Exposure Draft

Financial Reporting Council

March 2017

FRED 67

Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Triennial review 2017
Incremental improvements and clarifications

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

Financial Reporting Council

March 2017

FRED 67

Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Triennial review 2017
Incremental improvements and clarifications

Contents

Overview of FRED 67

Draft amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications

(i) When FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* was issued in March 2013 the FRC indicated that it would be reviewed every three years. The first triennial review is now in progress and this Financial Reporting Exposure Draft (FRED) proposes incremental improvements and clarifications to FRS 102. In addition, this FRED includes consequential amendments to the other UK and Ireland accounting standards.

(ii) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

(iii) These proposals have been developed in response to stakeholder feedback and therefore address many of the implementation issues reported to the FRC. As a result of these amendments, FRS 102 will be clearer and easier to use, some accounting policies will be simplified and additional choices and exemptions will be introduced. The overall impact will be more cost-effective financial reporting with no loss of significant information to users of the financial statements.

(iv) In addition to responding to stakeholder feedback on the implementation of FRS 102, these proposals have been developed after considering recent improvements in financial reporting. The proposals aim to balance improvements in the quality of financial reporting with maintaining stability, improve the usability of the standard and improve the cost-effectiveness of the standard.

(v) FRED 67 includes many proposed amendments, although the majority are editorial and/or intended to merely clarify rather than change the accounting treatment. The principal amendments to have an impact on the financial statements are:

(a) The removal of undue cost or effort exemptions which are replaced, when relevant, by accounting policy options. In particular, in order to address implementation issues, an accounting policy choice is proposed for entities that rent investment property to another group entity, whereby they can choose to measure the investment property either at cost (less depreciation and impairment) or at fair value.

(b) The introduction of a description of a basic financial instrument to support the detailed conditions for classification as basic. Making this change will result in a relatively small number of financial instruments, that breach the detailed conditions for classification as basic, now being considered to be basic and measured at amortised cost. In these cases measurement at amortised cost will provide relevant information for users of the financial statements.

(c) For small entities, a more proportionate accounting solution for a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person), which will permit the loan to be initially measured at transaction price rather than present value.

(d) In order to address implementation issues, entities will be required to recognise fewer intangible assets acquired in a business combination separately from goodwill. This will reduce the costs of compliance, whilst still providing users with useful information about the business combination. Entities may, on an asset-by-asset basis, choose to separately recognise additional intangible assets acquired in a business combination if this provides useful information to the entity and the users of its financial statements. When an entity chooses to recognise such intangible assets separately from goodwill, it shall apply that policy consistently to the relevant class of intangible assets.

(e) After considering feedback about the definition of a financial institution, the principle included in the financial institution definition has been amended to remove references to ‘generate wealth’ and ‘manage risk’. This change should help to reduce the interpretational difficulties in relation to implementing these concepts, and should reduce the number of entities meeting the definition of a financial institution.

(vi) The proposed effective date for these amendments is accounting periods beginning on or after 1 January 2019, with early application permitted provided all amendments are applied at the same time. Limited transitional provisions are also proposed.

Organisation of this FRED

(vii) This FRED is organised as follows:

(a) the principal amendments and other notable amendments proposed to FRS 102 are set out by section;

(b) proposed editorial amendments to FRS 102 are presented together in a section; and

(c) consequential amendments proposed to other FRSs are grouped together by standard.

Invitation to comment

1 The FRC is requesting comments on FRED 67 by 30 June 2017. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of the draft standard. In particular, comments are sought in relation to the questions below.

As a result of a comprehensive triennial review process, FRED 67 contains a large number of proposed amendments to FRS 102 and the other UK and Ireland accounting standards, although many of these are editorial and/or clarifications of existing requirements. FRED 67 focuses on incremental improvements and clarifications to FRS 102, and is intended to improve the cost-effectiveness of financial reporting. Questions 2 to 5 address the principal changes proposed.

Question 1

Overall do you agree with the approach of FRED 67 being to focus, at this stage, on incremental improvements and clarifications to FRS 102? If not, why not?

Question 2

FRED 67 proposes to amend the criteria for classifying a financial instrument as 'basic' or 'other'. This will mean that if a financial instrument does not meet the specific criteria in paragraph 11.9, it might still be classified as basic if it is consistent with the description in paragraph 11.9A.

Do you agree that this is a proportionate and practical solution to the implementation issues surrounding the classification of financial instruments, which will allow more financial instruments to be measured at amortised cost, whilst maintaining the overall approach that the more relevant information about complex financial instruments is fair value? If not, why not?

Question 3

FRED 67 proposes that a basic financial liability of a small entity that is a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person) can be accounted for at transaction price, rather than present value (see paragraph 11.13A). This practical solution will provide relief to small entities that receive non-interest-bearing loans from directors, by no longer requiring an estimate to be made of a market rate of interest in order to discount the loan to present value. Do you agree with this proposal? If not, why not?

Question 4

FRED 67 proposes to amend the definition of a financial institution (see the draft amendments to Appendix I: Glossary), which impacts on the disclosures about financial instruments made by such entities. As a result, fewer entities will be classified as financial institutions. However, all entities, including those no longer classified as financial institutions, are encouraged to consider whether additional disclosure is required when the risks arising from financial instruments are particularly significant to the business (see paragraph 11.42). Do you agree with this proposal? If not, why not?

Question 5

FRED 67 proposes to remove the three instances of the 'undue cost or effort exemption' (see paragraphs 14.10, 15.15 and 16.4) that are currently within FRS 102, but, when relevant, to replace this with an accounting policy choice. The FRC does not intend to introduce any new undue cost or effort exemptions in the future, but will consider introducing either simpler accounting requirements or accounting policy choices if considered necessary to address cost and benefit considerations.

As a result, FRED 67 proposes:

(a) an accounting policy choice for investment property rented to another group entity, so that they may be measured at cost (less depreciation and impairment) whilst all other investment property are measured at fair value (see paragraphs 16.4A and 16.4B); and

(b) revised requirements for separating intangible assets from the goodwill acquired in a business combination, which will require fewer intangible assets to be recognised separately. However, entities will have the option to separate more intangible assets if it is relevant to reporting the performance of their business (see paragraph 18.8 and disclosure requirements in paragraph 19.25B).

Do you agree with these proposals? If not, why not?

Question 6

Please provide details of any other comments on the proposed amendments, including the editorial amendments to FRS 102 and consequential amendments to the other FRSs.

Question 7

FRED 67 includes transitional provisions (see paragraph 1.19). Do you agree with these proposed transitional provisions? If not, why not?

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

Question 8

Following a change in legislation the FRC is now required to complete a Business Impact Target assessment. A provisional assessment for these proposals is set out in the Consultation stage impact assessment within this FRED.

The overall impact of the proposals is expected to be a reduction in the costs of compliance. In relation to the *Consultation stage impact assessment*, do you have any comments on the costs or benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 135.

[Draft] Amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

Triennial Review 2017 – Incremental improvements and clarifications

[Draft] Amendments to Section 1 *Scope*

1 The following paragraphs set out the [draft] amendments to Section 1 *Scope* (deleted text is struck through, inserted text is underlined).

2 Paragraph 1.2 is amended as follows:

1.2 The requirements of this FRS are applicable to **public benefit entities** and other entities, not just to companies. However, those paragraph numbers prefixed with 'PBE' shall only be applied by public benefit entities, and shall not be applied directly, or by analogy, by entities that are not public benefit entities, other than, when~~re~~ specifically directed, entities within a **public benefit entity group**. Public benefit entities shall apply all paragraphs prefixed with 'PBE'.

3 The following sub-heading (underlined) and paragraph 1.7A are inserted as follows:

Application of Statements of Recommended Practice (SORPs)

1.7A **Statements of Recommended Practice (SORPs)** set out the circumstances in which they apply. When a SORP applies, an entity shall provide the disclosures required by paragraph 6 of FRS 100.

4 Paragraph 1.8 is amended as follows:

1.8 A **qualifying entity** (for the purposes of this FRS) which is not a **financial institution** may take advantage in its individual financial statements of the disclosure exemptions set out in paragraph 1.12. ~~In relation to paragraph 1.12(c) for **financial liabilities** that are held at **fair value** that are either part of a trading portfolio or are **derivatives**, the qualifying entity can take advantage of those exemptions. Where the qualifying entity has financial instruments held at fair value subject to the requirements of paragraph 36(4) of Schedule 1 to the **Regulations**, it must apply the disclosure requirements of Section 11 Basic Financial Instruments to those financial instruments held at fair value.~~

5 Paragraph 1.12(a) is deleted as follows:

1.12 (a) ~~The requirements of Section 4 *Statement of Financial Position* paragraph 4.12(a)(iv).~~[Deleted]

6 Paragraph 1.18 is inserted as follows:

1.18 In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. An entity shall apply the amendments set out in the [2017 triennial review amendments] for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all of the amendments are applied at the same time. If an entity applies the [2017 triennial review amendments] before 1 January 2019 it shall disclose that fact, unless it is a small entity, in which case it is encouraged to disclose that fact.

7 Paragraph 1.19 is inserted as follows:

1.19 When an entity first applies the [2017 triennial review amendments] as an exception to retrospective application it:

(a) may elect to measure an **investment property** rented to another group entity, that is measured on an ongoing basis at cost less accumulated **depreciation** and accumulated **impairment losses**, at its fair value and use that fair value as its **deemed cost** at the date of transition for the [2017 triennial review amendments]; and

(b) shall not apply paragraph 18.8 (as revised) to business combinations that were effected after the date of transition to FRS 102 and before the date of transition to the [2017 triennial review amendments], and therefore shall not subsume **intangible assets** that have been separately recognised within **goodwill**.

[Draft] Amendments to Section 1A
Small Entities

8 The following paragraphs set out the [draft] amendments to Section 1A *Small Entities* (deleted text is struck through, inserted text is underlined).

9 The sub-heading (underlined), paragraph 1A.4A and sequentially numbered footnote are inserted (subsequent footnotes are renumbered sequentially) as follows:

Statement of compliance with the small entities regime

1A.4A The financial statements of a small entity choosing to apply Section 1A of this FRS shall contain on the **statement of financial position**, in a prominent position above the signature, a statement that the financial statements are prepared in accordance with this regime[*footnote].

[*footnote] Section 414(3) of the Act requires companies to state that the accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies regime.

10 Paragraph 1A.7 is amended as follows:

1A.7 A small entity is not required to comply with the requirements of paragraphs 3.3, PBE3.3A, 3.9, 3.12, 3.13, 3.17, 3.18, 3.19 and 3.24(b) which relate to presentation and disclosure requirements that are not required of small companies in company law, Section 4 *Statement of Financial Position*, Section 5 *Statement of Comprehensive Income and Income Statement*, Section 6 *Statement of Changes in Equity and Statement of Income and Retained Earnings* and Section 7 *Statement of Cash Flows*.

11 Paragraph 1A.17 is split into two paragraphs and amended as follows:

1A.17 A small entity is not required to comply with the disclosure requirements of Section 3 (to the extent set out in paragraph 1A.7) and Sections 8 to 35 of this FRS. However, because those disclosures are usually considered relevant to giving a true and fair view, a small entity is encouraged to consider and provide any of those disclosures that are relevant to **material** transactions, other events and conditions of the small entity in order to meet the requirement set out in paragraphs 1A.5 and 1A.16.

1A.17A In accordance with paragraphs 3.16A and 3.16B a small entity need not provide a specific disclosure (including those set out in paragraph 1A.18 and Appendix C to this section) if the information is not material.

12 Paragraph 1A.20 is amended as follows:

1A.20 In addition, a small entity is encouraged to make the disclosures set out in Appendix D to this section, ~~which may nevertheless be~~ if necessary in order to give a true and fair view and meet the requirements of paragraph 1A.5.

13 The following sub-heading (underlined) is inserted above paragraph 1AC.33:

Information about employee numbers

1AC.33 *The notes to ...*

[Draft] Amendments to Section 3
Financial Statement Presentation

14 The following paragraphs set out the [draft] amendments to Section 3 *Financial Statement Presentation* (deleted text is struck through, inserted text is underlined).

15 Paragraph 3.16A is renumbered to 3.16B and a new paragraph 3.16A is inserted. The new paragraph 3.16B is amended and a sequentially numbered footnote is inserted (subsequent footnotes are renumbered sequentially) as follows:

3.16A When applying this FRS an entity shall decide, taking into consideration all relevant facts and circumstances, how it aggregates information in the financial statements, which includes the notes. An entity shall not reduce the **understandability** of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

3.16~~A~~B This FRS specifies information that is required to be included in the financial statements, which includes the notes. An entity need not provide a specific disclosure required by this FRS if the information resulting from that disclosure is not material. This is the case even if this FRS contains a list of specific requirements or describes them as minimum requirements[*footnote].

[*footnote] Certain disclosures required by the Act must be given regardless of materiality, such as the listing of subsidiary undertakings.

[Draft] Amendments to Section 4 *Statement of Financial Position*

16 The following paragraph sets out the [draft] amendments to Section 4 *Statement of Financial Position* (deleted text is struck through, inserted text is underlined).

17 Paragraph 4.12(a)(iv) is deleted as follows:

4.12 (a) (iv) ~~A reconciliation of the number of shares outstanding at the beginning and at the end of the period. This reconciliation need not be presented for prior periods.~~<u>[Deleted]</u>

[Draft] Amendments to Section 5
Statement of Comprehensive Income and Income Statement

18 The following paragraphs set out the [draft] amendments to Section 5 *Statement of Comprehensive Income and Income Statement* (deleted text is struck through, inserted text is underlined).

19 Paragraph 5.5B is amended as follows:

5.5B An entity choosing ...

(f) as set out in paragraph 5.7E (including a column identified as **discontinued operations**) a single amount comprising the total of:

(i) the post-tax profit or loss of a discontinued operation~~,~~; and

(ii) the post-tax gain or loss ~~recognised on the remeasurement of~~ attributable to the impairment or on the disposal of the **assets** or **disposal group(s)** constituting discontinued operations.

...

In addition, an analysis of expenses shall be presented, either in the income statement or in the notes to the **financial statements**, which is equivalent to what would have been presented if paragraph 5.5 had been applied.

20 Paragraph 5.9B is amended as follows:

5.9B This FRS does not require disclosure of 'operating profit'. However, if an entity elects to disclose ~~the results of **operating activities**~~ operating profit the entity should ensure that the amount disclosed is representative of activities that would normally be regarded as 'operating'. For example, it would be inappropriate to exclude items clearly related to operations (such as **inventory** write-downs, profits or losses on the sale of **fixed assets** and restructuring and relocation expenses) because they occur irregularly or infrequently or are unusual in amount. Similarly, it would be inappropriate to exclude items on the grounds that they do not involve **cash flows**, such as **depreciation** and **amortisation** expenses.

21 The subheading above paragraph 5.11 and paragraph 5.11 are deleted as follows:

~~**Analysis of expenses**~~

5.11 ~~Unless otherwise required under the Regulations, an entity shall present an analysis of expenses using a classification based on either the nature of expense or the function of expenses within the entity, whichever provides information that is reliable and more relevant.~~

~~**Analysis by nature of expense**~~

~~(a) Under this method of classification, expenses are aggregated in the statement of comprehensive income (or in the income statement, under the two-statement approach) according to their nature (eg depreciation, raw materials and consumables and staff costs), and are not reallocated among various functions within the entity.~~

~~**Analysis by function of expense**~~

~~(b) Under this method of classification, expenses are aggregated according to their function as part of cost of sales or, for example, the costs of distribution or administrative activities.~~[Deleted]

22 Appendix to Section 5 is amended as follows:

Example showing presentation of discontinued operations

This appendix accompanies, but is not part of, Section 5. It provides guidance on applying the requirements of Section 5 paragraph 5.7E for presenting discontinued operations. The example illustrates the presentation of comprehensive income in a single statement and the classification of expenses within profit by function. A columnar format is used in order to present a single line item as required by paragraph 5.7E, whilst still complying with the requirements of the Act to show totals for ~~ordinary activities of~~ items such as turnover, profit or loss before taxation and tax.

Statement of comprehensive income

for the year ended 31 December 20X1

	20X1			20X0		
	Continuing operations	**Discontinued operations**	**Total**	Continuing operations (as restated)	Discontinued operations (as restated)	Total
	CU	**CU**	**CU**	CU	CU	CU
Turnover	**4,200**	**1,232**	**5,432**	3,201	1,500	4,701
Cost of Sales	**(2,591)**	**(1,104)**	**(3,695)**	(2,281)	(1,430)	(3,711)
Gross profit	**1,609**	**128**	**1,737**	920	70	990
Administrative expenses	**(452)**	**(110)**	**(562)**	(418)	(120)	(538)
Other operating income	**212**	**–**	**212**	198	–	198
~~Profit on disposal of operations~~	**–**	~~**301**~~	~~**301**~~	–	–	–
Operating profit	**1,369**	~~**319**~~ **18**	~~**1,688**~~ **1,387**	700	(50)	650
Profit on disposal of operations	–	301	301	–	–	–
Interest receivable and similar income	**14**	**–**	**14**	16	–	16
Interest payable and similar charges	**(208)**	**–**	**(208)**	(208)	–	(208)
Profit on ordinary activities before tax	**1,175**	**319**	**1,494**	**508**	**(50)**	**458**
Taxation	(390)	(4)	(394)	(261)	3	(258
Profit on ordinary activities after taxation and profit for the financial year	**785**	**315**	**1,100**	**247**	**(47)**	**200**

...

[Draft] Amendments to Section 7
Statement of Cash Flows

23 The following paragraphs set out the [draft] amendments to Section 7 *Statement of Cash Flows* (deleted text is struck through, inserted text is underlined).

24 Paragraph 7.5 is amended as follows:

7.5 Investing activities are ...

(c) cash payments to acquire **equity** or debt instruments of other entities (including the gross cash flows arising from acquisitions of **subsidiaries**) and interests in **joint ventures** (other than payments for those instruments classified as cash equivalents or held for dealing or trading);

(d) cash receipts from sales of equity or debt instruments of other entities (including the gross cash flows arising from disposals of subsidiaries) and interests in joint ventures (other than payments for those instruments classified as cash equivalents or held for dealing or trading);

...

25 Paragraph 7.7(a) is amended as follows:

7.7 (a) the indirect method, whereby a measure of profit or loss disclosed in the statement of comprehensive income (or separate income statement if presented) is adjusted for the effects of non-cash transactions, any deferrals or accruals of past or future operating cash receipts or payments, and items of **income** or **expense** associated with investing or financing cash flows; or

26 Paragraph 7.8 is amended as follows:

7.8 Under the indirect method, an entity shall present a reconciliation determining the net cash flow from operating activities ~~is determined~~ by adjusting a measure of profit or loss disclosed in the statement of comprehensive income (or separate income statement if presented) for the effects of:

(a) ...

27 Paragraph 7.22 is inserted as follows:

7.22 An entity shall disclose an analysis of changes in **net debt** from the beginning to the end of the reporting period showing changes resulting from:

(a) the cash flows of the entity;

(b) the acquisition and disposal of subsidiaries;

(c) new finance leases entered into;

(d) other non-cash changes; and

(e) the recognition of changes in market value and exchange rate movements.

When several balances (or parts thereof) from the statement of financial position have been combined to form the components of opening and closing net debt, sufficient detail shall be shown to enable users to identify these balances.

This analysis need not be presented for prior periods.

[Draft] Amendments to Section 8 *Notes to the Financial Statements*

28 The following paragraphs set out the [draft] amendments to Section 8 *Notes to the Financial Statements* (deleted text is struck through, inserted text is underlined).

29 Paragraph 8.5 is amended as follows:

* 8.5 An entity shall disclose ~~the following in the summary of~~ <u>its</u> significant accounting policies <u>comprising</u>:

(a) ...

[Draft] Amendments to Section 9 *Consolidated and Separate Financial Statements*

30 The following paragraphs set out the [draft] amendments to Section 9 *Consolidated and Separate Financial Statements* (deleted text is struck through, inserted text is underlined).

31 Paragraph 9.9 is amended as follows:

9.9 A subsidiary shall be excluded from consolidation where:

(a) severe long-term restrictions substantially hinder the exercise of the rights of the parent over the **assets** or management of the subsidiary;~~ or~~

(b) the interest in the subsidiary is **held exclusively with a view to subsequent resale**~~;~~ and the subsidiary has not previously been consolidated in the consolidated financial statements prepared in accordance with this FRS~~.~~; or

(c) its inclusion is not material for the purpose of giving a true and fair view (but two or more subsidiaries may be excluded only if they are not material taken together).

32 Paragraph 9.13(d)(i) is amended as follows:

9.13 (d) (i) ~~the amount of~~ the non-controlling interest's share in the net identifiable assets ~~amount of the~~ (consisting of the identifiable assets, liabilities and contingent liabilities as recognised and measured in accordance with Section 19 *Business Combinations and Goodwill*) at the date of the original combination; and

33 Paragraph 9.23 is amended as follows:

9.23 The following disclosures ...

(d) the nature and extent of any significant restrictions (eg resulting from borrowing arrangements or regulatory requirements) on the ability of subsidiaries to transfer funds to the parent in the form of cash dividends or to repay loans;~~ and~~

(e) the name of any subsidiary excluded from consolidation and the reason for exclusion~~.~~; and

(f) the nature and extent of its interests in unconsolidated special purpose entities, and the risks associated with those interests.

34 Paragraph 9.26 is amended as follows:

9.26 When ~~an entity that is~~ a parent prepares separate financial statements~~ and describes them as conforming to this FRS, those financial statements shall comply with all of the requirements of this FRS. The parent~~ it shall select and adopt a policy of accounting for its investments in subsidiaries, associates and jointly controlled entities in those separate financial statements either:

(a) ...

~~The~~ An entity shall apply the same accounting policy for all investments in a single class (for example investments in subsidiaries~~, associates or jointly controlled entities~~ that are held as part of an investment portfolio, those that are not so held, associates or jointly controlled entities), but it can elect different policies for different classes.

35 Paragraph 9.33A is inserted as follows:

9.33A It is possible for an entity to be owned by a trust established for the benefit of employees without the entity controlling the trust. An example of such an entity would be a company whose shares are held in a trust for the benefit of the employees but the shares never vest in individual employees, with dividends from the company being distributed to employees solely in accordance with the provisions of the trust deed.

[Draft] Amendments to Section 11 *Basic Financial Instruments*

36 The following paragraphs set out the [draft] amendments to Section 11 *Basic Financial Instruments* (deleted text is struck through, inserted text is underlined).

37 Paragraph 11.2 is amended and a sequentially numbered footnote is inserted (subsequent footnotes are renumbered sequentially) as follows:

11.2 An entity shall ...

(b) the **recognition** and **measurement** provision of IAS 39 *Financial Instruments: Recognition and Measurement* ~~(as adopted for use in the EU)~~ [*footnote], the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A ~~or~~ and 12.25B; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* and~~/or~~ IAS 39 (as amended following the publication of IFRS 9) subject to the restriction in paragraph 11.2A, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A ~~or~~ and 12.25B;

...

[*footnote] Until IAS 39 is superseded by IFRS 9 *Financial Instruments*, an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, by reference to the IFRS publication titled *International Financial Reporting Standards IFRS Consolidated without early application*. When IAS 39 is superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 superseding IAS 39. A copy of that version will be retained for reference on the SME web pages of the IASB website (http://go.ifrs.org/IFRSforSMEs). Entities that apply the so-called 'EU carve-out of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39, and choose to continue to apply IAS 39 after it is superseded by IFRS 9, may also continue to use the carve-out.

38 Paragraph 11.6(b) is amended as follows:

11.6 (b) **derivatives**, eg options, rights, warrants, futures contracts, forward contracts and interest rate swaps ~~that can be settled in cash or by exchanging another financial instrument~~;

39 Paragraph 11.6A is inserted as follows:

11.6A The initial classification of a financial instrument shall take into account the contractual terms including those relating to future variations. Once the classification of a financial instrument is determined at initial recognition re-assessment is only required subsequently when there has been a modification of contractual terms that is relevant to an assessment of the classification.

40 Paragraph 11.8 is amended as follows:

11.8 An entity shall account for the following financial instruments as basic financial instruments in accordance with ~~Section 11~~ this section:

...

(b) a debt instrument (such as an account, note, or loan receivable or payable) that meets the conditions in paragraph 11.9 and is not a derivative financial instrument ~~described in paragraph 11.6(b)~~;

(bA) a debt instrument that, whilst not meeting the conditions in paragraph 11.9, nevertheless is consistent with the description in paragraph 11.9A, and is not a derivative financial instrument;

(c) commitments to receive or make a loan to another entity that:

(i) cannot be settled net in cash; and

(ii) when the commitment is executed, are expected to meet the conditions in paragraph 11.9 or be consistent with the description in paragraph 11.9A; and

(d) an investment in a non-derivative instrument that is equity of the issuer (eg most **ordinary shares** and certain preference shares)~~ non-convertible preference shares and non-puttable **ordinary shares** or preference shares~~.

41 Paragraph 11.9 is amended as follows:

11.9 A debt instrument that satisfies the following conditions shall be considered a basic financial instrument~~The conditions a debt instrument shall satisfy in accordance with paragraph 11.8(b) are~~:

...

(c) There are no c~~C~~ontractual provisions contingent on future events that permit or require the issuer (the borrower) to prepay a debt instrument or permit or require the holder (the lender) to put it back to the issuer before maturity ~~are not contingent on future events~~ other than to protect:

(i) ...

The inclusion of contractual terms that, as a result of the early termination, require the issuer to compensate the holder for the early termination do~~es~~ not, in ~~itself~~themselves, constitute a breach of ~~this~~ the conditions of paragraph 11.9.

...

42 Paragraph 11.9A is inserted above the examples that follow paragraph 11.9 as follows:

11.9A A debt instrument not meeting the conditions in paragraph 11.9 shall, nevertheless, be considered a basic financial instrument if it gives rise to cash flows on specified dates that constitute repayment of the principal advanced, together with reasonable compensation for the time value of money, credit risk and other basic lending risks and costs (eg liquidity risk, administrative costs associated with holding the instrument and lender's profit margin). Contractual terms that introduce exposure to unrelated risks or volatility (eg changes in equity prices or commodity prices) are inconsistent with this.

43 The following amendments are made to the 'Examples – Debt instruments' that now follow paragraph 11.9A:

2 **A fixed interest rate loan with an initial tie-in period which reverts to the bank's standard variable interest rate after the tie-in period**

The initial fixed rate is a return permitted by paragraph 11.9(a)(ii). A bank's standard variable interest rate is an observable interest rate and, in accordance with the definition of a variable rate, is a permissible link~~.~~ and so is i~~I~~n accordance with paragraph 11.9(a)(ii)~~ the variable rate should be a positive rate~~.

The variation of the interest rate after the tie-in period is non-contingent and, since the new rate (ie the bank's standard variable rate) meets the condition of paragraph 11.9(a), the conditions of paragraph 11.9(aB)(i) ~~is~~ are met.

4 **A loan with interest payable at the bank's standard variable rate less 1 per cent throughout the life of the loan, with the condition that the interest rate can never fall below 2 per cent**

Paragraph 11.9(aB)(i)(1) permits variation of a return to a holder (lender) that is contingent on a change of a contractual variable rate. In this example the contractual variable rate is the bank's standard variable rate. The variation of the return to the holder is between the bank's standard variable rate less 1 and 2 per cent, depending on the bank's standard variable rate. For example, if the bank's standard variable rate is less than 3 per cent, the return to the holder is fixed at 2 per cent; if the bank's standard variable rate is higher than 3 per cent, the return to the holder is the bank's standard variable rate less 1 per cent. The contractual variation meets the condition of paragraph 11.9(aB)(i)(1).

The holder is protected against the risk of losing the principal amount of the loan via the interest rate floor of 2 per cent. The ~~requirement~~ condition of paragraph 11.9(b) is therefore also met.

4A **A loan with a condition that the interest rate is reset to a higher rate if a set number of payments are missed**

In this case the change in interest rate is contingent on a set number of payments being missed. The missed payments are an indicator of credit deterioration of the issuer. The interest rate reset condition therefore meets the condition in paragraph 11.9(aB)(i)(2), and the interest rate reset condition would not result in the loan being measured at fair value in accordance with Section 12.

5 **Interest on a loan is referenced to 2 times the bank's standard variable rate**

In accordance with the definition of a variable rate, the contractual interest rate payable can be linked to a single observable interest rate. A bank's standard variable rate is an observable rate and meets the definition of a variable rate, but the rate in this example is 2 times the bank's standard variable rate and therefore the link to the observable interest rate is leveraged. As a result of the leverage, ~~Therefore,~~ the rate in this example is not a variable rate as described in paragraph 11.9(a).

A leveraged link to an observable interest rate is also inconsistent with the description in paragraph 11.9A because it increases the variability of cash flows so that they do not represent reasonable compensation for the time value of money, credit risk or other basic lending risks and costs. The instrument is measured at fair value in accordance with Section 12.

6 **Interest on a loan is charged at 10 per cent less 6-month LIBOR over the life of the loan**

The effect of combining a negative variable rate with a positive fixed rate is that the interest on the loan increases as and when the variable rate decreases and vice versa (so called inverse floating interest).

~~Under~~In accordance with paragraph 11.9(a)(iv) the combination of positive or negative fixed rate and positive variable rate is a permitted return. The variable rate (6-month LIBOR) meets the definition of a variable rate, as the rate is a quoted interest rate. However, since the variable rate is negative (minus 6-month LIBOR), the rate is in breach of the condition in paragraph 11.9(a)(iv).

The negative variable rate is also inconsistent with the description in paragraph 11.9A because the interest charged increases when reasonable compensation for the time value of money, credit risk or other basic lending risks and costs would decrease, and vice versa. The instrument is measured at fair value in accordance with Section 12.

7 Interest on a GBP denominated mortgage is linked to the UK Land Registry House Price Index (HPI) plus 3 per cent

In accordance with paragraph 11.9(aA) the holder's return may be linked to an index of general price inflation of the currency of the debt instrument. The mortgage is denominated in GBP and a permitted inflation index would be an index that measures general price inflation of goods and services denominated in GBP.

As ~~T~~the HPI measures inflation for residential properties in the UK and is not a measure of general price inflation,~~. T~~the return to the holder ~~therefore~~ fails to meet the condition in paragraph 11.9(aA).

The mortgage also does not comply with the description in paragraph 11.9A because the linkage to the HPI introduces exposure to a risk that is not consistent with a basic lending arrangement. The instrument is measured at fair value in accordance with Section 12.

8 Early repayment on subordinated debt contingent on repayment of senior debt

Bank A lends CU10 million to Entity S. Entity S can prepay this loan at any time. Entity S's parent, Entity P, also lends it CU10 million. The loans have the same maturity date but the loan from Bank A is senior to the loan from Entity P. Entity S has the right to repay the loan to Entity P at par plus accrued interest at any time after the loan from Bank A has been repaid.

If early repayment of both loans is within Entity S's control then the prepayment option in the loan from Entity P is not considered to be contingent, does not breach the condition in paragraph 11.9(c) and does not therefore cause the loan from Entity P to be measured at fair value in accordance with section 12.

If the terms were such that early repayment of the loan to Bank A was not within the control of Entity S, then the prepayment option in the loan from Entity P would be contingent on a future event other than those listed in paragraph 11.9(c). The nature of the contingent event may be an indicator when assessing whether a debt instrument is consistent with the description in paragraph 11.9A, but is not in itself a determinative factor. The restriction on the prepayment feature in the loan from Entity P would be consistent with the description in paragraph 11.9A because it exists simply to enforce its subordination relative to another debt instrument. The prepayment option would not therefore cause the loan from Entity P to be measured at fair value in accordance with Section 12.

9 A loan with interest equal to a percentage of the profits of the issuer

The contractual return is neither a fixed rate or amount, nor a variable rate linked to a single observable interest rate or index of general price inflation. Therefore, the return breaches the conditions in paragraphs 11.9(a) and 11.9(aA).

In addition, the loan does not comply with the description in paragraph 11.9A because the linkage to the profits of the issuer introduces exposure to a risk that is not consistent with a basic lending arrangement.

The instrument is within the scope of Section 12 and will be measured at fair value by the holder. However, the issuer will need to consider whether measurement at fair value is permitted by the Small Company Regulations, the Regulations, the Small LLP Regulations or the LLP Regulations (see paragraph A4.12A). If the issuer concludes that the issuer's profits are 'a non-financial variable specific to a party to a contract' and that the instrument could not otherwise be measured at fair value under IFRS as adopted in the EU, then it must measure the instrument at amortised cost, rather than at fair value, in accordance with paragraph 12.8(c).

44 Paragraph 11.13 is amended as follows:

11.13 When a financial asset or financial liability is recognised initially, an entity shall measure it at the transaction price (~~including~~ adjusted for **transaction costs**, except in the initial measurement of financial assets and liabilities that are subsequently measured at fair value through profit or loss) unless the arrangement constitutes, in effect, a financing transaction. An arrangement constitutes a financing transaction ~~may take place in connection with the sale of goods or services, for example,~~ if payment is deferred beyond normal business terms, for example, providing interest-free credit to a buyer for the sale of goods, or is financed at a rate of interest that is not a market rate, for example, an interest-free or below market interest rate loan made to an employee. Except as set out in paragraph 11.13A, i~~I~~f the arrangement constitutes a financing transaction, the entity shall measure the financial asset or financial liability at the **present value** of the future payments discounted at a market rate of interest for a similar debt instrument as determined at initial recognition adjusted for transaction costs.

45 The following amendments are made to the 'Examples – financial assets' that follow paragraph 11.13:

3 For an item sold to a customer on two-years interest-free credit, a receivable is recognised at the present value of the cash receivable discounted using the prevailing market rate of interest for a similar receivable. In transactions conducted on an arm's length basis the cash sales price would normally approximate to the present value. ~~current cash sale price for that item (in financing transactions conducted on an arm's length basis the cash sales price would normally approximate to the present value). If the current cash sale price is not known, it may be estimated as the present value of the cash receivable discounted using the **prevailing market rate(s)** of interest for a similar receivable.~~

46 Paragraph 11.13A is inserted below the 'Examples – financial liabilities' as follows:

11.13A As an exception to paragraph 11.13, the following financing transactions may be measured initially at transaction price:

(a) a basic financial liability of a **small entity** that is a loan from a director who is a natural person and a shareholder in the small entity (or a **close member of the family of that person**); and

(b) a public benefit entity concessionary loan (see paragraph PBE11.1A).

47 Paragraph 11.14 is amended as follows:

11.14 (a) Debt instruments that meet the conditions in paragraph 11.8(b) shall be measured at amortised cost using the **effective interest method**. Paragraphs 11.15 to 11.20 provide guidance on determining amortised cost using the effective interest method. For non-interest bearing ~~D~~debt instruments that are payable or receivable within one year, amortised cost shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received (ie net of impairment—see paragraphs 11.21 to 11.26) unless the arrangement constitutes, in effect, a financing transaction (see paragraph 11.13). ~~If the arrangement constitutes a financing transaction, the entity shall measure the debt instrument at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.~~

...

(d) Investments in non-derivative instruments that are equity of the issuer ~~non-convertible preference shares and non-puttable ordinary shares or preference shares~~ shall be measured as follows: ...

(i) ....

48 Paragraph 11.16(b) is amended as follows:

11.16 (b) in the absence of cash settlements, the interest expense (income) in a period equals the carrying amount of the financial liability (asset) at the beginning of a period multiplied by the effective interest rate for the period.

49 Paragraph 11.33(c) is amended as follows:

11.33 (c) the entity, despite having retained some, but not substantially all, ~~significant~~ risks and rewards of ownership, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity shall:

(i) ...

50 Paragraph 11.39 is deleted as follows:

11.39 ~~The disclosures below make reference to disclosures for certain financial instruments measured at fair value through profit or loss. Entities that have only basic financial instruments (and therefore do not apply Section 12), and have not chosen to designate financial instruments as at fair value through profit or loss (in accordance with paragraph 11.14(b)) will not have any financial instruments measured at fair value through profit or loss and hence will not need to provide such disclosures.~~[Deleted]

51 Paragraph 11.42 is amended as follows:

11.42 An entity shall disclose information that enables users of its financial statements to evaluate the significance of financial instruments for its **financial position** and **performance**. For example, for long-term debt such information would normally include the terms and conditions of the debt instrument (such as interest rate, maturity, repayment schedule, and restrictions that the debt instrument imposes on the entity). When the risks arising from financial instruments are particularly significant to the business, additional disclosure may be required. Paragraphs 34.19 to 34.33, which set out disclosure requirements for **financial institutions**, may provide examples of disclosures relevant in such cases.

52 Paragraph 11.44 is amended as follows:

11.44 If a reliable measure of fair value is no longer available for ~~ordinary or preference shares~~ any financial instruments that would otherwise be required to be measured at fair value through profit or loss in accordance with this FRS, the entity shall disclose that fact and the carrying amount of those financial instruments.

53 In paragraph 11.48B, the term 'financial institution' is no longer shown in bold type. The sub-heading (not underlined) above paragraph 11.48B and paragraph 11.48B are amended as follows:

Financial institutions and retirement benefit plans

11.48B A financial institution ~~(other than a **retirement benefit plan**)~~ shall, in addition, apply the requirements of paragraph 34.17.

[Draft] Amendments to Section 12
Other Financial Instruments Issues

54 The following paragraphs set out the [draft] amendments to Section 12 *Other Financial Instruments Issues* (deleted text is struck through, inserted text is underlined).

55 Paragraph 12.2 is amended and a sequentially numbered footnote is inserted (subsequent footnotes are renumbered sequentially) as follows:

12.2 An entity shall ...

(b) the **recognition** and **measurement** provision of IAS 39 *Financial Instruments: Recognition and Measurement* ~~(as adopted for use in the EU)~~ [*footnote], the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A ~~or~~ and 12.25B; or

(c) the recognition and measurement provisions of IFRS 9 *Financial Instruments* and~~/or~~ IAS 39 (as amended following the publication of IFRS 9) subject to the restriction in paragraph 11.2A, the disclosure requirements of Sections 11 and 12 and the presentation requirements of paragraphs 11.38A ~~or~~ and 12.25B;

...

[*footnote] Until IAS 39 is superseded by IFRS 9 *Financial Instruments*, an entity shall apply the version of IAS 39 that is in effect at the entity's reporting date, by reference to the IFRS publication titled *International Financial Reporting Standards IFRS Consolidated without early application*. When IAS 39 is superseded by IFRS 9, an entity shall apply the version of IAS 39 that applied immediately prior to IFRS 9 superseding IAS 39. A copy of that version will be retained for reference on the SME web pages of the IASB website (http://go.ifrs.org/IFRSforSMEs). Entities that apply the so-called 'EU carve-out of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39, and choose to continue to apply IAS 39 after it is superseded by IFRS 9, may also continue to use the carve-out.

56 Paragraph 12.15A and a sequentially numbered footnote are inserted (subsequent footnotes are renumbered sequentially) as follows:

12.15A For a fair value hedge of interest rate exposure of a portfolio of financial assets or financial liabilities (and only for such a hedge), an entity may apply the hedge accounting requirements in IAS 39[*footnote] instead of those in this FRS. In that case, the entity must also apply the specific requirements for the fair value hedge accounting for a portfolio hedge of interest rate risk and designate as the hedged item a portion that is a currency amount rather than the individual assets or liabilities (see paragraphs 81A, 89A and AG114 to AG132 of IAS 39).

[*footnote] Entities that, through the accounting policy choice in paragraph 11.2, previously applied the so-called 'EU carve-out of IAS 39', which amended paragraph 81A and related Application Guidance in IAS 39, may also continue to use the carve-out.

57 Paragraph 12.17B is amended as follows:

12.17B For a hedge of foreign currency risk, the foreign currency risk component of a financial instrument, provided that it is not a **derivative** financial instrument ~~as described in paragraph 11.6(b)~~, may be a hedging instrument.

[Draft] Amendments to Section 13 *Inventories*

58 The following paragraphs set out the [draft] amendments to Section 13 *Inventories* (deleted text is struck through, inserted text is underlined).

59 Paragraph 13.22 is amended as follows:

13.22 An entity shall ...

(c) ~~the amount of inventories recognised as an expense during the period~~<u>[deleted]</u>;

(d) <u>the carrying amount of impairment losses at the beginning and end of the reporting period, and </u>impairment losses recognised or reversed in profit or loss in accordance with Section 27 *Impairment of Assets*<u> (this reconciliation need not be presented for prior periods)</u>; and

...

[Draft] Amendments to Section 14 *Investments in Associates*

60 The following paragraphs set out the [draft] amendments to Section 14 *Investments in Associates* (deleted text is struck through, inserted text is underlined).

61 In paragraph 14.10 the term 'other comprehensive income' is now shown in bold type and the paragraph is amended as follows:

14.10 At each reporting date, an investor that is not a parent, that chooses to adopt the fair value model, shall measure its investments in associates at fair value~~, with~~ using the fair value guidance in paragraphs 11.27 to 11.32. C~~c~~hanges in fair value shall be recognised in **other comprehensive income** in accordance with paragraphs 17.15E and 17.15F~~, using the fair value guidance in paragraphs 11.27 to 11.32. An investor using the fair value model shall use the cost model for any investment in an associate for which it is impracticable to measure fair value reliably without undue cost or effort~~.

[Draft] Amendments to Section 15 *Investments in Joint Ventures*

62 The following paragraphs set out the [draft] amendments to Section 15 *Investments in Joint Ventures* (deleted text is struck through, inserted text is underlined).

63 Paragraph 15.15 is amended as follows:

15.15 At each reporting date, a venturer that is not a parent, that chooses to adopt the fair value model, shall measure its investments in jointly controlled entities at fair value using the fair value guidance in paragraphs 11.27 to 11.32. Changes in fair value shall be recognised in **other comprehensive income** in accordance with paragraphs 17.15E and 17.15F. ~~A venturer using the fair value model shall use the cost model for any investment in a jointly controlled entity for which it is **impracticable** to measure fair value reliably without undue cost or effort.~~

[Draft] Amendments to Section 16 *Investment Property*

64 The following paragraphs set out the [draft] amendments to Section 16 *Investment Property* (deleted text is struck through, inserted text is underlined).

65 Paragraph 16.1 is split into two paragraphs and amended as follows:

16.1 This section applies to ~~accounting for investments in land or buildings that meet the definition of~~ **investment property** ~~in paragraph 16.2~~ and ~~some~~ property interests held by a lessee under an **operating lease** ~~(see paragraph 16.3)~~ that are ~~treated~~ classified as ~~like~~ investment property (see paragraph 16.3)~~. Only investment property whose **fair value** can be measured reliably without undue cost or effort, on an on-going basis is accounted for in accordance with this section at fair value through **profit or loss**~~.

16.1A This section does not apply to ~~All other~~ investment property rented to another **group** entity and transferred to **property, plant and equipment** (see paragraph 16.4A)~~using the cost model in Section 17 *Property, Plant and Equipment* and remains within the scope of Section 17 unless a reliable measure of fair value becomes available and it is expected that fair value will be reliably measurable on an on-going basis~~.

66 The sub-heading (underlined) is inserted above paragraph 16.3 and paragraph 16.3 is amended as follows:

Classification

16.3 A property interest that is held by a lessee under an operating lease may be classified and accounted for as investment property using this section if, and only if, the property would otherwise meet the definition of an investment property~~ and the lessee can measure the fair value of the property interest without undue cost or effort on an on-going basis~~. This classification alternative is available on a property-by-property basis.

67 Paragraph 16.4 is amended as follows:

16.4 Mixed use property shall be separated between investment property and property, plant and equipment.~~ However, if the fair value of the investment property component cannot be measured reliably without undue cost or effort, the entire property shall be accounted for as property, plant and equipment in accordance with Section 17.~~

68 The sub-heading (underlined) and paragraphs 16.4A and 16.4B are inserted as follows:

Investment property rented to another group entity

16.4A An entity that rents investment properties to another group entity shall account for those properties in its **individual financial statements** either:

(a) at **fair value** with changes in fair value recognised in **profit or loss** in accordance with this section; or

(b) transfer them to property, plant and equipment and apply the cost model in accordance with Section 17 *Property, Plant and Equipment*.

16.4B When only part of a property is rented to another group entity (and the remainder is used for other purposes such as being rented to an external third party or owner-occupied), paragraph 16.4A only applies to the component of that property that is rented to another group entity.

69 The sub-heading above paragraph 16.7 and paragraph 16.7 are amended as follows:

Subsequent m~~M~~easurement ~~after recognition~~

16.7 An i~~I~~nvestment property ~~whose fair value cannot be measured reliably without undue cost of effort~~ shall be measured at fair value at each **reporting date** with changes in fair value recognised in profit or loss. If a property interest held under a lease is classified as an investment property, the item accounted for at fair value is that interest and not the underlying property. Paragraphs 11.27 to 11.32 provide guidance on determining fair value. ~~An entity shall account for all other investment property as property, plant and equipment using the cost model in Section 17.~~

70 Paragraph 16.8 is deleted as follows:

16.8 ~~If a reliable measure of fair value is no longer available without undue cost or effort for an item of investment property measured using the fair value model, the entity shall thereafter account for that item as property, plant and equipment in accordance with Section 17 until a reliable measure of fair value becomes available. The~~ ~~**carrying amount**~~ ~~of the investment property on that date becomes its cost under Section 17. Paragraph 16.10(e)(iii) requires disclosure of this change. It is a change of circumstances and not a change in~~ ~~**accounting policy**~~~~.~~ [Deleted]

71 Paragraph 16.9 is amended as follows:

16.9 ~~Other than as required by paragraph 16.8, a~~An entity shall transfer a property to, or from, investment property only when the property first meets, or ceases to meet, the definition of investment property.

72 Paragraphs 16.9A and 16.9B are inserted as follows:

16.9A When a property ceases to meet the definition of an investment property (for example it becomes owner-occupied), the deemed cost for subsequent accounting as property, plant and equipment in accordance with Section 17 shall be its fair value at the date of change in use.

16.9B If an owner-occupied property becomes an investment property, an entity shall apply Section 17 up to the date of change in use. The entity shall treat any difference at that date between the **carrying amount** of the property in accordance with Section 17 and its fair value in the same way as a revaluation in accordance with Section 17.

73 Paragraph 16.10 is amended as follows:

16.10 An entity shall disclose the following ~~for all investment property account for at fair value through profit or loss (paragraph 16.7)~~:

...

(e) a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing separately:

...

(iii) transfers to and from property, plant and equipment ~~when a reliable measure of fair value is no longer available without undue cost or effort~~ (see paragraphs 16.~~8~~9 to 16.9B);

(iv) transfers to and from inventories ~~and owner-occupied property~~; and

...

[Draft] Amendments to Section 17
Property, Plant and Equipment

74 The following paragraphs set out the [draft] amendments to Section 17 *Property, Plant and Equipment* (deleted text is struck through, inserted text is underlined).

75 Paragraph 17.1 is amended as follows:

17.1 This section applies to~~ the accounting for ~~:

(a) **property, plant and equipment**~~ and to **investment property** whose **fair value** cannot be measured reliably without undue cost or effort. Section 16 *Investment Property* applies to investment property whose fair value can be measured reliably without undue cost or effort.~~; and

(b) **investment property** rented to another **group** entity when the reporting entity chooses to use the cost model in this section as permitted by paragraph 16.4A.

76 Paragraph 17.5 is amended as follows:

17.5 Items such as s~~S~~pare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**. ~~usually carried as **inventory** and recognised in **profit or loss** as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when an entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.~~

77 Paragraph 17.6 is amended as follows:

17.6 Parts of some items of property, plant and equipment may require replacement at regular intervals (eg the roof of a building). An entity shall add to the **carrying amount** of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 17.27 to 17.30 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part. Paragraph 17.16 provides that if the major components of an item of property, plant and equipment have significantly different patterns of consumption of economic benefits, an entity shall allocate the initial cost of the asset to its major components and depreciate each such component separately over its **useful life**.

78 Paragraph 17.31(e)(v) is amended as follows:

17.31 (e)(v) transfers to or from investment property~~ if a reliable measure of fair value becomes available or unavailable~~ (see paragraphs 16.~~8~~9 to 16.9B);

79 Paragraph 17.31A is inserted as follows:

17.31A An entity shall disclose the carrying amount at the end of the reporting period of investment property rented to another group entity, where the entity has chosen to account for such properties using the cost model in accordance with this section (see paragraph 16.4A).

[Draft] Amendments to Section 18 *Intangible Assets other than Goodwill*

80 The following paragraphs set out the [draft] amendments to Section 18 *Intangible Assets other than Goodwill* (deleted text is struck through, inserted text is underlined).

81 Paragraph 18.8 is amended as follows:

Acquisition as part of a business combination

18.8 ~~An i~~Intangible assets acquired in a business combination ~~is normally~~ shall be recognised~~ as an asset~~ separately from goodwill when:~~because when its fair value can be measured with sufficient reliability. However, an intangible asset acquired in a business combination is not recognised when it arises from legal or other contractual rights and there is no history or evidence of exchange transactions for the same or similar assets, and otherwise estimating fair value would be dependent on immeasurable variables.~~

(a) the recognition criteria set out in paragraph 18.4 are met;

(b) the intangible asset arises from contractual or other legal rights; and

(c) the intangible asset is separable (ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged either individually or together with a related contract, asset or liability).

An entity may additionally choose to recognise any or all intangible assets separately from goodwill for which only condition (a) above is met. When an entity chooses to recognise such intangible assets separately from goodwill it shall apply that policy consistently to the relevant class of intangible assets.

[Draft] Amendments to Section 19 *Business Combinations and Goodwill*

82 The following paragraphs set out the [draft] amendments to Section 19 *Business Combinations and Goodwill* (deleted text is struck through, inserted text is underlined).

83 Paragraph 19.12 is amended as follows:

19.12 When a business combination agreement provides for an adjustment to the cost of the combination contingent on future events, the acquirer shall include the estimated amount of that adjustment <u>(reflecting the time value of money, if material)</u> in the cost of the combination at the acquisition date if the adjustment is probable and can be measured reliably.

84 Paragraph 19.13 is amended as follows:

19.13 However, if the potential adjustment is not recognised at the acquisition date but subsequently becomes probable and can be measured reliably, the additional consideration shall be treated as an adjustment <u>(reflecting the time value of money, if material)</u> to the cost of the combination.

85 Paragraph 19.13A is inserted as follows:

<u>19.13A If the future events that at the acquisition date were expected to occur do not occur, or the estimate needs to be revised, the cost of the business combination shall be adjusted accordingly.</u>

86 Paragraph 19.13B is inserted as follows:

<u>19.13B The unwinding of any discounting shall be recognised as a finance cost in profit or loss in the period it arises.</u>

87 The sub-heading (not underlined) above paragraph 19.14 is amended as follows:

Allocating the cost of a business combination to the assets acquired and liabilities and contingent liabilities assumed <u>and recognising and measuring any non-controlling interest in the acquiree</u>

19.14 The acquirer shall ...

88 Paragraph 19.14A is inserted as follows:

<u>19.14A At the acquisition date, any non-controlling interest in the acquiree is stated at the non-controlling interest's share of the net amount of the identifiable assets, liabilities and provisions for contingent liabilities so recognised.</u>

89 Paragraph 19.15 is amended as follows:

19.15 Except for the items specified in paragraphs 19.15A to 19.15C, the acquirer shall recognise separately the acquiree's identifiable assets, liabilities and contingent liabilities at the acquisition date only if they satisfy the following criteria at that date:

(a) In the case of an asset ~~other than an intangible asset~~, it is probable that any associated future economic benefits will flow to the acquirer, and its fair value can be measured reliably.

...

(c) In the case of ~~an intangible asset or~~ a contingent liability, its fair value can be measured reliably.

90 The sub-heading (not underlined) above paragraph 19.22 is amended as followed:

Recognising and measuring g~~G~~oodwill

19.22 The acquirer shall ...

91 Paragraph 19.25B is inserted as follows:

19.25B When, as part of a business combination, an acquirer chooses to recognise intangible assets separately from goodwill that meet only condition (a) in paragraph 18.8, the acquirer shall disclose the nature of those intangible assets and the reason why they have been separated from goodwill.

[Draft] Amendments to Section 22 *Liabilities and Equity*

92 The following paragraphs set out the [draft] amendments to Section 22 *Liabilities and Equity* (deleted text is struck through, inserted text is underlined).

93 Paragraph 22.8 is amended as follows:

22.8 An entity shall measure ~~the~~ equity instruments, other than when merger relief or group reconstruction relief under sections 611 to 615 of the **Act** are applied or those accounted for in accordance with paragraphs 22.8A and 22.8B, at the fair value of the cash or other resources received or receivable, net of ~~direct costs of issuing the equity instruments~~**transaction costs**. If payment is deferred and the time value of money is **material**, the initial **measurement** shall be on a **present value** basis.

94 Paragraph 22.8A is inserted as follows:

22.8A An entity shall not apply paragraph 22.8 to transactions in which a financial liability is extinguished (partially or in full) by issuing equity instruments in accordance with the original terms of the financial liability. There is no gain or loss recognised in profit or loss as the result of such a transaction.

95 Paragraph 22.8B is inserted as follows:

22.8B An entity is not required to apply paragraph 22.8 to transactions in which a financial liability is extinguished (partially or in full) by the issue of equity instruments if:

(a) the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder; or

(b) the creditor and the entity are controlled by the same party or parties before and after the transaction and the substance of the transaction includes an equity distribution by, or contribution to, the entity.

96 In paragraph 22.9 the term 'transaction costs' is no longer shown in bold type and the paragraph is amended as follows:

22.9 An entity shall account for the transaction costs of an equity transaction as a deduction from equity~~, net of any related income tax benefit~~. Income tax relating to the transaction costs shall be accounted for in accordance with Section 29 *Income Tax*.

97 In Appendix to Section 22, the following example is inserted at the end (sub-heading not underlined):

Example of written option that fails fixed-for-fixed criteria

On 1 January 20X5 Entity A enters into an option contract under which it can be required to purchase its own equity instruments. If the counterparty exercises its option, the contract will be settled by the counterparty delivering a fixed number of Entity A's equity instruments to Entity A in exchange for a variable amount of cash determined based on a multiple of Entity A's earnings.

The option contract meets the definition of a financial liability in paragraph 22.3 as it may be settled in the entity's own equity instruments rather than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

The option contract does not meet the definition of a basic financial instrument as it is a derivative. The option contract is measured at fair value through profit or loss in accordance with Section 12.

[Draft] Amendments to Section 23 *Revenue*

98 The following paragraphs set out the [draft] amendments to Section 23 *Revenue* (deleted text is struck through, inserted text is underlined).

99 Paragraph 23.3A is amended as follows:

23.3A Total revenue arising from a single transaction shall be allocated to each and all of the separately identifiable goods or services of that single transaction. Where practicable, total revenue shall be allocated on the basis of the relative stand-alone selling prices of each separately identifiable good or service of a single transaction unless another basis better reflects the substance of the transaction.

100 Paragraph 23.8 is amended as follows:

23.8 An entity ~~usually applies~~ shall apply the revenue recognition criteria ~~in this section~~ to each and all of the ~~separately to each transaction. However, an entity applies the recognition criteria to the~~ separately identifiable ~~components~~ goods or services of a single transaction ~~when necessary~~ in order to reflect the substance of the transaction. For example, ~~an entity applies the recognition criteria to the separately identifiable components of a single transaction~~ when the selling price of a product includes an identifiable amount for subsequent servicing, an entity shall allocate the total revenue between the product and the servicing (as required by paragraph 23.3A) and defer and recognise revenue allocated to the service over the period during which the servicing is performed. Conversely, an entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole. For example, an entity ~~applies the recognition criteria to two or more transactions together when it~~ may sell~~s~~ goods and, at the same time, enter~~s~~ into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case the two transactions are dealt with together.

101 Paragraph 23.16 is amended as follows:

23.16 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, an entity shall recognise revenue only to the extent of the **expenses** recognised that it is probable will be ~~are~~ recoverable.

102 Paragraph 23.17A is inserted as follows:

23.17A Costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

103 Paragraphs 23.33 to 23.35 are inserted as follows:

23.33 The gross amount due to customers for contract work is the net amount of:

(a) costs recognised as contract expenses plus recognised profits; less

(b) the sum of recognised losses and progress billings

for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

23.34 The gross amount due from customers for contract work is the net amount of:

(a) costs recognised as contract expenses plus recognised profits; less

(b) the sum of recognised losses and progress billings,

for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

23.35 Costs incurred less costs recognised as contract expenses shall be presented as contract work in progress within inventories.

104 The sub-headings (first underlined, second not underlined) and paragraphs 23A.37 to 23A.40 are inserted as follows:

Recognition and measurement

Example 27 Determining whether an entity is acting as a principal or as an agent

23A.37 Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

23A.38 An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as principal include:

(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

(b) the entity has inventory risk before or after the customer order, during shipping or on return;

(c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and

(d) the entity bears the customer's credit risk for the amount receivable from the customer.

23A.39 An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

23A.40 The amounts collected by an agent on behalf of a principal are not revenue. Instead, revenue is the amount of commission.

[Draft] Amendments to Section 24
Government Grants

105 The following paragraphs set out the [draft] amendments to Section 24 *Government Grants* (deleted text is struck through, inserted text is underlined).

106 Paragraph PBE24.1A is inserted as follows:

PBE24.1A The accounting for incoming resources from **non-exchange transactions** other than government grants is addressed in paragraphs PBE34.64 to PBE34.74 and Appendix B to Section 34 *Specialised Activities*.

107 Paragraph 24.7 is amended as follows:

24.7 For the purpose of the disclosure required by paragraph 24.6(d), government assistance is action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under specified criteria. Examples include free technical or marketing advice~~,~~ and the provision of guarantees~~, and loans at nil or low interest rates~~.

[Draft] Amendments to Section 26 *Share-based Payment*

108 The following paragraphs set out the [draft] amendments to Section 26 *Share-based Payment* (deleted text is struck through, inserted text is underlined).

109 Paragraph 26.1B is inserted as follows:

26.1B In the absence of specifically identifiable goods or services, other circumstances may indicate that goods or services have been (or will be) received, in which case this section applies (see paragraph 26.17).

110 In paragraph 26.9 the term 'vesting conditions' is now shown in bold type and the paragraph is amended as follows:

26.9 A grant of equity instruments might be conditional on employees satisfying specified **vesting conditions** related to service or performance. An example of a vesting condition relating to service is wh~~ere~~n a grant of shares or share options is conditional on the employee remaining in the entity's employ for a specified period of time. Examples of vesting conditions relating to performance are wh~~ere~~n a grant of shares or share options is conditional on the entity achieving a specified growth in profit (~~an example of~~ a non-market vesting condition) or a specified increase in the entity's share price (~~an example of~~ a **market vesting condition**). Vesting and non-vesting conditions are accounted for as follows:

(a) All vesting conditions related ~~solely~~ to employee service or to a non-market performance condition shall be taken into account when estimating the number of equity instruments expected to vest. Subsequently, the entity shall revise that estimate, ~~if necessary,~~ if new information indicates that the number of equity instruments expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of equity instruments that ultimately vested. Vesting conditions related to employee service or to a non-market performance condition shall not be taken into account when estimating the fair value of the equity instruments granted at the measurement date.

(b) All market vesting conditions and non-vesting conditions shall be taken into account when estimating the fair value of ~~the shares or share options~~ equity instruments granted at the measurement date, with no subsequent adjustment to the estimated fair value, irrespective of the outcome of the market or non-vesting condition, provided that all other vesting conditions are satisfied.

111 Paragraph 26.12 is amended as follows:

26.12 ~~If a~~An entity might modif~~ies~~y the ~~vesting~~ terms and conditions on which equity instruments are granted in a manner that is beneficial to the employee, for example, by reducing the exercise price of an option or reducing the vesting period or by modifying or eliminating a performance condition~~,~~. Alternatively, an entity might modify the terms and conditions in a manner that is not beneficial to the employee, for example by increasing the vesting period or adding a performance condition. ~~t~~The entity shall take the modified vesting conditions into account in accounting for the share-based payment transaction, as follows:

(a) ...

The requirements in this paragraph are expressed in the context of share-based payment transactions with employees. The requirements also apply to share-based payment transactions with parties other than employees if these transactions are measured by reference to the fair value of the equity instruments granted, but reference to the grant date refers to the date that the entity obtains the goods or the counterparty renders service.

[Draft] Amendments to Section 28 *Employee Benefits*

112 The following paragraphs set out the [draft] amendments to Section 28 *Employee Benefits* (deleted text is struck through, inserted text is underlined).

113 Paragraph 28.28 is amended as follows:

28.28 If an entity is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the entity shall recognise its right to reimbursement as a separate asset. An entity shall treat that asset in the same way as plan assets. The cost of a defined benefit plan recognised in accordance with paragraph 28.23 may be presented net of amounts relating to changes in the carrying amount of the right to reimbursement.

114 Paragraph 28.30 is amended as follows:

28.30 An entity shall ...

An entity shall recognise the net change in the liability during the period in profit or loss, except to the extent that this FRS requires or permits their inclusion in the cost of an asset, such as inventory or property, plant and equipment.

115 Paragraph 28.38 is amended as follows:

28.38 When~~re~~ an entity participates in a defined benefit plan that shares risks between entities under common control it shall obtain information about the plan as a whole measured in accordance with this FRS on the basis of assumptions that apply to the plan as a whole. If there is a contractual agreement or stated policy for charging the net defined benefit cost of a defined benefit plan as a whole measured in accordance with this FRS to individual group entities, the entity shall, in its **individual financial statements**, recognise the net defined benefit cost of a defined benefit plan so charged. If there is no such agreement or policy, the net defined benefit cost of a defined benefit plan shall be recognised in the individual financial statements of the group entity which is ~~legally responsible~~ the sponsoring employer for the plan. The other group entities shall, in their individual financial statements, recognise a cost equal to their contribution payable for the period. As the net defined benefit cost is calculated by reference to both the defined benefit obligation and the fair value of plan assets, recognising a net defined benefit cost requires the recognition of a corresponding net defined benefit asset or liability in the individual financial statements of any group entity recognising a defined benefit cost.

[Draft] Amendments to Section 29
Income Tax

116 The following paragraphs set out the [draft] amendments to Section 29 *Income Tax* (deleted text is struck through, inserted text is underlined).

117 Paragraph 29.11 is amended as follows:

29.11 When the amount that can be deducted for tax for an asset (other than goodwill) that is recognised in a business combination accounted for by applying the purchase method is less (more) than the value at which it is recognised, a deferred tax liability (asset) shall be recognised for the additional tax that will be paid (avoided) in respect of that difference. Similarly, a deferred tax asset (liability) shall be recognised for the additional tax that will be avoided (paid) because of a difference between the value at which a liability is recognised in a business combination accounted for by applying the purchase method and the amount that will be assessed for tax. The amount attributed to goodwill (or negative goodwill) shall be adjusted by the amount of deferred tax recognised.

118 Paragraph 29.11A is inserted as follows:

29.11A In applying paragraph 29.11 and determining the amount that can be deducted for tax an entity shall consider the manner in which the entity expects, at the end of the reporting period, to recover or settle the carrying amount of the asset or liability.

119 Paragraph 29.12 is amended as follows:

29.12 An entity shall measure a deferred tax liability (asset) using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference~~ except for the cases dealt with in paragraphs 29.15 and 29.16 below~~.

[Draft] Amendments to Section 30 *Foreign Currency Translation*

120 The following paragraphs set out the [draft] amendments to Section 30 *Foreign Currency Translation* (deleted text is struck through, inserted text is underlined).

121 Paragraph 30.13 is amended as follows:

30.13 Exchange differences arising on a monetary item that forms part of a reporting entity's **net investment in a foreign operation** shall be recognised in profit or loss in the **separate financial statements** of the reporting entity or the **individual financial statements** of the foreign operation, as appropriate, except that any unrealised gain shall be recognised in other comprehensive income. In the financial statements that include the foreign operation and the reporting entity (eg **consolidated financial statements** when the foreign operation is a subsidiary), such exchange differences shall be recognised in other comprehensive income and accumulated in **equity**. They shall not be recognised in profit or loss on disposal of the net investment.

122 Paragraph 30.21 is amended as follows:

30.21 An entity whose functional currency is the currency of a hyperinflationary economy shall adjust its results and financial position using the procedures specified in Section 31 *Hyperinflation* before ~~applying the requirements of this section.~~ translating them into a different presentation currency using the following procedures:

(a) all amounts (ie assets, liabilities, equity items, income and expenses, including comparatives) shall be translated at the closing rate at the date of the most recent statement of financial position, except that

(b) when amounts are translated into the currency of a non-hyperinflationary economy, comparative amounts shall be those that were presented as current year amounts in the relevant prior year financial statements.

[Draft] Amendments to Section 31 *Hyperinflation*

123 The following paragraphs set out the [draft] amendments to Section 30 *Foreign Currency Translation* (inserted text is underlined).

124 Paragraph 31.8(bA) is inserted as follows:

31.8 (bA) Some non-monetary items are carried at amounts that were current at dates other than that of acquisition or the reporting date, for example, property, plant and equipment that has been revalued at some earlier date. In these cases, the carrying amounts are restated from the date of the revaluation.

125 Paragraph 31.9 is amended as follows:

31.9 At the beginning of the first period of application of this section, the components of **equity**, except retained earnings, are restated by applying a general price index from the dates the components were contributed or otherwise arose. Any revaluation surplus that arose in previous periods is eliminated. Restated retained earnings are derived from all the other amounts in the restated statement of financial position.

126 Paragraph 31.13 is amended as follows:

31.13 In a period of inflation, an entity holding an excess of monetary assets over monetary liabilities loses purchasing power, and an entity with an excess of monetary liabilities over monetary assets gains purchasing power, to the extent the assets and liabilities are not linked to a price level. An entity shall include in **profit or loss** the **gain** or loss on the net monetary position, except that any unrealised gain shall be recognised in other comprehensive income. An entity shall offset the adjustment to those assets and liabilities linked by agreement to changes in prices made in accordance with paragraph 31.7 against the gain or loss on net monetary position.

[Draft] Amendments to Section 32
Events after the End of the Reporting Period

127 The following paragraphs set out the [draft] amendments to Section 32 *Events after the End of the Reporting Period* (deleted text is struck through).

128 Paragraph 32.9 is amended as follows:

32.9 An entity shall disclose the date ~~when~~ the financial statements were authorised for issue and who gave that authorisation. ~~If the entity's **owners** or others have the power to amend the financial statements after issue, the entity shall disclose that fact.~~

[Draft] Amendments to Section 33 *Related Party Disclosures*

129 The following paragraphs set out the [draft] amendments to Section 33 *Related Party Disclosures* (inserted text is underlined).

130 Paragraph 33.7A is inserted as follows:

<u>33.7A When there is a legal or regulatory requirement to disclose directors' remuneration (or equivalent), an entity is exempt from the requirements of paragraph 33.7 if the key management personnel and directors are the same.</u>

[Draft] Amendments to Section 34
Specialised Activities

131 The following paragraphs set out the [draft] amendments to Section 34 *Specialised Activities* (deleted text is struck through, inserted text is underlined).

132 Paragraph 34.14 is amended as follows:

34.14 The operator shall recognise a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from, or at the direction of, the grantor for the construction (or upgrade) services. The operator shall initially recognise the financial asset at fair value for the consideration received or receivable, based on the fair value of the construction (or upgrade) services provided. Thereafter, it shall account for the financial asset in accordance with Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*. In classifying the financial asset as basic or other, a payment being contingent on the operator ensuring that the infrastructure meets specified quality or efficiency requirements does not prevent its classification as basic.

133 The following sub-heading (not underlined) and paragraphs 34.16B and 34.16C are inserted as follows:

Disclosures

34.16B An operator and a grantor shall disclose information that enables users of the entity's **financial statements** to evaluate the nature and extent of relevant risks arising from service concession arrangements. This information shall typically include, but is not limited to, a description of the arrangement, including any rights, obligations or options arising, and any significant terms of the arrangement that may affect the amount, timing and certainty of future cash flows.

34.16C An operator shall disclose the amount of revenue, profits or losses and other income recognised in the period on exchanging construction services for a financial asset or an intangible asset.

134 Paragraph 34.17 is amended as follows:

34.17 A **financial institution** ~~(other than a **retirement benefit plan**)~~ applying this FRS shall, in addition to the disclosure requirements of Section 11 *Basic Financial Instruments* and Section 12 *Other Financial Instruments Issues*, provide the disclosures in paragraphs 34.19 to 34.33. The disclosures in paragraphs 34.19 to 34.33 are required to be provided in:

(a) the **individual financial statements** of a financial institution ~~(other than retirement benefit plans)~~; and

(b) the **consolidated financial statements** of a **group** containing a financial institution ~~(other than a retirement benefit plan)~~ when the **financial instruments** held by the financial institution are **material** to the group. Where this is the case, the disclosures apply regardless of whether the principal activity of the group is being a financial institution or not. The disclosures in paragraphs 34.19 to 34.33 only need to be given in respect of financial instruments held by entities within the group that are financial institutions ~~(other than retirement benefit plans)~~.

135 Paragraph 34.18 is deleted as follows:

34.18 ~~A retirement benefit plan shall provide the disclosures in paragraphs 34.35 to 34.48 of this FRS.~~[Deleted]

[Draft] Amendments to Section 35 *Transition to this FRS*

136 The following paragraphs set out the [draft] amendments to Section 35 *Transition to this FRS* (deleted text is struck through, inserted text is underlined).

137 Paragraph 35.11 is amended as follows:

35.11 If it is **impracticable** for an entity to ~~restate the opening statement of financial position at the date of transition for~~ make one or more of the adjustments required by paragraph 35.7 at the date of transition, the entity shall apply paragraphs 35.7 to 35.10 for such adjustments in the earliest period for which it is practicable to do so, and shall identify ~~the data presented for prior periods that are not comparable with data for the period in which it prepares its first financial statements that conform to this FRS~~which amounts in the financial statements have not been restated. If it is impracticable for an entity to provide any disclosures required by this FRS for any period before the period in which it prepares its first financial statements that conform to this FRS, the omission shall be disclosed.

138 Paragraph 35.12A is inserted as follows:

35.12A An entity that has applied this FRS in a previous reporting period but not in its most recent annual financial statements, as described in paragraph 35.2, shall disclose:

(a) the reason it stopped applying this FRS;

(b) the reason it is resuming the application of this FRS; and

(c) whether it has applied this section or has applied this FRS retrospectively in accordance with Section 10.

[Draft] Amendments to Appendix I: Glossary

139 The following glossary terms and definitions are inserted in alphabetical order (new text is underlined):

net debt	Net debt consists of the borrowings of an entity, together with any related **derivatives** and obligations under **finance leases**, less any **cash** and **cash equivalents**.
share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive: (a) **cash** or other **assets** of the entity for amounts that are based on the price (or value) of **equity** instruments (including shares or share options) of the entity or another group entity; or (b) equity instruments (including shares or share options) of the entity or another group entity, provided the specified **vesting conditions**, if any, are met.
vesting conditions	The conditions that determine whether the entity receives the services that entitle the counterparty to receive **cash**, other **assets** or **equity** instruments of the entity, under a **share-based payment arrangement**. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market vesting condition**.
vesting period	The period during which all the specified **vesting conditions** of a **share-based payment arrangement** are to be satisfied.

140 The following glossary terms and definitions are amended as follows (deleted text is struck through, inserted text is underlined):

cash-settled share-based payment transaction	A **share-based payment transaction** in which the entity acquires goods or services by incurring a **liability** to transfer **cash** or other **assets** to the supplier of those goods or services for amounts that are based on the price (or value) of ~~the entity's shares or other~~ **equity** instruments (including shares or share options) of the entity or another **group** entity. The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an **equity-settled share-based payment transaction** only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.

financial institution	Any of the following: (a) a bank which is: (i) a firm with a Part ~~IV~~4A permission[27] which includes accepting deposits and: (a) which is a credit institution; or (b) whose Part ~~IV~~4A permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or a credit union; ... (g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); or (h) ~~a **retirement benefit plan**; or~~[deleted] (i) any other entity whose principal activity is ~~to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities~~ similar to those listed above but ~~are~~ is not specifically included in ~~the~~ that list ~~above~~. ...
group reconstruction	Any one of the following arrangements: (a) the transfer of an equity holding in a **subsidiary** from one group entity to another; (b) the addition of a new **parent** entity to a **group**; (c) the transfer of **equity** holdings in one or more subsidiaries of a group to a new entity that is not a group entity but whose equity holders are the same as those of the group's parent; ~~or~~ (d) the combination into a group of two or more entities that before the combination had the same equity holders~~.~~; (e) the transfer of the **business** of one group entity to another; or (f) the transfer of the business of one group entity to a new entity that is not a group entity but whose equity holders are the same as those of the group's parent.
held as part of an investment portfolio	An interest is held as part of an investment portfolio if its value to the investor is through **fair value** as part of a directly or indirectly held basket of investments rather than as media through which the investor carries out **business**. A basket of investments is indirectly held if an investment fund holds a single investment in a second investment fund which, in turn, holds a basket of investments. In some circumstances, it may be appropriate for a single investment to be considered an investment portfolio, for example when an investment fund is first being established and is expected to acquire additional investments.
other comprehensive income	Items of **income** and **expense** (including reclassification adjustments that are not recognised in **profit or loss** as required or permitted by this FRS or by law.

service potential	~~The economic utility of an asset, based on the total benefit expected to be derived by the entity from use (and/or through sale) of the asset.~~ The capacity to provide services that contribute to achieving an entity's objectives. Service potential enables an entity to achieve its objectives without necessarily generating net cash inflows.
share-based payment transaction	A transaction in which the entity: (a) receives goods or services from the supplier of those goods or services (including an employee~~ services)~~ ~~as consideration for its own equity instruments (including shares or share options)~~ in a **share-based payment arrangement**; or (b) ~~receives goods or services but has no obligation to settle the transaction with supplier; or~~ ~~(c) acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity or another group entity.~~ incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

[Draft] Amendments to Appendix II: Significant differences between FRS 102 and the IFRS for SMEs

141 This appendix is deleted and replaced with the following:

[Deleted]

[Draft] Amendments to Appendix IV: Note on legal requirements

142 The following paragraphs set out the [draft] amendments to Appendix IV: Note on legal requirements (deleted text is struck through, inserted text is underlined).

143 The sub-heading (not underlined) and paragraphs A4.37B to A4.37C are inserted as follows:

Recognition of incoming resources from non-exchange transactions by charitable companies

A4.37B Paragraph PBE34.67 requires the receipt of resources from non-exchange transactions to be recognised in income. This includes situations when items of property, plant and equipment, or inventory, are received. The income will be measured at the fair value of the assets received, which are measured in accordance with paragraphs PBE34.73 and PBE34B.15 to PBE34B.18.

A4.37C Charities that are companies are required to comply with the requirements of the Regulations, and may need to consider whether any gains are unrealised. Unrealised gains cannot be recognised in profit or loss, and should be presented as part of other comprehensive income.

144 The sub-heading (not underlined) and paragraph A4.37D are inserted as follows:

Other assets included at fair value

A4.37D Paragraphs 13.3, 16.4A, 16.4B and 34.2 to 34.10A, permit an entity to subdivide inventory, investment property and biological assets into classes such that some classes may be measured at cost, and others at fair value. This is consistent with the most reasonable and common sense interpretation of paragraph 39 of Schedule 1 to the Regulations.

145 The sub-heading (not underlined) and paragraph A4.40A are inserted as follows:

Presentation of amounts due under contracts

A4.40A Paragraph 23.35 requires amounts due from customers for contract work to be presented as part of inventories when it represents work in progress (ie costs incurred are greater than costs recognised as expenses). This is in order to meet company law presentation requirements.

146 The sub-heading (not underlined) and paragraphs A4.40B and A4.40C are inserted as follows:

Presentation and disclosure when using fair value as deemed cost on transition to this FRS

A4.40B Paragraph 35.10(c) permits first-time adopters to use a fair value at the transition date as the deemed cost of an item of property, plant and equipment, an investment property or an intangible asset. Paragraph 1.19(a) provides a similar option for investment property rented to other group entities, on the first application of the [2017 triennial review amendments].

A4.40C If an entity elects to take these transitional exemptions in relation to property, plant and equipment, intangible assets or investment property rented to another group entity, these assets are measured under the alternative accounting rules as they are no longer carried on a cost basis. Therefore, any fair value uplift on transition to this FRS must be recognised in a revaluation reserve and the additional disclosures required by paragraph 34 of Schedule 1 to the Regulations must be given.

147 The sub-heading (not underlined) and paragraphs A4.40D to A4.40F are inserted as follows:

Related party disclosures – exemption for wholly owned subsidiaries

A4.40D Paragraph 33.1A repeats the legal exemption from disclosing certain related party transactions. It states that "*disclosures need not be given of transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly-owned by such a member*". This exemption is derived from paragraph 72(4) of Schedule 1 to the Regulations.

A4.40E This exemption may be applied to transactions between entities within a sub-group where the transacting subsidiary is wholly-owned by the intermediate parent of that sub-group, even if that intermediate parent is not wholly-owned by the ultimate controlling parent.

A4.40F This exemption may not be applied to transactions between entities in an intermediate parent's sub-group (including the intermediate parent itself) and the entities in the larger group if the intermediate parent is not wholly-owned by the parent of that larger group.

148 Paragraph A4.43 is amended as follows:

A4.43 Limited liability partnerships (LLPs) will be applying this FRS ~~102~~ in conjunction with the LLP Regulations or the Small LLP Regulations. In many cases these regulations are similar to the Regulations or the Small Companies Regulations, which reduces the situations in which legal matters relevant to the financial statements of LLPs are not addressed in this Appendix. ~~However, the amendments made to the Regulations and the Small Companies Regulations by *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) have not been reflected in the LLP Regulations or the Small LLP Regulations. This gives rise to some differences for LLPs.~~

149 Paragraphs A4.44 to A4.47 and the related sub-headings are deleted as follows:

~~Small LLPs~~

A4.44 ~~The thresholds that are part of the qualifying conditions of a small company and a small LLP have diverged, with the thresholds for a small LLP being lower than those for a small company. Of LLPs, only those qualifying as small (and not otherwise excluded) in accordance with the LLP Regulations, will be able to apply Section 1A Small Entities.~~[Deleted]

A4.45 ~~A small LLP choosing to apply Section 1A shall provide the following disclosures:~~

~~(a) those set out in Appendix C to Section 1A;~~

~~(b) those required by the Small LLP Regulations that are additional to those set out in Appendix C to Section 1A; and~~

~~(c) any additional disclosures necessary to meet the requirement to give a true and fair view, as set out in paragraph 1A.17.~~

~~In accordance with paragraph 1A.20 a small LLP is also encouraged to provide the disclosures set out in Appendix D to Section 1A.~~[Deleted]

~~All LLPs~~

A4.46 ~~In a relatively small number of areas The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 (SI 2015/980) made changes to the recognition and measurement requirements applicable to companies. These~~

~~changes have not been made to the LLP Regulations or the Small LLP Regulations and therefore, in a small number of cases, the requirements of FRS 102 will be inconsistent with the LLP Regulations and the Small LLP Regulations. Areas where this may have an impact include:~~

~~(a) the flexibility available in relation to the format of the balance sheet and of the profit and loss account;~~

~~(b) the scope of financial instruments that can be measured at fair value through profit or loss;~~

~~(c) the reversal of impairment losses in relation to goodwill; and~~

~~(d) the application of merger accounting.~~

~~If following the requirements of FRS 102 would lead to a conflict with applicable legislation, an LLP shall instead apply its own legal requirements and consider whether disclosure of a departure from FRS 102 is required.~~[Deleted]

~~LLP consolidated financial statements~~

A4.47 ~~When LLPs prepare consolidated financial statements, whether mandatorily or voluntarily, there will also be differences between company law and the similar requirements applicable to LLPs. If following the requirements of FRS 102 would leadto a conflict with applicable legislation, an LLP shall instead apply its own legal requirements and consider whether disclosure of a departure from FRS 102 is required.~~[Deleted]

[Draft] Amendments to Appendix VI: Republic of Ireland (RoI) legal references

150 Appendix VI: Republic of Ireland (RoI) legal references will be updated as appropriate when the Irish legislation implementing the EU Accounting Directive has been made.

[Draft] Editorial amendments to FRS 102

[Draft] Editorial amendments to FRS 102

151 The following paragraphs set out the [draft] editorial amendments to FRS 102 (deleted text is struck through, inserted text is underlined).

152 Paragraph 1.4 is amended as follows:

1.4 An entity whose **ordinary shares** or **potential ordinary shares** are **publicly traded**, or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing ordinary shares in a public market, or an entity that chooses to disclose earnings per share, shall apply IAS 33 *Earnings per Share* ~~(as adopted in the EU)~~.

153 Paragraph 1.5 is amended as follows:

1.5 An entity whose debt or equity instruments are publicly traded, or that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market, or an entity that chooses to provide information described as segment information, shall apply IFRS 8 *Operating Segments* ~~(as adopted in the EU)~~. If an entity discloses disaggregated information, but the information does not comply with the requirements of IFRS 8, it shall not describe the information as segment information.

154 Paragraph 1.12 is amended as follows:

1.12 A qualifying entity...

(b) The requirements of Section 7 *Statement of Cash Flows* and ~~Section 3 *Financial Statement Presentation*~~ paragraph 3.17(d).

(c) The requirements of ~~Section 11~~ paragraphs 11.41(b), 11.41(c), 11.41(e), 11.41(f), 11.42, 11.44, 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b), ~~and~~ 11.48(c), ~~and Section 12 paragraphs~~ 12.26 (in relation to those cross-referenced paragraphs from which a disclosure exemption is available), 12.27, 12.29(a), 12.29(b) and 12.29A providing disclosures equivalent to those required by this FRS are included in the consolidated financial statements of the group in which the entity is consolidated.

(d) The requirements of ~~Section 26 *Share-based Payment*~~ paragraphs 26.18(b), 26.19 to 26.21 and 26.23, provided that for a qualifying entity that is:

(i) ...

(e) The requirement of ~~Section 33 *Related Party Disclosures*~~ paragraph 33.7.

155 In paragraph 1.14A the first time the terms ‘financial liability’ and ‘fair value’ are used, are now shown in bold type.

156 Paragraph 1.14B is amended as follows:

1.14B This FRS permits ...

In a fair value hedge the cumulative **hedging gain or loss** on the hedged item from the date hedge accounting commenced, shall be ~~recorded~~ recognised in retained earnings (or if appropriate, another category of **equity**). In a cash flow hedge and net investment hedge, the lower of the following (in absolute amounts) shall be ~~recorded~~ recognised in equity (in respect of cash flow hedges in the cash flow hedge reserve):

(a) ...

157 In paragraph 1A.2 the term ‘FRS 101’ is now shown in bold type and the paragraph is amended as follows:

1A.2 Unless a small entity chooses to apply EU-adopted IFRS, or if eligible, **FRS 101**, a small entity that chooses not to apply the small entities regime shall apply this FRS ~~102~~ excluding Section 1A.

158 In paragraph 1A.8 the term ‘statement of financial position’ is no longer shown in bold type.

159 Appendix A to Section 1A is amended as follows:

Guidance on adapting the balance sheet formats

This appendix is an integral part of ~~the Standard~~Section 1A.

1AA.1 As set out ...

160 Appendix B to Section 1A is amended as follows:

Guidance on adapting the profit and loss formats

This appendix is an integral part of ~~the Standard~~Section 1A.

1AB.1 As set out ...

161 Appendix C to Section 1A is amended as follows:

Disclosure requirements for small entities

This appendix is an integral part of ~~the Standard~~Section 1A.

This appendix sets ...

162 Paragraph 1AC.3 is amended as follows:

1AC.3 *The accounting policies* ...

Paragraph 8.5 addresses similar requirements for disclosing significant accounting policies. Including information about the judgements made in applying the small entity’s accounting policies, as set out in paragraph 8.6, may be useful to users of the small entity’s financial statements.

163 Paragraph 1AC.25 is deleted as follows:

1AC.25 *~~The treatment for taxation purposes of amounts credited or debited to the fair value reserve must be disclosed in a note to the financial statements. (Schedule 1, paragraph 41(2))~~*

~~Paragraph 29.27(a) addresses similar requirements.~~[Deleted]

164 Appendix D to Section 1A is amended as follows:

Additional disclosures encouraged for small entities

This appendix is an integral part of ~~the Standard~~Section 1A.

1AD.1 Wh~~ere~~n relevant to ...

165 Paragraph 2.1 is amended as follows:

2.1 This section ~~describes~~ sets out the **objective of financial statements** of entities within the scope of this FRS and the qualities that make the information in the **financial statements** of entities within the scope of this FRS useful. It also sets out the concepts and basic principles underlying the financial statements of entities within the scope of this FRS.

166 Paragraph 2.35 is amended as follows:

2.35 The requirements for recognising and measuring assets, liabilities, income and expenses in this FRS are based on pervasive principles that are derived from the IASB *Framework for the Preparation and Presentation of Financial Statements*[7] and from **~~EU-adopted~~ IFRS**. In the absence of a requirement in this FRS that applies specifically to a transaction or other event or condition, paragraph 10.4 provides guidance for making a judgement and paragraph 10.5 establishes a hierarchy for an entity to follow in deciding on the appropriate accounting policy in the circumstances. The ~~second~~ third level of that hierarchy requires an entity to look to the definitions, recognition criteria and measurement concepts for assets, liabilities, income and expenses and the pervasive principles set out in this section.

167 Paragraph 2.50(a) is amended as follows:

2.50 (a) Investments in **associates** and **joint ventures** that an entity measures at fair value (see paragraphs 14.4(~~b~~c), 14.4(d) and 14.4B, and 15.9(~~b~~c), 15.9(d) and 15.9B respectively).

168 Paragraph 3.1 is amended as follows:

3.1 This section ~~explains~~ sets out the requirement that the **financial statements** of an entity shall give a true and fair view, what compliance with this FRS requires, and what is a complete set of financial statements.

169 Paragraph 3.1A is amended as follows:

3.1A A **small entity** applying Section 1A *Small Entities* is not required to comply with paragraphs 3.3, PBE3.3A, 3.9, 3.12, 3.13, 3.17, 3.18, 3.19 and 3.24(b).

170 Paragraph 3.1B is inserted as follows:

3.1B A small entity is not required to comply with paragraph 3.17(d), regardless of which regime it applies in the preparation of its financial statements.

171 Paragraph 3.11(b) is amended as follows:

3.11 (b) this FRS, or another applicable FRS ~~or FRC Abstract~~, requires a change in presentation.

172 Paragraph 3.17(e) is amended as follows:

3.17 (e) notes, comprising ~~a summary of~~ significant accounting policies and other explanatory information.

173 In paragraph 4.1 the term 'reporting period' is no longer shown in bold type and the paragraph is amended as follows:

4.1 An entity shall present its **financial position** at the end of the **reporting period**. This section sets out the information that ~~is to~~ shall be presented in a **statement of financial position** and how to present it. The statement of financial position (which is referred to as the balance sheet in the **Act**) presents an entity's **assets**, **liabilities** and **equity** ~~as of a specific date~~ at the end of the reporting period. This section applies to all entities, whether or not they report under the Act. Entities that do not report under the Act ~~should~~ shall comply with the requirements of this section, and with the **Regulations** (or, where applicable, the **LLP Regulations**) where referred to in this section, except to the extent that these requirements are not permitted by any statutory framework under which such entities report.

174 In paragraph 4.3 the term 'financial position' is no longer shown in bold type.

175 Paragraph 5.1 is amended as follows:

5.1 ~~This section requires a~~An entity shall ~~to~~ present its **total comprehensive income** for a **reporting period**—in one or two statements. ~~It~~ This section sets out the information that ~~is to~~ shall be presented in those statements and how to present it. This section applies to all entities, whether or not they report under the **Act**. Entities that do not report under the Act should comply with the requirements of this section, and with the **Regulations** (or, where applicable, the **LLP Regulations**) where referred to in this section, except to the extent that these requirements are not permitted by any statutory framework under which such entities report. If an entity meets specified conditions and chooses to do so, it may present a **statement of income and retained earnings** as set out in Section 6 *Statement of Change in Equity and Statement of Income and Retained Earnings*.

176 In paragraph 5.7F the terms 'financial statements' and 'reporting period' are no longer shown in bold type and the paragraph is amended as follows:

5.7F An entity shall re-present the disclosures in paragraph 5.7~~D~~E for prior periods presented in the financial statements so that the disclosures relate to all operations that have been discontinued by the end of the reporting period for the latest period presented.

177 Paragraph 5.10 is amended as follows:

5.10 An entity applying paragraph 5.5(a), 5.5(d), ~~or~~ 5.7(a) or 5.7(d) shall not present or describe any items of income or expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

Paragraphs 5.10A and 5.10B apply to entities applying paragraphs 5.5(b), 5.5(c), ~~5.5(d),~~ 5.7(b), or 5.7(c) ~~or 5.7(d)~~.

178 Paragraph 6.1 is amended as follows:

6.1 An entity shall present its changes in **equity** for a **reporting period**. This section sets out the information that shall be presented ~~requirements for presenting the changes in an entity's **equity** for a period, either~~ in a statement of changes in equity or, if specified conditions are met and an entity chooses, in a **statement of income and retained earnings**.

179 In paragraph 6.2 the term 'reporting period' is no longer shown in bold type.

180 In paragraph 7.9 the terms 'statement of other comprehensive income' and 'income statement' are no longer shown in bold type.

181 In paragraph 7.10 the term 'subsidiaries' is no longer shown in bold type.

182 Paragraph 8.1 is amended as follows:

8.1 An entity shall present **notes** to its **financial statements**. This section sets out the principles underlying the information that ~~is to~~ shall be presented in the notes ~~to the **financial statements**~~ and how to present it. Notes contain information in addition to that presented in the **statement of financial position**, **statement of comprehensive income** (if presented), **income statement** (if presented), **combined statement of income and retained earnings** (if presented), **statement of changes in equity** (if presented), and **statement of cash flows** (if presented). Notes provide narrative descriptions or disaggregations of items presented in those statements and information about items that do not qualify for **recognition** in those statements. In addition to the requirements of this section, nearly every other section of this FRS requires disclosures that are normally presented in the notes.

183 Paragraph 8.6 is amended as follows:

8.6 An entity shall disclose~~, in the summary of~~ along with its significant accounting policies or other notes, the judgements, apart from those involving estimations (see paragraph 8.7), that management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

184 Paragraph 9.1 is amended as follows:

9.1 This section applies to ~~all~~ **parents** that present **consolidated financial statements** (which are referred to as group accounts in the **Act**) intended to give a true and fair view of the **financial position** and **profit or loss** (or **income and expenditure**) of their group, whether or not they report under the Act. Parents that do not report under the Act ~~should~~ shall comply with the requirements of this section, and of the Act where referred to in this section, unless consolidated financial statements are not required and except to the extent that these requirements are not permitted by any statutory framework under which such entities report. This section also includes guidance on **individual financial statements** and **separate financial statements**.

185 In paragraph 9.9A the term 'associate' is now shown in bold type.

186 Paragraph 10.1 is amended as follows:

10.1 This section ~~provides guidance~~ sets out the requirements for:

(a) selecting and applying the **accounting policies** used in preparing **financial statements**;~~. It also covers~~

(b) accounting for **changes in accounting estimates**; and

(c) accounting for corrections of **errors** in prior period financial statements.

187 Paragraph 10.3 is amended as follows:

10.3 If an FRS ~~or FRC Abstract~~ specifically addresses a transaction, other event or condition, an entity shall apply that FRS~~ or FRC Abstract~~. However, the entity need not follow a requirement in an FRS ~~or FRC Abstract~~ if the effect of doing so would not be **material**.

188 Paragraph 10.4 is amended as follows:

10.4 If an FRS ~~or FRC Abstract~~ does not specifically address a transaction, other event or condition, an entity's management shall use its judgement in developing and applying an accounting policy that results in information that is:

(a) ...

189 Paragraph 10.5(a) is amended as follows:

10.5 (a) the requirements and guidance in an FRS ~~or FRC Abstract~~ dealing with similar and related issues;

190 Paragraph 10.6 is amended as follows:

10.6 In making the judgement described in paragraph 10.4, management may also consider the requirements and guidance in **~~EU-adopted~~ IFRS** dealing with similar and related issues. Paragraphs 1.4 to 1.7 require certain entities to apply IAS 33 Earnings per Share~~ (as adopted in the EU)~~, IFRS 8 *Operating Segments*~~ (as adopted in the EU)~~ or IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

191 Paragraph 10.7 is amended as follows:

10.7 An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, unless an FRS ~~or FRC Abstract~~ specifically requires or permits categorisation of items for which different policies may be appropriate. If an FRS ~~or FRC Abstract~~ requires or permits such categorisation, an appropriate accounting policy shall be selected and applied consistently to each category.

192 Paragraph 10.8(a) is amended as follows:

10.8 (a) is required by an FRS ~~or FRC Abstract~~; or

193 Paragraph 10.9(c) is amended as follows:

10.9 (c) a change to the cost model when a reliable measure of **fair value** is no longer available (or vice versa) for an asset that an FRS ~~or FRC Abstract~~ would otherwise require or permit to be measured at fair value.

194 Paragraph 10.10 is amended as follows:

10.10 If an FRS ~~or FRC Abstract~~ allows a choice of accounting treatment (including the measurement basis) for a specified transaction or other event or condition and an entity changes its previous choice, that is a change in accounting policy.

195 Paragraph 10.11(a) is amended as follows:

10.11 (a) an entity shall account for a change in accounting policy resulting from a change in the requirements of an FRS ~~or FRC Abstract~~ in accordance with the transitional provisions, if any, specified in that amendment;

196 Paragraph 10.13 is amended as follows:

* 10.13 When an amendment to an FRS ~~or FRC Abstract~~ has an effect on the current period or any prior period, or might have an effect on future periods, an entity shall disclose the following:

(a) ...

197 Paragraph 11.1 is amended as follows:

11.1 This section ~~Section 11 *Basic Financial Instruments*~~ and Section 12 *Other Financial Instruments Issues* together ~~deal with~~ set out the requirements for recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). ~~Section 11~~ This section applies to basic financial instruments and is relevant to all entities. Section 12 applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then Section 12 is not applicable. However, even entities with only basic financial instruments shall consider the scope of Section 12 to ensure ~~they are exempt~~ that it does not apply.

198 Paragraph 11.7 is amended as follows:

11.7 ~~Section 11~~ This section applies to all financial instruments meeting the conditions of paragraph 11.8 except for ~~the following~~:

(a) Investments in **subsidiaries**, **associates** and **joint ventures** (see ~~that are accounted for in accordance with~~ Sections 9 *Consolidated and Separate Financial Statements*, ~~Section~~ 14 *Investments in Associates* ~~or Section~~ and 15 *Investments in Joint Ventures*).

...

(c) **Leases**~~, to which~~ (see Section 20 *Leases*)~~ applies~~. However, the **derecognition** requirements in paragraphs 11.33 to 11.35 and impairment accounting requirements in paragraphs 11.21 to 11.26 apply to derecognition and impairment of receivables recognised by a lessor and the derecognition requirements in paragraphs 11.36 to 11.38 apply to payables recognised by a lessee arising under a **finance lease**. Section 12 applies to leases with characteristics specified in paragraph 12.3(f).

(d) Employers' rights and obligations under employee benefit plans~~, to which~~ (see Section 28 *Employee Benefits*~~ applies~~), although paragraphs 11.27 to 11.32 do apply in determining the fair value of **plan assets**.

...

(f) **Insurance contracts** (including **reinsurance contracts**) that the entity issues and reinsurance contracts that the entity holds (see **FRS 103** ~~Insurance Contracts~~).

(g) Financial instruments issued by an entity with a **discretionary participation feature** (see FRS 103~~ Insurance Contracts~~).

(h) Reimbursement assets ~~accounted for in accordance with~~ (see Section 21 *Provisions and Contingencies*).

...

~~A reporting entity that issues the financial instruments set out in (f) or (g) or holds the financial instruments in (f) is required by paragraph 1.6 to apply FRS 103 to those financial instruments.~~

199 Paragraph 11.27 is amended as follows:

11.27 Paragraph 11.14(b) and other sections of this FRS make reference to the fair value guidance in paragraphs 11.27 to 11.32, including Section 9 *Consolidated and Separate Financial Statements*, Section 12 *Other Financial Instruments Issues*, Section 13 *Inventories*, Section 14 *Investments in Associates*, Section 15 *Investments in Joint Ventures*, Section 16 *Investment Property*, Section 17 *Property, Plant and Equipment*, Section 18 *Intangible Assets other than Goodwill*, Section 27 *Impairment of Assets,* Section 28 *Employee Benefits* (in relation to plan assets) and Section 34 *Specialised Activities*.~~ In applying the fair value guidance to assets or liabilities accounted for in accordance with those sections, the reference to ordinary shares or preference shares in these paragraphs should be read to include the types of assets and liabilities addressed in those sections.~~

~~Paragraph 11.14(d)(i) requires an investment in non-convertible preference shares and non-puttable ordinary shares or preference shares to be measured at fair value if the shares are publicly traded or if their fair value can otherwise be measured reliably.~~ An entity shall use the following ~~hierarchy~~ methodology to estimate the fair value of ~~the shares~~ an asset (or a liability, in which case the references to an asset in this paragraph and paragraphs 11.28 to 11.32 shall be read as references to a liability):

(a) The best evidence of fair value is a quoted price for an identical asset (or similar asset) in an **active market**. ~~Quoted in an active market in this context means quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted price~~ This is usually the current bid price.

(b) When quoted prices are unavailable, the price~~ of~~ in a binding sale agreement or a recent transaction for an identical asset (or similar asset) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value~~ as long as there has not~~. However, this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant ~~lapse~~ period of time ~~since~~ between the date of the binding sale agreement or the transaction, and the measurement date ~~took place~~. If the entity can demonstrate that the last transaction price is not a good estimate of fair value (eg because it reflects the amount that an entity would receive or pay in a forced transaction, involuntary liquidation or distress sale), that price is adjusted.

(c) If the market for the asset is not active and any binding sale agreements or recent transactions of an identical asset (or similar asset) on their own are not a good estimate of fair value, an entity estimates the fair value by using a valuation technique. The objective of using another valuation technique is to estimate what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

200 Paragraph 11.30 is amended as follows:

11.30 The fair value of ~~ordinary shares or preference shares~~ an asset that does not have a quoted market price in an active market is reliably measurable if:

(a) ...

201 Paragraph 11.31 is amended as follows:

11.31 There are many situations in which the variability in the range of reasonable fair value estimates of assets that do not have a quoted market price is likely not to be significant. Normally it is possible to estimate the fair value of ~~ordinary shares or preference shares~~ an asset that an entity has acquired from an outside party. However, if the range of reasonable fair value estimates is significant and the probabilities of the various estimates cannot be reasonably assessed, an entity is precluded from measuring the ~~ordinary shares or preference shares~~ asset at fair value.

202 Paragraph 11.32 is amended as follows:

11.32 If a reliable measure of fair value is no longer available for an asset measured at fair value ~~(eg ordinary shares or preference shares measured at fair value through profit or loss)~~, its carrying amount at the last date the asset was reliably measurable becomes its new cost. The entity shall measure the asset at this cost amount less impairment until a reliable measure of fair value becomes available.

203 Paragraph 11.40 is amended as follows:

11.40 In accordance with paragraph 8.5, an entity shall disclose~~,~~ in ~~the summary of~~ its significant accounting policies, the measurement basis (or bases) used for financial instruments and the other accounting policies used for financial instruments that are relevant to an understanding of the **financial statements**.

204 In paragraph 11.48C the term 'retirement benefit plan' is now shown in bold type.

205 Paragraph 12.1 is amended as follows:

12.1 This section and Section 11 *Basic Financial Instruments* ~~and Section 12 *Other Financial Instruments Issues*~~ together ~~deal with~~ set out the requirements for recognising, derecognising, measuring and disclosing **financial instruments** (**financial assets** and **financial liabilities**). Section 11 applies to basic financial instruments and is relevant to all entities. ~~Section 12~~ This section applies to other, more complex financial instruments and transactions. If an entity enters into only basic financial instrument transactions then ~~Section 12~~ this section is not applicable. However, even entities with only basic financial instruments shall consider the scope of ~~Section 12~~ this section to ensure ~~they are exempt~~ that this section does not apply.

206 Paragraph 12.3 is amended as follows:

12.3 ~~Section 12~~ This section applies to all financial instruments except for ~~the following~~:

...

(d) **Insurance contracts** (including **reinsurance contracts**) that the entity issues and reinsurance contracts that the entity holds (see **FRS 103** ~~*Insurance Contracts*~~).

...

(k) Reimbursement assets ~~accounted for in accordance with~~ (see Section 21 *Provisions and Contingencies*).

...

~~A reporting entity that issues the financial instruments set out in (d) or (j) or holds the financial instruments in (d) is required by paragraph 1.6 to apply FRS 103 to those financial instruments.~~

207 The leading sentence of Appendix to Section 12 is amended as follows:

Examples of hedge accounting

This appendix accompanies, but is not part of, Section 12. It provides guidance for applying the requirements of paragraphs 12.15 and 12.16 to 12.25A.

208 Paragraph 12A.2 is amended as follows:

12A.2 Hedge accounting:

Note that there are no hedge accounting entries on 9 June 20X5.

31 December 20X5

(1) In accordance with paragraph 12.20(a) the fair value gain of CU100,000 on the forward currency contract is recognised in profit or loss.

(2) In accordance with paragraph 12.20(b) the cumulative hedging loss of CU103,000 on the commitment is ~~recorded~~ recognised as a liability with a corresponding loss recognised in profit or loss.

...

209 Paragraph 12A.7 is amended as follows:

12A.7 ...

31 December 20X6

A component of equity is adjusted to the lower of (in absolute amounts) the cumulative exchange loss on the loan of CU120,000 and the cumulative exchange difference on the net investment of CU102,500.

The amount ~~recorded~~ recognised in equity changes from CU55,000 to (CU102,500), a change of (CU157,500). In accordance with paragraph 12.24(a) a loss of CU157,500 on the loan is recognised in other comprehensive income. The remainder of the loss of CU22,500 is ~~recorded~~ recognised in profit or loss, as required by paragraph 12.24(b).

210 Paragraph 13.1 is deleted as follows:

13.1 ~~This section sets out the principles for recognising and measuring **inventories**. Inventories are **assets**:~~

(a) ~~held for sale in the ordinary course of business;~~

(b) ~~in the process of production for such sale; or~~

(c) ~~in the form of materials or supplies to be consumed in the production process or in the rendering of services.~~[Deleted]

211 In paragraph 13.2 the term 'inventories' is now shown in bold type and the paragraph is amended as follows:

13.2 This section applies to ~~all~~ **inventories**, except:

(a) ...

212 Paragraph 14.1 is amended as follows:

14.1 This section applies to ~~accounting for~~ investments in **associates** in:

(a) **consolidated financial statements**~~.~~; and ~~This section also applies to accounting for investments in associates in~~

(b) the **individual financial statements** of an investor that is not a **parent**.

An entity that is a parent shall account for its investments in associates in its **separate financial statements** in accordance with paragraphs 9.26 and 9.26A, as appropriate.

213 In paragraph 14.4(d) the term 'profit or loss' is now shown in bold type.

214 In paragraph 14.4B the term 'profit or loss' is no longer shown in bold type.

215 Paragraph 14.11 is amended as follows:

14.11 ~~Unless otherwise required under the Regulations, a~~ An investor shall classify investments in associates as **fixed assets** (or **non-current assets**).

216 In paragraph 15.1 the terms 'jointly controlled operations', 'jointly controlled assets' and the second mention of the term 'separate financial statements' are no longer shown in bold type and the paragraph is amended as follows:

15.1 This section applies to ~~accounting for~~:

(a) investments in **joint ventures** in:

(i) **consolidated financial statements**~~,~~; and

(ii) ~~for investments in joint ventures in~~ the **individual financial statements** of a **venturer** that is not a **parent**~~,~~; and

(b) ~~for~~ investments in jointly controlled operations and jointly controlled assets in the **separate financial statements** of a venturer that is a parent.

A venturer that is a parent shall account for interests in **jointly controlled entities** in its separate financial statements in accordance with paragraphs 9.26 and 9.26A, as appropriate.

217 In paragraph 15.9(d) the term 'profit or loss' is now shown in bold type.

218 In paragraph 15.9B the term 'profit or loss' is no longer shown in bold type and the paragraph is amended as follows:

15.9B A venturer that is a parent, shall measure its investments in jointly controlled entities **held as part of an investment portfolio** at **fair value** with changes in fair value recognised in profit or loss in the consolidated financial statements.

219 Paragraph 15.16 is amended as follows:

15.16 When a venturer contributes or sells assets to a joint venture, **recognition** of any portion of a **gain** or loss from the transaction shall reflect the substance of the transaction. While the assets are retained by the joint venture, and provided the venturer has transferred the significant risks and rewards of ownership, the venturer shall recognise only that portion of the gain or loss that is attributable to the interests of the other venturers in its consolidated financial statements. The venturer shall recognise the full amount of any loss when the contribution or sale provides evidence of an impairment loss.

220 Paragraph 15.17 is amended as follows:

15.17 When a venturer purchases an asset~~s~~ from a joint venture, the venturer shall not recognise its share of the profits of the joint venture from the transaction until it resells the asset~~s~~ to an independent party or otherwise realises its **carrying amount**. A venturer shall recognise its share of the losses resulting from these transactions in the same way as profits except that losses shall be recognised immediately when they represent an impairment loss.

221 In paragraph 15.19(b) the term 'carrying amount' is no longer shown in bold type.

222 The sub-heading above paragraph 16.2 and paragraph 16.2 are deleted as follows:

~~Definition and initial recognition of investment property~~

16.2 ~~Investment property is property (land or a building, or part of a building, or both) held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:~~

~~(a) use in the production or supply of goods or services or for administrative purposes; or~~

~~(b) sale in the ordinary course of business.~~[Deleted]

223 The sub-heading above paragraph 16.5 and paragraph 16.5 are amended as follows:

Initial m~~M~~easurement ~~at initial recognition~~

16.5 An entity shall measure an investment property at its cost at initial **recognition**. The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure such as legal and brokerage fees, property transfer taxes and other transaction costs. If payment is deferred beyond normal credit terms, the cost is the **present value** of all future payments. An entity shall determine the cost of a self-constructed investment property in accordance with paragraphs 17.10 to 17.14.

224 Paragraph 16.11 is amended as follows:

16.11 In accordance with Section 20~~ *Leases*~~, an entity shall provide all relevant disclosures required in that section about leases into which it has entered.

225 Paragraph 17.2 is deleted as follows:

17.2 ~~Property, plant and equipment are tangible assets that:~~

~~(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and~~

~~(b) are expected to be used during more than one period;~~[Deleted]

226 Paragraph 17.3 is amended as follows:

17.3 ~~Property, plant and equipment~~ This section does not ~~include~~ apply to:

(a) ...

227 The sub-heading above paragraph 17.9 is amended as follows:

Initial m~~M~~easurement ~~at initial recognition~~

17.9 An entity shall ...

228 In paragraph 17.12 the term ‘profit or loss’ is now shown in bold type.

229 The sub-heading above paragraph 17.15 is amended as follows:

Subsequent m~~M~~easurement ~~after initial recognition~~

17.15 An entity shall ...

230 Paragraph 17.32 is amended as follows:

17.32 ~~The~~ An entity shall also disclose the following:

(a) ...

231 Paragraph 18.1 is amended as follows:

18.1 This section applies to ~~accounting for all~~ **intangible assets** ~~other than~~ except for **goodwill** (see Section 19 *Business Combinations and Goodwill*) and intangible assets held by an entity for sale in the ordinary course of business (see Section 13 *Inventories* and Section 23 *Revenue*).

232 Paragraph 18.1A is moved to paragraph 18.3(d) as follows:

18.1A ~~This section does not apply to the accounting for~~ ~~**deferred acquisition costs**~~ ~~and intangible assets rising from contracts in the scope of FRS 103~~ ~~*Insurance Contracts*~~~~, except for the disclosure requirements in this section which apply to intangible assets arising from contracts in the scope of FRS 103.~~[Moved to paragraph 18.3(d)]

233 Paragraph 18.2 is deleted as follows:

18.2 ~~An intangible asset is an identifiable non-monetary asset without physical substance. Such an asset is identifiable when:~~

~~(a) it is separable, ie capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or~~

~~(b) it arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.~~[Deleted]

234 Paragraph 18.3 is amended as follows:

18.3 This section does not apply to ~~the following~~:

...

(b) **heritage assets** (see Section 34 *Specialised Activities*); ~~or~~

(c) exploration for and evaluation of mineral resources ~~rights and mineral reserves~~, such as oil, natural gas and similar non-regenerative resources (see

Section 34) and expenditure on the development and extraction of such resources~~.~~; or

(d) **deferred acquisition costs** and intangible assets arising from contracts in the scope of **FRS 103**, except for the disclosure requirements in this section which apply to intangible assets arising from contracts within the scope of FRS 103.

235 Paragraph 18.12 is amended as follows:

18.12 If an intangible asset is acquired by way of a grant, the cost of that intangible asset is its fair value at the date the grant is received or receivable in accordance with Section 24 *Government Grants* or Section 34 *Specialised Activities* as appropriate.

236 The sub-heading (underlined) above paragraph 18.18 is amended as follows:

Subsequent m~~M~~easurement~~ after initial recognition~~

18.18 An entity shall ...

237 Paragraph 19.1 is amended as follows:

19.1 This section applies to ~~accounting for~~ **business combinations**. ~~It provides guidance on identifying the acquirer, measuring the cost of the business combination, and allocating that cost to the **assets** acquired and **liabilities** and **provisions** for **contingent liabilities** assumed. It also addresses for **goodwill**, both at the time of a business combination and subsequently.~~

238 In paragraph 19.2 the term 'assets' is now shown in bold type and the paragraph is amended as follows:

19.2 This section ~~specifies the accounting for all business combinations except~~ does not apply to:

(a) the formation of a **joint venture**; and

(b) the acquisition of a group of **assets** that does not constitute a **business**.

239 In paragraph 19.4 the term 'liabilities' is now shown in bold type.

240 In paragraph 19.7 the terms 'provisions' and 'contingent liabilities' are now shown in bold type and paragraph 19.7 is amended as follows:

19.7 Applying the purchase method involves the following steps:

(a) identifying an acquirer;

(aA) determining the acquisition date;

(b) measuring the cost of the business acquisition; ~~and~~

(c) allocating, at the acquisition date, the cost of the business combination to the assets acquired and liabilities and **provisions** for **contingent liabilities** assumed and recognising and measuring any **non-controlling interest** in the acquiree~~.~~; and

(d) recognising and measuring **goodwill**.

241 The sub-heading and paragraph 19.10A (moved from paragraph 19.17) are inserted as follows:

Determining the acquisition date

19.10A Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.

242 Paragraph 19.17 is moved to paragraph 19.10A as follows:

19.17 ~~Application of the purchase method starts from the acquisition date, which is the date on which the acquirer obtains control of the acquiree. Because control is the power to govern the financial and operating policies of an entity or business so as to obtain benefits from its activities, it is not necessary for a transaction to be closed or finalised at law before the acquirer obtains control. All pertinent facts and circumstances surrounding a business combination shall be considered in assessing when the acquirer has obtained control.~~[Moved to paragraph 19.10A]

243 In paragraph 19.24(c) the term ‘profit or loss’ is now shown in bold type.

244 In paragraph 19.27(c) the term ‘non-controlling interest’ is no longer shown in bold type.

245 Paragraph 20.1 is amended as follows:

20.1 This section applies to ~~covers accounting for all~~ **leases**, except for ~~other than~~:

(a) leases to explore for or use minerals, oil, natural gas and similar non-regenerative resources ~~(see Section 34 *Specialised Activities*)~~;

(b) ...

246 The sub-heading (not underlined) above paragraph 20.9 is amended as follows:

Initial recognition and measurement

20.9 At the **commencement** ...

247 Paragraph 20.12 is amended as follows:

20.12 A lessee shall depreciate an asset leased under a finance lease in accordance with Section 17 *Property, Plant and Equipment* or Section 18 *Intangible Assets other than Goodwill*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. A lessee shall also assess at each reporting date whether an asset leased under a finance lease is impaired (see Section 27 *Impairment of Assets*).

248 Paragraph 20.14 is amended as follows:

20.14 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18 and 27 apply to lessees for assets leased under finance leases.

249 Paragraph 20.31 is amended as follows:

20.31 In addition, the requirements for disclosure about assets in accordance with Sections 17, 18 and 27 apply to lessors for assets provided under operating leases.

250 Paragraph 21.1 is amended as follows:

21.1 This section applies to ~~all~~ **provisions** (ie **liabilities** of uncertain timing or amount), **contingent liabilities** and **contingent assets** except those provisions covered by other sections of this FRS. Where those other sections contain no specific requirements to deal with contracts that have become onerous, this section applies to those contracts.

251 In paragraph 21.1A(b) the term 'FRS 103' is now shown in bold type and the paragraph is amended as follows:

21.1A (b) an entity has elected under **FRS 103** ~~*Insurance Contracts*~~ to continue the application of insurance contract accounting.

252 Paragraph 21.1B is amended as follows:

21.1B This section does not apply to:

(a) financial instruments (including loan commitments) that are within the scope of Section 11 *Basic Financial Instruments* ~~and~~ or Section 12 *Other Financial Instruments Issues*~~. This section does not apply to~~;

(b) **insurance contracts** (including **reinsurance contracts**) that an entity issues and reinsurance contracts that the entity holds, or financial instruments issued by an entity with a **discretionary participation feature** that are within the scope of FRS 103~~*Insurance Contracts*.~~; or

(c) executory contracts (ie contracts under which neither party has performed any obligations or both parties have partially performed their obligations to an equal extent) unless they are **onerous contracts**.

253 Paragraph 21.2 is moved to paragraph 21.1B(c) as follows:

21.2 ~~The requirements in this section do not apply to executory contracts unless they are **onerous contracts**. Executory contracts are contracts under which neither party has performed any of its obligations or both parties have partially performed their obligations to an equal extent.~~[Moved to paragraph 21.1B(c)]

254 Paragraph 21.7(a) is amended as follows:

21.7 (a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. ~~The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent.~~ Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

255 In paragraph 21.11A the term 'onerous contract' is no longer shown in bold type and the paragraph is amended as follows:

21.11A If an entity has an onerous contract, the present obligation under the contract shall be recognised and measured as a provision (see Example 2 of the ~~A~~appendix to this section).

256 Paragraph 21.11B is amended as follows:

21.11B Provisions shall not be recognised for future operating losses (see Example 1 of the ~~A~~appendix to this section).

257 Paragraph 22.1 is amended as follows:

22.1 This section ~~establishes principles~~ sets out the requirements for:

(a) classifying **financial instruments** as either **liabilities** or **equity** and ~~deals with~~ the accounting for **compound financial instruments**~~.~~;

(b) ~~It also addresses~~ the issue of equity instruments~~ and~~, distributions to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **owners**) and the accounting for purchases of own equity~~. This section also deals with~~; and

(c) the accounting for **non-controlling interests** in **consolidated financial statements**.

Section 26 *Share-based Payment* ~~addresses accounting~~ sets out the requirements for a transaction in which the entity receives goods or services (including employee services) as consideration for its equity instruments (including shares or **share options**) from employees and other vendors acting in their capacity as vendors of goods and services.

258 Paragraph 22.2 is amended as follows:

22.2 This section ~~shall be~~ applie~~d~~s to ~~all types of~~ financial instruments except:

(a) Investments in **subsidiaries**, **associates** and **joint ventures** ~~that are accounted for in accordance with~~ (see Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* ~~or~~ and Section 15 *Investments in Joint Ventures*).

(b) Employers' rights and obligations under employee benefit plans~~, to which~~ (see Section 28 *Employee Benefits*)~~ applies~~.

...

(d) Financial instruments, contracts and obligations under **share-based payment transactions** ~~to which~~ (see Section 26)~~ applies~~, except that paragraphs 22.3 to 22.6 shall be applied to **treasury shares** issued, purchased, sold, transferred or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

(e) **Insurance contracts** (including **reinsurance contracts**) that an entity issues and reinsurance contracts that it holds (see **FRS 103**~~ *Insurance Contracts*~~).

...

~~A reporting entity that issues the financial instruments set out in (e) or (f) or holds the financial instruments set out in (e) is required by paragraph 1.6 to apply FRS 103 to those financial instruments.~~

259 The paragraph immediately below the sub-heading in the Appendix to Section 22 is moved to above the sub-heading as follows:

The appendix accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of paragraphs 22.13 to 22.15.

Example of the issuer's accounting for convertible debt

~~*The appendix accompanies, but is not part of, Section 22. It provides guidance for applying the requirements of paragraphs 22.13 to 22.15.*~~

...

260 Paragraph 23.1 is amended as follows:

23.1 This section ~~shall be~~ applie~~d~~s to ~~in accounting for~~ **revenue** arising from ~~the following transactions and events~~:

...

261 Paragraph 23.2 is amended as follows:

23.2 This section does not apply to r~~R~~evenue or other income arising from ~~some transactions and events is dealt with in other sections of this FRS~~:

...

(e) initial **recognition** and changes in the fair value of **biological assets** related to **agricultural activity** (see Section 34 *Specialised Activities*); ~~and~~

(f) initial recognition of **agricultural produce** (see Section 34)~~.~~;

(g) incoming resources from **non-exchange transactions** (see Section 34); and

(h) transactions and events dealt with in **FRS 103**.

262 Paragraph 23.2A is moved to paragraph 23.3(h) as follows:

23.2A ~~This section excludes revenue or other income arising from transactions and events dealt with in FRS 103 Insurance Contracts.~~ [Moved to paragraph 23.2(h)]

263 Paragraph 24.1 is amended as follows:

24.1 This section ~~specifies the accounting for all~~ applies to **government grants**. ~~A government grant is assistance by government in the form of a transfer of resources to an entity in return for past or future compliance with specified conditions relating to the **operating activities** of the entity.~~

264 Paragraph 25.1 is amended as follows:

25.1 This section ~~specifies the accounting for~~ applies to **borrowing costs**. ~~Borrowing costs are interest and other costs that an entity incurs in connection with the borrowing of funds.~~ Borrowing costs include:

(a) interest expense calculated using the effective interest method as ~~described~~ set out in Section 11 *Basic Financial Instruments*;

(b) finance charges in respect of finance leases ~~recognised in accordance with~~ as set out in Section 20 *Leases*; and

...

265 Paragraph 26.1 is amended as follows:

26.1 This section ~~specifies the accounting for all~~ applies to **share-based payment transactions** including~~:~~ those that are equity- or cash-settled or those in which the terms of the arrangement provide a choice of whether the entity settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.

~~(a) **equity-settled share-based payment transactions**, in which the entity:~~

~~(i) receives goods or services as consideration for its own equity instruments (including shares or **share options**); or~~

~~(ii) receives goods or services but has no obligation to settle the transaction with supplier;~~

~~(b) **cash-settled share-based payment transactions**, in which the entity acquires goods or services by incurring a **liability** to transfer **cash** or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity or another group entity; and~~

~~(c) transactions in which the entity receives or acquires goods or services and the terms of the arrangement provide either the entity or the supplier of those goods or services with a choice of whether the entity settles the transaction in cash (or other assets) or by issuing equity instruments.~~

266 Paragraph 26.15B is amended as follows:

26.15B Except as set out in paragraph 26.15C, ~~W~~when the counterparty has a choice of settlement of the transaction in cash (or other assets) or by the transfer of equity investments, the entity shall account for the transaction as a wholly cash-settled share-based payment transaction in accordance with paragraph 26.14.~~ unless:~~

26.15C ~~(a)~~ If the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments~~.~~,

~~In circumstance (a)~~ the entity shall account for the transaction as a wholly equity-settled transaction in accordance with paragraphs 26.7 to 26.13.

267 Paragraph 26.16 is amended as follows:

26.16 If a share-based payment award is granted by an entity to the employees of one or more ~~members in the~~ **group** entities, the ~~members~~ group entities are permitted, as an alternative to the treatment set out in paragraphs 26.3 to 26.15, to ~~recognise and~~ measure the share-based payment expense on the basis of a reasonable allocation of the expense for the group.

268 Paragraph 26.22 is amended as follows:

26.22 If the entity is part of a group share-based payment plan, and it ~~recognises and~~ measures its share-based payment expense on the basis of a reasonable allocation of the expense recognised for the group, it shall disclose that fact and the basis for the allocation (see paragraph 26.16).

269 Paragraph 27.1 is amended as follows:

27.1 ~~An **impairment loss** occurs when the carrying amount of an asset exceeds its recoverable amount.~~ This section ~~shall be~~ applieds to ~~in accounting for~~ the impairment of ~~all~~ assets and the recognition of **impairment losses** except in relation to ~~other than the following for which other sections of this FRS establish impairment requirements~~:

...

(e) **investment property** measured at **fair value** (see Section 16 *Investment Property*);~~ and~~

(f) **biological assets** related to **agricultural activity** measured at fair value less estimated costs to sell (see Section 34 *Specialised Activities*); and

(g) **deferred acquisition costs** and **intangible assets** arising from contracts within the scope of **FRS 103**.

270 Paragraph 27.1A is moved to 27.1(g) as follows:

27.1A ~~This section shall not apply in accounting for the impairment of **deferred acquisition costs** and **intangible assets** arising from contracts within the scope of **FRS 103** *Insurance Contracts*.~~[Moved to paragraph 27.1(g)]

271 Paragraph 28.1 is amended as follows:

28.1 ~~**Employee benefits** are all forms of consideration given by an entity in exchange for service rendered by employees, including directors and management.~~ This section applies to ~~all~~ **employee benefits**, except for **share-based payment transactions**~~, which are covered by~~ (see Section 26 *Share-based Payment*). Employee benefits ~~covered by this section will be one of the following four types~~ include:

(a) ...

272 In paragraph 28.21 the term 'profit or loss' is no longer shown in bold type.

273 Paragraph 28.21A is amended as follows:

28.21A If a defined benefit plan has been curtailed (ie benefits or group of covered employees are reduced) or settled (the relevant part of the employer's obligation is completely discharged) in the current period, the defined benefit obligation shall be decreased or eliminated, and the entity shall recognise the resulting gain or loss in profit or loss in the current reporting period.

274 Paragraph 28.41 is amended as follows:

28.41 An entity shall disclose the following information about defined benefit plans (except for any ~~defined~~ multi-employer defined benefit plans that are accounted for as a defined contribution plan in accordance with paragraphs 28.11 and 28.11A, for which the disclosures in paragraphs 28.40 and 28.40A apply instead).

(a) ...

275 Paragraph 29.1 is deleted as follows:

29.1 ~~For the purpose of this FRS, income tax includes all domestic and foreign taxes that are based on taxable profit. Income tax also includes taxes, such as withholding taxes, that are payable by a subsidiary, associate or joint venture on distributions to the reporting entity.~~[Deleted]

276 Paragraph 29.2 is amended as follows:

29.2 This section ~~covers accounting for~~ applies to:

(a) **income tax** ~~. It requires an entity to recognise the current and future tax consequences of transactions and other events that have been recognised in the **financial statements**. These recognised tax amounts~~ compriseing:

(i) **current tax**; and

(ii) **deferred tax**~~. Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past **reporting periods**. Deferred tax represents the future tax consequences of transactions and events recognised in the financial statements of the current and previous periods. This section also requires that deferred tax is recognised~~ including deferred tax in respect of **assets** (other than **goodwill**) and **liabilities** recognised as a result of a **business combination**~~.~~; and

(b) value added tax (VAT) and other similar sales taxes.

277 Paragraph 29.2A is moved to paragraph 29.1(b) as follows:

29.2A ~~This section also covers accounting for value added tax (VAT) and other similar sales taxes, which are not income taxes.~~[Moved to paragraph 29.1(b)]

278 In paragraph 29.6 the first mention of the term 'financial statements' is now shown in bold type.

279 Paragraph 30.1 split into two paragraphs and is amended as follows:

30.1 ~~An entity can conduct foreign activities in two ways. It may have transactions in foreign currencies or it may have **foreign operations**. In addition, an entity may present its **financial statements** in a foreign currency.~~ This section ~~prescribes how to include~~ applies to:

(a) foreign currency transactions;~~ and~~

(b) **foreign operations**; ~~in the financial statements of an entity~~ and

(c) ~~how to~~ the translat~~e~~ion of **financial statements** into a **presentation currency**.

30.1A This section does not apply to h~~H~~edge accounting of foreign currency items ~~is dealt with in~~ (see Section 12 *Other Financial Instruments Issues*).

280 Paragraph 30.25(b) is amended as follows:

30.25 (b) the amount of exchange differences recognised in other comprehensive income arising during the period~~ and classified as equity at the end of the period~~.

281 Paragraph 32.1 is amended as follows:

32.1 This section ~~defines events after the end of the **reporting period** and sets out principles for recognising, measuring and disclosing those~~ applies to the **recognition**, **measurement** and disclosure of events after the end of the **reporting period**.

282 Paragraph 33.1A is amended as follows:

33.1A Disclosures required by this section need not be given of transactions entered into between two or more members of a **group**, provided that any **subsidiary** which is a party to the transaction is wholly owned by such a member.

283 Paragraph 34.1 is amended as follows:

34.1 This section ~~sets out the financial reporting requirements for entities applying this FRS involved in~~ applies to the following types of specialised activities:

...

(c) Service Concession Arrangements (see paragraphs 34.12 to 34.16~~A~~C);

...

284 Paragraph 34.2 is amended as follows:

34.2 An entity ~~using this FRS~~ that is engaged in agricultural activity shall determine an **accounting policy** for each class of **biological asset** and its related **agricultural produce**.

285 Paragraph 34.6A is amended as follows:

34.6A If the fair value of a biological asset cannot be measured reliably, the entity shall apply the cost model to that biological asset in accordance with paragraphs 34.8 and 34.10~~A~~ until such time that the fair value can be reliably measured.

286 Paragraph 34.8 is amended as follows:

34.8 An entity applying the cost model shall measure biological assets at cost less any accumulated **depreciation** (when relevant) and any accumulated **impairment losses**.

287 Paragraph 34.10A is amended as follows:

34.10A An entity shall disclose, for any agricultural produce measured at fair value less costs to sell, the methods and significant assumptions applied in determining the fair value at the point of harvest~~ of each class~~ of its agricultural produce.

288 Paragraph 34.11 is amended as follows:

34.11 An entity ~~using this FRS~~ that is engaged in the exploration for and/or evaluation of mineral resources (extractive activities) shall apply the requirements of IFRS 6 *Exploration for and Evaluation of Mineral Resources*.

289 Paragraph 34.12B is amended as follows:

34.12B A service concession arrangement shall be accounted for in accordance with the requirements of paragraphs 34.12E to 34.16~~A~~C.

290 Paragraph 34.35(c) is amended as follows:

34.35 (c) **notes**, comprising ~~a summary of~~ its significant accounting policies and other explanatory information.

291 Paragraph 34.51 is amended as follows:

34.51 An entity shall recognise and measure heritage assets in accordance with Section 17 or Section 18, as appropriate (ie using the cost model or revaluation model), subject to the requirements set out in paragraph 34.52 to 34.53 below).

292 Paragraph PBE34.64 is amended as follows:

PBE34.64 The ~~accounting~~ requirements for **government grants** ~~is addressed~~ are set out in Section 24 *Government Grants*.

293 Paragraph PBE34.75 is amended as follows:

PBE34.75 Paragraphs PBE34.76 to PBE34.86 apply ~~only~~ to **public benefit entities**~~ for~~ entering into the following~~ categories of~~ **entity combinations** which involve a whole entity or parts of an entity combining with another entity:

...

294 Paragraph PBE34.87 is amended as follows:

PBE34.87 Paragraphs PBE34.89 to PBE34.97 ~~address the **recognition**, **measurement** and disclosure of~~ apply to **public benefit entity concessionary loans** ~~arrangements~~ within the **financial statements** of **public benefit entities** or entities within a **public benefit entity group** ~~making or receiving public benefit entity concessionary loans. These paragraphs apply to public benefit entity concessionary loan arrangements only and are not applicable to loans which are at a market rate or to other commercial arrangements~~.

295 Paragraph PBE34.95 is amended as follows:

PBE34.95 The entity shall disclose in ~~the summary of~~ its significant accounting policies the measurement basis used for concessionary loans and any other accounting policies which are relevant to the understanding of these transactions within the financial statements.

296 Appendix A to Section 34 is amended as follows:

Guidance on funding commitments

(paragraphs 34.57 to 34.63)

This ~~guidance~~ appendix is an integral part of ~~the Standard~~this section.

...

297 Appendix B to Section 34 is amended as follows:

Guidance on incoming resources from non-exchange transactions

(paragraphs 34.64 to 34.74)

This ~~guidance~~ appendix is an integral part of ~~the Standard~~this section.

...

298 Paragraph 35.1 is amended as follows:

35.1 This section applies to a **first-time adopter of this FRS**, regardless of whether its previous ~~accounting~~ financial reporting framework was **EU-adopted IFRS** or another set of generally accepted accounting principles (GAAP) such as its national accounting standards, or another framework such as the local income tax basis.

299 Paragraph 35.4(b) is amended as follows:

35.4 (b) presented its most recent previous financial statements under previous UK and Republic of Ireland requirements that are ~~therefore~~ not consistent with this FRS in all respects; or

300 Paragraph 35.9(a) and (d) are amended as follows:

35.9 (a) ***Derecognition** of **financial assets** and **financial liabilities***:

Financial assets and liabilities derecognised under an entity's previous ~~accounting~~ financial reporting framework before the date of transition shall not be recognised upon adoption of this FRS. Conversely, for financial assets and liabilities that would have been derecognised under this FRS in a transaction that took place before the date of transition, but that were not derecognised under an entity's previous ~~accounting~~ financial reporting framework, an entity may choose:

...

(d) ~~***Discontinued operations.***~~[Deleted]

...

301 Paragraph 35.10 is amended as follows:

35.10 An entity may ...

(d) ***Revaluation as deemed cost***

A first-time adopter may elect to use a ~~previous GAAP~~ revaluation determined under its previous financial reporting framework of an:

(i) ...

(f) ***Individual and separate financial statements***

When an entity ...

(i) cost determined in accordance with Section 9 *Consolidated and Separate Financial Statements*, Section 14 *Investments in Associates* or Section *15 Investments in Joint Ventures* at the date of transition; or

(ii) deemed cost, which shall be the **carrying amount** at the date of transition as determined under the entity's previous ~~GAAP~~ financial reporting framework.

...

(j) ***Extractive activities***

A first-time adopter that under ~~a~~ its previous ~~GAAP~~ financial reporting framework accounted for exploration and development costs for oil and gas properties in the development or production phases, in cost centres that included all properties in a large geographical area may elect to measure oil and gas assets at the date of transition to this FRS on the following basis:

(i) Exploration and evaluation assets at the amount determined under the entity's previous ~~GAAP~~ financial reporting framework.

(ii) Assets in the development or production phases at the amount determined for the cost centre under the entity's previous ~~GAAP~~ financial reporting framework. The entity shall allocate this amount to the cost centre's underlying assets pro rata using reserve volumes or reserve values as of that date.

...

(t) ***Hedge accounting***

(i) ***A hedging relationship existing on the date of transition***

A first-time adopter ...

Hedge accounting as set out in Section 12 *Other Financial Instruments* Issues of this FRS may commence from a date no earlier than the conditions of paragraphs 12.18(a) to (c) are met. In a fair value hedge the cumulative **hedging gain or loss** on the hedged item from the date hedge accounting commenced to the date of transition, shall be ~~recorded~~ recognised in retained earnings (or if appropriate, another category of equity). In a cash flow hedge and net investment hedge, the lower of the following (in absolute amounts) shall be ~~recorded~~ recognised in equity (in respect of cash flow hedges in the cash flow hedge reserve):

...

(ii) ***A hedging relationship that ceased to exist before the date of transition because the hedging instrument has expired, was sold, terminated or exercised prior to the date of transition***

A first-time adopter may elect not to adjust the carrying amount of an asset or liability for previous ~~GAAP accounting~~ financial reporting framework effects of a hedging relationship that has ceased to exist.

A first-time adopter may elect to account for amounts deferred in equity in a cash flow hedge under a previous ~~GAAP~~ financial reporting framework, as described in paragraph 12.23(d) from the date of transition. Any amounts deferred in equity in relation to a hedge of a **net investment in a foreign operation** under a previous ~~GAAP~~ financial reporting framework shall not be reclassified to profit or loss on disposal or partial disposal of the foreign operation.

...

(u) ***Small entities – fair value measurement of financial instruments***

A small entity that first adopts this FRS for an accounting period that commences before 1 January 2017 need not restate comparative information to comply with the fair value measurement requirements of Section 11 *Basic Financial Instruments* or Section 12, unless those financial instruments were measured at fair value in accordance with the small entity's previous ~~accounting~~ financial reporting framework.

...

302 Paragraph 35.11B is amended as follows:

35.11B Where there is subsequently a significant change in the circumstances or conditions associated with transactions, events or arrangements that existed at the date of transition, to which an exemption has been applied, an entity shall reassess the appropriateness of applying that exemption in preparing subsequent financial statements in order to maintain ~~**fair presentation**~~ a true and fair view in accordance with Section 3 *Financial Statement Presentation*.

303 The leading sentence to Appendix I: Glossary is amended as follows:

This ~~glossary~~ appendix is an integral part of ~~the Standard~~ this FRS.

...

304 The following glossary terms and definitions in Appendix I: Glossary are amended as follows:

contingent liability	A contingent liability is either: (a) ...
first-time adopter of this FRS	An entity that presents its first annual financial statements that conform to this FRS, regardless of whether its previous ~~accounting~~ financial reporting framework was EU-adopted IFRS or another set of accounting standards.
market vesting condition	A condition upon which the exercise price, vesting or exercisability of an equity instrument depends that is related to the market price of the entity's equity instruments, such as attaining a specified share price or a specified amount of intrinsic value of a share option, or achieving a specified target that is based on the market price of the entity's equity instruments relative to an index of market prices of equity instruments of other entities.
plan assets (of an employee benefit plan)	Plan assets (of an employee benefit plan) are: (a) ...
small entity	A small entity is: (a) a~~A~~ company meeting ...
Statement of Recommended Practice (SORP)	An extant Statement of Recommended Practice developed in accordance with ~~*SORPs:*~~ *Policy on Developing Statements* ~~*and Code*~~ *of Recommended Practice (SORPs)*. SORPs recommend accounting practices for specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector.

305 Footnote 27 in the term ‘financial institution’ in Appendix I: Glossary is amended as follows:

[27] As defined in section ~~40(4)~~55A of the *Financial Services and Markets Act 2000* or references to equivalent provisions of any successor legislation.

[Draft] Consequential amendments to other FRSs

[Draft] Consequential amendments to other FRSs

306 The following paragraphs set out the [draft] amendments to the following standards (deleted text is struck through, inserted text is underlined):

(a) FRS 100 *Application of Financial Reporting Requirements*;

(b) FRS 101 *Reduced Disclosure Framework*;

(c) FRS 103 *Insurance Contracts*;

(d) FRS 104 *Interim Financial Reporting*; and

(e) FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*.

[Draft] Amendments to FRS 100 *Application of Financial Reporting Requirements*

FRS 100 ***Application of Financial Reporting Requirements***

307 The sub-heading above paragraph 3 and paragraph 3 are deleted as follows:

~~**Abbreviations and definitions**~~

3 ~~The terms **Accounting Directive**, **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, **FRS 105**, **IAS Regulation**, **IFRS**, **individual financial statements**, **public benefit entity**, **qualifying entity**, **small entity** and **SORP** are defined in the glossary included as Appendix I to this FRS.~~[Deleted]

308 In paragraph 4 the following terms are now shown in bold type:

(a) the first mention of 'EU-adopted IFRS';

(b) 'FRS 101';

(c) 'FRS 102';

(d) the first mention of 'FRS 105';

(e) 'IAS Regulation';

(f) the first mention of 'individual financial statements'; and

(g) 'qualifying entity'.

309 In paragraph 5 the term 'SORP' is now shown in bold type and the paragraph is amended as follows:

5 If an entity's financial statements are prepared in accordance with FRS 102, **SORPs** will apply in the circumstances set out in ~~that FRS~~ those SORPs.

310 In paragraph 6 the first mention of the term 'small entity' is now shown in bold type.

311 Paragraph 10A is inserted as follows:

10A In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. An entity shall apply the amendments set out in the [2017 triennial review amendments] for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all of the amendments are applied at the same time.

312 In paragraph 11(b) the term 'date of transition' is now shown in bold type.

313 In paragraph 12 the first mention of the term 'Act' is now shown in bold type.

Application Guidance: The Interpretation of Equivalence

314 The leading sentence to the Application Guidance is amended as follows:

This application guidance ~~forms~~ is an integral part of this FRS ~~100~~.

315 In paragraph AG1(a) the term 'Accounting Directive' is now shown in bold type.

316 In paragraph AG6(c) the term 'IFRS' is now shown in bold type.

Appendix I: Glossary

317 The following glossary terms and definitions, and related footnote are deleted. Subsequent footnotes are renumbered sequentially:

~~financial institution~~	~~Any of the following:~~ ~~(a) a bank which is:~~ ~~(i) a firm with a Part IV permission[12] which includes accepting deposits and:~~ ~~(a) which is a credit institution; or~~ ~~(b) whose Part IV permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or credit union;~~ ~~(ii) an EEA bank which is a full credit institution;~~ ~~(b) a building society which is defined in section 119(1) of the Building Societies Act 1986 as a building society incorporated (or deemed to be incorporated) under that act;~~ ~~(c) a credit union, being a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act 1979, which is an authorised person;~~ ~~(d) custodian bank, broker-dealer or stockbroker;~~ ~~(e) an entity that undertakes the business of effecting or carrying out~~ **~~insurance contracts~~**~~, including general and life assurance entities;~~ ~~(f) an incorporated friendly society incorporated under the Friendly Societies Act 1992 or a registered friendly society registered under section 7(1)(a) of the Friendly Societies Act 1974 or any enactment which it replaced, including any registered branches;~~ ~~(g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC);~~ ~~(h) a~~ **~~retirement benefit plan~~**~~; or~~ ~~(i) any other entity whose principal activity is to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities similar to those listed above but are not specifically included in the list above.~~ ~~A~~ **~~parent~~** ~~entity whose sole activity is to hold investments in other group entities is not a financial institution.~~ ~~12 As defined in section 40(4) of the Financial Services and Markets Act 2000 or references to equivalent provisions of any successor legislation.~~
~~FRS 100~~	~~FRS 100~~ ~~*Application of Financial Reporting Requirements*~~

~~**public benefit entity**~~	~~An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.~~

318 The following glossary terms and definitions are amended as follows:

small entity	A small entity is: (a) a~~A~~ company meeting ...
Statement of Recommended Practice (SORP)	An extant Statement of Recommended Practice developed in accordance with ~~*SORPs:*~~ *Policy on Developing Statements* ~~*and Code*~~ *of Recommended Practice (SORPs)*. SORPs recommend accounting practices for specialised industries or sectors. They supplement accounting standards and other legal and regulatory requirements in the light of the special factors prevailing or transactions undertaken in a particular industry or sector.

[Draft] Amendments to FRS 101 *Reduced Disclosure Framework*

FRS 101 *Reduced Disclosure Framework*

319 In paragraph 1 the terms 'EU-adopted IFRS' and 'individual financial statements' are now shown in bold type.

320 In paragraph 2 the term 'qualifying entity' is now shown in bold type.

321 In paragraph 3 the term 'Act' is now shown in bold type.

322 Paragraph 4 is deleted as follows:

4 ~~The terms **Act, date of transition, EU-adopted IFRS, financial institution, FRS 100, FRS 101, FRS 102, IAS Regulation, IFRS, individual financial statements, public benefit entity, qualifying entity** and **Regulations** are defined in the glossary included as Appendix I to this FRS.~~[Deleted]

323 In paragraph 5 the term 'Regulations' is now shown in bold type.

324 In paragraph 7 the term 'financial institution' is now shown in bold type.

325 In paragraph 7A the term 'date of transition' is now shown in bold type.

326 In paragraph 9 the term 'FRS 100' is now shown in bold type.

327 Paragraph 10 is amended as follows:

10 Whenn~~re~~ a qualifying entity prepares its financial statements in accordance with this FRS~~ 101~~, it shall state in the notes to the financial statements: 'These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.'. The financial statements of such an entity do not comply with all of the requirements of EU-adopted IFRS and shall not therefore contain the unreserved statement of compliance referred to in paragraph 3 of IFRS 1 and otherwise required by paragraph 16 of IAS 1 Presentation of Financial Statements.

328 Paragraph 13 is inserted as follows:

13 In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. An entity shall apply the amendments set out in the [2017 triennial review amendments] for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all of the amendments are applied at the same time. If an entity applies the [2017 triennial review amendments] before 1 January 2019 it shall disclose that fact.

Application Guidance: Amendments to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations

329 The leading sentence to the Application Guidance is amended as follows:

This application guidance forms an integral part of this FRS~~ 101~~

330 Paragraph AG1 is amended as follows:

AG1 In accordance with the Act, an entity may prepare Companies Act accounts or IAS accounts. A qualifying entity which applies this FRS~~ 101~~ prepares Companies Act accounts. This Application Guidance ~~to FRS 101~~ sets out amendments to

EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations (deleted text is struck through and inserted text is underlined):

331 Paragraph AG1(a) is amended with the final sentence being replaced with the following:

AG1(a)...

A qualifying entity that applies this provision must ensure that its assets and liabilities are measured in compliance with company law.

332 Paragraph AG1(b) is amended with the final sentence being replaced with the following:

AG1(b)...

A qualifying entity that applies this provision must ensure that its assets and liabilities are measured in compliance with company law.

Appendix I: Glossary

333 The leading sentence is inserted at the start of Appendix I: Glossary as follows:

Appendix I: Glossary

This appendix is an integral part of this FRS.

334 The following glossary terms and definitions are deleted:

~~**FRS 101**~~	~~FRS 101 *Reduced Disclosure Framework*~~
~~**FRS 102**~~	~~FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*~~
~~**IAS Regulation**~~	~~EU Regulation 1606/2002~~
~~**public benefit entity**~~	~~An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.~~

335 The following term and related footnote are amended as follows:

financial institution	Any of the following: (a) a bank which is: (i) a firm with a Part ~~IV~~4A permission[14] which includes accepting deposits and: (a) which is a credit institution; or (b) whose Part ~~IV~~4A permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or a credit union; ... (g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); or (h) ~~a **retirement benefit plan;** or~~[deleted] (i) any other entity whose principal activity is ~~to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities~~ similar to those listed above but ~~are~~ is not specifically included in ~~the~~ that list ~~above~~. [Footnote 14 is amended as follows:] 14 As defined in section ~~40(4)~~55A of the *Financial Services and Markets Act 2000* or references to equivalent provisions of any successor legislation.

Appendix II: Note on legal requirements

336 Paragraph A2.9A is amended as follows:

A2.9A A qualifying entity ...

This option is not available to a qualifying entity applying Schedule 2 or Schedule 3 to the Regulations~~ or Schedule 1 to the LLP Regulations~~.

337 Paragraph A2.10 is amended as follows:

A2.10 In relation to paragraph A2.9B(d), in most cases ...

338 Paragraph A2.10A is inserted as follows:

A2.10A A qualifying entity that has a disposal group must ensure that its presentation of the disposal group, in accordance with paragraph 38 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, meets company law requirements, which may result in additional disaggregation being provided either in the statement of financial position or in the notes.

339 Paragraph A2.11 is amended as follows:

A2.11 Schedule 2 and Schedule 3 to the Regulations ~~and the LLP Regulations~~ require the separate disclosure of extraordinary items in the profit and loss account. A qualifying entity applying Schedule 2 or Schedule 3 and preparing financial statements in accordance with FRS 101 must therefore disclose items that are deemed to be extraordinary items separately in the statement of comprehensive income. Entities should note that extraordinary items are extremely rare as they relate to highly abnormal events or transactions.

[Draft] Amendments to FRS 103 *Insurance Contracts*

Section 1
Scope

340 Paragraph 1.4 is amended as follows:

1.4 The Implementation Guidance ...

In particular the Implementation Guidance may be relevant as follows:

(a) Section 1: Guidance for entities with long-term business provides guidance on applying Section 3 of this FRS ~~103~~.

(b) Section 2: Guidance for entities with general insurance business or long-term business provides guidance for all entities applying this FRS ~~103~~.

(c) Section 3: Guidance on capital disclosures for entities with long-term insurance business applies to entities with long-term insurance business.

341 Paragraph 1.11(b) is amended as follows:

1.11 (b) disclose the fact that it has applied this FRS ~~103~~ before 1 January 2015.

342 Paragraph 1.11B is inserted as follows:

1.11B In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. An entity shall apply the amendments set out in the [2017 triennial review amendments] for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all of the amendments are applied at the same time.

Section 2
Accounting Policies, Recognition and Measurement

343 Paragraph 2.1 is amended as follows:

2.1 This section sets out the requirements ~~provides guidance~~ for selecting and applying the **accounting policies** used in the **recognition** and measurement of **insurance contracts** when preparing **financial statements**. Entities with **long-term insurance business** shall also apply the requirements of Section 3 *Recognition and Measurement: Requirements* for entities with long-term insurance business in selecting accounting policies for long-term insurance business.

344 Paragraph 2.12 is amended as follows:

2.12 Paragraphs 10.4 to 10.6 of FRS 102 set out how an entity's management shall use its judgement in developing and applying an accounting policy if no FRS ~~or FRC Abstract~~ applies specifically to a transaction, other event or condition. However, this FRS exempts an insurer from the considerations in paragraphs 10.4 to 10.6 of FRS 102 in relation to its accounting policies for:

(a) ...

Section 3
Recognition and Measurement: Requirements for entities with long-term insurance business

345 Paragraph 3.1 is amended as follows:

3.1 This section sets out the requirements for entities applying this FRS that are carrying out **long-term insurance business**:

(a) ...

Section 4
Disclosure

346 Paragraph 4.1 is amended as follows:

4.1 This section ~~describes~~ sets out the disclosures to be provided by **insurers** in addition to the disclosure requirements of **FRS 102**.

347 Paragraph 4.2 is amended as follows:

4.2 In accordance with paragraph 8.5 of FRS 102, an entity shall disclose, in ~~the summary of~~ its significant **accounting policies**, in relation to both **insurance contracts** and **financial instruments** that it issues with a **discretionary participation feature**:

(a) ...

Section 5
Disclosure: Additional requirements for with-profits business

348 Paragraph 5.1 is amended as follows:

5.1 This section ~~describes~~ sets out the disclosures to be provided by **insurers** that have liabilities arising from **with-profits business**, in addition to the disclosure requirements of **FRS 102** and Section 4 *Disclosure* of this FRS.

Appendix I: Glossary

349 The leading sentence is amended as follows:

This ~~glossary~~ appendix is an integral part of ~~the Standard~~ this FRS.

350 The following glossary term and definition is deleted as follows:

~~**FRS 103**~~	~~FRS 103 *Insurance Contracts*~~

351 The following glossary term is amended as follows:

financial institution	Any of the following: ... (g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); or (h) ~~a **retirement benefit plan;** or~~[deleted] (i) any other entity whose principal activity is ~~to generate wealth or manage risk through financial instruments. This is intended to cover entities that have business activities~~ similar to those listed above but ~~are~~ is not specifically included in ~~the~~ that list ~~above~~.

Appendix II: Definition of an insurance contract

352 The leading sentence is amended as follows:

This appendix is an integral part of ~~the~~ this FRS.

Appendix III: Table of concordance between FRS 103, FRS 27 and the ABI SORP

353 The leading sentence is amended as follows:

This appendix maps the source material in FRS 27 and the ABI SORP into ~~the~~ this FRS.

[Draft] Amendments to FRS 104 *Interim Financial Reporting*

FRS 104 *Interim Financial Reporting*

354 Paragraph 3 is amended as follows:

3 An entity that makes a statement of compliance with this FRS shall comply with all of the provisions of this FRS. This FRS does ~~need~~ not need to be applied to immaterial items.

355 Paragraph 56A is inserted as follows:

56A In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. An entity shall apply the amendments set out in the [2017 triennial review amendments] for interim periods beginning on or after 1 January 2019. Early application is permitted if an entity also applies the [2017 triennial review amendments] to FRS 101 or FRS 102 for an accounting period beginning before 1 January 2019.

Appendix I: Glossary

356 The leading sentence is amended as follows:

This ~~glossary~~ appendix is an integral part of this FRS ~~104~~.

357 The following glossary term is amended as follows:

other comprehensive income	Items of **income** and **expense** (including reclassification adjustments that are not recognised in **profit or loss** as required or permitted by **FRS 102** or by law.

Appendix II: Illustrations and examples

358 The leading sentence is amended as follows:

This appendix accompanies, but is not part of this FRS ~~104~~. It provides guidance for applying some of the requirements in this FRS ~~104~~.

Appendix IV: Table of comparison between terminology used in the DTRs and FRS 104

359 The leading sentence is amended as follows:

The following table compares broadly equivalent terminology used in the Disclosure and Transparency Rules (DTRs) with terminology used in this FRS ~~104~~.

[Draft] Amendments to FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

Section 1
Scope

360 Paragraph 1.5 is inserted as follows:

1.5 In [December 2017] amendments were made to this FRS as a result of the 2017 triennial review. A micro-entity shall apply the amendments set out in the [2017 triennial review amendments] for accounting periods beginning on or after 1 January 2019. Early application is permitted provided that all of the amendments are applied at the same time.

Section 2
Concepts and Pervasive Principles

361 Paragraph 2.31 is amended as follows:

2.31 Under limited circumstances this FRS requires a micro-entity to estimate the cost of an asset or liability based on its **fair value**. Where this FRS requires a micro-entity to determine the fair value of an asset or liability, it shall use the following ~~hierarchy~~ methodology to estimate the fair value:

(a) The best evidence of fair value is the open market price for an identical asset or liability (or similar asset or liability) in an **active market**.

(b) When an open market price is not available, the price of a recent transaction for an identical asset or liability (or similar asset or liability) in an arm's length transaction between knowledgeable, willing parties provides evidence of fair value. ~~as long as there has not~~ However, this price may not be a good estimate of fair value if there has been a significant change in economic circumstances or a significant ~~lapse~~ period of time ~~since~~ between the date of the binding sale agreement or the transaction, and the measurement date ~~took place~~.

(c) If neither (a) nor (b) above are available, the fair value shall be estimated using a valuation technique. The objective of using another valuation technique is to estimate what the price of a recent transaction for an identical asset or liability (or similar asset or liability) would have been on the measurement date in an arm's length exchange motivated by normal business considerations.

Section 3
Financial Statement Presentation

362 Paragraph 3.1 is amended as follows:

3.1 This section ~~explains~~ sets out what compliance with this FRS requires and what makes up a complete set of **financial statements** for a **micro-entity**.

363 Paragraph 3.8 is amended as follows:

3.8 This FRS specifies information that is required to be included in the financial statements, which includes the notes. A micro-entity need not provide a specific disclosure required by this FRS if the information resulting from that disclosure is not **material**. This exemption does not apply to the disclosures required by paragraph 6.2(~~a~~b) and 6.2(c).

364 Paragraph 3.13A and a sequentially numbered footnote are inserted (subsequent footnotes are renumbered sequentially) as follows:

3.13A In accordance with section 396(A1) of the **Act**, a micro-entity's financial statements shall state:

(a) the part of the United Kingdom in which the micro-entity is registered;

(b) the micro-entity's registered number;

(c) whether the micro-entity is a public or private company and whether it is limited by shares or by guarantee[*footnote];

(d) the address of the micro-entity's registered office; and

(e) where appropriate, the fact that the micro-entity is being wound up.

[*footnote] Sub-paragraph (c) does not apply to micro-entities that are LLPs.

365 In paragraph 3.14 the term 'Act' is no longer shown in bold type and the paragraph is amended as follows:

3.14 In accordance with section 414(3) of the Act, financial statements prepared in accordance with the **micro-entity provisions** shall contain on the **statement of financial position**, in a prominent position above the signature, ~~contain~~ a statement that the financial statements are prepared in accordance with the micro-entity provisions.

Section 4
Statement of Financial Position

366 Paragraph 4.1 is amended as follows:

4.1 A **micro-entity** shall present its **financial position** at the end of the **reporting period**. This section sets out the information that ~~is to~~ shall be presented in a **statement of financial position** and how to present it. The statement of financial position (which is referred to as the balance sheet in the Act) presents a micro-entity's **assets**, **liabilities** and **equity** as ~~of a specific date –~~ at the end of the reporting period.

Section 5
Income Statement

367 Paragraph 5.1 is amended as follows:

5.1 ~~This section requires a~~ A **micro-entity** shall ~~to~~ present its **profit or loss** for a period, ie its financial **performance** for the period. ~~It~~ This section sets out the information that ~~is to~~ shall be presented in the **income statement** (which is referred to as the profit and loss account in the Act) and how to present it.

Section 6
Notes to the Financial Statements

368 Paragraph 6.2 is amended by inserting new sub-paragraphs (a) and (b) and renumbering the existing sub-paragraphs (a) and (b) as (c) and (d), as follows:

6.2 In accordance with section 472(1A) of the **Act**, the notes to the financial statements of a micro-entity shall be presented at the foot of the **statement of financial position** and shall include the following information:

(a) Information about off-balance sheet arrangements as required by section 410A of the Act (see paragraph 6A.1 of the appendix to this section);

(b) information about employee numbers as required by section 411 of the Act (see paragraph 6A.2 of the appendix to this section);

~~(a)~~(c) advances, credit and guarantees to directors as required by section 413 of the Act (see paragraph 6A.1 ~~in~~ of the ~~A~~appendix to this ~~S~~section); and

~~(b)~~(d) financial commitments, guarantees and contingencies as required by regulation 5A of, and paragraph 57 of Part 3 of Schedule 1 to, the **Small Companies Regulations** (see paragraphs 6A.2 and 6A.3 ~~in~~ of the ~~A~~appendix to this ~~S~~section).

Appendix to Section 6 – Company law disclosure requirements

369 The leading sentence is amended as follows:

This appendix is an integral part of this ~~FRS~~section.

370 Paragraphs 6A.1, 6A.2 and 6A.3 are renumbered as paragraphs 6A.3, 6A.4 and 6A.5, and new paragraphs 6A.1 and 6A.2 are inserted as follows:

6A.1 *If in any reporting period a micro-entity is or has been party to arrangements that are not reflected in its statement of financial position and at the reporting date the risks or benefits arising from those arrangements are material, the nature and business purpose of the arrangements must be given in the notes to the financial statements to the extent necessary for enabling the financial position of the micro-entity to be assessed. (Section 410A of the Act)*

6A.2 *The notes to a micro-entity's financial statements must disclose the average number of persons employed by the micro-entity in the financial year. (Section 411 of the Act)*

Section 7
Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements

371 Paragraph 7.1 is amended as follows:

7.1 This section ~~sets out how a **micro-entity** shall account for~~ applies to investments in **subsidiaries** and **associates**, interests in **jointly controlled entities** and intermediate payment arrangements.

372 In paragraph 7.2 the term 'micro-entity' is now shown in bold type.

373 Paragraph 7.4A is inserted as follows:

7.4A It is possible for an entity to be owned by a trust established for the benefit of employees without the entity controlling the trust. An example of such an entity would be a company whose shares are held in a trust for the benefit of the employees but the shares never vest in individual employees with dividends from the company being distributed to employees solely in accordance with the provisions of the trust deed.

Section 8
Accounting Policies, Estimates and Errors

374 Paragraph 8.1 is amended as follows:

8.1 This section ~~provides guidance~~ sets out the requirements for:

(a) selecting and applying the **accounting policies** used in preparing **financial statements**;~~. It also covers~~

(b) accounting for **changes in accounting estimates**; and

(c) accounting for corrections of **errors** in prior period financial statements.

Section 9
Financial Instruments

375 Paragraph 9.1 is amended as follows:

9.1 This section ~~deals with~~ sets out the requirements for ~~the~~ recogni~~tion~~sing, derecogni~~tion~~sing, measur~~ement~~ing and disclos~~ure~~ing ~~of~~ **financial instruments** (**financial assets** and **financial liabilities**).

376 In paragraph 9.2 the first mention of the term ‘derecognition’ is now shown in bold type and the paragraph is amended as follows:

9.2 All financial instruments ...

(g) **derivatives**, eg options, warrants, futures contracts, forward contracts, and interest rate swaps.

377 In paragraph 9.8(b) the term ‘derivatives’ is no longer shown in bold type.

Section 10
Inventories

378 Paragraph 10.1 is deleted as follows:

10.1 ~~This section sets out the principles for recognising and measuring inventories.~~[Deleted]

379 Paragraph 10.2 is amended as follows:

10.2 This section applies to ~~all~~ **inventories**, except:

(a) ...

Section 11
Investments in Joint Ventures

380 In paragraph 11.1 the terms ‘jointly controlled’ and ‘assets’ are no longer shown in bold type and the paragraph is amended as follows:

11.1 This section applies to ~~the accounting for~~ investments in **joint ventures** that are jointly controlled operations and jointly controlled assets.

381 Paragraph 11.2 is amended as follows:

11.2 A **micro-entity** shall refer to Section 7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements* which ~~sets out the requirements for~~ applies to investments in joint ventures that are **jointly controlled entities**.

Section 12
Property, Plant and Equipment and Investment Property

382 Paragraph 12.1 is amended as follows:

12.1 This section applies to ~~the accounting for~~ **property, plant and equipment** and **investment property**.

383 Paragraph 12.4 is amended as follows:

12.4 Items such as s~~S~~pare parts, stand-by equipment and servicing equipment are recognised in accordance with this section when they meet the definition of property, plant and equipment. Otherwise, such items are classified as **inventory**. ~~usually carried as **inventory** and recognised in **profit or loss** as consumed. However, major spare parts and stand-by equipment are property, plant and equipment when a micro-entity expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are considered property, plant and equipment.~~

384 Paragraph 12.5 is amended as follows:

12.5 Parts of some items of property, plant and equipment or investment property may require replacement at regular intervals (eg the roof of a building). A micro-entity shall add to the **carrying amount** of an item of property, plant and equipment or investment property the cost of replacing part of such an item when that cost is incurred if the replacement part is expected to provide incremental future benefits to the micro-entity. The carrying amount of those parts that are replaced is derecognised in accordance with paragraphs 12.26 and 12.27 regardless of whether the replaced parts had been depreciated separately. If it is not practicable for an entity to identify the carrying amount of the replaced part, it may be estimated using the current cost of the replacement part as a proxy for the original cost of the replaced part.

385 The sub-heading (underlined) above paragraph 12.8 is amended as follows:

Initial m~~M~~easurement~~ at initial recognition~~

12.8 A micro-entity shall ...

386 The sub-heading (underlined) above paragraph 12.14 is amended as follows:

Subsequent m~~M~~easurement~~ after initial recognition~~

12.14 A micro-entity shall ...

Section 13
Intangibles other than Goodwill

387 Paragraph 13.1 is amended as follows:

13.1 This section applies to ~~the accounting for all~~ separately acquired **intangible assets** and internally generated intangible assets~~, other than~~. This section does not apply to intangible assets held by a **micro-entity** for sale in the ordinary course of business (see Section 10 *Inventories* and Section 18 *Revenue*).

388 The sub-heading (underlined) above paragraph 13.8 is amended as follows:

Subsequent m~~M~~easurement~~ after initial recognition~~

13.8 A micro-entity shall ...

Section 14
Business Combinations and Goodwill

389 Paragraph 14.1 is amended as follows:

14.1 Whe~~re~~n a **micro-entity** effects a **business combination** by acquiring the trade and **assets** of another **business,** it shall apply Section 19 *Business Combinations and Goodwill* of **FRS 102**, except for the following:

...

(d) a micro-entity shall not recognise and measure a **share-based payment transaction** in accordance with Section 26 *Share-based Payment* of FRS 102, but instead apply Section 21 *Share-based Payment* of this FRS;

(e) a micro-entity shall not recognise and measure a liability (or asset, if any) related to the acquired business's **employee benefits** arrangements in accordance with Section 28 *Employee Benefits* of FRS 102, but instead apply Section 23 *Employee Benefits* of this FRS; and

(~~e~~f) a micro-entity is not required to provide any of the disclosures.

Section 15
Leases

390 Paragraph 15.1 is amended as follows:

15.1 This section ~~covers accounting for all~~ applies to **leases** ~~other than~~ except for licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights (see Section 13 *Intangible Assets other than Goodwill*).

391 The sub-heading (underlined) above paragraph 15.10 is amended as follows:

Initial recognition and measurement

15.10 At the **commencement** ...

392 Paragraph 15.13 is amended as follows:

15.13 A lessee shall depreciate an asset leased under a finance lease in accordance with Section 12 *Property, Plant and Equipment and Investment Property* and Section 13 *Intangible Assets other than Goodwill*. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its **useful life**. A lessee shall also assess at each **reporting date** whether an asset leased under a finance lease is impaired (see Section 22 *Impairment of Assets*).

Section 16
Provisions and Contingencies

393 Paragraph 16.1 is amended as follows:

16.1 This section applies to ~~all~~ **provisions**, **contingent liabilities** and **contingent assets** except ~~those~~ for provisions covered by other sections of this FRS. Where those other sections contain no specific requirements to deal with contracts that have become onerous, this section applies to those contracts.

394 Paragraph 16.8(a) is amended as follows:

16.8 (a) When the provision involves a large population of items, the estimate of the amount reflects the weighting of all possible outcomes by their associated probabilities. ~~The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent.~~ Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

395 Paragraph 16.13 is amended as follows:

16.13 If a micro-entity has an onerous contract, the present obligation under the contract shall be recognised and measured as a provision (see Example 2 of the ~~A~~appendix to this section).

Section 17
Liabilities and Equity

396 Paragraph 17.1 is amended as follows:

17.1 This section ~~establishes principles~~ sets out the requirements for:

(a) classifying **financial instruments** as either **liabilities** or **equity**; ~~and deals with~~

(b) accounting for **compound financial instruments**, such as convertible debt; and~~. It also addresses~~

(c) the issue of equity instruments, distributions to individuals or other parties acting in their capacity as investors in equity instruments (ie in their capacity as **owners**) and the accounting for purchases of own equity.

397 Paragraph 17.2 is amended as follows:

17.2 This section ~~shall be applied~~ applies to ~~all types of~~ financial instruments except:

(a) Investments in **subsidiaries** and **associates** and interests in **jointly controlled entities** ~~that are accounted for in accordance with~~ (see Section ~~9 *Financial Instruments*~~7 *Subsidiaries, Associates, Jointly Controlled Entities and Intermediate Payment Arrangements*).

(b) Employers' rights and obligations under employee benefit plans ~~to which~~ (see Section 23 *Employee Benefits*) ~~applies~~.

(c) Financial instruments, contracts and obligations under **share-based payment transactions** ~~to which~~ (see Section 21 *Share-based Payment*) ~~applies~~, except that paragraph 17.14 shall be applied to **treasury shares** issued, purchased, sold, transferred or cancelled in connection with employee share option plans, employee share purchase plans, and all other share-based payment arrangements.

...

398 Paragraph 17.8 is amended as follows:

17.8 A micro-entity shall measure ~~the~~ equity instruments at the fair value of the cash or other resources received or receivable, net of ~~direct costs of issuing the equity instruments~~**transaction costs**.

399 Paragraphs 17.8A and 17.8B are inserted as follows:

17.8A A micro-entity shall not apply paragraph 17.8 to transactions in which a financial liability is extinguished (partially or in full) by issuing equity instruments in accordance with the original terms of the financial liability. There is no gain or loss recognised in profit or loss as the result of such a transaction.

17.8B A micro-entity is not required to apply paragraph 17.8 to transactions in which a financial liability is extinguished (partially or in full) by the issue of equity instruments if the creditor is also a direct or indirect shareholder and is acting in its capacity as a direct or indirect existing shareholder.

400 In paragraph 17.9 the term ‘transaction costs’ is no longer shown in bold type and the paragraph is amended as follows:

17.9 A micro-entity shall account for the transaction costs of an equity transaction as a deduction from equity~~, net of any related **income tax** benefit~~. Income tax related to transaction costs shall be accounted for in accordance with Section 24 *Income Tax*.

Section 18
Revenue

401 Paragraph 18.1 is amended as follows:

18.1 This section ~~shall be applied in accounting for~~ applies to **revenue** arising from ~~the following transactions and events~~:

(a) ...

402 Paragraph 18.2 is amended as follows:

18.2 This section does not apply to r~~R~~evenue or other income arising from lease agreements ~~is dealt with in~~ (see Section 15 *Leases*).

403 Paragraph 18.3A is inserted as follows:

18.3A Total revenue arising from a single transaction shall be allocated to each separately identifiable good or service of that single transaction. Where practicable, total revenue shall be allocated on the basis of the relative stand-alone prices of each separately identifiable good or service of a single transaction unless another basis better reflects the substance of the transaction.

404 Paragraph 18.8 is amended as follows:

18.8 A micro-entity shall apply the **recognition** criteria to each and all of the separately identifiable ~~components~~ goods or services of a single transaction ~~when necessary~~ in order to reflect the substance of the transaction. For example, ~~a micro-entity applies the recognition criteria to the separately identifiable components of a single transaction~~ when the selling price of a product includes an identifiable amount for subsequent servicing, a micro-entity shall allocate the total revenue between the product and the servicing (as required by paragraph 18.3A) and defer and recognise revenue allocated to the service over the period during which the servicing is performed. Conversely, a micro-entity applies the recognition criteria to two or more transactions together when they are linked in such a way that the commercial effect cannot be understood without reference to the series of transactions as a whole.

405 Paragraph 18.15 is amended as follows:

18.15 When the outcome of the transaction involving the rendering of services cannot be estimated reliably, a micro-entity shall recognise revenue only to the extent of the **expenses** recognised that it is probable will be ~~are~~ recoverable.

406 Paragraph 18.16A is inserted as follows:

18.16A Costs that relate directly to a contract and are incurred in securing the contract are also included as part of the contract costs if they can be separately identified and measured reliably and it is probable that the contract will be obtained. When costs incurred in securing a contract are recognised as an expense in the period in which they are incurred, they are not included in contract costs when the contract is obtained in a subsequent period.

407 The sub-heading (underlined) and paragraphs 18A.36 to 18A.39 are inserted as follows:

Determining whether an entity is acting as a principal or as an agent

18A.36 Determining whether an entity is acting as a principal or as an agent requires judgement and consideration of all relevant facts and circumstances.

18A.37 An entity is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. Features that indicate that an entity is acting as principal include:

(a) the entity has the primary responsibility for providing the goods or services to the customer or for fulfilling the order, for example by being responsible for the acceptability of the products or services ordered or purchased by the customer;

(b) the entity has inventory risk before or after the customer order, during shipping or on return;

(c) the entity has latitude in establishing prices, either directly or indirectly, for example by providing additional goods or services; and

(d) the entity bears the customer's credit risk for the amount receivable from the customer.

18A.38 An entity is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. One feature indicating that an entity is acting as agent is that the amount the entity earns is predetermined, being either a fixed fee per transaction or a stated percentage of the amount billed to the customer.

18A.39 The amounts collected by an agent on behalf of a principal are not revenue. Instead, revenue is the amount of commission.

Section 19
Government Grants

408 Paragraph 19.1 is amended as follows:

19.1 This section ~~specifies the accounting for all~~ applies to **government grants**.

Section 20
Borrowing Costs

409 Paragraph 20.1 is amended as follows:

20.1 This section ~~specifies the accounting for~~ applies to **borrowing costs**. Borrowing costs include:

(a) ...

Section 21
Share-based Payment

410 Paragraph 21.1 is amended as follows:

21.1 This section ~~specifies the accounting for all~~ applies to **share-based payment transactions** including those that are equity- or cash-settled or those in which the terms of the arrangement provide a choice of whether the **micro-entity** settles the transaction in **cash** (or other **assets**) or by issuing **equity** instruments.~~:~~

~~(a) **equity-settled share-based payment transactions**;~~

~~(b) **cash-settled share-based payment transactions**; and~~

~~(c) transactions in which the **micro-entity** receives or acquires goods or services and the terms of the arrangement provide either the micro-entity or the supplier of those goods or services with a choice of whether the micro-entity settles the transaction in cash (or other **assets**) or by issuing equity instruments.~~

411 Paragraph 21.10 is amended as follows:

21.10 Except as set out in paragraph 21.10A, ~~W~~when the counterparty has a choice of settlement of the transaction in cash (or other assets) or by the transfer of equity instruments, the micro-entity shall account for the transaction as a wholly cash-settled share-based payment transaction in accordance with paragraphs 21.3 to 21.7.~~ unless:~~

21.10A ~~(a)~~ If the choice of settlement in cash (or other assets) has no commercial substance because the cash settlement amount (or value of the other assets) bears no relationship to, and is likely to be lower in value than, the fair value of the equity instruments~~.~~,

~~In circumstance (a)~~ the entity shall account for the whole transaction as set out in paragraph 21.2.

Section 22
Impairment of assets

412 Paragraph 22.1 is amended as follows:

22.1 ~~An **impairment loss** occurs when the **carrying amount** of an **asset** exceeds its **recoverable amount**.~~ This section ~~shall be applied in accounting for~~ applies to the impairment of ~~all~~ assets (including **goodwill**), ~~other than the following, for which other sections of this FRS establish impairment requirements~~ except in relation to:

(a) ...

Section 23
Employee Benefits

413 In paragraph 23.1(d) the term 'micro-entity' is now shown in bold type and paragraph 23.1 is amended as follows:

23.1 ~~**Employee benefits** are all forms of consideration given by a **micro-entity** in exchange for service rendered by employees, including directors and management.~~ This section applies to ~~all~~ **employee benefits**, except for **share-based payment transactions**~~, which are covered by~~ (see Section 21 *Share-based Payment*). Employee benefits ~~covered by this section will be one of the following four types~~include:

(a) ...

Section 24
Income Tax

414 Paragraph 24.1 is deleted as follows:

24.1 ~~For the purpose of this FRS, **income tax** includes all domestic and foreign taxes that are based on **taxable profit**.~~[Deleted]

415 Paragraph 24.2 is amended as follows:

24.2 This section ~~covers accounting for~~ applies to:

(a) **income tax** comprising only of **current tax**; and~~. It requires a **micro-entity** to recognise the **current tax** consequences of transactions and other events that have been recognised in the **financial statements**. Current tax is tax payable (refundable) in respect of the taxable profit (tax loss) for the current period or past reporting periods.~~

(b) value added tax (VAT) and other similar sales taxes.

This section prohibits the recognition of **deferred tax** which represents the future tax consequences of transactions and events recognised in the **financial statements** of the current and previous periods.

416 Paragraph 24.3 is moved to paragraph 24.2(b) as follows:

24.3 ~~This section also covers accounting for value added tax (VAT) and other similar sales taxes, which are not income taxes.~~[Moved to paragraph 24.2(b)]

417 In paragraph 24.4 the term 'micro-entity' is now shown in bold type.

Section 25
Foreign Currency Translation

418 Paragraph 25.1 is amended as follows:

25.1 ~~A **micro-entity** may have transactions in foreign currencies.~~ This section ~~prescribes how to include~~ applies to foreign currency transactions~~ in the financial statements of a micro-entity~~. Whe~~re~~n a **micro-entity** has a foreign branch, the micro-entity should refer to the requirements of Section 30 *Foreign Currency Translation* of **FRS 102** to determine if the foreign branch has a different functional currency, and if so, should apply the requirements of Section 30 of FRS 102 to those transactions undertaken by the foreign branch.

Section 26
Events after the End of the Reporting Period

419 Paragraph 26.1 is amended as follows:

26.1 This section ~~defines events after the end of the **reporting period** and sets out principles for recognising and measuring those events~~ applies to the **recognition**, **measurement** and disclosure of events after the end of the **reporting period**.

Section 27
Specialised Activities

420 Paragraph 27.1 is amended as follows:

27.1 This section ~~sets out the financial reporting requirements for~~ applies to a **micro-entiti~~es~~y** involved in agriculture.

421 Paragraph 27.3 is amended as follows:

27.3 A micro-entity shall measure biological assets at cost less any accumulated **depreciation** (when relevant) and any accumulated **impairment losses**.

Section 28
Transition to this FRS

422 Paragraph 28.1 is amended as follows:

28.1 This section applies to a **first-time adopter of this FRS**, regardless of its previous ~~accounting~~ financial reporting framework.

423 Paragraph 28.2 is amended as follows:

28.2 Notwithstanding the requirements in paragraphs 28.3 and 28.4, a **micro-entity** that has applied this FRS in a previous **reporting period**, but whose most recent previous annual **financial statements** were prepared in accordance with a different ~~accounting~~ financial reporting framework, must either apply this section or else apply this FRS retrospectively in accordance with Section 8 *Accounting Policies, Changes in Estimates and Errors* as if the micro-entity had never stopped applying this FRS.

424 Paragraph 28.4(b) is amended as follows:

28.4 (b) presented its most recent previous financial statements under previous UK and Republic of Ireland requirements or FRS 102 and that are ~~therefore~~ not consistent with this FRS in all respects.

425 Paragraph 28.9(a) is amended as follows:

28.9 (a) *Derecognition of financial assets and financial liabilities*

Financial assets and **financial liabilities** derecognised under a micro-entity's previous ~~accounting~~ financial reporting framework before the date of transition shall not be recognised upon adoption of this FRS. Conversely, for financial assets and liabilities that would have been derecognised under this FRS in a transaction that took place before the date of transition, but that were not derecognised under a micro-entity's previous ~~accounting~~ financial reporting framework, a micro-entity may choose:

(i) ...

426 Paragraph 28.10(c)(i) is amended as follows:

28.10 (c) (i) Determine the total cost of the investment property including all of its components. Where no depreciation had been charged under the micro-entity's previous financial reporting framework, this can be calculated by reversing any revaluation gains or losses previously ~~recorded~~ recognised in equity reserves.

427 Paragraph 28.11 is amended as follows:

28.11 If it is **impracticable** for a micro-entity to ~~restate the opening statement of financial position at the date of transition for~~ make one or more of the adjustments required by paragraph 28.7 at the date of transition, the micro-entity shall apply paragraphs 28.7 to 28.10 for such adjustments in the earliest period for which it is practicable to do so.

Appendix I: Glossary

428 The leading sentence is amended as follows:

This ~~glossary~~ appendix is an integral part of this FRS.

429 The following glossary terms and definitions are inserted in alphabetical order:

share-based payment arrangement	An agreement between the entity (or another group entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive: (a) **cash** or other **assets** of the entity for amounts that are based on the price (or value) of **equity** instruments (including shares or share options) of the entity or another group entity; or (b) equity instruments (including shares or share options) of the entity or another group entity, provided the specified vesting conditions, if any, are met.

430 The following glossary terms and definitions are amended as follows:

cash-settled share-based payment transaction	A **share-based payment transaction** in which the entity acquires goods or services by incurring a **liability** to transfer **cash** or other **assets** to the supplier of those goods or services for amounts that are based on the price (or value) of ~~the entity's shares or other~~ equity instruments (including shares or share options) of the entity or another **group** entity. The entity settling a share-based payment transaction when another entity in the group receives the goods or services shall recognise the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction shall be recognised as a cash-settled share-based payment transaction.
contingent liability	A contingent liability is either: (a) ...
first-time adopter of this FRS	An entity that presents its first annual financial statements that conform to this FRS, regardless of its previous ~~accounting~~ financial reporting framework.
plan assets (of an employee benefit plan)	Plan assets (of an employee benefit plan) are: (a) ...
share-based payment transaction	A transaction in which the entity: (a) receives goods or services from the supplier of those goods or services (including an employee ~~services)~~ ~~as consideration for its own equity instruments (including shares or share options)~~ in a **share-based payment arrangement**; or (b) ~~receives goods or services but has no obligation to settle the transaction with supplier; or~~

	~~(c) acquires goods or services by incurring liabilities to the supplier of those goods or services for amounts that are based on the price (or value) of the entity's shares or other equity instruments of the entity or another group entity.~~ incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.
small entity	A small entity is: (a) a~~A~~ company meeting ...

The Corporate Reporting Council's Advice to the FRC to issue FRED 67 *Draft Amendments to FRS 102 – Triennial review 2017 – Incremental improvements and clarifications*

Introduction

1 This report provides an overview of the main issues that have been considered by the Corporate Reporting Council in advising the Financial Reporting Council (FRC) to issue FRED 67 *Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications*.

2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.

3 The FRC has established the Corporate Reporting Council to assist it in the setting of accounting standards.

Advice

4 The Corporate Reporting Council is advising the FRC to issue FRED 67 *Draft Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review 2017 – Incremental improvements and clarifications.*

5 The Corporate Reporting Council advises that overall, these proposals, which have been developed in response to stakeholder feedback on the implementation of FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* and after considering recent improvements in financial reporting, balance improvements in the quality of financial reporting with maintaining stability, and improve the usability and cost-effectiveness of the standard.

6 These proposals do not include the introduction of major changes arising from recent changes in IFRS, for example relating to the expected loss model for the impairment of financial assets in IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leases*. Such changes, if any, will be the subject of a separate consultation and will not be effective before 1 January 2022.

7 When these draft amendments are finalised, the Corporate Reporting Council's Advice to the FRC in respect of these amendments will be added into FRS 102.

Background

Reasons for issuing FRS 102 and intended benefits

8 UK and Ireland accounting standards were updated with effect from 1 January 2015 in order to address a number of concerns with the previous standards including:

(a) the lack of a consistent framework;

(b) certain transactions relevant to an understanding of the financial position of an entity were unrecognised; and

(c) they had not kept pace with evolving business transactions and in some areas were out of date.

9 The FRC believed that FRS 102, and the rest of the suite of new accounting standards, addressed these concerns, a view which was supported by stakeholders during the development of FRS 102.

10 In addition to addressing these concerns, the benefits of the new standards were intended to include:

(a) more cost-effective reporting for listed groups through the introduction of FRS 101 *Reduced Disclosure Framework*;

(b) more succinct accounting standards with proportional requirements for entities within their scope; and

(c) relevant, useful information for informed users of financial statements, including improving the reporting of financial instruments.

Triennial review 2017

11 When FRS 102 was issued in March 2013, the FRC indicated that it would be reviewed every three years. This triennial review process is an opportunity to review the implementation of FRS 102 and whether it has achieved its aims, as well as to make improvements. The triennial review has involved considering a wide range of potential sources of improvements and clarifications including:

(a) feedback from stakeholders on areas where FRS 102 can be improved;

(b) areas identified by the FRC for review;

(c) *2015 Amendments to the IFRS for SMEs*; and

(d) changes in IFRS (both new IFRS and amendments to existing IFRS) and new interpretations (IFRICs).

12 Amongst other sources, the FRC has received feedback from stakeholders:

(a) in response to its request that comments on the implementation of FRS 102 should be sent to ukfrsreview@frc.org.uk in order to inform the future development of FRS 102; and

(b) in response to the Consultation Document *Triennial review of UK and Ireland accounting standards – Approach to changes in IFRS* (the Consultation Document) issued in September 2016, which amongst other things sought views on the extent to which changes in IFRS should be reflected in FRS 102 at this time.

13 All of this feedback has been taken into account in developing these proposals and assessing whether FRS 102 has delivered benefits, or whether further improvements can be made.

Have the new standards delivered benefits?

14 In their feedback a number of stakeholders highlighted some of the benefits of FRS 102. These include simpler financial statements, time savings in preparation, greater consistency with IFRS, increased transparency and an easily readable standard[1]. Stakeholders also identified areas for possible further improvement that have been considered as part of this triennial review.

15 The Corporate Reporting Council continues to believe that the new UK and Ireland accounting standards have addressed the concerns that led to their development by

---

[1] University of Worcester Business School research on behalf of the Institute of Financial Accountants, Final Report (December 2016).

providing a consistent IFRS-based framework, for example by improving recognition and disclosure of financial instruments.

16 FRS 101 is an optional standard (entities applying it could alternatively have applied FRS 102 or EU-adopted IFRS). Feedback to the annual reviews of FRS 101 suggests that this standard is being applied in practice, suggesting this is a cost-effective option for some entities. FRS 101 will continue to be subject to an annual review to provide additional disclosure exemptions as IFRS evolves and to respond to stakeholder feedback about other possible improvements. For example, FRS 101 has recently been made more cost-effective by the removal of the requirement to notify shareholders prior to taking advantage of the disclosure exemptions.

17 FRS 102 is considerably shorter than the accounting standards that preceded it, a benefit that has been highlighted by stakeholders. The Corporate Reporting Council notes that in responding to implementation feedback and developments in financial reporting it will be important to retain the succinct nature of FRS 102.

18 The requirements of FRS 102 have resulted in more information being available to users about the financial instruments held by a reporting entity, and therefore should have improved users' understanding of the instruments and the associated risks. Stakeholder feedback suggests this has been one of the most challenging aspects of implementing FRS 102. As part of this triennial review a number of amendments are proposed to respond to stakeholder feedback in this area.

19 FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* has only been effective since 1 January 2016, and it is too early to assess the full impact of the new legal regime and associated accounting standard.

Objective

20 In developing its advice to the FRC, the Corporate Reporting Council was guided by the overriding objective to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

21 This objective was reviewed as part of the triennial review and the FRC believes that it remains appropriate for the development and maintenance of UK and Ireland accounting standards.

Principles supporting the objective

22 In meeting this objective, the FRC has been applying five principles, which have assisted in developing succinct financial reporting standards that meet the overall objective. As part of the triennial review these principles have been reviewed and revised.

23 The principles are to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) balance improvement, through reflecting up-to-date thinking and developments in the way entities operate and the transactions they undertake, with stability;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

24 Respondents to the Consultation Document supported the revised principles.

Incremental improvements and clarifications

25 Respondents to the Consultation Document supported the idea that this part of the triennial review should focus on incremental improvements and clarifications. Although the amendments arising from this FRED will be effective from 1 January 2019 (four years after the initial effective date of FRS 102 and three years after small entities were brought within its scope), at present many entities have prepared no more than one set of financial statements applying FRS 102 and respondents supported and emphasised the importance of allowing FRS 102 to bed down and become more familiar before more fundamental changes are proposed.

26 This FRED contains a large number of proposed amendments each of which is intended to improve FRS 102, by improving the quality of financial reporting, the usability of the standard and/or the cost-effectiveness of the standard. As noted in paragraph 1, this Advice focuses on the main issues that were considered.

Removal of undue cost or effort exemptions

27 Currently FRS 102 includes a limited number of undue cost or effort exemptions. These stem from the IFRS for SMEs, on which FRS 102 was initially based, although some undue cost or effort exemptions in the IFRS for SMEs were not reflected in FRS 102. Some stakeholders have welcomed the concept of 'undue cost or effort' which they considered could provide a proportionate solution for smaller entities. However, entities need to apply judgement in determining whether the exemption is available in their circumstances, which may lead to it being applied inconsistently in similar circumstances and therefore different costs being incurred in preparing the financial statements.

28 As part of the *2015 Amendments to the IFRS for SMEs* the IASB introduced guidance on the meaning of undue cost or effort. The Corporate Reporting Council agreed with the general sentiment of the additional guidance. However, it has been brought to the FRC's attention that not all entities are applying sufficient rigour in assessing the availability of the undue cost or effort exemptions; it is not an accounting policy choice.

29 Therefore the Corporate Reporting Council considered whether alternative solutions might be available in those situations where there is currently an undue cost or effort exemption, or where one has recently been introduced in the IFRS for SMEs, rather than providing guidance on its meaning.

Investments in associates and joint ventures

30 The existing exemptions in relation to investments in associates and joint ventures only apply in situations where the reporting entity has chosen to measure these items at fair value in their individual financial statements and where it has subsequently become impracticable to do so. Reporting entities already have the choice to use the cost model in both of these situations, therefore the Corporate Reporting Council advises that these two exemptions served no practical purpose and should be removed. No changes are proposed to the accounting policy choice to measure investments in associates and joint ventures using the cost model or fair value.

Investment properties including those rented to another group entity

31 Currently FRS 102 requires only those investment properties, that can be measured at fair value without undue cost or effort, to be measured at fair value; those that cannot are

accounted for as property, plant and equipment using the cost model in Section 17 *Property, Plant and Equipment*. The Corporate Reporting Council noted that in the UK all entities should be able to obtain a fair value for an investment property, without undue cost or effort and that it would generally provide useful, decision-relevant information to users of the financial statements. Therefore the Corporate Reporting Council advises that the undue cost or effort exemption in relation to investment properties should also be removed.

32 However, the Corporate Reporting Council notes that a significant amount of feedback from stakeholders suggested that the cost of obtaining a fair value for an investment property that is rented to another group entity far outweighs the benefit, as the information is of little use when the investment property would be treated as property, plant and equipment in the consolidated financial statements.

33 To address this significant implementation issue, the Corporate Reporting Council advises that an accounting policy choice should be introduced for entities that rent investment property to another group entity, whereby they can choose to measure those investment property either at cost (less depreciation and impairment) or at fair value.

New undue cost or effort exemptions introduced in the IFRS for SMEs

34 The IASB introduced four new undue cost or effort exemptions in the *2015 Amendments to the IFRS for SMEs* as follows:

(a) Investments in equity instruments at fair value (Section 11 *Basic Financial Instruments*).

(b) Intangible assets acquired in a business combination (Section 18 *Intangible assets other than Goodwill)*.

(c) Fair value of non-cash consideration (Section 22 *Liabilities and Equity*).

(d) Offsetting tax assets and liabilities (Section 29 *Income Tax*).

35 Consistent with its advice to remove the undue cost or effort exemptions that are currently in FRS 102, the Corporate Reporting Council does not advise introducing these new exemptions into FRS 102. However, stakeholders had provided feedback on implementation issues relating to intangible assets acquired in a business combination and amendments are proposed to address that feedback (see paragraphs 66 to 71).

Statement of cash flows – net debt reconciliation

36 In January 2016, the IASB issued amendments to the requirements for cash flow statements in *Disclosure Initiative (Amendments to IAS 7)*. The amendments introduced requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

37 In considering whether to introduce these additional disclosures into FRS 102, the Corporate Reporting Council noted that the requirement to disclose a reconciliation of net debt in paragraph 33 of FRS 1 *Cash Flow Statements* gives users better information as it takes into account cash balances as well as the borrowings of an entity. Although this would be a departure from an IFRS-based solution, the Corporate Reporting Council believes that it clearly better meets the overriding objective, notes that entities will already be familiar with the disclosure and therefore it will be cost-effective to apply. As a result the Corporate Reporting Council advises introducing a net debt reconciliation into FRS 102.

Consolidated financial statements

38 The Consultation Document proposed making limited amendments to FRS 102 to update it for the control model in IFRS 10 *Consolidated Financial Statements*. It noted that the change would result in better financial reporting as it addresses concerns about the boundary of the reporting entity, but that for many entities, the changes would have no effect and that this could be determined quickly and cost-effectively, limiting the costs of implementation.

39 Respondents disagreed with this proposal. Feedback received included the following:

(a) The cost of implementation would far outweigh the benefit given that there would be no practical effect for the vast majority of entities, yet all entities would still have to go through an exercise to determine that there is no change.

(b) The proposal did not meet with the new principle of balancing improvements with stability.

(c) A significant amount of additional implementation guidance would need to be added to FRS 102 to ensure the revised definition could be applied in practice.

(d) The main impact of implementing IFRS 10 has been felt in financial institutions that have complex structured entities.

40 The Corporate Reporting Council considered this feedback and advises that no changes should be made to FRS 102 regarding the entities to be included in consolidated financial statements, but that an additional disclosure regarding unconsolidated structured entities (such as special purpose entities) should be introduced to improve the information available to users about any such entities. This principle-based disclosure has been derived from IFRS 12 *Disclosure of Interests in Other Entities*.

Financial instruments

Accounting policy choice to apply IAS 39 Financial Instruments

41 The Consultation Document asked for feedback on the proposal to retain the accounting policy choice in Section 11 and Section *12 Other Financial Instruments Issues* of FRS 102 to apply the recognition and measurement requirements of IAS 39 *Financial Instruments: Recognition and Measurement* following the mandatory effective date of IFRS 9. Respondents agreed with this proposal. Therefore the proposed amendments to FRS 102 retain that option. The Corporate Reporting Council advises that this option should be available until the FRS 102 requirements for the impairment of financial assets have been amended to reflect IFRS 9, or it is otherwise decided not to amend FRS 102 further in relation to IFRS 9.

42 Entities that are using the IAS 39 EU carve-out, and prefer to retain it, would be able to continue to do so under the proposals.

Investments in shares

43 FRS 102 currently requires investments in non-convertible preference shares and non-puttable ordinary shares or preference shares to be measured at fair value (unless it cannot be measured reliably). This requirement is based on the legal form of the instruments and creates an anomaly whereby certain preference shares that are liabilities of the issuer (and measured at amortised cost) are treated differently by the holder.

44 The Corporate Reporting Council advises amending the reference to such investments in shares, to non-derivative instruments that are equity of the issuer. This will simplify the drafting, but also improve the accounting for those instruments that are liabilities of the

issuer by requiring measurement at amortised cost (if the instrument is classified as ‘basic’).

Conditions for the classification of financial instruments

45 Paragraph 11.8 includes a list of financial instruments that are classified as ‘basic’. For some of these financial instruments the classification as ‘basic’ or ‘other’ is further dependent on meeting a list of prescriptive conditions; for debt instruments these are set out in paragraph 11.9. Feedback from stakeholders clearly highlighted that this rules-based classification causes significant problems for those applying the standard, highlighting a number of judgement areas and other implementation difficulties.

46 As a result, the Corporate Reporting Council advises that in addition to those debt instruments that meet the conditions in paragraph 11.9, a debt instrument shall be classified as ‘basic’ if it is consistent with a principle-based description of a ‘basic’ financial instrument. This description, set out in paragraph 11.9A, need only be considered for debt instruments that do not meet the detailed conditions in paragraph 11.9. Making such a change better articulates the principle for classification as ‘basic’ financial instruments and will set the boundary for more complex debt instruments.

47 The description requires a ‘basic’ debt instrument to give rise to cash flows on specified dates that constitute reasonable compensation for the time value of money, credit risk and other basic lending risks and costs. Such reasonable compensation is dependent on the prevailing economic conditions and monetary policies in operation. As such, it is entirely feasible that prevailing nominal interest rates for particular financial instruments become negative, for example sub-zero LIBOR rates for a LIBOR linked loan. In such cases, the negative interest rates represent reasonable compensation for the risks of a basic debt instrument issued.

48 In addition, amendments are also proposed to the examples following paragraph 11.9A, including the addition of new examples to address feedback from stakeholders.

Loans with two-way compensation clauses

49 In June 2016 the FRC commented on issues arising in relation to accounting for social housing loans. This related to the classification of loans with two-way compensation clauses, and the FRC noted that the conditions set out in paragraph 11.9 would be reviewed as part of the triennial review.

50 As noted above, the conditions for classification of a financial instrument as basic have been reviewed, and a number of amendments proposed, notably the inclusion of paragraph 11.9A. The Corporate Reporting Council notes that whilst the proposed amendments do not explicitly address the issue of two-way compensation clauses, they should help in the assessment of the classification of such instruments.

51 The Corporate Reporting Council also notes that the IASB has an ongoing project on *Symmetric Prepayment Options* that is considering similar issues. It is anticipated that an Exposure Draft will be issued by the IASB after this FRED has been issued. The Corporate Reporting Council advises considering any relevant developments in IFRS as part of the finalisation of these amendments to FRS 102.

Directors’ loans

52 Many stakeholders provided feedback on the accounting for directors’ loans. FRS 102 requires financing transactions to be measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument. This

includes directors' loans (ie loans from a director to a company in which he/she is also a shareholder) that are non-interest bearing, or bear interest at a non-market rate.

53 Concerns were raised about some of the practicalities of the accounting requirements, in particular that such loans are often made by directors, especially those of small companies, because commercial funding is unavailable and therefore it is difficult to determine an appropriate market rate for a similar debt instrument.

54 The Corporate Reporting Council considered the issues that had been raised, including comments about the nature of the transaction in the context of a small entity, where the same individual is employee, director, shareholder and lender. The Corporate Reporting Council also noted that FRS 102 currently includes an exemption from the financing transaction requirements for public benefit entity concessionary loans, which had been provided on the basis of difficulties in measuring such loans at fair value and the information users might find useful.

55 As a result, the Corporate Reporting Council advises that for small entities a more proportionate accounting solution for a loan from a director who is a natural person and a shareholder in the small entity (or a close member of the family of that person), is to permit the loan to be initially measured at transaction price.

56 The Corporate Reporting Council continues to advise that generally all entities within the scope of FRS 102 should be subject to consistent recognition and measurement requirements, although occasional specific exemptions may be granted in order to meet the principle of providing proportionate and practical solutions.

57 The Corporate Reporting Council notes that directors' loans to a small entity that are non-interest bearing, or bear interest at a non-market rate, would fall within the disclosure requirements of paragraph 1AC.35.

Fair value

58 The Consultation Document suggested that key definitions in FRS 102 relating to fair value and paragraph 11.27 (which sets out the process for estimating fair values) may be amended for greater consistency with IFRS 13 *Fair Value Measurement*.

59 Respondents' feedback highlighted that incorporating the IFRS 13 definition of fair value may lead to unintended consequences. That definition, anchored as it is in the market approach, may lead to changes that would be particularly significant for certain entities that have only recently implemented the FRS 102 fair value requirements.

60 Stakeholders have previously provided feedback that although the fair value measurement hierarchy in FRS 102 is not identical to the disclosure hierarchy for financial institutions and retirement benefit plans, a change to paragraph 11.27 is not essential as it simply provides a methodology for approaching fair value measurement.

61 As a result, the Corporate Reporting Council advises that the definition of fair value should not be revised at this time, and only minor changes should be made to paragraph 11.27, for example to emphasise that it is a methodology and give further practical guidance.

Fair value hedging for a portfolio of financial instruments

62 Fair value hedge accounting for a portfolio of financial instruments (sometimes called macro hedging) is not currently available in FRS 102, and entities wishing to apply it take the accounting policy choice in paragraph 11.2 (and paragraph 12.2) to apply the recognition and measurement requirements of IAS 39 or IFRS 9.

63 General feedback from certain UK entities was that they like the succinct nature of FRS 102 but chose to apply the recognition and measurement requirements of IAS 39 solely in order to have access to macro hedging.

64 Given the lack of progress on the IASB's macro hedging project, it is expected to retain the macro hedging requirements of IAS 39 for the foreseeable future. The IFRS 9 section on hedge accounting also cross-refers to the relevant IAS 39 paragraphs and the associated guidance on macro hedging. Therefore in order to address this 'gap' in FRS 102, the Corporate Reporting Council advises incorporating macro hedging requirements into FRS 102 by cross-reference to the IAS 39 requirements, rather than by importing them directly into FRS 102. This will enable entities to apply macro hedging with the recognition and measurement requirements of Sections 11 and 12 of FRS 102.

Other minor financial instruments issues

65 There are a number of other minor changes proposed to Sections 11 and 12 arising from comments received from stakeholders. These include a more direct reference to 'derivatives' in the relevant paragraphs. Currently, these sections avoid the word creating ambiguity for stakeholders. Given that it is already defined in FRS 102, this change improves the drafting.

Intangible assets acquired in a business combination

66 Stakeholders have provided feedback on the practical issues arising from applying paragraph 18.8 of FRS 102 in recognising and measuring intangible assets acquired in a business combination; in particular, the meaning and purpose of the phrase 'immeasurable variables'. This included difficulties that arise from the use of language that is similar to IFRS 3 *Business Combinations*, which notes that intangible assets acquired in a business combination can always be measured reliably.

67 The Corporate Reporting Council considered various options for improving FRS 102, including allowing an undue cost or effort exemption as per the revised IFRS for SMEs, moving towards an IFRS 3 approach whereby all intangible assets are recognised separately from goodwill or reverting back to an approach similar to FRS 10 *Goodwill and Intangible Assets* whereby some but not all intangibles are recognised separately.

68 The Corporate Reporting Council considered feedback previously received from users of financial statements relating to the usefulness of reporting acquired intangibles separately from goodwill. Our research indicated that some investors saw a distinction between those intangible assets that are 'wasting' (ie those that are separable from the entity, have finite useful lives and lead to identifiable future revenue streams) and those that are 'organically replaced' (ie those that are unlikely to be separable, to have reliably determined useful lives or to be a source of future economic benefits that could be distinguished from the business as a whole). Those intangibles that are 'wasting' assets should be recognised separately from goodwill, whereas those that are 'organically replaced' should be subsumed into goodwill.

69 The Corporate Reporting Council also noted that FRS 102 requires goodwill to be amortised over its useful life, which is consistent with the accounting treatment of intangible assets. Therefore, the impetus to separate intangible assets from goodwill is less than it may be under IFRS, when goodwill is not amortised. Overall the Corporate Reporting Council advises that FRS 102 reporters should be required to recognise some but not all intangible assets acquired in a business combination separately from goodwill. This is achieved by requiring entities to recognise intangible assets separately if they:

(a) meet the recognition criteria; and

(b) are separable <u>and</u> arise from contractual or other legal rights.

70 The Corporate Reporting Council does not believe this will give rise to particular measurement difficulties in practice.

71 An entity may additionally choose to recognise other intangible assets acquired in a business combination that meet the recognition criteria separately. The Corporate Reporting Council considers this a proportionate solution that permits the separate recognition of a larger number of intangible assets when this provides useful information to the reporting entity and the users of its financial statements. This choice may be exercised on an asset-by-asset basis and when exercised, must be applied consistently to the relevant class of intangible assets. This will result in comparability over time in the entity's financial statements. In addition, the Corporate Reporting Council advises that disclosure is provided of the nature of the intangible assets separated from goodwill and the reason why, which will assist users in drawing comparisons between different entities.

Leases

72 In the Consultation Document the FRC suggested enhancing lease disclosures in FRS 102, prior to the introduction of any revised requirements based on IFRS 16. The aim would have been to improve the information available to users.

73 It would have been difficult for entities to provide more information about obligations arising from operating leases without first determining a detailed approach to updating FRS 102 for IFRS 16, and IFRS 16 itself does not require enhanced disclosure in the run up to implementation. Therefore, having considered this further, and taking into account feedback from respondents, the Corporate Reporting Council advises not amending the lease disclosures at this time.

Debt for equity swaps

74 FRS 102 is currently silent on the accounting for debt for equity swaps. Although it requires equity instruments to be initially recognised at fair value, resulting in equivalent accounting to that required by IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*, it contains no scope exemptions for transactions that would not be within the scope of IFRIC 19 (such as common control transactions) or the conversion of convertible debt.

75 Feedback from stakeholders suggested that this is an area that would benefit from more explicit guidance as, when they occur, such transactions can be significant. The proposed new paragraphs 22.8A and 22.8B are clearer and more concise than similar paragraphs in the *2015 Amendments to the IFRS for SMEs*.

Revenue

Transactions including separately identifiable goods and services

76 The Corporate Reporting Council advises providing greater clarity to the requirements for the recognition of revenue from separately identifiable goods and services provided under a single transaction, in response to feedback. Therefore additional clarification has been added into Section 23 *Revenue* in relation to recognising revenue arising from each and every separately identifiable good or service in a single transaction, unless another basis better reflects the substance of the transaction. The Corporate Reporting Council notes that the future introduction of any requirements based on IFRS 15 would be likely to strengthen this further and regards the current proposals as an interim step.

Agent and principal

77 The Corporate Reporting Council advises that further guidance on how to determine whether an entity is acting as an agent or a principal should be added to Section 23 following feedback that the standard is not sufficiently clear. The additional guidance is based on the guidance included in IAS 18 *Revenue*.

Share-based payment transactions

78 The Consultation Document asked for feedback regarding the cost-effectiveness of applying Section 26 *Share-based Payment* by private companies.

79 The overall feedback from respondents was mixed. Some noted that the requirements had been in place for some 10 years, were well embedded and reflected a cost to the company, and therefore no changes should be made. Some noted sympathy with the difficulties faced by small private companies in obtaining a reliable and meaningful fair value measurement for share-based payment arrangements. Some suggested that a disclosure-only approach for small entities could be considered in the future should the legislative landscape change. Currently it would not be possible to do this as additional disclosures cannot be mandated of small entities under the EU Accounting Directive.

80 The Corporate Reporting Council has noted this feedback and advises that no wholesale changes should be made to Section 26 as part of this triennial review, but notes that minor improvements should be made to align some of the definitions used in the section with IFRS more closely. However, the issue should be revisited in the future if company law changes such that disclosures could be mandated for small companies.

Key management personnel compensation

81 Some stakeholders questioned whether it was necessary for entities to disclose key management personnel compensation in addition to directors' remuneration, which is required by company law. The Corporate Reporting Council considered this issue and noted that there could be significant differences between key management personnel compensation and directors' remuneration, for example when the directors and key management personnel are different, and that not all entities applying FRS 102 are subject to company law.

82 Therefore the Corporate Reporting Council advises that the disclosure requirement should be retained, but that an exemption should be provided when there is no difference between the key management personnel and directors. The Corporate Reporting Council notes that if there are transactions with directors that are not required to be disclosed as directors' remuneration, they may still require disclosure in accordance with paragraph 33.9.

Definition of a financial institution

83 It has been a long-term objective of the FRC to improve the recognition, measurement, presentation and disclosures of financial instruments. When FRS 102 was issued it introduced requirements aimed at improving the disclosure about financial instruments by all entities within its scope.

84 FRS 102 defines a financial institution by reference to a list of types of entities supported by a principle, intended to capture other similar entities. Entities that meet the definition of a financial institution under FRS 102 (and FRS 101) are required to comply with additional disclosure requirements about the financial instruments they hold which are set out in Section 34 *Specialised Activities* of FRS 102 (or IFRS 7 *Financial Instruments: Disclosure* and IFRS 13 for entities applying FRS 101). These additional disclosures focus on the

risks relating to financial instruments recognised on the balance sheet and the entity's capital management policies. In addition, such entities are not permitted to take advantage of reduced disclosure exemptions in FRS 102 (or FRS 101) in relation to financial instruments.

85 The implementation of FRS 102 resulted in a number of queries about how the definition of a financial institution is applied in practice. Some stakeholders requested the removal of certain entities from the definition, whilst others requested amendments to the principle included in the definition to remove some uncertainties. Additionally, some perceived anomalies were highlighted during outreach.

86 After considering a number of options, the Corporate Reporting Council advises that the principle included in the financial institution definition should be amended to remove references to 'generate wealth' and 'manage risk'. This change should help to reduce the interpretational difficulties in relation to implementing these concepts, and should reduce the number of entities meeting the definition of a financial institution.

87 In addition, the Corporate Reporting Council advises the removal of retirement benefit plans from the list in the definition, as they are not similar to the other entities specifically included in the list and FRS 102 already includes separate disclosure requirements for retirement benefit plans in Section 34.

88 However, bearing in mind the overall objective of entities providing information to enable users of financial statements to evaluate the significance of financial instruments held by the entity, the Corporate Reporting Council also advises that paragraph 11.42 is amended to note that when the risks arising from financial instruments are particularly significant to the business, additional disclosure may be required. The disclosure requirements for financial institutions, set out in paragraphs 34.19 to 34.33, may provide relevant examples.

Other amendments suggested by stakeholders

89 Many suggestions for improvements and clarifications in FRS 102 were made by stakeholders. All have been carefully considered and, in addition to those discussed above, a number have resulted in amendments being proposed. These include:

(a) clarifying the steps involved in applying the purchase method to a business combination; and

(b) the definition of a group reconstruction being revised to incorporate, in certain circumstances, the transfer of a business, in addition to the transfer of equity holdings.

90 However, not all suggestions have resulted in amendments being proposed. For example, some stakeholder feedback related to areas where FRS 102 is clear, but the feedback suggests it may not be being applied correctly. The FRC has considered alternative ways of supporting stakeholders, rather than amending the standard, and may provide additional informal guidance on some issues.

Disclosure

91 The Consultation Document noted that the FRC intended to review the disclosure requirements of FRS 102 with a view to seeking greater alignment with company law requirements, when possible, and to consider whether, in the light of experience, any disclosure requirements should be amended.

92 The Corporate Reporting Council considered whether the company law disclosure requirements for large companies could be included in FRS 102 in a succinct manner, and

integrated with the existing requirements of FRS 102. The Corporate Reporting Council advises that it is not possible to achieve this without reducing the usability of FRS 102 or reducing the quality of disclosure, due to some differences in the requirements and inconsistent use of language between the two, and so this is not proposed.

93 Based on stakeholder feedback the Corporate Reporting Council considered some suggestions for areas where disclosures might be reduced. In relation to financial instruments and post-employment benefits, the Corporate Reporting Council considered that the required disclosures were addressing potentially significant financial risks and should not be reduced.

Editorial amendments

94 As part of the triennial review the Corporate Reporting Council advises that various editorial amendments should be made to FRS 102. These editorial amendments are not intended to change the requirements of FRS 102, but improve drafting, usability and update external cross-references. For example they include:

(a) improving the consistency of the scope sections throughout the standard to make it clearer what is within and outside the scope of each section;

(b) removing defined terms from the main body of the standard to reduce its length, as defined terms are set out in Appendix I: Glossary; and

(c) improving the consistency of terminology and language in some areas.

95 The editorial amendments are presented separately from the other proposed amendments in order to assist stakeholders in considering the more significant amendments.

96 In addition, the Corporate Reporting Council advises deleting Appendix II: *Significant differences between FRS 102 and the IFRS for SMEs* as FRS 102 is a separate standard evolving at its own pace. The appendix is likely to have been of limited use as the IFRS for SMEs is not available for use in Europe.

Consequential amendments to other UK and Ireland accounting standards

97 UK and Ireland accounting standards consist of a suite of complementary standards, which use common terminology and definitions when appropriate. Therefore, when amendments are proposed to FRS 102, similar amendments may be required to other standards for consistency, including FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*, which was developed from FRS 102, and simplified.

98 A number of amendments to FRS 105 are proposed to reflect those proposed to FRS 102; however, the more significant amendments to FRS 102 relate to areas that are not relevant to FRS 105 (eg classification of financial instruments) or have already been simplified (eg directors' loans). Similarly to FRS 102, the amendments proposed will improve the usability of the standard and/or improve the cost-effectiveness of the standard, but are unlikely to require any significant changes in accounting policy.

99 In addition to the consequential amendments, amendments are proposed to FRS 105 for further alignment with the company law disclosures for the micro-entities regime.

Effective date

100 The Corporate Reporting Council advises that the amendments set out in this FRED should be effective for accounting periods beginning on or after 1 January 2019, with early adoption permitted.

101 As the proposed amendments focus on incremental improvements and clarifications, there are only limited circumstances in which a significant change in accounting policy is likely to result from applying the amendments. The Corporate Reporting Council has considered whether transitional arrangements should be provided for any of these. The Corporate Reporting Council advises that transitional arrangements should be provided to:

(a) permit entities to carry forward fair value as deemed cost for investment property that are rented to another group entity, when they are to be measured based on cost going forward – this makes a choice available that would have existed on first-time adoption of FRS 102 if these investment property had not been measured at fair value in the meantime (previous UK and Ireland accounting standards would not have regarded such properties as investment property); and

(b) require entities to continue to recognise separately any intangible assets separated from goodwill in business combinations effected since transition to FRS 102.

Consultation stage impact assessment

Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal	FRED 67 *Draft amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland – Triennial review – Incremental improvements and clarifications*
Lead Regulator	Financial Reporting Council
Contact for enquiries	

Date of assessment	
Commencement date	Accounting periods beginning on or after 1 January 2019
Origin	Domestic
Does this include implementation of a Cutting Red Tape review?	No
Which areas of the UK will be affected?	UK and Republic of Ireland

Brief outline of proposed new or amended regulatory activity

New UK and Ireland accounting standards were issued between 2012 and 2015. The effective date was 1 January 2015, with requirements for small entities and micro-entities becoming effective from 1 January 2016. Early adoption was permitted.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* is the 'main' standard. When it was issued the FRC committed to a review after three years, which was subsequently extended to four years. This project delivers that review. The aim of the review is to make any necessary amendments to accounting standards, predominantly FRS 102, to continue to require high-quality financial reporting, keep the standard up-to-date and consider implementation feedback on areas for improvement, including those that have been costly to implement.

Which type of business will be affected? How many are estimated to be affected?

All sectors and sizes of entities will be affected including companies and other legal structures, unless the entity is required or chooses to apply EU-adopted IFRS.

Number of entities estimated at 4.0 million.

The impact on each entity will vary depending on factors such as its size, the nature of its business, the transactions it undertakes and whether or not it is part of a group.

Please set out the impact to business clearly with a breakdown of costs and benefits

The overall impact of the proposed changes will reduce the cost of regulatory compliance over the lifetime of the policy.

The impact of the proposals in FRED 67 will be to:

(a) maintain and improve the quality of financial reporting required of entities;

(b) clarify aspects of the requirements by, for example, addressing areas where FRS 102 is silent or improving the readability and accessibility of FRS 102; and

(c) improve the cost-effectiveness of FRS 102 by reducing the applicability of some of the more complex accounting treatments.

There will be ongoing savings available from these proposals. The proposals will result in cost savings being available to entities through improved clarity and readability by making it easier to quickly determine the appropriate accounting policy in a number of circumstances. In addition, new accounting policy requirements or options will reduce the costs of applying FRS 102 by simplifying the accounting or requiring fewer fair value measurements to be obtained.

The benefits of the proposals have been supported through informal outreach.

In addition, high-quality financial reporting may reduce the cost of capital.

Transitional costs

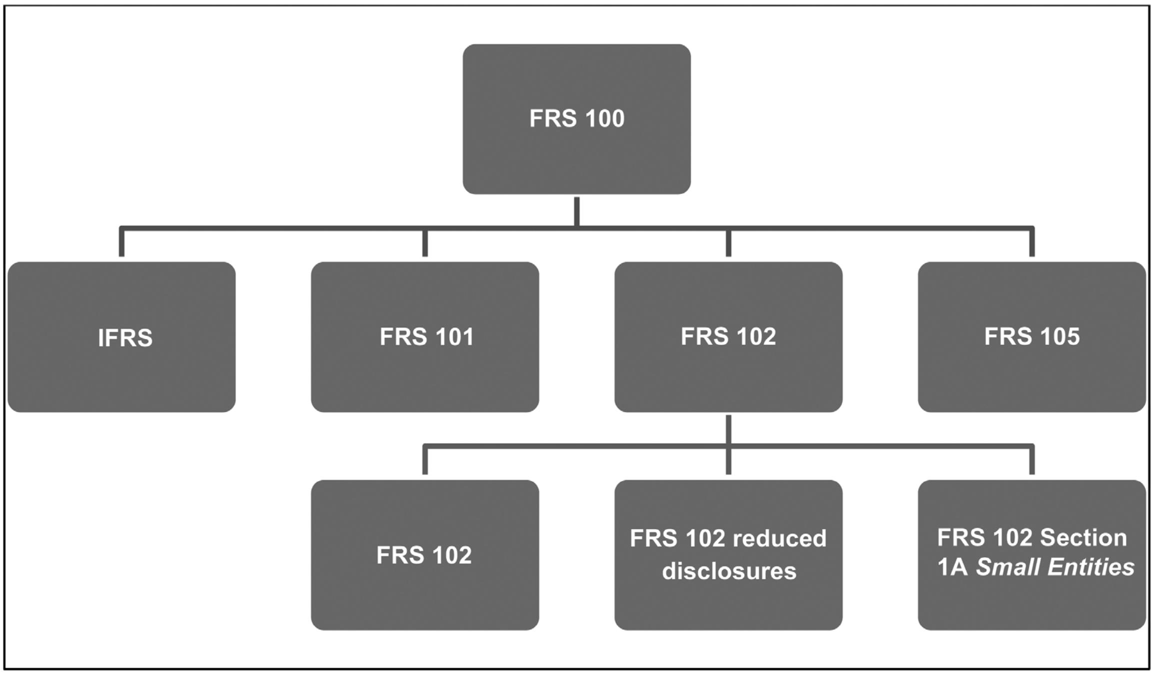
Nevertheless, familiarisation costs will be incurred by preparers, in order that they can understand and apply the new requirements and access the available benefits. Accounting standards are periodically reviewed and therefore familiarisation costs associated with changing or new standards are expected costs of doing business. The overall estimate is £8.4m.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score

Background

Companies and other entities are required by law to produce financial statements. The FRC sets accounting and reporting standards which support this legal requirement. A number of regimes are available, depending on eligibility. See Diagram 1 for an illustration of the various accounting regimes available to UK entities.

Diagram 1 UK accounting and reporting framework and various accounting regimes within it.



More information on the UK's accounting and reporting framework:

https://frc.org.uk/Our-Work/Publications/Accounting-and-Reporting-Policy/Overview-of-the-financial-reporting-framework.pdf

The Objective – what does the FRC want to achieve?

Problem/opportunity under consideration

After a long period of consultation, UK and Ireland accounting standards were revised over the period 2012 to 2015, with an effective date of accounting periods beginning on or after 1 January 2015. Small entities and micro-entities were also brought within the new standards for accounting periods beginning on or after 1 January 2016. Early adoption was permitted.

The suite comprises six separate standards, some of which are optional if qualifying criteria are met, or only apply in certain circumstances. The main standard is FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*. It sets out requirements for entities preparing financial statements that are intended to give a true and fair view and applies to small, medium and large entities unless they are required to apply EU-adopted IFRS (eg consolidated financial statements of listed entities) or choose another available option (eg FRS 101 *Reduced Disclosure Framework*). It does not apply to micro-entities unless they choose not to apply FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*. It applies to all entities, not just companies, and therefore includes building societies, charities, education institutions, investment funds and registered providers of social housing.

When FRS 102 was issued in March 2013 the FRC committed to three-yearly reviews. However, the first such review was subsequently delayed by one year when small entities were brought within the scope of FRS 102 from 1 January 2016 giving them three years before any changes would become mandatory.

Rationale for intervention

This project is the first triennial review of FRS 102. It is mainly focused on FRS 102, but a small number of mainly consequential changes may be made to the other standards.

In order to achieve positive outcomes from the triennial review it will be necessary to make amendments to the standard that will improve the quality of financial reporting, improve the usability of the standard and improve the cost-effectiveness of the standard.

We expect there to be an overall cost saving to preparers as a result of these changes when measured over the lifetime of their implementation.

Policy objective and intended outcomes

The overall objective for UK and Ireland accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs. In meeting this objective the FRC aims to provide succinct financial reporting standards that:

(a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) balance improvement, through reflecting up-to-date thinking and developments in the way entities operate and the transactions they undertake, with stability;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with proportionate and practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

The proposals seek to make changes to UK and Ireland accounting standards following stakeholder feedback.

The evidence – what is the preferred way of reaching the stated objective(s)?

Options considered

Two options were considered:

(a) do nothing; and

(b) make amendments to FRS 102.

In addition, in order to respond to some of the stakeholder feedback received, we intend to adopt a non-regulatory approach, for example by providing informal guidance on a number of topics.

Do nothing

The 'do nothing' option would involve either not carrying out a triennial review, or carrying it out but deciding not make any changes to FRS 102, or the other standards, as a result.

Not carrying out a review is not an effective option. Reporting requirements need to be reviewed periodically with the aim of keeping requirements up-to-date as reporting practice evolves and business transactions change. Also, the FRC has committed to it on a number of occasions (eg when FRS 102 was issued, when the one-year delay was announced, and by inviting stakeholder feedback), and earlier stakeholder feedback had identified a number of issues that warranted further consideration.

Having carried out a review, and asked for stakeholder feedback, it would be disappointing for stakeholders that have engaged with the process for no improvements to be made to FRS 102, which may have a knock-on effect on stakeholder engagement with future projects. In addition, not making any changes would be a missed opportunity to make improvements (including simplifications), clarifications and increase the cost-effectiveness of FRS 102.

Make amendments to FRS 102

Making amendments to FRS 102 to respond to stakeholder feedback enables the FRC to:

(a) maintain and improve the quality of financial reporting required of entities;

(b) clarify aspects of the requirements by, for example, addressing areas where FRS 102 is silent or improving the readability and accessibility of FRS 102; and

(c) improve the cost-effectiveness of FRS 102.

Monetised and non-monetised costs and benefits

Do nothing

The costs of doing nothing include:

(a) any improvements in financial reporting are delayed until the implementation of a future review; and

(b) any simplifications or clarifications that would reduce the cost of preparing financial statements are delayed until the implementation of a future review.

The benefits of doing nothing include:

(a) stakeholders do not need to spend time engaging with the FRC on consultations (although the saving will be limited as some stakeholders would continue to engage with the FRC about implementation experience and suggestions for improvements whether or not a formal consultation was happening) or familiarising themselves with the changes; and

(b) the FRC could use its resources on other projects.

Make amendments to FRS 102

The costs of making amendments to FRS 102 include the time stakeholders (including preparers, users and auditors/advisers) will spend understanding the changes to FRS 102, estimated at £8.4m, which will enable them to access the benefits.

The benefits of making amendments to FRS 102 include:

(a) some simpler accounting policies will be available for some entities, resulting in cost savings in the financial statements production process;

(b) some clarifications will reduce the amount of time preparers and auditors will need to spend determining an appropriate accounting policy when FRS 102 is silent; and

(c) further improvements in accounting for and reporting of financial instruments, and therefore better information available for users in making economic decisions.

It is not possible to monetise the benefits, but they have been supported through informal outreach.

The calculations and assumptions underlying the estimates of monetised costs and benefits are set out below.

Calculations of costs and benefits

Understanding changes in FRS 102

Entities will need to understand the changes made to accounting standards to determine whether the changes are relevant to their financial statements or not, and if so, what the implications are.

Entities will be impacted differently by the amendments, depending on their size and more importantly the transactions they undertake. Smaller entities, which are likely to be least affected, are more likely to rely on advice from an external accountant or adviser rather than considering the amendments individually.

In practice it will be the accountants who work for companies or provide accountancy services to companies, as well as their advisors and auditors, that will seek to familiarise themselves with the changes. When an accountant advises a number of businesses, the cost of familiarisation may be shared amongst those businesses. As at 31 December 2015 there were over 342,000 accountants in the UK and Republic of Ireland (source: *Key Facts and Trends in the Accountancy Profession* (June 2016) issued by the FRC), and impact assessment BISBE113 notes that the Institute of Certified Book-keepers advised that there are approximately 3,500 practicing book-keepers in the UK.

Depending on the entities the accountant works for, advises or audits, more or less time will be required for familiarisation, and some accountants will not currently be involved in financial reporting. Some accountants will attend training courses that cover these changes, as well as other matters. Assume, an average of one hour per accountant or book-keeper for familiarisation and understanding the changes. The assumption of one hour is an average, and the range could vary between half a day and zero (for those not involved in financial reporting).

The cost is based on an estimate of hourly earnings.

Therefore the estimated cost is 345,500 accountants and book-keepers x 1 hour x £24.19 = £8.4m.

Simpler accounting policies for some entities

The changes proposed as a result of the triennial review are intended to improve the cost-effectiveness of FRS 102 without impacting significantly on the usefulness of the resulting information for users of the financial statements. This will be achieved through simplifying some of the more challenging requirements (including requiring fewer fair value measurements in some areas), by introducing more accounting policy choices and by clarifying existing requirements meaning that less time is required to determine an appropriate accounting policy in those cases.

Examples of simpler accounting policies proposed include:

(a) removing the requirement for small entities to measure directors' loans at present value;

(b) permitting investment property let to another group entity to be measured based on cost, rather than at fair value; and

(c) requiring fewer intangible assets to be separated from goodwill when acquired as part of a business combination.

In general, entities can be expected to opt for the simplest of any available accounting policy choices. However, some eligible entities may choose to apply a different measurement basis (eg fair value) or separate more intangible assets because the additional information is useful in managing the business and reporting to users of the financial statements.

Assume all small entities with loans from directors (or close members of their family) will decide to account for such loans at transaction price. In relation to existing loans, prior year entries relating to accounting for the loan at present value will need to be reversed and simpler accounting will be required on an on-going basis. In relation to any new loans, the entity will avoid the need to determine an appropriate rate of interest and calculate the present value of the loan.

Of those entities that have investment property let to another group entity, assume almost all will now choose to measure such properties at cost less depreciation and impairment. However, some of these entities may previously have determined that it was undue cost or effort to measure such properties at fair value, and therefore there will be no cost or saving from the change for these entities. Entities that had measured such properties at fair value will no longer incur the costs of determining the fair value of the property on an annual basis.

As there is no option to restate previous business combinations, the requirement to separate fewer intangible assets from goodwill in a business combination will only apply to new business combinations. Acquiring entities will incur lower costs (professional fees etc) in identifying and measuring any intangible assets acquired.

Additional clarifications

Additional clarifications and improvements in readability will, overall, reduce the costs of preparing financial statements by making it easier to quickly determine the appropriate accounting policy in a number of circumstances, avoiding a potentially costly debate about interpretation. However, it is not possible to monetise this as it will affect entities differently, depending on factors such as whether or not they have previously applied FRS 102, whether certain transactions are undertaken and the level of skills, knowledge and experience of relevant staff.

Improvements in relation to financial instruments

A significant number of the proposed amendments relate to the accounting for financial instruments. The aims of the amendments include:

(a) for some financial instruments, making it easier to determine whether the financial instrument is ‘basic’ or ‘other’;

(b) amending the definition of a financial institution to focus more clearly on certain types of entity that shall provide enhanced disclosures about financial instruments;

(c) improving further the disclosures about financial instruments; and

(d) clarifying the requirements in certain areas, for example by addressing an issue on which FRS 102 is currently silent.

Once a financial instrument has been classified as ‘basic’ or ‘other’, there is no need to re-assess its classification unless the terms relevant to the assessment have changed. The changes to the classification requirements will not require all entities to reconsider their existing financial instruments, but some financial instruments currently classified as ‘other’ may be reclassified as ‘basic’. For any financial instrument classified as ‘basic’, which would otherwise have been classified as ‘other’, there will be on-going savings through not needing to obtain fair values for the financial instruments at each reporting date.

The proposed changes to the definition of a financial institution should remove some entities from the definition. This will have the effect that these entities will no longer be required to provide enhanced disclosures about financial instruments, and if the entity is a qualifying entity it will be able to take advantage of further reduced disclosures.

However, when the risks arising from financial instruments are particularly significant to the business, additional disclosure may be required by any entity. This is a clarification of an existing requirement to disclose information that enables users to evaluate the significance of financial instruments for the financial position and performance of the entity, and therefore it is assumed it is cost neutral.

Clarifications will reduce the time spent by entities in determining an appropriate accounting policy.

Wider impacts of each option

Do nothing

The FRC requested feedback from respondents on the implementation of FRS 102 in order to inform its future development. Doing nothing would be disappointing for those stakeholders that provided feedback.

Make amendments to FRS 102

Business practices and transactions continue to evolve, and for financial reporting to continue to represent the economic substance it needs to be regularly reviewed and revised if necessary.

Good financial reporting supports the efficient functioning of markets and allocation of capital and access to credit.

Risks and assumptions

Key assumptions:

(a) there are approximately 4,000,000 entities applying UK and Ireland accounting standards:

  (i) 3,593,602 companies on the effective register as at 31 December 2016 according to Companies House;

  (ii) there are approximately 195,000 charities in total registered in England and Wales (167,109), Northern Ireland (5,409) and Scotland (24,063);

  (iii) entities with other legal forms[2], including building societies (44 according to the Building Societies Association), credit unions (329 according to the Bank of England), education institutions (including 164 universities (Universities UK), 90 Sixth Form Colleges in England alone (Sixth Form Colleges Association) and 209 General Further Education Colleges (Association of Colleges)), 1,760 registered providers of social housing (Government), mutual insurers, 4,994 co-operatives (Co-operatives UK) and others (the Mutuals Public Register has 9,824 entities registered across a variety of legal forms[3]), limited liability partnerships (57,957 on the effective register at 31 December 2016 according to Companies House); and

[2] These figures are not mutually exclusive as some entities may be registered at Companies House, or in the Mutuals Public Register.

[3] The FCA is the registrar for 'mutual societies', which encompasses Registered societies (including Co-operative societies and Community benefit societies), Credit unions, Building societies and Friendly societies.

(iv) entities in the Republic of Ireland (approximately 200,000, Companies Registration Office Report 2015);

(b) median professional occupation earnings £24.19 (ONS).

A number of entities will be dormant and the changes will only affect them if that status changes. Historical data suggests this could be approximately 16% of companies.

No unintended consequences have been identified to date. The consultation process should enable any significant unintended consequences to be identified, if any.

Post-implementation review

UK and Ireland accounting standards are currently subject to review every three years. The next one is expected to commence in 2019/20.

Preferred option

The preferred option is to make amendments to FRS 102 as proposed in FRED 67.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

Mei Ashelford
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Comments should be despatched so as to be received no later than 30 June 2017.

The FRC's policy is to publish on its website all responses to formal consultations issued by the FRC unless the respondent explicitly requests otherwise. A standard confidentiality statement in an e-mail message will not be regarded as a request for non-disclosure. The FRC does not edit personal information (such as telephone numbers or postal or e-mail addresses) from submissions; therefore, only information that you wish to be published should be submitted.

The FRC aims to publish responses within 10 working days of receipt.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

FRC

Further copies, £22.00 (post-free) can be obtained from
FRC Publications
Lexis House
30 Farringdon Street
London
EC4A 4HH

Tel: **0845 370 1234**
Email: **customer.services@lexisnexis.co.uk**
Or order online at: **www.frcpublications.com**

ISBN 978-0-7545-5511-7

9 780754 555117