ICAEW
REPRESENTATION 81/25

FRED 87 DRAFT AMENDMENTS TO FRS 102 THE FINANCIAL REPORTING STANDARD APPLICABLE IN THE UK AND REPUBLIC OF IRELAND – ADAPTED FORMATS

Issued 9 October 2025

ICAEW welcomes the opportunity to comment on FRED 87 Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* – Adapted formats published by the Financial Reporting Council on 17 July 2025, a copy of which is available from this link.

We broadly agree with the Financial Reporting Council's (FRC) proposals to amend the definitions of current and non-current assets and of current liabilities applied by entities adapting the formats of the balance sheet and statement of profit or loss.

However, we disagree with proposed amendments to the line items required in the adapted formats. We are concerned that entities using the adapted formats may be required to apply too much judgement when classifying income and expenses due to the piecemeal nature of the proposals. There is therefore a risk that the proposals will result in a lack of consistency and comparability between entities.

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KEY POINTS

1. ICAEW welcomes the opportunity to comment on the Financial Reporting Council's (FRC) proposed narrow-scope amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
2. Given that entities are currently working to implement the Periodic Review 2024 amendments to FRS 102, we agree with the FRC that it is not the correct time to make significant amendments to the standard. However, we are concerned that by attempting to bring some, but not all, of the principles of IFRS 18 *Presentation and Disclosure in Financial Statements* into FRS 102, the proposed amendments may lead to inconsistency, a lack of comparability and confusion for users of financial statements. This may be exacerbated by the amendments applying to some, but not all preparers.

CATEGORY-BASED REQUIREMENTS: CONCERN OVER THE PROPOSED PIECEMEAL APPROACH

3. We disagree with the proposed amendments to the line items required in the adapted formats of the balance sheet and statement of profit or loss. In our view, without category-based requirements to clarify how income and expenses should be classified under the new line items, the proposals risk creating confusion. We are concerned that entities using the adapted formats may be required to apply too much judgement when classifying income and expenses, which we believe will lead to inconsistencies and, consequently, reduced comparability between entities. Please see our responses to questions 1 and 2 for further explanation of this concern.
4. We recommend that the FRC delays the proposed amendments until they can be considered as part of a wider project on IFRS 18 at a more suitable time. If the FRC believes there is an urgent need to change the line items for the adapted formats, we recommend it also introduces amendments to incorporate IFRS 18's category-based requirements (in a proportionate manner) alongside the proposed changes to line items.

OTHER ASPECTS OF IFRS 18

5. We broadly agree with the FRC's proposals to:
    - amend the definitions of current and non-current assets and of current liabilities;
    - not amend FRS 102 to reflect the management-defined performance measure (MPM) disclosure requirements of IFRS 18; and
    - not amend FRS 102 to reflect IFRS 18's principles of aggregation and disaggregation.

    Please see our responses to questions 2 and 3 for further detail.
6. We have made some recommendations regarding the definitions of current and non-current assets and of current liabilities in our response to question 2. In particular, we recommend that the FRC extends its proposals to all preparers rather than just those preparers using the adapted formats.
7. We have some concerns about entities' understanding of existing definitions relating to the classification of assets as non-current vs. fixed. We recommend that the FRC considers exploring this issue and amending FRS 102 in due course to reduce confusion and improve compliance.

CONSISTENCY WITH GLOBAL ACCOUNTING STANDARDS: GENERAL CONCERNS

8. We have heard some concerns about the incorporation of elements of IFRS 18 into FRS 102 before IFRS 18 has been adopted by preparers using IFRS® Accounting Standards. We

note the FRC's established practice is to reflect developments in IFRS Accounting Standards in UK GAAP accounting standards only after it has analysed the impact of new IFRS requirements in practice and, crucially, assessed whether the new requirements would represent a proportionate and practical solution in the UK and Ireland.

9. We acknowledge that the FRC will only make a decision on a more general alignment of FRS 102 with the principles of IFRS 18 following further evidence-gathering and analysis. We believe this approach is appropriate.

10. If the FRC does decide to adopt the proposed amendments to FRS 102, we encourage it to extend its explanation of the reasons behind the timing of these amendments in the Basis for Conclusions. We anticipate that this will help to allay concerns that new IFRS-based accounting requirements are being brought into FRS 102 prematurely.

ANSWERS TO SPECIFIC QUESTIONS

Question 1: Do you agree with the proposed changes to the line items required when choosing to adapt the formats? Why or why not?

11. We disagree with these proposed amendments to FRS 102. To facilitate consolidation, we understand that it is desirable for there to be consistency in the presentation of financial statements between UK GAAP preparers using adapted formats and entities who will be applying IFRS 18 from its effective date. However, in our view, the proposals risk creating confusion and could adversely affect consistency of classification between entities.

Concern regarding the piecemeal nature of the proposals

12. As highlighted in question 2 of the consultation, the proposed amendments do not incorporate any aspect of the category-based requirements from IFRS 18 into FRS 102. These requirements explain how income and expenses should be classified. Without such explanations in FRS 102, we are concerned that the proposed new line items for the adapted formats will require entities to apply too much judgement when classifying income and expenses. As a result, there is a risk of a lack of consistency and, consequently, comparability between entities.

13. In particular, we believe it should be recognised that the IFRS 18 approach to operating expenses as a residual will represent a conceptual shift for many preparers. It is also worth acknowledging that UK GAAP preparers may not necessarily have detailed knowledge of IFRS Accounting Standards. We are therefore concerned that if preparers are required to include a line item for "operating expenses" without additional requirements detailing how that line item should be calculated, there is a significant risk that preparers will interpret the line item in a way that is not consistent with IFRS 18.

14. Further, we note that the proposed amendments would remove the requirement to present "finance costs" as a line item, and that there is limited explanation for this aspect of the proposals. We understand that IFRS 18 does not contain a requirement to present such a line item. However, it does contain detailed requirements for the "financing category" and provides explanations of how finance costs should be classified. We are concerned that without similar requirements or explanations being incorporated into FRS 102, the removal of "finance costs" as a required line item could cause confusion over how preparers should classify and present finance costs.

15. Given that preparers are in the process of implementing the Periodic Review 2024 amendments, we believe that it would be unsuitable to make significant amendments to FRS 102 at the moment. We therefore understand why the FRC is contemplating a more

general alignment of FRS 102 with the principles of IFRS 18 at a later date (if at all). However, in our view, changing the line items without considering IFRS 18's category-based requirements only provides alignment with IFRS 18 at a surface level; a level which is likely to cause confusion for both preparers and users of financial statements.

Alternative proposals

16. We recommend that the FRC either:
    - delays the proposed amendments until they can be considered alongside wider amendments to FRS 102 with respect to IFRS 18; or
    - introduces amendments to incorporate IFRS 18's category-based requirements (in a proportionate manner) alongside these proposed changes to the line items.

17. Alternatively, the FRC could consider making simplifications to the adapted formats to allow entities the flexibility to either adopt an IFRS 18-style presentation or continue with an unchanged presentation if this remains suitable for the entity and the users of its financial statements. This may involve removing, rather than amending or introducing, required line items.

18. Should the FRC proceed with the amendments as proposed, we recommend that it provides definitions for the new line items within the Glossary and explains the rationale behind the removal of the "finance costs" line item in the Basis for Conclusions. We believe this will support preparers in applying the amendments. We also suggest that the FRC explains the rationale for its decision to delay the introduction of category-based requirements in the Basis for Conclusions.

Other drafting concerns

19. Proposed paragraphs 1AB.3(bA) and 5.5B(bA) require the presentation of "operating profit" as a line item. We believe this should read "operating profit or loss" in both instances.

20. We note that IFRS 18 does not require the inclusion of a subtotal for "profit or loss before financing and income taxes" when an entity includes financing costs unrelated to the main business activities in the subtotal "operating profit or loss" (IFRS 18 paragraph 73). In such cases, an entity is required to consider whether to present an additional subtotal after operating profit and before the financing category and, if it does, to label the subtotal in a way that faithfully represents the amounts included in the subtotal. We recommend that the FRC considers this aspect of IFRS 18 and reflects on whether it is appropriate to require the presentation of "profit or loss before financing and taxation" in all cases.

Question 2:

(a) Do you agree with the proposed approach of not incorporating the full category-based requirements from IFRS 18 into FRS 102 at this time? Why or why not?

(b) Do you foresee any issues for preparers with this proposed approach?

Incorporating requirements in full

21. With respect to the question of whether the "full" category-based requirements from IFRS 18 should be incorporated into FRS 102, we agree that this is not necessary. We would not expect FRS 102 to replicate the requirements of IFRS 18 in "full" and would expect the FRC to consider how an IFRS-based solution can be achieved in a more proportionate manner.

Timing of changes to requirements

22. As explained in our response to question 1, we do not believe it is possible to make amendments to the required line items without, at the same time, providing requirements and guidance relating to the classification of income and expenses. Please see paragraphs 16 - 18 of this response for our recommendations in this respect.

Other aspects of IFRS 18

23. We agree with the FRC's view that in the limited circumstances in which an FRS 102 preparer whose debt and/or equity instruments are publicly traded has MPMs, the narrative reporting that accompanies the financial statements would be likely to meet users' information needs. We therefore agree that requiring such entities to apply the MPM disclosure requirements of IFRS 18 is not necessary at the present time. It is not clear whether the FRC plans to revisit this matter in the future as part of its plans to consider IFRS 18 as a whole and we recommend clarification is provided. With this in mind, and given that we have expressed concerns about taking a piecemeal approach to the incorporation of the principles of IFRS 18 into FRS 102 in our response to question 1, we wish to clarify that we are comfortable with the FRC proposing amendments to FRS 102 to reflect the line-item and category-based requirements of IFRS 18 without necessarily considering MPMs at the same time.

24. Similarly, while we expect that the FRC will at some point consider reflecting the principles of aggregation and disaggregation in FRS 102, we are of the view that FRS 102's existing requirements should prevent material information from being obscured. We are therefore able to support the FRC in proposing amendments to FRS 102 to reflect the line-item and category-based requirements of IFRS 18, while delaying any amendments relating to the principles of aggregation and disaggregation until a more suitable time, assuming the FRC believes this is the best way to proceed.

Question 3: Do you agree with the proposed changes to the definitions of current and non-current assets and of current liabilities? Why or why not?

25. We are broadly supportive of the introduction of proposed paragraphs 4.7B and 4.15 (about the classification of liabilities where an entity has the right to defer settlement), noting that the proposed definitions of current and non-current assets and liabilities are largely reflective of the existing definitions. We are therefore comfortable with the proposed amendments relating to these definitions.

26. We encourage the FRC to consider extending the proposed amendments to all preparers. We question why the revised definitions and additional clarifications would only apply to preparers using adapted formats and believe that greater consistency and comparability will be achieved if all FRS 102 preparers adopt the same requirements in this respect.

27. We recommend that the FRC supplements the revised definitions with guidance to support preparers in their application. In particular, we recommend that the FRC explains what is meant by "normal operating cycle" by providing a definition in the Glossary.

28. Additionally, the guidance in paragraphs B100 – B103 and B108 of IFRS 18 has been identified by our members as particularly useful:

    - Paragraphs B100 – B103 of IFRS 18 address the classification of loan arrangements that are subject to the entity complying with covenants and are therefore relevant to the application of proposed paragraph 4.15.
    - Paragraph B108 of IFRS 18 addresses the classification of the debt element of convertible loan notes, where we understand there is some diversity in practice.

    The FRC may wish to consider incorporating similar guidance in FRS 102.

Classification of assets: known compliance issues

29. We are aware that entities can find the classification of assets challenging. In particular, we have observed that the distinction between fixed assets and non-current assets is not always clear to entities. We encourage the FRC to perform further analysis of the problems entities face when classifying assets and liabilities, and consider making additional amendments to FRS 102 in due course to reduce confusion and improve compliance in this respect.

Question 4: Do you agree with the proposed effective date for these amendments? Why or why not?

30. Should the FRC proceed with the amendments as proposed, we agree that an effective date of 1 January 2027 is appropriate.

31. However, as noted throughout our response, it is our view that amendments should not be made to the requirements for line items in the adapted formats without additional amendments to incorporate IFRS 18's category-based requirements in a proportionate manner. If the FRC chooses to amend FRS 102 as we recommend, we acknowledge the scale of change will be greater. Therefore, the FRC may consider a later effective date to be necessary.

Question 5: Do you agree with the conclusion in the consultation stage impact assessment? Why or why not?

32. We broadly agree with the conclusions of the FRC's consultation stage impact assessment. However, we have heard reports that indicate a greater use of the adapted formats than is perhaps assumed by the impact assessment. We recommend that the FRC attempts to obtain more data on the use of adapted formats ahead of future impact assessments.

33. We note that if the FRC does extend the proposed amendments as recommended in paragraph 16 of this response, the level of work required of preparers to comply with the amendments will increase. In this case, it may be necessary for the FRC to revisit the impact assessment.