edition of the IFRS for SMEs Accounting Standard, stakeholder feedback in response to the FRC's 2021 request for views, and other developments in corporate reporting.

1.4 Note that the FRED sets out that 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.

1.5 The proposed effective date for these amendments is accounting periods beginning on or after 1 January 2025, with early application permitted provided all amendments are applied at the same time. Transitional provisions are also proposed including relevant simplifications for some of the new provisions. The effective date and transitional provisions are subject to a specific consultation question.

1.6 The consultation period closes **on 30 April 2023**.

1.7 Note this report only focuses on the changes to FRS 102 and not the changes to FRSs 103 to FRS 105[1].

1.8 The consultation questions are presented in Annex 3 for ease of reference.

> **Overall approach to the FRED**
>
> **a) Does the Charities SORP Committee have any initial commentary on the approach to the expected credit loss model?**

[1] FRS 103 *Insurance Contracts*, FRS 104 *Interim Financial Reporting* and FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

> **b) Does the Charities SORP Committee have any comments on the effective date, for example, does it consider more time might be needed to allow accounts preparers to understand and prepare for the changes?**

2. Revenue

2.1 The FRED proposes amendments to replace the current Section 23 *Revenue* of FRS 102 with new text. The proposed Section 23 *Revenue from Contracts with Customers* reflects the revenue recognition model in IFRS 15. The five-step model for revenue recognition is summarised in Annex 2 of this report. Draft Section 23 also includes simplifications aimed at ensuring the requirements for revenue in FRS 102 remain cost effective to apply.

2.2 One of the simplifications is that instead of identifying, allocating prices and satisfying 'performance obligations' in the contract (in accordance with the terminology in IFRS 15) FRED 82 uses the term 'promises'; largely the definitions for 'promises' and 'performance obligations' are very similar. It is arguable that public benefit entities used to applying the definition of 'performance related conditions' would find the 'performance obligations' consistent with that treatment but 'promises' is a simpler term which may be more readily understandable for charities accounts preparers. Note that 'promises' is used in the Exposure Draft for IFRS for SMEs.

2.3 The changes to FRS 102 are intended to provide more useful information for users and is a control model rather than one based on risk and reward in the current edition of FRS 102. This was an area currently with relatively little interpretation in the Charities SORP so from a drafting perspective this may ease the drafting requirements to apply in the SORP. However, it is likely that there will need to considerable education and training for the sector around the use and application of the new model. The FRED indicates the extent to which this will change an entity's revenue recognition in practice will depend on the form of its contracts with customers. The Charities SORP Committee is invited to consider the impact of this new model.

> **Revenue**
>
> **c) Does the Charities SORP Committee have any initial thoughts on the adoption of the revenue recognition model based on the 5-step (model) in IFRS 15?**
>
> **d) Does the Charities SORP Committee consider that there will be a particular application or interpretation for charities relating to the new model?**

3. Leases

3.1 FRED 82 proposes amendments to replace Section 20 of FRS 102 with the 'on-balance sheet' leasing model for lessees. Lessees will be required to recognise a right-of-use asset and a lease liability for all its leases which are not of short life or low value (the two recognition exemptions). The changes to the standard will therefore have a significant impact on charities with large numbers of leases.

3.2 One of the most significant simplifications appears to be regarding the lessee's incremental borrowing rate. IFRS 16 requires a lessee to use the interest rate implicit in the lease or, if that is not readily determinable, the lessee's incremental borrowing rate, to discount lease payments to their present value. To make it easier for a lessee to determine a discount rate, simplifications are proposed. The lessee's 'obtainable borrowing rate' is introduced as an alternative to the incremental borrowing rate, a further simplification in the borrowing rate is offered ie that if in exceptional cases the lessee's incremental (or obtainable) borrowing rate cannot be readily determined, a lessee will be permitted to apply a specified publicly-available rate (the gilt rate). Additionally proposed PBE20.53 allows a public benefit entity to choose to replace the lessee's obtainable borrowing rate with "the rate of interest otherwise obtainable on their deposits held with financial institutions".

3.3 This is an interesting area and one where there are difficulties for entities across most sectors, where an entity is not able to identify interest rates implicit in the lease an observable interest rate is likely to under or over-estimate the lease liability, so this is an important consideration.

3.4 Another proposed change is included in paragraph 20.36 of the FRED applies where a lease component contains a government grant or, for a public benefit entity, a non-exchange transaction (for example, if lease payments are significantly below market rents). This particular transaction could be encountered more regularly by charities or other public benefit entities than other types of entity and so this might be of interest to the Charities SORP Committee.

3.5 More information on the simplifications for the proposed approach to lease accounting is summarised in Annex 2.

3.6 The Charities SORP Committee will be aware that this is an area where there is minimal interpretation in the Charities SORP, paragraph 10.28 refers charities directly to Section 20 of FRS 102 for more information about recognition, measurement, and disclosure.

3.7 Again, as this is a completely new model of accounting for leases (for lessees) it might be an area where there will need to be education and training for the sector around the use of the new model.

Leases

- **e) Does the Charities SORP Committee have any initial thoughts on the adoption new on-balance sheet model for lessees?**
- **f) Does the Charities SORP Committee consider that there will be a particular application or interpretation for charities relating to the new model?**

4. Concepts and Pervasive Principles/Conceptual Framework

4.1 The FRED proposes amendments to replace the current Section 2 Concepts and Pervasive Principles of FRS 102 with new text. The proposed Section 2 reflects the IASB's Conceptual Framework for Financial Reporting, issued in 2018 (IASB Conceptual Framework).

4.2 Key amendments to Section 2 include the objective of the financial statements (see FRED paragraphs 2.4 to 2.7), the definitions of the elements of the financial statements (see FRED paragraphs 2.34 – 2.49 and 2.54 – 2.56) and the qualitative characteristics of useful financial information (see FRED paragraphs 2.9 – 2.27). Annex 2 lists the other changes emanating from the IASB Conceptual Framework.

4.3 The proposed amendments are likely to need to be considered in some detail for the next edition of the Charities SORP. It will be necessary to review Module 3 Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors of the SORP to ensure consistency with Section 2 of FRS 102.

4.4 Where there are other interpretations in the Charities SORP which are derived from underlying concepts and principles in Section 2, there will be a need to review these interpretations to ensure consistency with the amended FRS 102. This might be for example on the recognition of income and expenses or the definition of an asset or a liability.

4.5 This will also need to be considered for areas where the FRED has not made changes, the questions in the FRED note two areas which have not changed:

- The definition of an asset per Section 2 of the FRED is “a present economic resource controlled by the entity as a result of past events” [FRED paragraph 2.36]. The FRED proposes that Section 18 Intangible Assets other than Goodwill will retain the existing definition of an asset, being “a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity” [FRED paragraph 18.4A].
- The definition of a liability per Section 2 of the FRED is “a present obligation of the entity to transfer an economic resource as a result of past events” [FRED paragraph 2.42]. FRED paragraph 2.43 specifies,

  For a liability to exist, three criteria must all be satisfied:

  a) the entity has an obligation;

  b) the obligation is to transfer an economic resource; and

  c) the obligation is a present obligation that exists as a result of past events.

  The FRED proposes that Section 21 *Provisions and Contingencies* will retain the extant definition of a liability, being “a present obligation of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits” [FRED paragraph 21.4A].

4.6 CIPFA would note that the objective of the financial statements and the definition of assets and liabilities focus on economic resources. This might not explicitly consider decisions taken on a ‘non-economic’ basis. The Charities SORP includes references to service potential when considering the resources inherent in the asset and their measurement, for example, when referring to the impairment of assets. It would be useful to consider how this may be consistently applied to the elements of the financial statements to assist the measurement of assets and liabilities where users’ decisions are not solely based on economic resources.

Concepts and Pervasive Principles/Conceptual Framework

g) Does the Charities SORP Committee have any initial commentary on the approach to the changes to the concepts and pervasive changes proposed in FRED 82.

h) Does the Charities SORP Committee consider that there needs to be a review of the SORP for consistent application of the terms ‘service potential’ regarding the definition of an asset or decisions not taken on an economic basis?

5. Fair Value

5.1 The FRED proposes amendments to replace the current Appendix to Section 2 Fair value measurement of FRS 102 with new text. The proposed new Section 2A reflects the IFRS *13 Fair Value Measurement* definition of fair value. However, existing fair value disclosure requirements will remain in other sections, rather than being centralised in Section 2A.

5.2 Section 2A contains a hierarchical approach to establishing fair value, setting out the methodology for estimating fair value in FRED paragraph 2A.13, summarised as:

a) the best evidence of fair value is an unadjusted quoted price for an identical or comparable asset or liability in an active market.

b) when an unadjusted quoted price is not available, the price of a recent orderly transaction between market participants for an identical or comparable asset or liability provides evidence of fair value.

c) if neither (a) nor (b) above are available or reliable, the fair value shall be estimated using another valuation technique.

Fair Value

i) **What are the preliminary views of the Charities SORP Committee with respect to the approach to fair value being based on IFRS 13?**

6. Section 1A Small Entities

6.1 The Charities SORP Committee is aware that previous SORP development has considered issues relating to section 1A and that this was subject of its submission to the periodic review (see Annex 4). The financial statements of a small entity are required to give a true and fair view. The current Section 1A of FRS 102 sets out certain minimum disclosures that are always required, but otherwise leaves preparers to use their judgement to determine which additional disclosures are required to give a true and fair view.

6.2 Following the UK's departure from the EU, the FRC can require more disclosure from small companies. The FRED proposes amendments to Appendix C Disclosure requirements for small entities in the UK to Section 1A. By specifying additional disclosures which the FRC considers are required to give a true and fair view, this is expected to reduce the amount of judgement required from accounts preparers.

6.3 Following the withdrawal of the Financial Reporting Standard for Smaller Entities (FRSSE) the joint SORP-making body considered various solutions for the replacement of the Charities SORP (FRSSE). They consulted on its withdrawal and the proposal to widen the scope of the Charities SORP (FRS 102) in 2015. Respondents to the consultation supported the proposal to move to a single SORP.

6.4 Although a charity can follow the SORP and apply the small entities regime option (Section 1A Small Entities) within FRS 102 to produce true and fair accounts the SORP requires that the preparer must also follow all the applicable requirements of the SORP. This solution was considered as unifying the reporting framework and providing donors and users of the accounts with a common presentation of financial information. The Charities SORP Committee's views are sought on whether a review of these requirements might be needed following the changes to FRS 102 though this may in part be addressed by the approach to tiered reporting and specifically for tier 1 charities.

Section 1 A Small Entities

j) **What are the preliminary views of the Charities SORP Committee with respect to the proposed changes to section 1A?**

7. Section 34 – Specialised Activities

7.1 The FRED proposes amendments to Section 34 of FRS 102 particularly with respect to incoming resources from non-exchange transactions. This will be very important to charities activities and is covered in the report on income at agenda item 4 (paper 2).

7.2 Paragraph B34.2 of the basis of conclusions explains that the FRED proposes amendments to incorporate the requirements of extant Appendix B Guidance on incoming resources from non-exchange transactions into paragraphs PBE34.64 to PBE34.74 and to delete the appendix. The FRED indicates that the changes are not intended to alter practice, but to make these specifications easier to apply. The Secretariat concurs that this is the case.

7.3 The FRED indicates proposals include a clearer articulation of whether and when incoming resources from non-exchange transactions are to be recognised this includes specifications on legacies.

7.4 The FRED also sets out that the proposals include a clearer articulation of how, when they are recognised, incoming resources from non-exchange transactions, are required to be measured ie:

- either at the fair value of the resources received or receivable, or
- for (for example) donated services and facilities, at the value to the entity (see FRED paragraphs PBE34.73 to PBE34.73B). Note that the determination of the value to the entity, which considers what the entity would have done had the resources not been donated, is also included in the proposals for clarification (see PBE34.73 and PBE34.73A).

7.5 This will be an important area for the Charities SORP. The Secretariat would recommend direct reference to the amendments to PBE34.64 to PBE 34.74 at page 161 to 163 of the FRED.

Section 34 Specialised Activities (incoming resources from non-exchange transactions)

k) What are the preliminary views of the Charities SORP Committee with respect to the changes to section 34 specialised activities in relation to incoming resources from non-exchange transactions?

8. Submissions on the Periodic Review

8.1 The joint SORP making body requested that the Secretariat consider whether the FRED contains any response to the submissions to the periodic review, a summary is presented at Annex 4.

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.

Annex 1

Supporting Material for FRED 82

Material	Link
'At a glance' document containing a brief summary of the principal proposed amendments in the FRED,	Available online here.
The slides from the FRED launch webinar	Available online here.
Launch webinar recording link	Available online here.

Annex 2

Outline of Changes Proposed in FRED 82

(note that this does not identify every change but aims to identify most of them including those most likely to impact on charities reporting).

FRED 82 Amendments	Module in the SORP Most Significantly Affected
Revenue (from Contracts with Customers) Revenue recognition based on the five-step model to provide a single model and information useful to the users of the accounts. The five-step model is: • **Step 1 – Identify the contract(s) with the customer** – includes: - Combination of contracts - (Simplified) requirements for contract modifications • **Step 2 – Identify the promises in the contract** includes: - Consideration of distinct goods or services - Treatment of warranties - Customer options for additional good and services - (Simplified) decisions re agent/principal • **Step 3 – Determine the transaction price** – includes: - Variable consideration - Sales based or usage-based royalties - Refund liabilities - Time value of money (on payments in arrears) - Non-cash consideration • **Step 4 – Allocate the transaction price to the promises in the contract** – includes: - Allocation based on stand-alone selling prices - (Simplified) requirements for allocation of a discount - Changes in transaction price • **Step 5 – Recognise revenue when (or as) the entity satisfies the promises in the contract** – includes: - Promises satisfied over time - Promises satisfied at a point in time - (Simplified) decisions re licences Section 23 also includes specifications on: • Cost of obtaining a contract (accounting policy choice) • Contract balances • Disclosure • (Simplified) transition requirements with extended practical expedients.	• Module 5, *Recognition of income, including legacies, grants and contract income*

<table>
<tr><th>FRED 82 Amendments</th><th>Module in the SORP Most Significantly Affected</th></tr>
<tr><td>Leases

The leasing model includes a single framework for lessee accounting that provides a more faithful representation of leasing transactions. For lessees, the new provisions lead to the removal of the classification of leases as either operating or finance leases by introducing a single model for all leases (subject to recognition exemptions for short-term leases and leases of low-value assets). The accounting treatment will lead to a right-of-use asset and a lease liability. Depreciation and interest are charged to profit and loss.

Section 20 includes specifications on the new provisions for lessees on:
recognition exemptions
portfolio approach
combinations of contracts
identification of a lease
lease term
the initial measurement of the lease asset and liability
subsequent measurement of the right of use asset
disclosure.
It also includes the following simplifications:
The rate used to discount lease payments to their present value – this is the interest rate implicit in the lease or the simplified obtainable borrowing rate as an alternative to the incremental borrowing rate.
Reducing the number of situations in which a lease modification requires the determination of a revised discount rate.
Offering additional practical expedients for contracts containing multiple components.
Offering a simpler approach to recognising gains and losses on sale and leaseback transactions.
Permitting variations in lease payments arising from changes in an index or rate to be recognised in profit or loss, rather than requiring recalculation of the lease liability.
Transition based on the modified retrospective approach.
Consequential amendments are also included in section 19 Investment Properties.</td><td>Part of
Module 10 Balance Sheet and
Module 4 Statement of Financial Activities –
relatively minimal references to the leasing standard are included in the SORP – the Charities SORP Committee may want to consider whether they wish to continue this approach.</td></tr>
<tr><td>Updates to Section 2 Concepts and Pervasive Principles</td><td>Module 3 Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors (but other areas will be affected where the elements of the</td></tr>
</table>

FRED 82 Amendments	Module in the SORP Most Significantly Affected
The FRED has replaced the text of section 2 Concepts and Pervasive Principles to reflect the updates in the 2018 IASB's Conceptual Framework for Financial Reporting. Section 2 has therefore been completely redrafted and includes new specifications on: • The objective of the financial statements • Qualitative characteristics of information in financial statements • Financial statements and the reporting entity • The elements of the financial statements – including the definitions of an asset, a liability, income, expenses and equity • Recognition and derecognition • Measurement • Presentation and disclosure. **Update to Section 2A Fair Value Measurement** The FRED proposes a new Section 2A of FRS 102, replacing the Appendix to Section 2. It proposes: • a definition of fair value revised based on IFRS 13 Fair Value Measurement definition • more comprehensive guidance on fair value measurement. Fair value disclosure requirements are not proposed in Section 2A.	financial statements are referred included in the Charities SORP).
Section 1A Small Entities The FRED proposes changes to Section 1A to reduce the amount of judgement that accounts preparers of UK small entity financial statements are required to exercise in determining whether certain disclosures need to be provided to give a true and fair view. The FRED proposes amendments to Appendix C Disclosure requirements for small entities in the UK to Section 1A. By specifying additional disclosures which the FRC considers are required to give a true and fair view. This in turn is expected to reduce the amount of judgement required from accounts preparers.	This may require review of the SORP's approach to the application of Section 1A.
Other changes included in FRED 82 (main changes)	
Section 3 Financial Statement Presentation The FRED includes clarification that preparers should consider the requirements of paragraph 8.6 when	• Module 3 *Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors,* and

FRED 82 Amendments	**Module in the SORP Most Significantly Affected**
assessing whether judgements (including those relating to going concern) should be disclosed in the financial statements, and to require disclosure of the application of the going concern basis of accounting.	• Module 4 *Statement of Financial Activities*
Proposed changes to: • **Section 6 Statement of Changes in Equity and Statement of Income and Retained Earnings –** new disclosure regarding dividends paid by an entity with more than one class of shares • **Section 8 Notes to the Financial Statements –** adopt the principle of disclosing ‘material accounting policy information’ rather than ‘significant accounting policies’, with associated guidance. • **Section 9 Consolidated and Separate Financial Statements –** clarifications to improve clarity and reduce ambiguity regarding the availability of consolidation exemptions to intermediate parent entities. • **Section 10 Accounting Policies, Estimates and Errors – t**o introduce a definition of ‘accounting estimates’ rather than ‘changes in accounting estimates’, with associated guidance • **Sections 11 and 12 Basic Financial Instruments – r**emoval of IAS 39 option (unless already taken) and other issues • **Section 18 Intangible Assets other than Goodwill –** to paragraph 18.3B to introduce additional guidance, derived from IAS 38 Intangible Assets, on the accounting treatment of assets that incorporate both tangible and intangible elements. • **Section 19 Business Combinations and Goodwill –** guidance relating to identifying the acquirer, contingent consideration is distinguished from remuneration, limited additional disclosure requirements. • **Section 34 Specialised Activities** – see detailed comments at section 6 in the body of the report	• Module *3 Accounting standards, policies, concepts and principles, including the adjustment of estimates and errors* • Module 11 *Accounting for financial assets and financial liabilities* • Module 24 *Accounting for groups and the preparation of consolidated accounts*

Annex 3

Consultation Questions (Reproduced from FRED 82 but in an alternative tabular format)

The key themes and questions contained in the Invitation to Comment section of the FRED are summarised below.

Question Number/Topic/Additional Commentary	Questions
Question 1 – Disclosure	
NA	• Do you have any comments on the proposed overall level of disclosure required by FRS 102? • 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?
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?
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	• Do you agree with this approach? If not, why not?

Question Number/Topic/Additional Commentary	Questions
asset and a liability from the IASB's 1989 Framework for the Preparation and Presentation of Financial Statements.	
	• Do you have any other comments on the proposed revised Section 2?
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?
	• 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?
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?
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?
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	• Do you have any comments on which entities should be required to apply an expected credit loss model?

Question Number/Topic/Additional Commentary	Questions
the entity meets the definition of a public interest entity.	
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?
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? If so, when do you think they should be deleted? If not, why not?
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? • Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?
Question 7 – Revenue	
FRED 82 proposes to revise the revenue recognition requirements in 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

Question Number/Topic/Additional Commentary	Questions
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.	from IFRS 15, with simplifications? If not, why not? • Have you identified any further simplifications or additional guidance that you consider would be necessary or beneficial?
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?
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?
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?
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?

Question Number/Topic/Additional Commentary	Questions
Question 9 – Other Comments	
	• Do you have any other comments on the proposed amendments set out in FRED 82?
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).

Annex 4

Submissions by the SORP Making Body to the FRC Periodic Review

Submission Issue	Changes in the Exposure Draft
Modifying section 1A in its application to eligible charities – the SMB's proposed changes sought to differentiate the application of section 1A between for-profit companies that enjoy exemptions to aspects of accounts submission under the smaller company reporting framework and charities which do not have this option.	No explicit changes. The FRED includes incremental improvements and clarifications to this section of FRS 102 to Greater clarity for small entities in the UK applying Section 1A Small Entities regarding which disclosures need to be provided to give a true and fair view. Although it does have explicit public benefit entities (PBE) requirements they are for those entities applying the PBE requirements of FRS 102 and do not appear to allow for explicit PBE requirements for those entities applying a SORP though this doesn't preclude the SORP-making body from augmenting the provisions for Charities.
Departing from company law based custom and practice in the presentation of the performance statement – an alternate approach could better suit public benefit entities where evidence shows that readers are interested in how the money was spent rather than how it was raised. Having the flexibility to reframe reporting for charities may better address user needs.	No explicit changes that would appear to meet this request. Note that the advice of the Charities SORP Committee has not been to proceed with significant changes to the presentation of the SoFA
Permitting the SORP to specify the use of comparatives for SORP specific reporting requirements for small entities (FRS 102 section 1A) – having the latitude to determine in which	There are no proposed amendments to either paragraph 3.14 or 3.20 of FRS 102 for comparative information – the Secretariat would

Submission Issue	Changes in the Exposure Draft
circumstances comparatives are required for charity specific disclosures will further facilitate simplification and the development of tiered reporting with fewer disclosures and analysis required of less complex charities and better tailor reporting to user needs.	not expect that standards would permit such a change.
Permitting SORPs to specify the use of comparatives for SORP specific reporting requirements for those charities not classed as small entities (FRS 102 section 1A) – we were of the view that having the latitude to determine in which circumstances comparatives are required for charity specific disclosures will further facilitate simplification with disclosures and analysis focussed on the users of the accounts who will more easily discern information relevant to their decision-making.	There are no proposed amendments to either paragraph 3.14 or 3.20 of FRS 102 for comparative information – the Secretariat would not expect that standards would permit such a change.
Orientating disclosures to the capabilities of the reader/user of the accounts - by framing disclosures in such a way as to be understood by the able (as already defined) user of the accounts, the information provided will then be effective for decision-making by most users.	Section 2 has been significantly updated, however, the requirements suggested for change by the letter are now in almost entirely repeated in FRED 82 paragraph 2.24, so no changes are included.
Focussing defined benefit pension scheme disclosures on relevant information for users of charity accounts - the proposed approach will reduce clutter and ensure that the information found useful to decision-making is retained.	There are amendments to section 28 including some amendments to the disclosures but not such that they would allow the changes as requested.

Submission Issue	**Changes in the Exposure Draft**
Possible changes to the recognition and measurement of donated goods for onward distribution. Specifically, the Annex to the letter stated: *The suggestion is that in a specific context of charitable activities where goods are* *sought for onward distribution, that these charities would not normally buy these* *goods in to pass on but instead seek these goods from the public or firms for onward* *relief to the beneficiary. The goods are not stock to sell but are the object of the* *charitable endeavour, for example food banks. Attributing a value to these goods to* *include in the accounts as a gain and stock and subsequently expenditure and a* *reduction in stock does not provide meaningful information to donors, rather it is the number of people helped or the volume of deliveries that is informative in showing* *the benefit provided.*	No apparent change. Although it may not be a direct response the following is indicative of the approach in the FRED. Paragraph B34.3 of the basis of conclusions states: *Some stakeholders requested that a PBE should not be required to recognise any* *value for donated goods for onward distribution, due to the difficulties in measuring their value and a perceived low level of usefulness of that information to users of financial statements. The FRC considers that permitting such donations not to be recognised could lead to the financial statements understating the size and impact of the PBE, and of the need that it addresses, and could have other unintended implications, such as exempting a PBE from the audit regime. The FRC also considers that, in contrast to volunteer time, the fair value of donated goods is typically readily determinable. Therefore, the FRC does not propose any amendment to FRS 102 in this respect.* Paragraph B34.2 indicates that the changes to merge the appendix are not intended to alter practice, they are intended to provide a clearer articulation of whether and when incoming resources from non-exchange transactions are to be recognised, and how they are measured.

Submission Issue	**Changes in the Exposure Draft**
Gifted services for sole use by the recipient charity and not for generating cash-flows	No apparent change – although not the same transaction paragraph B34.3 might be indicative of the approach in the FRED.
The recognition and measurement of donated goods for resale where the items are of unknown character at the point of receipt.	Although there have been amendments to the provisions of section 34 for donated goods the amendment suggested has not been made. Again, although not the same transaction the comments in paragraph B34.3 might be indicative of the approach in the FRED.