

FRC periodic review 2024 – overview (Lecture A858 – 13.55 minutes)

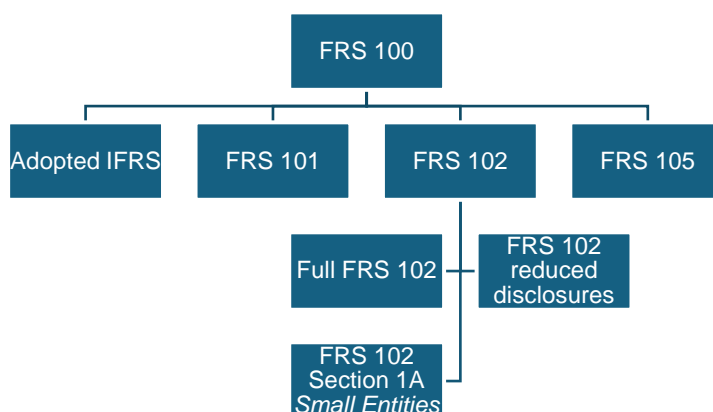
Unsurprisingly, this quarter's Audit and Accounting update is dominated by the FRC's periodic review of UK and Ireland GAAP.

This quarter will look at the periodic review from a 'high level' approach and examine some of the key changes that have been introduced from the review as well as looking at what practitioners should be thinking about now in preparation for transitions to the new requirements. Over the course of the forthcoming quarters, we will be looking in more detail at some of the technical accounting requirements to enable transitions to be carried out as well as some of the additional disclosure requirements that will be needed. However, this quarter, we will be examining the additional disclosure requirements that will become mandatory for small entities in the UK preparing financial statements under FRS 102, Section 1A *Small Entities* (see **Section 5**).

Overview of UK and Ireland GAAP

UK and Ireland GAAP is split into six FRSs as follows (note – the current editions of the FRSs is the January 2022 edition, with the exception of FRS 100 which was re-issued in November 2022 following an Exposure Draft to update the equivalence guidance):

- FRS 100 (November 2022) *Application of Financial Reporting Requirements*
- FRS 101 (January 2022) *Reduced Disclosure Framework*¹
- FRS 102 (January 2022) *The Financial Reporting Standard applicable in the UK and Republic of Ireland*
- FRS 103 (January 2022) *Insurance Contracts*
- FRS 104 (January 2022) *Interim Financial Reporting*
- FRS 105 (January 2022) *The Financial Reporting Standard applicable to the Micro-entities Regime*



¹ The FRC carry out annual reviews of FRS 101 to ensure that applicable disclosure exemptions are provided following developments in IFRS® Accounting Standards.

FRS 100 outlines the applicable financial reporting framework for entities which prepare financial statements in accordance with legislation, regulation or accounting standards applicable in the UK and Republic of Ireland. FRS 100 also requires that where an entity is subject to a Statement of Recommended Practice (SORP), the relevant SORP will apply in the circumstances set out in the FRS. In addition, if an entity (other than a small entity) follows a SORP, it must state in its financial statements the title of the relevant SORP followed and whether the financial statements have been prepared in accordance with the SORP's provisions.

FRS 100 also requires that entities preparing financial statements under FRS 101 or FRS 102 include a statement of compliance in the notes to the financial statements. Small companies applying FRS 102, Section 1A are encouraged to include a statement of compliance (though this will change for UK-based small entities when the periodic review amendments take effect – see **5.2**).

FRS 101 sets out a reduced disclosure framework which allows a qualifying entity to take advantage of certain disclosure exemptions as well as setting out the financial reporting requirements of the qualifying entity. The term 'qualifying entity' for the purposes of FRS 101 is:

A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation².

The following are not qualifying entities:

- (a) charities;*
- (b) entities that are both required to apply Schedule 3 to the **Regulations** and have contracts that are within the scope of IFRS 17 Insurance Contracts; and*
- (c) entities that are not companies but are both required to apply requirements similar to those in Schedule 3 to the Regulations³ and have contracts that are within the scope of IFRS 17.*

The qualifying entity must prepare its financial statements under IFRS.

FRS 101 allows qualifying entities to take advantage of certain disclosure exemptions in the individual financial statements, but **not** in the consolidated financial statements. This prohibition also extends to small groups that voluntarily prepare group accounts.

² As set out in section 474(1) of the Act.

³ Requirements that are similar to those in Schedule 3 to the Regulations include:

- (a) Schedules 1 and 2 to *The Friendly Societies (Accounts and Related Provisions) Regulations 1994* (SI 1994/1983);
- (b) Schedule 1 to the *Insurance Accounts Directive (Lloyd's Syndicate and Aggregate Accounts) Regulations 2008* (SI 2008/1950);
- (c) *Syndicate Accounting Byelaw* (No. 8 of 2005); and
- (d) *The Insurance Accounts Directive (Miscellaneous Insurance Undertakings) Regulations 2008* (SI 2008/565).

Financial institutions are also unable to apply the exemption from the disclosure requirements in IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* (to the extent that they apply to financial instruments) and the disclosure exemptions in IAS® 1 *Presentation of Financial Statements*, paras 134 to 136 which outline the disclosure requirements in respect of the entity's capital.

FRS 102 is the 'backbone' of UK and Ireland GAAP and outlines the recognition, measurement and disclosure requirements for financial statements. The latest edition of FRS 102 is the January 2022 and was the primary focus of the FRC's periodic review.

FRS 102 is applicable to private entities and is based on the principles in the IASB® *IFRS for SMEs Accounting Standard*, albeit with amendments to allow FRS 102 to be consistent with UK and Irish company law requirements and accounting practices.

FRS 103 is an industry-specific standard which outlines the reporting requirements for entities applying FRS 102 in the preparation of financial statements which issue insurance contracts or reinsurance contracts.

FRS 104 outlines the reporting requirements for entities applying UK and Ireland GAAP which prepare interim financial statements. An important point to emphasise is that FRS 104 does not make any obligation for entities to produce interim financial reports (and hence FRS 104 is not regarded as an accounting standard).

FRS 105 provides an accounting framework for micro-entities, including limited liability partnerships that qualify as such. FRS 105 provides no accounting policy options (other than some limited options on first-time adoption of the standard) and has a vastly reduced disclosure regime and simpler accounting treatments that are proportionate to its target audience.

What is the periodic review?

The FRC is required to review (and potentially) amend the suite of UK and Ireland accounting standards at least every five years. Maintaining consistency with international accounting standards is a long-standing policy that has been developed through consultations, and reflects the wider approach taken by the FRC. The pace of change in IFRS Accounting Standards is fast and consequently the FRC must consider whether UK and Ireland accounting standards must be aligned together with the consideration of other emerging issues and simplifications/clarifications as part of the FRC's review.

The periodic review of UK and Ireland GAAP supports the FRC's overriding objective in standard-setting, which is to enable users of the accounts to receive high-quality, understandable financial reporting that is proportionate to the size and complexity of both the entity and users' information needs. In achieving this primary objective, the FRC develop accounting standards that:

- (a) *have consistency with global 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 businesses 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.*

FRS 102 Basis for Conclusions, Part A – Development and overarching issues, A.2(a) to (e)

It should be noted that while the FRC carry out periodic reviews at least every five years, there may be changes to accounting standards outside of the periodic review cycle where the FRC judges this necessary.

Additional change that was subject to a separate Exposure Draft

In September 2023, the FRC issued FRED 84 *Draft amendments to FRS 102 – Supplier finance arrangements*. This FRED proposed to introduce new disclosure requirements in the cash flow statement to provide users with additional information concerning the entity's use of supplier finance arrangements and the effect of such arrangements on the entity's balance sheet and cash flows.

The FRC finalised these amendments at the same time as finalising the periodic review amendments on 27 March 2024. This has resulted in additional paragraphs 7.20B and 7.20C being included in FRS 102, Section 7 *Statement of Cash Flows*. FRS 102, para 7.20B clarifies what a supplier finance arrangement is; and para 7.20C set out the disclosure requirements where an entity has entered into such arrangements.

What has NOT changed in the periodic review 2024?

There was some debate in the very early stages of the periodic review concerning the introduction of an expected credit loss model in respect of the impairment of financial assets (as found in IFRS 9 *Financial Instruments*). The FRC decided not to introduce such a model in this periodic review. The FRC have intimated that it may revisit this issue in a future project.

In addition, the FRC has not introduced any amendments arising from IFRS 17 *Insurance Contracts*. Implementation experience from IFRS 17 users will be needed and it is expected that the FRC will consider this implementation experience in the future.

Staff factsheets

The FRC has previously published some staff factsheets (see www.frc.org.uk) which are freely available. There are currently eight of these as follows:

- Factsheet 1: FRS 102: Triennial Review 2017 Amendments

- Factsheet 2: FRS 102: Triennial Review 2017 Transition
- Factsheet 3: FRS 102: Illustrative Statement of Cash Flows
- Factsheet 4: FRS 102: Financial Instruments
- Factsheet 5: FRS 102: Property: Fair Value Measurement
- Factsheet 6: FRS 102: Business Combinations
- Factsheet 7: FRS 102: Transition to FRS 102
- Factsheet 8: FRS 102: Climate-related matters (amended March 2024)

The FRC have stated they will be publishing new factsheets and amending existing ones, where necessary. Additional factsheets are expected in the autumn of 2024, the content of which is currently unknown.

Effective date

The amendments arising from the periodic review come into mandatory effect for accounting periods commencing on or after 1 January 2026. Early adoption is permissible provided that all the amendments are applied at the same time.

The amendment in respect of supplier finance arrangements (see **1.3** above) has an earlier effective from date. The additional disclosure requirements in respect of supplier finance arrangements apply for accounting periods commencing on or after 1 January 2025, again with early adoption permissible.

What should practitioners be doing now?

The FRC had stated in September 2023 that it would require the amendments arising from the periodic review to be effective for accounting periods commencing on or after 1 January 2026. This means December 2026 year ends and entities with short periods will be affected first.

While this may seem a long time away, practitioners are strongly advised to gain a sound understanding of the technical accounting requirements of the periodic review amendments because there will be some significant changes made to the financial statements of clients (especially where leasing is concerned). Impact assessments are advisable in some circumstances to enable the practitioner and the client to see how the amendments will affect profit and loss and the balance sheet position. Debt covenants (where applicable) may also need to be renegotiated due to additional assets and liabilities being recognised on-balance sheet.

HMRC is expected to issue guidance in the coming months on the tax treatment of the new lease accounting requirements.

In addition, it is also worthwhile notifying clients of other changes on the horizon, such as the new filing requirements at Companies House and the possibility that the profit and loss account may be available for inspection on the public record with more detail filed at Companies House.

As noted earlier, we will be examining the detailed technical accounting issues over the course of the next few quarters, and it is also expected that professional bodies will be publishing guidance in due course.

New editions of the standards

The FRC has published the amendments arising from the periodic review on its website and these amendments cover all the FRSs. It has confirmed that new editions of the standards will be published that will consolidate all amendments made so everything is in one document. We can expect new editions of the suite of UK and Ireland GAAP to be published in the summer of 2024.