**ICAEW**
REPRESENTATION 108/21

# FRC REQUEST FOR VIEWS TO INFORM THE PERIODIC REVIEW OF FRS 102

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ICAEW welcomes the opportunity to comment on the FRC request for views to inform the periodic review of FRS 102 published by Financial Reporting Council in March 2021.

This response of 12 November 2021 has been prepared by the ICAEW Financial Reporting Faculty. Recognised internationally as a leading authority on financial reporting, the faculty, through its Financial Reporting Committee, is responsible for formulating ICAEW policy on financial reporting issues and makes submissions to standard setters and other external bodies on behalf of ICAEW. The faculty provides an extensive range of services to its members including providing practical assistance with common financial reporting problems.

ICAEW welcomes the opportunity to provide views to the FRC on matters to be considered as part of the upcoming periodic review of FRS 102 *The Financial Reporting Standard for the UK and Republic of Ireland*. Broadly speaking we believe that FRS 102 is working well in most areas. However, in this letter we have set out a number of areas where we believe improvements could be made or would benefit from further consideration as part of the next periodic review.

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## KEY POINTS

### Support for early input into the periodic review

1. ICAEW welcomes the opportunity to provide views to the Financial Reporting Council (FRC) on matters to be considered as part of the upcoming periodic review of FRS 102 *The Financial Reporting Standard for the UK and Republic of Ireland*. Conducting this periodic review is an essential part of the due process and maintenance of UK financial reporting standards which ensures a high-quality UK GAAP reporting regime.

2. We also commend the FRC for enabling stakeholders to reflect on the upcoming periodic review at an early stage. This approach, first adopted for the previous Triennial Review, was very effective in highlighting aspects of the standard that might require further consideration, taking into account issues arising in practice, and any potential gaps in the standard resulting from any new or emerging issues. Early consideration of such matters, along with broader issues such as alignment of FRS 102 with IFRS, enables the FRC to target its efforts more effectively and to incorporate stakeholder views from the outset.

### General

3. Broadly speaking we believe that FRS 102 is working well in most areas. However, we have identified a number of areas where we believe improvements could be made or would benefit from further consideration.

4. We also believe that now is the right time to consider if and how IFRS 9 *Financial Instruments*, IFRS 15 *Revenue from Contracts with Customers,* and IFRS 16 *Leases* might be brought into UK GAAP. In our response to the previous Triennial Review we concluded that it was not the right time to begin work on incorporating these IFRSs into UK GAAP. Five years on, we have the advantage of being able to learn any lessons from IFRS adopters and to use this experience to adapt them appropriately for FRS 102.

5. In addition, we believe that matters raised as part of this periodic review prompt a deeper review of the reporting regime for small companies and micro-entities. This is discussed further below.

6. Our response to the FRC's request for input is structured as follows:
   - Consideration of the small companies and micro-entities regime paragraphs 7-10.
   - Key factors to consider paragraphs 11-13.
   - Timing and other considerations for introducing the new IFRSs paragraphs 14-18.
   - Approach to introducing IFRS 15 paragraphs 19-25.
   - Approach to introducing IFRS 16 paragraphs 26-29.
   - Approach to introducing IFRS 9 paragraphs 30-31.
   - Consideration of new and emerging issues paragraphs 32-34.
   - Other matters relating to current FRS 102 requirements paragraph 35.
   - Detailed suggestions for simplifications of IFRS 15 appendix 1.
   - Detailed considerations for merger accounting appendix 2.

### Small companies and micro-entities

7. While the focus of this review is on FRS 102, we believe it is important to consider the reporting regime for small companies and micro-entities more broadly. For some time ICAEW has been aware of concerns with the underlying legislative framework for small company reporting, in particular certain aspects derived from the EU Accounting Directive, such as the restriction on disclosures that can be required for small companies (now

integrated into Section 1A of FRS 102) and for micro-entities (now incorporated into FRS 105). These issues were highlighted in ICAEW's 2017 report Brexit: Implications for financial reporting.

8. We believe that the UK's exit from the EU provides a fresh opportunity to revisit the legislative framework underpinning the reporting for small companies and micro-entities. We appreciate that changes to UK company law are outside the remit of the FRC and beyond the scope of this periodic review. However, we believe the FRC has an essential and influential role to play in ensuring that the UK small companies reporting regime is fit for purpose and advocating for any necessary changes to UK company law.

9. Setting out a vision for the future of small company reporting at this early stage may also help guide the FRC on key decisions within this periodic review. For example, it might help to consider:
   - Whether or not a different approach should be taken between FRS 102 and FRS 105 when aligning with IFRSs 9, 15, 16. For example, it may be that major changes coming out of this review process could be left out of FRS 105 to ensure that it remains a stable platform for those at the smallest end of the scale and who may have more limited resources and potentially little to be gained from changes.
   - Whether or not FRS 105 needs to be reviewed more broadly. For example, if UK company law could be amended to remove the restrictions on disclosures that can be required in micro-entity and small company accounts, would this provide the FRC with a better platform to develop a comprehensive and proportionate reporting standard, specifically designed for small companies, in a similar way to the FRSSE?
   - Whether the thresholds for companies reporting under the micro-entities regime should be increased. This might be a further consideration if current concerns relating to the quality of financial statements produced by micro-entity accounts under the current regime are addressed under a revised regime.

10. While we believe that this broader review is needed it is not likely to be something that can be agreed and finalised within the timetable for this periodic review. However, early consideration might help guide decisions in relation to FRS 102 and highlight the need to ensure proportionality before replicating any changes made to FRS 102 in FRS 105.

**Key factors to consider**

11. Paragraph A.2 of the Basis for Conclusions in FRS 102 currently specifies that the FRC aims to provide succinct financial reporting standards that:
    - have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
    - balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;
    - 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 other users' information needs;
    - promote efficiency within groups; and
    - are cost-effective to apply.

12. We believe that application of these criteria remains valid and will be especially important for the FRC when making decisions around the introduction of the new IFRSs into FRS 102. In particular, we would highlight cost-benefit considerations, for both users and preparers, as

being key to any decisions. Proportionality will also be important in light of the large variety of businesses (in size and scope) that currently apply FRS 102. There may not be a 'one size fits all' solution in many cases and therefore careful consideration will need to be given to the impact on a whole spectrum of companies.

13. In addition, we refer to the FRC's overriding objective (paragraph A.1 of the Basis for Conclusions) which 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. We believe the reference to understandability for users of financial statements is critical and should be at the forefront of mind when considering any potential changes to FRS 102.

**Introducing the new IFRSs – timing and guidance**

14. Should the FRC take the decision to introduce IFRSs 9, 15 or 16 into FRS 102 we recommend that sufficient time is allowed for companies to prepare for implementation. We understand that amendments arising from this periodic review are currently anticipated to become effective for accounting periods beginning on or after 1 January 2024. While this may be appropriate for narrow-scope amendments targeting existing FRS 102 requirements, we believe it would be too soon for any changes arising from the new IFRSs. We strongly encourage the FRC to be generous with their timetable for bringing the new IFRSs into FRS 102. If more time were allowed, this might also provide the opportunity for the FRC to perform some field testing of the proposed changes, which will further inform any decisions.

15. In addition, we would favour an approach that requires retrospective application of any requirements arising from the new IFRSs, rather than having comparative information being prepared on a different basis. This would also require sufficient lead time before any changes become effective and again supports the need for sufficient time for preparers to prepare for transition.

16. We also note that the IASB is currently considering the same issues regarding the potential introduction of the new IFRSs into the IFRS for SMEs Standard. If practical, there might be merit in the FRC taking the time to wait and see what the outcomes are from this consultation, and for this to be considered when making its own decisions regarding the future direction of FRS 102. The consequence may otherwise be that there are three different approaches to accounting for revenue and leases which may be undesirable in the wider reporting landscape.

17. As a more general point regarding possible future changes to FRS 102 arising from new or amended requirements to IFRS, we would generally recommend that the FRC monitors the changes but does not rush to incorporate them into FRS 102. For the sake of stability for users it is beneficial to allow IFRS requirements to bed down and to learn lessons from their initial implementation period before considering how they might be introduced into FRS 102. Exceptions to this rule might be when changes to IFRS respond to an urgent need or when changes make requirements significantly simpler and clearer, in which case there may be compelling reasons to fast-track the process for incorporating new IFRS requirements into FRS 102.

18. As part of the wider discussion on bringing the new IFRSs into FRS 102, we would also encourage the FRC to consider what guidance could helpfully be made available to preparers at a later stage. For example, the publication of educational materials could aid

companies transitioning to any new requirements, particularly smaller entities reporting under FRS 102.

**Introducing IFRS 15**

19. Broadly speaking, we believe there are many aspects of IFRS 15 which, if suitably adapted with respect to the cost-benefit and proportionality considerations, could significantly improve the existing reporting under FRS 102.

20. We are aware of concerns that in its current form FRS 102 is not always working well for revenue accounting, particularly for anything other than the simplest revenue models, due to its lack of guidance on many important aspects of revenue recognition. As such, we are not convinced that using the existing Section 23 in FRS 102 as a basis for adding targeted changes would be an ideal solution. Not only is IFRS 15 based on a different set of principles but adapting the existing section through targeted changes only might send a message that the resulting accounting, and therefore the reporting, will not change significantly which may not always be the case.

21. In our view, IFRS 15 has a comprehensive set of principles which will provide a more complete and robust foundation for revenue reporting under FRS 102. That said, incorporating IFRS 15 in full would not be appropriate for the majority of FRS 102 preparers. Therefore, careful consideration will need to be given as to how to simplify the requirements in IFRS 15 while still maintaining the underlying principles of the standard and providing the appropriate level of guidance.

22. We are aware that for many IFRS users, first-time application of IFRS 15 required a detailed analysis of the new requirements alongside evaluation of existing internal processes and an assessment of how the two could fit together – a time-consuming process which did not always result in a significant change in the final numbers disclosed. While we would want to avoid any similar processes being excessively time-consuming, we nevertheless encourage the discipline of going through this process regardless of the outcome to ensure that entities have a robust revenue policy that is fully aligned to the strong conceptual principles within IFRS 15.

23. In order for this review process to be effective there must be a strong effort as part of this periodic review to simplify and clarify some of the more complex requirements in IFRS 15. We encourage the FRC to do all they can here to reduce the discussion and debate around the interpretation of the requirements by using clear language, easy to understand examples and simplifications where appropriate.

24. We have made some detailed suggestions in Appendix 1 to this response, for what we would consider to be appropriate changes to IFRS 15 when introducing this standard into FRS 102. These suggestions take into account the FRC's stated aims for setting succinct financial reporting standards (as noted above) and consider where confusion could be eliminated, or the burden reduced without affecting the quality of the requirements. These suggestions aim to either remove the rules that make the process of applying the principles more time-consuming without commensurate benefit or remove guidance that can take a long time to consider but may ultimately have little impact on the diversity of accounting. We would emphasise that these suggestions would still need to be subject to rigorous cost-benefit assessments by the FRC.

25. Overall, we would like to strongly encourage the FRC to simplify the language used in IFRS 15, reduce the quantity and length of existing requirements, and use new or redrafted examples to help explain the concepts more clearly and effectively.

### Introducing IFRS 16

26. On balance, we would support incorporating IFRS 16 into FRS 102 provided some simplifications are made, taking account of the cost-benefit and proportionality factors mentioned previously. The conceptual basis that a lease commitment fulfils the definition of a liability and should be on the balance sheet is now widely accepted and should, in our view, be brought into FRS 102.

27. We would, however, encourage the FRC to seek the views of lenders and investors to understand their experience of using information provided under IFRS 16 and whether their needs have been met. Although we appreciate that the needs of primary users of accounts prepared under IFRS may differ in overall terms from those of users of FRS 102 accounts, conducting this might help to evidence whether making this change to lease accounting is the right route for FRS 102 and/or highlight particular areas where further consideration might be needed.

28. Through our discussions, we have identified a number of suggestions for ways in which IFRS 16 might be simplified. This is not an exhaustive list of areas where simplifications may be helpful, but rather the matters that have been raised so far in our discussions on this topic.
    - **Discount rates** - Under IFRS 16, the incremental borrowing rate must be used if the rate implicit in the lease cannot be readily determined. This is a known difficulty for IFRS users as determination of the incremental borrowing rate can be a subjective and complex topic. An option that was proposed by the IASB in their comprehensive review of the IFRS for SMEs was to use a different discount rate by reference to market yields on high quality corporate bonds if the rate implicit in the lease or the incremental borrowing rate was difficult to determine. We believe this could also be a useful alternative for FRS 102 which is worth consideration by the FRC.
    - **Changes in lease terms or modifications to leases** – Changes to lease terms and lease modifications can be a frequent occurrence for some companies and can give rise to complexities in accounting in practice. Depending on the scenario, IFRS 16 (paragraphs 39-46) sets out slightly different rules regarding the accounting adjustments required to lease balances. We suggest that this is an area where the FRC might assess whether simplifications are possible with careful consideration to ensure no unintended consequences. The IASB is also considering simplifications in this area as part of its comprehensive review of the IFRS for SMEs. This may provide a useful starting point for the FRC in its own deliberations.
    - **Guidance on lease terms** - We are aware that practical difficulties can arise in determining lease terms particularly in determining how contractual terms interact with underlying legal requirements. We suggest that the FRC explores these difficulties further with a view to considering whether any simplification might be possible under FRS 102.

29. Irrespective of whether or not IFRS 16 is brought into FRS 102, there are a number of other areas within Section 20 *Leases* that need addressing. These include the lack of clarification over the meaning of the ‘term of the lease’, treatment of lease premiums, surrender premiums and lease incentives. These areas are covered in more detail in IFRS 16 which

therefore would be a sensible place to start when addressing these gaps in the existing requirements.

**Introducing IFRS 9**

30. We believe that Sections 11 and 12 on financial instruments in FRS 102 are largely working well including, for now, the current option to apply the recognition and measurement provisions of IAS 39 *Financial Instruments: Recognition and Measurement* or IFRS 9 *Financial Instruments.* Therefore, we do not believe that significant changes are needed to these sections in order to reflect any recent developments in IFRS.

31. More specifically, we are not convinced of the benefits of bringing the IFRS 9 expected credit loss model into FRS 102. There is significant complexity in making reliable and comparable estimates of future losses and it is not clear at this stage that the cost of understanding and implementing the forecasting models needed for IFRS 9 would justify the subsequent benefit for FRS 102 users. The exception might be certain types of entities such as banks and building societies although even for these entities, careful consideration of the expected costs and benefits will be needed.

**New and emerging transactions**

32. Due to the timing of this periodic review and therefore the subsequent periodic review, we would suggest that the FRC considers whether current FRS 102 requirements are sufficient in dealing with the following:
    - Accounting for climate-related matters: issues ranging from how to reflect climate-related risk in the financial statements to the accounting for emission trading schemes.
    - Accounting for crypto assets/liabilities and other commodity transactions such as gold bullion: there is current inconsistency in reporting of these assets/liabilities/transactions due to a lack of guidance.

33. These two matters have been consistently raised as areas requiring further clarity, whether through standard-setting activity or additional guidance. We recommend that the FRC considers these matters sooner rather than later, perhaps through further research and stakeholder engagement. If it concludes that standard-setting activity is required then the next periodic review may be too late to begin work as preparers might look for solutions elsewhere in the meantime, resulting in inconsistency. It may be that the outcome of this research requires a separate project to be undertaken outside the usual scheme of the periodic review.

34. We also note that the matters described above are being considered as part of the IASB's agenda consultation. There is a balance to be had between waiting to see what the IASB may do and the need to address issues in a timely manner within the UK GAAP regime particularly where an urgent need has been identified. In particular, we are aware of concerns that companies are not always, or sufficiently, considering climate-related issues when preparing their financial statements. The extent to which this is an implementation issue or the result of a gap in standards needs serious consideration, and this periodic review of FRS 102 could provide an opportunity to force positive change in this respect.

**Other matters**

35. We have identified some other matters that we would like addressed as part of this periodic review below:

- Section 2 Appendix *Fair Value Measurement:* paragraph 2A.5 states that '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 asset at fair value'. While we recognise this paragraph is helpful and sensible in most scenarios, we have noted that this can present problems specifically for the initial recognition of insurance assets acquired in a business combination and would ask that these types of assets are addressed separately in this section.
- Section 3 *Financial Statement Presentation:* there is currently no guidance provided for preparing financial statements on any basis other than a going concern basis. We believe additional guidance for preparing financial statements on a non-going concern basis (eg, a break-up basis) would be helpful.
- Section 9 *Consolidated and Separate Financial Statements*: there is confusion currently in paragraph 9.3 (f) whereby it is possible that a parent is required to prepare consolidated accounts even if all of its subsidiaries are excluded on the basis of immateriality. An amendment to the wording as follows would remove the confusion: "All of the parent's subsidiaries are required to be excluded from consolidation by 9.9 <u>or could be excluded on the grounds of immateriality by 9.9A</u> (section 402 of the Act)."
- Section 12 *Other Financial Instruments Issues:* consideration should be given to whether improvements could be made to the guidance on the accounting for instruments with a debt and equity split (eg, convertible debt). Additionally, there is currently an assumption in Section 12 that a swap from the bank has nil fair value and there is no exemption from recognising day one gains/losses. This is an issue in practice as the assumption is not correct, so then day one gains/losses must be recognised immediately.
- Section 18 *Intangible Assets other than Goodwill:* specific guidance on accounting for computer software akin to IAS 38 *Intangible Assets (paragraph 4)* would be helpful to explain how to deal with intangibles that are an intrinsic part of a physical asset as well as those which are not. Currently this section of FRS 102 does not mention software at all.
- Section 19 *Business Combinations and Goodwill*: the accounting for negative goodwill (paragraph 19.24) can be problematic to apply in practice and lacks a conceptual basis. We would welcome a review of this area although we appreciate this may require changes to company law and therefore not fall within the remit of the FRC.
- Section 19 *Business Combinations and Goodwill (continued)*: further guidance and examples in relation to group reconstructions and merger accounting would be helpful. We understand that in some instances the conditions that need to be met in order for a business combination to be able to apply merger accounting can result in unusual outcomes and could helpfully be addressed as part of this review. Further detail on this matter is outlined in Appendix 2 of this response.
- Section 26 *Share-based Payments*: FRS 102 guidance is short and consequently, there are areas not addressed; for example there is limited guidance on cancellation/settlements (such as whether incremental value is recognised in profit and loss or equity). This is an area that could be expanded.
- Section 28 *Employee Benefits:* guidance might be helpful for when a company completely exits from a defined benefit scheme. The standard does not cover this as it stands. Better guidance would also be welcomed on recoverability of pension surpluses.
- Section 29 *Income Tax:* although this section is generally thought to work well, the FRC could consider the accounting for uncertain tax positions and whether to bring in some aspects of IFRIC 23, for example the requirement to assume 100% detection risk.
- Section 35 *Transition to this FRS:* currently focuses on transition from old UK GAAP and therefore would benefit from a refresh.

## Appendix 1: IFRS 15 suggested simplifications

36. We have outlined below a number of areas where we believe IFRS 15 could helpfully be simplified for the purpose of FRS 102. This is not an exhaustive review of IFRS 15 but rather represents our initial thoughts on this particular matter. We anticipate further discussions and analysis on this important topic as the FRC deliberates what approach to take and any proposed amendments. It may be, therefore, that we identify further simplifications over time and/or reconsider individual matters depending on the approach adopted by the FRC. We would be happy to discuss any of the matters outlined below in more detail should that assist the FRC at this early stage.

### Five-step model

37. We would recommend retaining the five-step model that is in IFRS 15 with a number of changes as set out below:

- Remove the contract modifications guidance from the section ‘identifying the contract’ (paragraphs 18 to 21). We believe that while this guidance can be helpful, it is likely to be excessive and infrequently used by most FRS 102 preparers and is not thought to be a core part of the standard.
- Consider softening the requirements in paragraph 15 regarding recognition of revenue when the criteria in paragraph 9 are not met, so as to allow revenue to be recognised to the extent that it is both non-refundable and attributable to goods and services already transferred.
- Remove the series guidance from ‘Identifying performance obligations’ or consider making the series guidance non-mandatory, as this would simplify application by entities and would also permit the terminology simplification proposed below. While we believe the series guidance can be helpful in some situations, in other cases its mandatory application can be restrictive. For example, a contract to provide a service over five years cannot be viewed as five separate annual performance obligations under the series guidance, despite the fact that the economics of the contract may have been set up in such a way that revenue was agreed to not be evenly generated over the five-year period (ie, perhaps building in inflation). To remove this guidance or making it optional would be more permissive and allow a reasonable degree of freedom rather than being restrictive.
- Consider removing entirely the term ‘performance obligation’ and replace with the term ‘distinct goods and services’, to aid understandability. There is significant overlap between the terms ‘performance obligation’ and ‘distinct’ within IFRS 15 so to remove the term ‘performance obligation’ helps to simplify the requirements.
- Remove the third separately identifiable test in paragraph 29 (c) as, in practice, it can cause confusion and rarely leads to different outcomes. In most cases if the goods and services are highly interrelated then they are captured by parts (a) or (b) of the paragraph already.
- Simplify the language in ‘determining the transaction price’ regarding variable consideration, to aid understandability. The double/triple negatives in the wording can be difficult to unravel (paragraphs 50-59).
- Simplify the requirements for contracts with a significant financing component to only strip out a significant financing component if a customer pays in arrears but make this optional if payment is made in advance (paragraph 62).
- Reduce the number of detailed requirements set out in paragraphs 66-69 regarding non-cash consideration as this is likely to be superfluous for FRS 102 reporters.
- Significantly reduce the ‘allocating the transaction price to performance obligation’ section by replacing the rules regarding allocating discounts, with principles. A simpler approach would be to state that discounts should be allocated in a way that reflects the

economics of the contract, with disclosure of the approach taken where this represents a key judgement.

- Addition of some short and clear examples when incorporating paragraph 35, in particular for paragraph 35 (c). Without examples the existing wording can be difficult to understand. We would encourage the FRC to change this paragraph from a rules-based requirement to a principles-based requirement (reflecting the underlying concept, which is that control has transferred in such cases if the risks and rewards of the work done to date sit with the customer). The existing rules can be difficult to apply in practice, particularly for the 'enforceable right to payment' wording which suggests a legal opinion needs to be sought which, in reality, is highly impractical.
- Retain the option to measure progress via an input or output method but relax the requirement for a single measure of progress, so as to avoid some of the complexities that can arise under IFRS 15.

### Accounting for co8ntract costs

38. We would recommend that FRS 102 includes a policy choice for incremental costs of obtaining a contract to either capitalise or expense these costs but retain the rules within IFRS 15 should an entity choose to capitalise them. This could be a way of reducing the 'cost' of implementation without detracting significantly from the 'benefit' to users.

39. We would suggest that consideration is given to removing the section on costs to fulfil a contract because we believe that, in the vast majority of cases, these costs are captured elsewhere in FRS 102. That said, more research would be needed to come to this conclusion and a short paragraph may be needed to capture any exceptions.

### Appendix B: application guidance

40. We believe all 14 sections of Appendix B of IFRS 15 are useful but many could be significantly reduced in length. Two of the sections that are particularly useful but could be simplified are:
    - Section (e) principal versus agent considerations: consider translating the existing guidance into a simplified approach that, in practice, should mirror the outcomes under IFRS 15:
        i. An entity that has the primary contractual responsibility to the customer should account as a principal (with primary contractual responsibility resting with the party against which the customer would have primary legal recourse in the event of an issue).
        ii. An entity that controls inventories before they are transferred should account as a principal when they are transferred.
        iii. An entity that has neither primary contractual responsibility nor control of inventories should account as an agent.
    - Section (i) licensing: consider aligning the terminology with that used by the FASB (functional and symbolic) and simplifying the associated requirements.

### Disclosure requirements

41. We believe the disclosure requirements in IFRS 15 provide a good starting point to consider those that could be transferred across to FRS 102. As many IFRS 15 disclosure requirements are linked to specific reporting requirements, the number to be considered would automatically be reduced if taking account of the simplifications (and possibly more) outlined above.

42. Nevertheless, even after this initial reduction, the number of disclosures is still likely to be lengthy and a balance will need to be struck to ensure that key disclosure requirements are introduced without the final suite of disclosures being disproportionate compared to other sections of FRS 102. The focus should be on bringing in disclosures which enable users to understand the nature, amount, timing, and uncertainty of revenue, and the significant judgements made by the entity when applying the revenue guidance.

43. We would also suggest that any quantitative disclosures are limited to those that are likely to be of most significance to users. For example, we would support inclusion of disclosures relating to the amount of variable consideration recognised in later periods which had previously been constrained, as without these details, trend information can be misleading.

44. Conversely, we have identified the following examples of disclosure requirements which, in our view, would not typically add significant value to FRS 102 accounts:
    - Reconciliation of opening and closing contract asset/liability balances (paragraph 118).
    - Revenue not yet recognised for contracts that already exist but performance obligations are not yet completed (paragraph 120).

## Appendix 2: Conditions for merger accounting

45. The conditions for applying merger accounting under FRS 102 are very restrictive, in particular, the requirement in paragraph 19.27(b) that 'the ultimate equity holders remain the same, and the rights of each equity holder, relative to the others, are unchanged.' We are aware of transactions which fail to meet the letter of this test but are nevertheless group reconstructions in substance and the use of merger accounting would appropriately reflect the substance of the transaction. This leads to some diversity in practice with some taking the view that merger accounting is prohibited while others concluding that use of the true and fair override is appropriate.

46. A common example we are aware of is when two companies, both wholly owned by the same family members, are combined. It can often be the case that such reconstructions do not meet the condition set out in paragraph 19.27(b). For example, if a family member decides to extract cash while remaining a shareholder then in effect there is a share for share exchange with payment of cash for the exiting family member's shareholding, but with no change in control arising from the different shareholding post transaction. However, as the rights of equity holders relative to each other will have changed the conditions for merger accounting will not have been met. Often in such cases, a true and fair override is applied as merger accounting might be appropriate because the substance of the transaction is a reorganisation combined with an exit of the family member. Another case is where members of the same close family hold all the shares in the combining companies but in different proportions (for example for historical or tax reasons) but are clearly acting together as a single party in initiating the group reconstruction transaction.

47. We suggest that the FRC considers the scope of when merger accounting can be applied as part of the next periodic review. For example, this might take the form of targeted amendments to address the issues set out above; dropping the existing conditions which are brought forward from old UK GAAP and replacing them with a requirement for common control of the combining parties; and/or aligning FRS 102 with company law. We are aware that there are complexities with each of these options and care will be needed to avoid unintended consequences with any action taken on this matter. While we have not outlined the complexities in detail here, we would be happy to assist the FRC further with its consideration of this matter during the next stage of the periodic review.