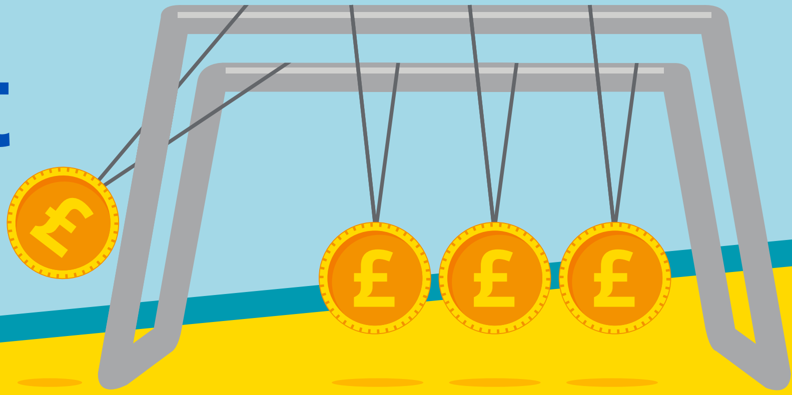
Preparing for the impact



of the new financial standard

An introduction to **FRS 102**

FRS 102 is the new financial reporting standard in the UK, which replaces all the previous financial reporting standards you knew. Ultimately the new standard will apply to nearly all businesses in the UK. Here you can take a look at the key changes to see how they might impact you and your business, so you can start preparing for the new standard.

Quick facts for small firms

- FRS 102 replaces Old GAAP and section 1A replaces FRSSE.
- It applies to you for accounting periods starting 1 January 2015.
- You can apply section 1A of FRS 102 to benefit from disclosure, making it easier to meet some of the new FRS 102 requirements.

The main changes for brokers

FRS 102 introduces a number of terminology and disclosure changes but there are also key changes in areas that could impact you. The most important ones are listed below and discussed in more detail on the next page.

- Goodwill and intangible assets
- Software development costs
- Insurance balances
- Disclosure of client/insurer money
- Income recognition

These are just some of the areas of change within FRS 102. You may also notice changes affecting:

- leases – especially the treatment of rent-free periods
- foreign exchange contracts and their valuation
- recognition of defined benefit pension schemes.

So what does this mean for me?

The changes you'll need to make as a result of FRS 102 may have an impact on your reported results. As such, it's important that you consider how this might affect your stakeholders, including the FCA (regulatory capital resources), finance providers (covenants) and the owners of the business – to name just a few.

It's important that you take a good look at all the changes yourself to see where you will be impacted the most. It's also a good idea to talk to your accountant for advice.

	FRS 102 change	Impact
Goodwill and intangible assets	FRS 102 requires you to give a reliable estimate of the useful economic life (UEL) of goodwill. Where you can't determine this, FRS 102 determines a maximum of five years – compared to the previous rebuttable presumption of 20 years under Old GAAP.	You'll need to think carefully about the potential reduction to the UEL and the resulting increase in amortisation as this will have an impact on your results.
Software development costs	Now, under FRS 102, you are likely to be required to classify most software development costs as intangible rather than tangible.	As intangible assets are not eligible for regulatory capital, this could impact your capital adequacy – particularly where you've previously capitalised expensive software development.
Insurance balances	FRS 102 brings in a new definition of financial asset, which insurance balances fall under. The definition has driven a re-evaluation of whether certain insurance premium debtors should be included on your balance sheet.	You may find certain insurance premium debtors and associated creditors are removed from the balance sheet. You may also need to provide additional information around the remaining commission debtor and funded items.
Disclosure of client/insurer money	A specific requirement of FRS 102 is that you should disclose, with a commentary, significant cash and cash equivalent balances held by you which are not available for your use.	This heads toward the disclosure of the split between your own cash and the monies held on behalf of clients and underwriters.
Income recognition	FRS 102 states: "Insurance agency commissions received or receivable that do not require the agent to render further service are recognised as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the agent defers the commission, or part of it, and recognises it as revenue over the period during which the policy is in force."	While this treatment is the same as Old GAAP, it reinforces it – leaving you in no doubt about the methodology.

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