



# ***UK GAAP update***

21 June 2023

This webinar will commence shortly .....

# ***Introduction***



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Senior Manager, Corporate Reporting Faculty, ICAEW

# *Today's presenters*



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# Ask a question and access resources

## **Download resources**

Link to slides in event reminder email

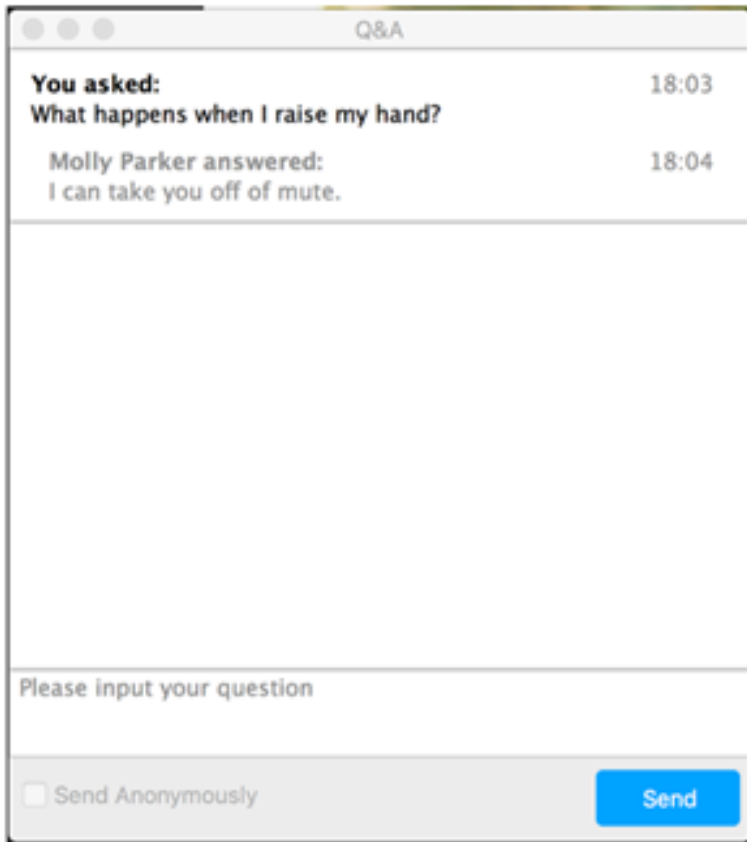
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What happens when I raise my hand?

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# ***Contents***

Reporting reminders for 2023

Reporting in times of high inflation

Periodic review of UK GAAP

Companies House reform

Audit and corporate governance reform

Q&A



# *Reporting reminders for 2023*

# *The headlines*

- There are no new amendments to standards!
- Consultations – FRED 83

# 2023 versions of accounting standards

 Financial Reporting Council

January 2022

## FRS 101

### Reduced Disclosure Framework

Disclosure exemptions from adopted IFRS for qualifying entities

**This Financial Reporting Standard is for reference in the UK and Republic of Ireland only**  
Due to copyright restrictions, the full text of FRS 102 and the Basis for Conclusions that accompanies the standard is not available outside the UK and Republic of Ireland. This Financial Reporting Standard is available in the UK and Republic of Ireland only and is not to be distributed to or read by any party outside this territory. Users outside the UK and Republic of Ireland should visit our webpage at: [www.frc.org.uk/FRS](http://www.frc.org.uk/FRS)

Standard

Accounting and Reporting



Financial Reporting Council

January 2022

## FRS 103

### Insurance Contracts

Consolidated accounting and reporting requirements for entities in the UK and Republic of Ireland issuing insurance contracts

January 2022

## FRS 102

# The Financial Reporting Standard applicable in the UK and Republic of Ireland

January 2022

## FRS 104

### Interim Financial Reporting

January 2022

## FRS 105

### The Financial Reporting Standard applicable to the Micro-entities Regime





April 2023

## FRED 83

Draft amendments to FRS 102  
*The Financial Reporting Standard  
applicable in the UK and Republic  
of Ireland* and FRS 101 *Reduced  
Disclosure Framework*

International tax reform – Pillar Two model rules

# *The headlines*

- International tax reform – Pillar Two model rules published by OECD in December 2021
- Applicable to multinational groups with revenue > €750m
- Addresses significant uncertainty around deferred tax
- Changes to FRSs 102 and 101
- Issued April 2023, comments closed May 2023
- Proposed effective date: mandatory exception effective immediately on publication of the final amendments while the targeted disclosures would be effective for periods beginning on or after 1 January 2023

# *FRED 83 – proposed areas of change*

## Mandatory temporary exceptions

- No recognition or disclosure of deferred tax assets or liabilities related to Pillar Two income tax

## Required disclosures

- Current tax income/expense related to Pillar Two income tax
- Whether an entity expects to fall into scope & jurisdictions impacted
- Tax expense and PBT in aggregate, and weighted average effective tax rate
- Jurisdictions with effective tax rate of < 15% but no exposure expected, or > 15% but exposure is expected
- Some exemptions for qualifying entities

## Responses and next steps

- Broadly supportive of the proposals
- Some concern over disclosure requirements
- Final IASB amendments and UK announcements

ICAEW

REPRESENTATION 45/23



## FRED 83 DRAFT AMENDMENTS TO FRS 102 AND FRS 101: INTERNATIONAL TAX REFORM - PILLAR TWO MODEL RULES

Issued 22 May 2023

ICAEW welcomes the opportunity to comment on the FRED 83 *Draft amendments to FRS 102 and FRS 101: International tax reform - Pillar Two model rules* published by the Financial Reporting Council in April 2023, a copy of which is available from this [link](#).

For questions on this response please contact the Corporate Reporting Faculty at [crf@icaew.com](mailto:crf@icaew.com) quoting REP 45/23

We believe there continues to be significant uncertainty over the accounting for deferred taxes arising from the Pillar Two model rules. This uncertainty will undoubtedly result in differing interpretations arising in practice, with the resulting information likely to prove of limited use to users of the financial statements.

We support the proposed temporary exceptions to FRS 102, which we believe will provide an appropriate solution in these circumstances. However, we have concerns with the proposed disclosure requirements in paragraph 29.29(b) which we believe require further consideration before the amendments are finalised.

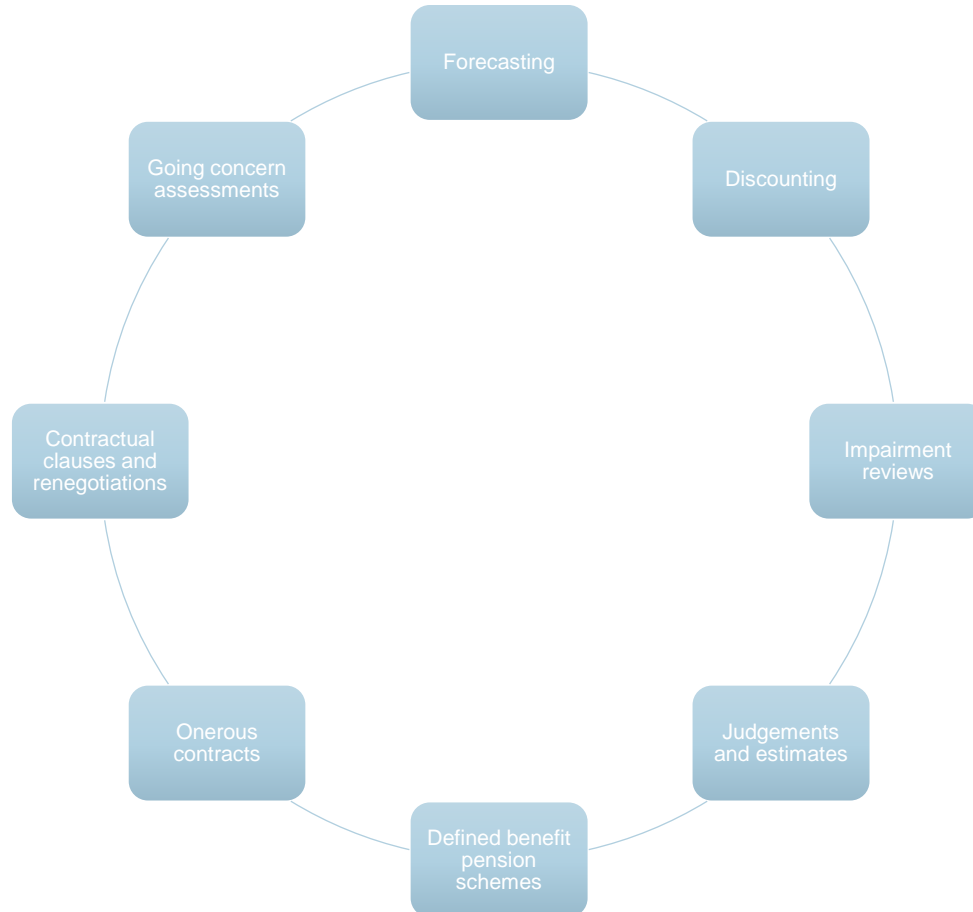


# *Reporting in times of high inflation*

# *Reminders*

- High inflation (not hyperinflation)
- No specific accounting standard
- Financial statements should reflect conditions at the balance sheet date

# *High inflation – likely areas of impact*



# *High inflation – potential consequences*

## Forecasting

- Impairment assessments for goodwill and other assets
- Provisions
- Impact of future taxable profits and recovery deferred tax assets
- Are uncertainties short-term or long term?
- Cash flows based on conditions and expectations at the balance sheet date

## Discounting

- Several standards permit/require measurement of assets or liabilities at present value
- Determining discount rates can be complex
- Before or after inflation?
- Consistency
- Single rate or multiple rate?
- Future cash flows within one year



# *High inflation – potential consequences*

## Impairment reviews

- Future cash flows and discount rates
- Financial assets – trade receivables, contract assets or lease receivables
- Non-financial assets – goodwill or other intangibles
- Impact on WACC calculations

## Judgements and estimates

- More significant judgements and sources of estimation uncertainty
- Explain inflation assumptions
- Disclose appropriate sensitivity
- Explain changes to past assumptions

# *High inflation – potential consequences*

## Defined benefit pension schemes

- Multiple assumptions
- Impact of salary increases
- Determination of discount rate to measure present value of obligations
- Careful consideration of techniques and assumptions
- Recognition of any surplus

## Onerous contracts

- Ability to pass on rising costs to customers?
- Loss-making, more onerous contracts

# *High inflation – potential consequences*

## Contractual clauses

- Impact of inflationary contractual clauses
- More embedded derivatives
- Revenue, leasing, financing

## Renegotiations

- Leasing, loans, supply agreements
- Debt refinancing – modification or extinguishment
- Impact on covenants
- Timing of renegotiations – pbse?

# *High inflation – potential consequences*

## Going concern

- Interaction with budgeting
- Overlay of % increase?
- Impact on covenants
- Parental support reliance

## Disclosures

- Balanced, proportionate and entity specific
- Additional disclosures may be useful
- Principal risks and uncertainties



## HOW HIGH INFLATION IMPACTS ACCOUNTING

GUIDE

1 December 2022

**As inflation increases after a sustained period of low inflation, companies are now having to consider the impact high inflation has on their financial reporting and related uncertainties.**

Although the effects of high inflation will vary from business to business, there are some common topics that entities should evaluate when considering how recent inflationary trends may affect their accounting and financial reporting. This guidance looks at those considerations that may be relevant when inflation is high as opposed to it being considered hyperinflation. Amongst other indicators, hyperinflation is typically where inflation measures 100% or more cumulatively over 3 years. When inflation becomes hyperinflation, IFRS reporters should apply IAS 29 *Financial Reporting in Hyperinflationary Economies*. Those reporting under FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* must apply Section 31 *Hyperinflation*.

Inflation is the rising of prices over time and the decrease in the purchasing value of money. As such, inflation impacts the time value of money. When inflation is negligible, it is not necessarily a factor that requires significant judgement or estimation. However, as it increases more care may need to be taken.



# *Periodic review of UK GAAP*

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Exposure Draft



Financial Reporting Council

December 2022

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# FRED 82

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

Periodic Review

# *The headlines*

- Periodic review now likely “every four to five years”
- FRC has considered
  - Major and minor changes to IFRS
  - IASB’s proposed changes in third edition of IFRS for SMEs
  - Stakeholder feedback in response to the FRC’s 2021 request for views
- “... reflect changes in IFRS Accounting Standards, particularly with respect to revenue and leases, and making other incremental improvements and clarifications”
- Changes to FRSs 102 and 105
- Proposed effective date: periods beginning on or after 1 January 2025



## *Principal proposed amendments*

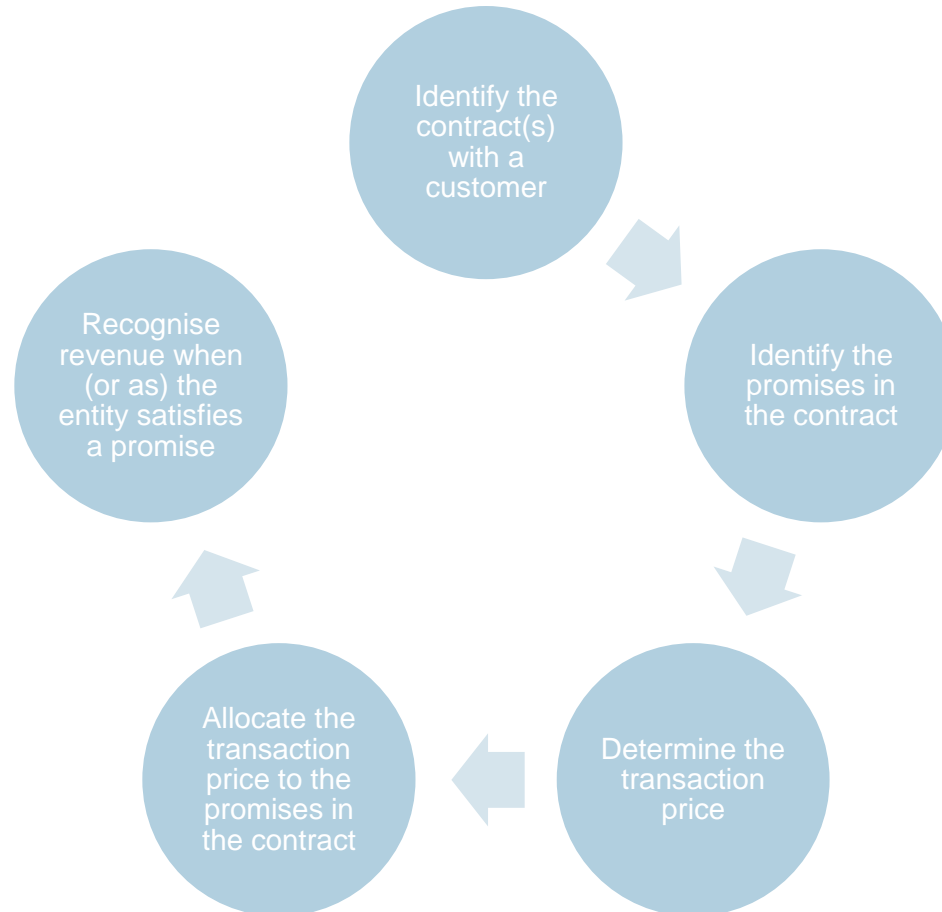
### Revenue (102 and 105)

- Introduce simplified version of five-step recognition model from IFRS 15
- Likely to change timing and/or amount of revenue recognised (except in straightforward cases)

### Leases (102 only)

- Introduce simplified version of on-balance sheet model from IFRS 16
- Will affect lessees with operating leases

# *Revenue – likely areas of change*



## *Revenue – other points*

Except in straightforward scenarios, more time will be needed to determine whether revenue recognition will change

Further specific guidance in areas like licencing and contract costs

Transitional exemptions

# *Leases – proposed areas of change*

For lessees, all leases will be on-balance sheet except

- Short-term leases (12m or less)
- Low value assets (guidance)
- Certain other scope exemptions

Definition of a lease

- Identified asset
- Right to obtain economic benefits from use
- Right to direct the use
- Non-lease components in a contract

More guidance, eg

- Variable lease payments
- Lease modifications

# *Leases – effect on primary statements*

## Balance sheet

- Right-of-use asset and lease liability

## P&L

- Depreciation of ROU asset and interest on lease liability

## Cash flow statement

- Financing activity

# *Other proposed incremental improvements and clarifications*

Concepts and pervasive principles (102 and 105)

- Section 2 revised to reflect IASB's 2018 Conceptual Framework

Time value of money (102 and 105)

- Discount revenue and trade receivables if payment beyond six months

Small entities (102 only)

- Clarify which disclosures are needed to give a true and fair view under Section 1A

Fair value measurement (102 only)

- Updated to reflect IFRS 13 principles

Financial instruments (102 only)

- Removal of option to adopt IAS 39 for the first time



# *Companies House reform*

# Economic Crime (Transparency and Enforcement) Bill

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## CONTENTS

### PART 1

#### REGISTRATION OF OVERSEAS ENTITIES

##### *Introduction*

- 1 Overview
- 2 Definition of “overseas entity” etc

##### *The register and registration*

- 3 Register of overseas entities
- 4 Application for registration
- 5 Registration and allocation of overseas entity ID
- 6 Notice of registration

##### *Updating*

- 7 Updating duty
- 8 Failure to comply with updating duty

##### *Removal*

- 9 Application for removal
- 10 Processing of application under section 9
- 11 Transfer of documents to Public Record Office

##### *Obtaining, updating and verifying information*

- 12 Identifying registrable beneficial owners
- 13 Additional powers to obtain information
- 14 Sections 12 and 13: supplementary
- 15 Failure to comply with notice under section 12 or 13
- 16 Verification of registrable beneficial owners and managing officers

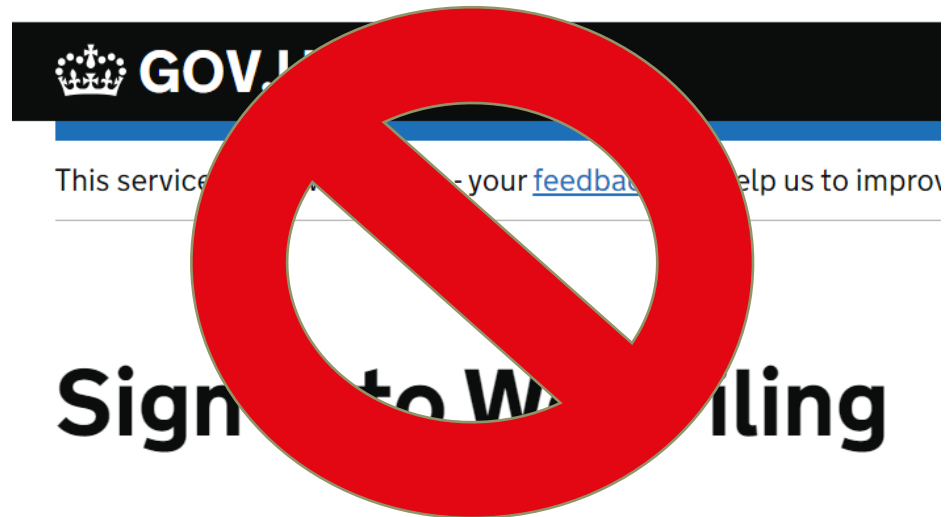
##### *Exemptions*

- 17 Power to modify application process etc in certain cases



# *Consequences for filing of accounts*

- Timing not yet certain
  - Bill has been passed by Commons but not yet by the Lords
- Small companies and micro-entities
  - Required to file P&L and related notes
  - No more abridged accounts
- Software-only filing





# *Non-financial reporting review: call for evidence*

Open consultation

# Smarter regulation non-financial reporting review: call for evidence

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From: [Department for Business and Trade](#)

Published 24 May 2023

Last updated 8 June 2023 — [See all updates](#)

 [Get emails about this page](#)

## Summary

We're seeking views on the non-financial reporting requirements UK companies need to comply with to produce their annual report, and whether company size thresholds remain appropriate.

**This consultation is being held on [another website](#).**

This consultation closes at  
**11:45pm on 16 August 2023**



# *Audit and Corporate Governance Reform*

# *Recap*

- BEIS consultation “Restoring Trust in Audit and Corporate Governance”  
March 2021
- Government response - May 2022
  - PIE definition now 750 employees/€750m turnover
  - New reporting requirements
    - Resilience statement
    - Dividends and distributable reserves
    - Audit and Assurance policy
  - Internal controls via new UK Corporate Governance Code. No UK SOX
  - Corporate reporting reviews
  - Audit quality reviews
  - Oversight of accounting and actuarial professions

## *What's been happening?*

### FRC issues position Paper

- Roadmap for areas within FRC remit including:
  - Revising existing codes
  - Strengthening audit and accounting standards
  - Setting expectations
  - Developing guidance

# *What's been happening?*

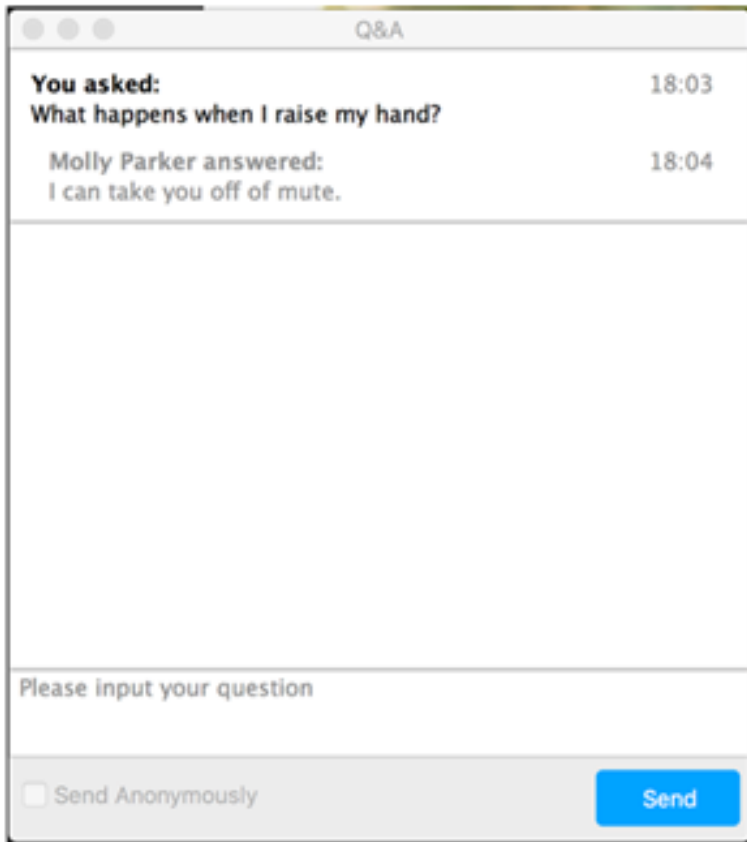
## Audit committee standard

- Minimum standards for audit committees in their role on external audits
- FTSE 350 companies
- Voluntary adoption

## UK Corporate Governance Code consultation

- Framework of prudent and effective controls
- Sustainability and ESG reporting
- New audit committee standard
- Improving comply or explain function
- Updates to align with legal and regulatory requirements

# Ask a question and access resources



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# Faculty resources

- UK GAAP factsheets
  - [icaew.com/ukgaapfactsheets](https://icaew.com/ukgaapfactsheets)
  - 2023 UK GAAP Accounts (to be published)
  - 2022 UK GAAP Accounts
- UK GAAP online guidance
  - How high inflation impacts accounting
  - Periodic review of UK GAAP - FAQs
- Companies House reform
  - [icaew.com/companieshouse](https://icaew.com/companieshouse)
  - News from Companies House
  - Filing requirements
- Webinar recordings
  - [icaew.com/crfwebinars](https://icaew.com/crfwebinars)

## Corporate reporting factsheets

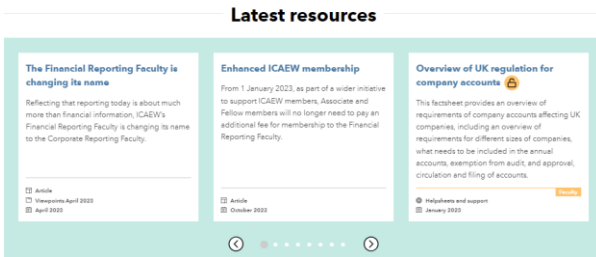
The Corporate Reporting Faculty's factsheets provide an in-depth analysis of a specific accounting issue or an introduction to changes coming into force in a particular period. Factsheets are developed with help from leading experts in the field.

The screenshot displays a webpage layout for the Corporate Reporting Faculty. On the left is a 'Contents' sidebar with links to 'UK GAAP annual factsheets', 'FRS 102', 'Other UK GAAP', 'IFRS annual factsheets', 'Other IFRS', and 'UK regulation factsheets'. Below the sidebar is a 'Back to top' link. The main content area features a header stating 'The faculty also publishes online guidance on areas of general interest.' Below this, there are two main sections: 'UK GAAP annual factsheets' and 'FRS 102'. Each section contains three 'EXCLUSIVE' factsheet cards. The 'UK GAAP annual factsheets' section includes cards for '2022 UK GAAP Accounts' (dated 13 Jan 2023), '2021 UK GAAP Accounts' (dated 31 Aug 2022), and '2020 UK GAAP Accounts: Updated' (dated 20 Aug 2021). The 'FRS 102' section includes cards for 'FRS 102 Debt for equity swaps' (dated 10 May 2023), 'FRS 102 Overview' (dated 18 Apr 2023), and 'Financial instruments: FRS 102 factsheet' (dated 05 Jan 2023). Each card provides a brief description of the factsheet's content and a link to the full document.

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# Questions



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# *Thank you for attending*



Please take the time to fill out our short survey.



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