

Other changes (Lecture A862 – 6.50 minutes)

While not necessarily ‘headline’ changes, some of the other changes made by the FRC’s periodic review to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* are as follows:

Share-based payments

There is additional guidance in Section 26 *Share-based Payment* to clarify that equity instruments issued in a business combination (i.e. where a parent acquires a subsidiary) in exchange for control are not within the scope of Section 26. However, equity instruments granted to employees of the acquiree in their capacity as employees (e.g. in return for continued service) are within the scope. The cancellation, replacement or other modification of share-based payment arrangements arising as a consequence of the business combination, or other equity restructuring, must be accounted for in accordance with Section 26.

There is also additional clarification on the use of the term ‘fair value’ because Section 26 uses the term differently in some respects.

For the purposes of Section 26, fair value is the amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm’s length transaction.

Section 26 sets out specific guidance for measuring fair value for certain share-based payment transactions.

For example, new paragraph 26.14A which deals with the measurement of cash-settled share-based payment transactions states:

The fair value of the liability shall be measured by reference to the fair value of the cash-settled share-based payment transaction. For example, share appreciation rights are measured by reference to the fair value of the underlying equity instruments measured in accordance with paragraphs 26.10 and 26.11.

*Amendments to
FRS 102 and
other FRSs
(March 2024),
para 26.14A*

Cash-settled share-based payment transactions

In addition to paragraph 26.14A above, there are additional paragraphs 26.14B and 26.14C which relate to vesting conditions.

Paragraph 26.14B clarifies that a cash-settled share-based payment transaction may be conditional upon satisfying specified vesting conditions which relate to service or performance.

The paragraph then goes on to specify how these conditions are accounted for as follows:

(a) *Vesting conditions, other than market vesting conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment as at the measurement date. Instead, such vesting conditions shall be taken into account in estimating the number of awards expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vest.*

*Amendments to
FRS 102 and
other FRSs
(March 2024),
para 26.14B
(extract)*

(b) *All market vesting conditions and conditions that are not vesting conditions shall be taken into account when estimating the fair value of the cash-settled share-based payment at each reporting date and at the date of settlement.*

New paragraph 26.14C then goes on to clarify that as a result of applying paragraphs 26.14 to 26.14B, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

Counterparty has a choice of settlement

Where the counterparty has a choice of settlement (i.e. in cash or in equity), paragraph 26.15B states that the share-based payment transaction is accounted for as a wholly cash-settled share-based payment transaction. However, this paragraph has now been expanded to include two exceptions as follows:

(a) *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; or*

(b) *the choice of settlement relates only to a net settlement feature and there is an obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment.*

In the above situations, the entity accounts for the transaction as a wholly equity-settled transaction.

However, if the entity withholds an amount of shares that exceeds the monetary value of the employee's tax obligation in (b) above, the entity accounts for the excess shares withheld as a cash-settled share-based payment when this amount is paid in cash or other assets to the employee.

Uncertain tax positions

FRS 102, Section 29 *Income Tax* did not deal with uncertain tax treatments prior to the periodic review. The term 'uncertain tax treatment' is defined as:

A tax treatment for which there is uncertainty over whether the relevant taxation authority will accept the tax treatment under tax law. For example, a tax treatment that relies on an interpretation of the law that is not in accordance with the way in which the taxation authority is known to interpret the law.

New paragraphs 29.17A to 29.17C have been included in FRS 102 which deal specifically with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. In applying this requirement, the entity uses the approach which better predicts the resolution of the uncertainty.

Paragraph 29.17B states that the entity assumes a tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations.

Entity concludes it is probable the tax authority will accept an uncertain tax treatment

Where the entity concludes it is probable (i.e. more likely than not) that the tax authority will accept an uncertain tax treatment, the entity determines the taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatment used or planned to be used in its tax filings.

Entity concludes it is not probable that the tax authority will accept an uncertain tax treatment

Conversely, where the entity concludes it is not probable that the tax authority will accept an uncertain tax treatment, the entity must reflect the effect of uncertainty in determining the related taxable profit (loss), tax bases, unused tax losses, unused tax credits or tax rates by using either of the following methods, depending on which better predicts the outcome:

- (a) the most likely amount – the single most likely amount in a range of possible outcomes; or
- (b) the expected value – the sum of the probability-weighted amounts in range of possible outcomes.

Going forward, the entity treats a change in relevant facts and circumstances as a change in accounting estimate (i.e. the changes are reflected prospectively – no retrospective restatement is carried out).

Future planning

The FRC do not have many upcoming projects on the horizon as the periodic review has clearly taken several years to complete and has been a huge piece of work for it. The FRC may start preliminary work on some areas for the next periodic review – for example, the expected credit loss model that did not get included in FRS 102 in this review but may end up being exposed for public comment in the next periodic review (or as a separate project).

Some calls have been made to the FRC to look at specific areas such as group reconstructions, changing the definition of ‘business’ and business combinations. However, the scope of this work and, indeed, whether the FRC will embark on projects in these areas remains to be seen.

Keep in mind that the FRC can still amend accounting standards outside of the periodic review cycle if it considers an issue to be important to warrant a change. Such changes will be dealt with as ad-hoc projects.

There will be some narrow-scope amendments made to accounting standards prior to the next periodic review. For example, the planned changes to the UK company size thresholds will need to be reflected once they have been enshrined into law; and changes to company size thresholds made by the EU which are applicable to Ireland (although Ireland have not yet enshrined the increased company size thresholds into legislation as yet) will need to be reflected in the standards.

The Economic Crime and Corporate Transparency Act 2023 will also result in changes being made to UK and Ireland accounting standards once secondary legislation has been issued.

SORP-making bodies will also need to carry out reviews of their SORPs to ensure they cater for the periodic review changes, where applicable. We have already seen changes to the LLP SORP being consulted upon towards the end of 2023. Given that the periodic review was finalised on 27 March 2024, it is likely that the CCAB will delay issuing an updated SORP as it would be sensible for them to include the periodic review changes in the SORP (as far as the periodic review affects the LLP SORP) prior to finalising it.

In May 2023, the IASB published IFRS 19 *Subsidiaries without Public Accountability: Disclosures*. IFRS 19 permits eligible subsidiaries to use IFRS Accounting Standards with reduced disclosures. This is similar to FRS 101. The UK Endorsement Board (which is responsible for endorsing IFRS Accounting Standards for use in the UK) will need to endorse IFRS 19 for use in the UK and the FRC are looking at the principles in IFRS 19 to see if any of those principles could be used in FRS 101.

FRS 101 will continue to be updated on an annual basis to cater for changes in IFRS Accounting Standards so those practitioners with clients that use FRS 101 are advised to keep abreast of developments in this area. There may also be a project in the future that looks at whether FRS 101 should be overhauled entirely to ensure it remains fit for purpose, but at the present time no details have been released about any potential project in this respect.