Amendment to Standard

Accounting and Reporting

Financial Reporting Council

July 2015

Amendments to FRS 101 *Reduced Disclosure Framework*

2014/15 cycle and other minor amendments

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries, and oversee the regulatory activities of the accountancy and actuarial professional bodies.

FRC Financial Reporting Council

July 2015

Amendments to FRS 101

Reduced Disclosure Framework

2014/15 cycle and other minor amendments

Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments is an amendment to an accounting standard. It is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

Contents

Summary

(i) With effect from 1 January 2015 the Financial Reporting Council (FRC) revised financial reporting standards in the UK and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with five Financial Reporting Standards:

(a) FRS 100 *Application of Financial Reporting Requirements*;

(b) FRS 101 *Reduced Disclosure Framework*;

(c) FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*;

(d) FRS 103 *Insurance Contracts*; and

(e) FRS 104 *Interim Financial Reporting*.

The FRC has also issued FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* to support the implementation of the new micro-entities regime.

(ii) FRS 101 allows qualifying entities to apply the recognition and measurement requirements of EU-adopted IFRS whilst reducing disclosure requirements.

(iii) Financial statements prepared by a qualifying entity in accordance with FRS 101 are not IAS Accounts as defined by section 395(1) of the Companies Act 2006 (the Act) but are Companies Act Accounts. Therefore the entity must comply with the Act and the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* SI 2008/410 (the Regulations) and where applicable make amendments to EU-adopted IFRS requirements as specified in FRS 101.

(iv) The Accounting Council advised the FRC to update FRS 101 at regular intervals to ensure that the reduced disclosure framework maintains consistency with EU-adopted IFRS[1]. FRS 101 also requires limited other amendments for compliance with company law following the implementation of the new Accounting Directive.

Amendments to FRS 101 – 2014/15 cycle

(v) The International Accounting Standards Board (IASB) has issued a number of amendments during the period since the 2013/14 annual review of FRS 101. These amendments made to EU-adopted IFRS were reviewed in the context of the reduced disclosure framework for any amendments that:

(a) alter disclosure requirements, as consideration will need to be given to whether changes should be made to the disclosure exemptions permitted in FRS 101; and/or

(b) are inconsistent with current UK legal requirements, as consideration will need to be given to whether changes should be made to the Application Guidance: *Amendments to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations* to FRS 101.

(vi) These amendments to FRS 101 provide an exemption against:

(a) paragraph 18A of IAS 24 *Related Party Disclosures*; and

[1] Paragraph 20 of the Accounting Council's Advice to the FRC in FRS 101.

(b) the requirements of paragraphs 6 and 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to present an opening statement of financial position.

Amendments to FRS 101 – new Accounting Directive

(vii) In June 2013, the EU adopted a new Accounting Directive – *EU Directive 2013/34/EU on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings*. This has been implemented in the UK through *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980).

(viii) These amendments are made to FRS 101 to maintain consistency between FRS 101 and company law.

Amendments to FRS 101 *Reduced Disclosure Framework*

Disclosure exemptions from EU-adopted IFRS for qualifying entities

Amendments to FRS 101

1 The following paragraphs set out the amendments to FRS 101 (deleted text is struck through, inserted text is underlined).

2 Paragraph 4 is amended as follows:

4 The terms **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, ~~**FRSSE**,~~ **IAS Regulation**, **IFRS**, **individual financial statements**, **public benefit entity**, **qualifying entity** and **Regulations** are defined in the glossary included as Appendix I to this FRS.

3 Paragraph 5 is amended as follows:

5 A qualifying entity applying this FRS to its individual financial statements may take advantage of the disclosure exemptions in paragraphs ~~8~~7A to 9, subject to ~~in accordance with~~ paragraph~~s 6 to~~ 7, provided that ...

4 Paragraph 7A is inserted below paragraph 7:

7A On first-time adoption of this standard, a qualifying entity shall apply the requirements of paragraphs 6 to 33 of IFRS 1 *First-time adoption of International Financial Reporting Standards* except for the requirement of paragraphs 6 and 21 to present an opening statement of financial position at the date of transition. References to IFRS in IFRS 1 shall be interpreted as references to EU-adopted IFRS as amended in accordance with paragraph 5(b) of this FRS.

5 Footnote 4 to paragraphs 8(d) and 8(e) is amended as follows:

[4] It should be noted that companies which are subject to the requirements of the Act and Regulations are legally required to provide disclosures related to financial instruments, including those measured at fair value. Further guidance in relation to financial instruments measured at fair value is provided in Appendix II *Note on legal requirements*.

6 Paragraph 8(j) is amended as follows:

8(j) The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures*.

7 Paragraph 10 is amended as follows:

10 Where a qualifying entity prepares its financial statements in accordance with FRS 101, it shall state in the notes to the financial statements: '*These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework.*'. The financial statements of such an entity do not comply with all of the requirements of EU-adopted IFRS~~s~~ and ~~should~~ shall not therefore contain the unreserved statement of compliance ~~set out~~ referred to in paragraph 3 of IFRS 1 ~~*First-time Adoption of International Financial Reporting Standards*~~ and otherwise required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.

8 Paragraph 12 is inserted as follows:

12 In July 2015 amendments were made to this FRS as a consequence of changes made to EU-adopted IFRS and to maintain consistency with company law. In relation to the amendments set out in *Amendments to FRS 101 – 2014/15 cycle and other minor amendments* a qualifying entity shall apply:

(a) the amendments to paragraphs 5, 7A and 8(j) arising from the 2014/15 cycle for accounting periods beginning on or after 1 January 2015 (subject also to the effective date of the relevant EU-adopted IFRS). Early application is permitted; and

(b) the amendments arising for consistency with company law for accounting periods beginning on or after 1 January 2016. Early application is:

   (i) permitted for accounting periods beginning on or after 1 January 2015 provided that *The Companies, Partnerships, and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) are applied from the same date;

   (ii) required if a qualifying entity applies *The Companies, Partnerships, and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) to a reporting period beginning before 1 January 2016.

If an entity applies these amendments early it shall disclose that fact.

Amendments to Application Guidance:

Amendments to International Financial Reporting Standards as adopted in the European Union for compliance with the Act and the Regulations

9 The following paragraphs set out the amendments to the *Application Guidance to FRS 101* (deleted text is struck through, inserted text is underlined).

10 Paragraphs AG1(d) and AG1(e) are deleted. New paragraph AG1(d) is inserted as follows:

AG1(d) Contingent consideration balances arising from business combinations whose acquisition dates preceded the date when an entity first applied the amendments to company law set out in *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) shall not be adjusted as a result of the change in company law (ie generally the start of accounting periods beginning on or after 1 January 2016). Instead the entity's previous accounting policies for contingent consideration shall continue to apply. Contingent consideration balances arising from business combinations whose acquisition dates are on or after the date an entity first applied the amendments to company law set out in *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) shall be accounted for in accordance with IFRS 3 *Business Combinations* (Revised 2008).

11 Paragraph AG1(h) is deleted and replaced[2] with the following:

AG1(h) Paragraph 53A and corresponding footnote are inserted into IAS 1 *Presentation of Financial Statements* as follows:

Statement of financial position

Information to be presented in the statement of financial position

53A A qualifying entity choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations and adapt one of the balance sheet formats shall apply the relevant presentation requirements of IAS 1 *Presentation of Financial Statements*. A qualifying entity not permitted or not choosing to apply paragraph 1A(1) of Schedule 1 to the Regulations shall comply with the balance sheet format requirements of the Act* instead of paragraphs 54 to 76 of IAS 1.

[Footnote text]

* An entity shall apply, as required by company law, either Part 1 *General Rules and Formats* of Schedule 1 to the Regulations; Part 1 *General Rules and Formats* of Schedule 2 to the Regulations; Part 1 *General Rules and Formats* of Schedule 3 to the Regulations; or Part 1 *General Rules and Formats* of Schedule 1 to the LLP Regulations.

12 Paragraph AG1(i) is deleted and replaced[3] with the following:

AG1(i) Paragraph 81C and corresponding footnote are inserted into IAS 1 *Presentation of Financial Statements* as follows:

Information to be presented in profit or loss

81C A qualifying entity choosing to apply paragraph 1A(2) of Schedule 1 to the Regulations and adapt one of the profit and loss account formats shall apply the relevant presentation requirements of IAS 1 *Presentation of Financial Statements*, and in addition shall disclose 'profit or loss before taxation'. A qualifying entity not permitted or not choosing to apply paragraph 1A(2) of

[2] The amendments made to paragraph 53A are as a result of the insertion of paragraph 1A(1) into Schedule 1 to the Regulations.
[3] The amendments made to paragraph 81C are as a result of the insertion of paragraph 1A(2) into Schedule 1 to the Regulations.

Schedule 1 to the Regulations shall present the components of profit or loss in the statement of comprehensive income (in either the single statement or two statement approach) in accordance with the profit and loss account format requirements of the Act* instead of paragraphs 82 and 85 to 86 of IAS 1.

[Footnote text]

* An entity shall apply, as required by company law, either Part 1 *General Rules and Formats* of Schedule 1 to the Regulations; Part 1 *General Rules and Formats* of Schedule 2 to the Regulations; Part 1 *General Rules and Formats* of Schedule 3 to the Regulations; or Part 1 *General Rules and Formats* of Schedule 1 to the LLP Regulations.

13 Paragraph AG1(j) is deleted and replaced[4] with the following:

AG1(j) Paragraph 87 of IAS 1 *Presentation of Financial Statements* is amended and paragraphs 87A and 87B are inserted into IAS 1 as follows:

87 A~~n~~ qualifying entity applying Schedule 1 to the Regulations shall not present or describe any items of income and expense as 'extraordinary items' in the statement of comprehensive income (or in the income statement, if presented) or in the notes.

A qualifying entity applying Schedule 2 or Schedule 3 to the Regulations or Schedule 1 to the LLP Regulations shall apply paragraphs 87A and 87B.

87A Ordinary activities are any activities which are undertaken by a reporting entity as part of its business and such related activities in which the reporting entity engages in furtherance of, incidental to, or arising from, these activities. Ordinary activities include any effects on the reporting entity of any event in the various environments in which it operates, including the political, regulatory, economic and geographical environments, irrespective of the frequency or unusual nature of the events.

87B Extraordinary items are material items possessing a high degree of abnormality which arise from events or transactions that fall outside the ordinary activities of the reporting entity and which are not expected to recur. They do not include items occurring within the entity's ordinary activities that are required to be disclosed by IAS 1.97, nor do they include prior period items merely because they relate to a prior period.

14 Paragraph AG1(s) is deleted[5].

15 A new paragraph AG1(s) is inserted as follows:

AG1(s) Paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* is amended as follows:

92 In extremely rare cases, disclosure of some or all of the information required by paragraphs 84-89 can be expected to prejudice seriously the position of the entity in a dispute with other parties on the subject matter of the provision, contingent liability or contingent asset. In such cases, an entity need not disclose all of the information required by those paragraphs insofar as it relates to the dispute, but shall disclose at least the following ~~general nature of the dispute, together with the fact that, and reason why, the information has not been disclosed~~.

[4] The amendments to paragraphs 87, 87A and 87B reflect the deletion of extraordinary items from the profit and loss account formats in Schedule 1 to the Regulations.

[5] Subject to additional changes that are expected to be made to the legislation. Prior to those changes being made the previous requirements of this FRS continue to apply.

In relation to provisions, the following information shall be given:

(a) a table showing the reconciliation required by paragraph 84 in aggregate, including the source and application of any amounts transferred to or from provisions during the reporting period;

(b) particulars of each provision in any case where the amount of the provision is material; and

(c) the fact that, and reason why, the information required by paragraphs 84 and 85 has not been disclosed.

In relation to contingent liabilities, the following information shall be given:

(a) particulars and the total amount of any contingent liabilities (excluding those which arise out of insurance contracts) that are not included in the statement of financial position;

(b) the total amount of contingent liabilities which are undertaken on behalf of or for the benefit of:

  (i) any parent or fellow subsidiary of the entity;

  (ii) any subsidiary of the entity; or

  (iii) any entity in which the reporting entity has a participating interest,

  shall each be stated separately; and

(c) the fact that, and reason why, the information required by paragraph 86 has not been disclosed.

In relation to contingent assets, the entity shall disclose the general nature of the dispute, together with the fact that, and reason why, the information required by paragraph 89 has not been disclosed.

Amendments to Appendix I: Glossary

16 The following glossary term and definition, and footnote 18 (subsequent footnotes are renumbered sequentially), is deleted (deleted text is struck through):

~~**FRSSE**~~	~~The extant version[18] of the *Financial Reporting Standard for Smaller Entities*.~~

~~[18] At the date of issue of this FRS, the extant version of the FRSSE is the *Financial Reporting Standard for Smaller Entities* (effective April 2008). The *Financial Reporting Standard for Smaller Entities* (effective January 2015) will replace it as the extant standard from 1 January 2015.~~

Amendments to Appendix II: Note on Legal Requirements

17 The following paragraphs set out the amendments to Appendix II: *Note on Legal Requirements* (deleted text is struck through, inserted text is underlined).

18 Paragraph A2.1 is amended as follows:

A2.1 This appendix provides an overview of how the requirements in FRS 101 address United Kingdom company law requirements. It is therefore written from the perspective of a company to which the Companies Act 2006 applies. Limited liability partnerships (LLPs) are subject to similar legal requirements and therefore may find this appendix useful (see paragraph A2.21). Appendix IV contains the Republic of Ireland legal references.

19 Paragraph A2.2 is amended as follows:

A2.2 References to the Act in this appendix are to the *Companies Act 2006*. References to the Regulations are to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) as amended by *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980). References to specific provisions are to Schedule 1 to the Regulations; entities applying Schedules 2 or 3 should read them as referring to the equivalent paragraph in those schedules.

20 Paragraph A2.6 is amended as follows:

A2.6 Paragraph 36 of Schedule 1 to the Regulations states that:

'...

(4) Financial instruments which ~~that may be included in accounts at fair value,~~ under international accounting standards ~~adopted by the European Commission on or before 5th September 2006 in accordance with the IAS Regulation,~~ may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.

[...]'

21 Paragraph A2.7 and footnote 15 are amended as follows:

A2.7 A qualifying entity that has financial instruments measured at fair value in accordance with the requirements of paragraph 36(4) of Schedule 1 to the Regulations (or equivalent[15]), is legally required to provide the relevant disclosures set out in international accounting standards adopted by the European Commission ~~on or before 5 September 2006~~. Such disclosures should be based on extant standards.

15 *The Small Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/409) contain an identical provision for companies subject to the small companies regime, *The Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008* (SI 2008/1913) and *The Small Limited Liability Partnerships (Accounts) Regulations 2008* (SI 2008/1912) contain similar requirements for ~~an identical provision for companies subject to the small companies regime and~~ limited liability partnerships (see paragraph A2.21) ~~respectively~~.

22 Paragraphs A2.7A to A2.7C are deleted and replaced with [not used].

23 Paragraph A2.8 is amended as follows:

A2.8 A qualifying entity preparing accounts in accordance with FRS 101 may have recognised goodwill which, in accordance with IFRS 3 *Business Combinations*, is not amortised. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to the Regulations, which requires acquired goodwill to be ~~reduced by provisions for depreciation calculated to~~ written off ~~the amount systematically~~ over ~~a period chosen by the directors, not exceeding~~ its useful economic life. As such, the non-amortisation of goodwill will usually be a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations. In this circumstance there will need to be given in the notes to the accounts 'particulars of the departure, the reasons for it and its effect' (paragraph 10(2) of Schedule 1 to the Regulations). This is not a new instance of the use of the 'true and fair override' as paragraph 18 of FRS 10 *Goodwill and intangible assets* noted that it would have been required by companies applying paragraph 17 of FRS 10 which states 'Where goodwill and intangible assets are regarded as having indefinite useful economic lives, they should not be amortised.'

24 Paragraph A2.8A is inserted as follows:

A2.8A In addition, similar considerations may apply to intangible assets that are not amortised because they have an indefinite life and intangible assets that have a residual value that is not zero.

25 The first sentence of paragraph A2.9 is retained as paragraph A2.9. The remainder of paragraph A2.9 is renumbered as paragraph A2.9B, and the following is inserted at the beginning of the first sentence:

A2.9B For a qualifying entity not permitted or not choosing to apply paragraphs 1A(1) and 1A(2) of Schedule 1 to the Regulations t~~T~~he ...

26 Paragraph A2.9A is inserted as follows:

A2.9A A qualifying entity choosing to apply paragraphs 1A(1) and 1A(2) of Schedule 1 to the Regulations, which permit a company to adapt the formats providing that the information given is at least equivalent to that which would have been required by the formats set out in the Regulations, shall apply the relevant presentation requirements of IAS 1, subject to:

(a) the disclosure of profit or loss before taxation and the amendment to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* set out in paragraph AG1(g) of this FRS; and

(b) any further disaggregation of the statement of financial position, for example in relation to trade and other receivables and trade and other payables, (which may be provided in the notes to the financial statements) that is necessary to meet the requirement to give equivalent information.

This option is not available to a qualifying entity applying Schedule 2 or Schedule 3 to the Regulations or Schedule 1 to the LLP Regulations.

27 Paragraph A2.11 is amended as follows:

A2.11 ~~The~~Schedule 2 and Schedule 3 to the Regulations and the LLP Regulations require the separate disclosure of extraordinary items in the profit and loss account. A qualifying entity preparing financial statements in accordance with FRS 101 must therefore disclose items that are deemed to be extraordinary items separately in the statement of comprehensive income. Entities should note that extraordinary items are extremely rare as they relate to highly abnormal events or transactions.

28 Paragraph A2.13 is amended as follows:

A2.13 Paragraph 39 of Schedule 1 to the Regulations allows ~~that~~ stocks, investment property and living animals and plants ~~that may under international accounting standards be held at fair value, may also~~ to be held at fair value in Companies Act accounts.

29 Paragraph A2.14 is amended as follows:

A2.14 Paragraph 40(2) of Schedule 1 to the Regulations then requires that, in general, movements in the value of financial instruments, stocks, investment properties or living animals and plants are recognised in the profit and loss account, notwithstanding the usual restrictions allowing only realised profits and losses to be included in the profit and loss account. Paragraph 40 of Schedule 1 to the Regulations thereby overrides the requirements of Paragraph 13(a) of Schedule 1.

30 Paragraph A2.20 is amended as follows:

A2.20 Paragraph 36(4) of Schedule 1 to the Regulations permits investments in subsidiaries to be measured at fair value provided that international accounting standards adopted in the EU ~~on or before 5 September 2006~~ allow~~ed~~ such measurement, and that an entity makes the disclosures required by such standards. IAS 39 *Financial Instruments: Recognition and Measurement* which was endorsed by the EU in November 2004 and was applicable to accounting periods beginning on or after 1 January 2005, permit~~ted~~s the designation of financial instruments at fair value through profit or loss on initial recognition. As noted in paragraph A2.7~~B, an entity making the disclosures required by IFRS 7 as originally adopted in the EU in January 2006 would meet the requirements of paragraph 36(4) of Schedule 1 to the Regulations~~ such disclosures should be based on extant standards.

31 Paragraph A2.21 and the sub-heading preceding it are inserted as follows:

LLPs

A2.21 Limited liability partnerships (LLPs) applying FRS 101 will be doing so in conjunction with the LLP Regulations. In many cases these Regulations are similar to the Regulations, limiting the situations in which legal matters relevant to the financial statements of LLPs are not addressed in this Appendix. However, amendments made to the Regulations by *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) have not been reflected in the LLP Regulations. This gives rise to some differences for LLPs. Areas where this may have an impact include:

(a) the flexibility available in relation to the format of the balance sheet and of the profit and loss account;

(b) the scope of financial instruments that can be measured at fair value through profit or loss;

(c) the reversal of impairment losses in relation to goodwill; and

(d) the application of merger accounting.

If following the requirements of FRS 101 would lead to a conflict with applicable legislation, an LLP shall instead apply its own legal requirements and consider whether disclosure of a departure from FRS 101 is required.

32 Table I *Areas for consideration by a qualifying entity preparing accounts in accordance with FRS 101 Reduced Disclosure Framework, in order to ensure compliance with the Act* is amended as follows:

(a) In relation to IFRS 3 the discussion of contingent consideration is deleted.

(b) In relation to IAS 1 the amendments below are made.

(c) The row relating to IAS 36 is deleted.

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IAS 1	*Formats* The format requirements applicable under IAS 1 and those under the Regulations may be incompatible.	IAS 1.53A and IAS 1.81C are inserted to disapply IAS 1.54 to IAS 1.76, IAS 1.82 and IAS 1.84 to IAS 1.86, unless ~~the application of these requirements complies with the Regulations~~certain options in Schedule 1 to the Regulations are chosen.
	Extraordinary items IAS 1 does not permit the presentation of extraordinary items (IAS 1.87) however, for some companies and LLPs the Regulations (and LLP Regulations) require it.	Amended IAS 1.87 ~~to remove the prohibition~~ and inserted IAS 1.87A and IAS 1.87B to include the definition of extraordinary items consistent with that in FRS 102, Section 5 *Statement of comprehensive income and income statement*, paragraphs 5.10A and 5.10B.
	Realised profits IAS 1 requires the recognition of all income and expenses in profit or loss, unless otherwise required or permitted by an IFRS (IAS 1.88). The Regulations require that only profits realised at the balance sheet date are included in the profit and loss account (see paragraphs A2.12 to A2.15 above.)	Amended IAS 1.88 to clarify the precedence of the Act.

Amendments to Appendix IV: Republic of Ireland (RoI) legal references

33 Appendix IV: *Republic of Ireland (RoI) legal references* is deleted and will be updated as appropriate for both the Companies Act 2014 and the Irish legislation implementing the EU Accounting Directive once the latter has been made. This will be included in the next edition of FRS 101.

Approval by the FRC

Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments was approved for issue by the Board of the Financial Reporting Council on 1 July 2015, following its consideration of the Accounting Council's Advice.

The Accounting Council's Advice to the FRC to issue Amendments to FRS 101 – 2014/15 cycle and other minor amendments

Introduction

1 This section provides an overview of the main issues that have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue *Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments*.

2 The FRC, in accordance with the *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is a prescribed body for issuing accounting standards in the UK. The *Foreword to Accounting Standards* sets out the application of accounting standards in the Republic of Ireland.

3 In accordance with the *FRC Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC Board with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC Board will only reject the advice put to it where:

(a) it is apparent that a significant group of stakeholders has not been adequately consulted;

(b) the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;

(c) insufficient consideration has been given to the timing or cost of implementation; or

(d) the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.

4 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

5 The Accounting Council is advising the FRC to issue *Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments* to ensure FRS 101 maintains consistency with IFRS and company law and continues to be effective.

6 The Accounting Council's Advice to the FRC to issue FRS 101 *Reduced Disclosure Framework* was set out in the standard. The Accounting Council's Advice to the FRC in respect of these amendments will be included in the revised FRS 101.

Background

7 The Accounting Council advised the FRC to update FRS 101 at regular intervals to ensure that the reduced disclosure framework maintains consistency with EU-adopted IFRS.

8 The Accounting Council also advised the FRC that the following principles should be applied when determining which of the disclosure requirements in EU-adopted IFRS should be applied by qualifying entities:

(1) Relevance:

Does the disclosure requirement provide information that is capable of making a difference to the decisions made by the users of the financial statements of a qualifying entity?

(2) Cost constraint on useful financial reporting:

Does the disclosure requirement impose costs on the preparers of the financial statements of a qualifying entity that are not justified by the benefits to the users of those financial statements?

(3) Avoid gold plating:

Does the disclosure requirement override an existing exemption provided by company law in the UK?

9 FRS 101 also requires limited other amendments for compliance with company law following the implementation of the new Accounting Directive.

10 The Accounting Council considered the responses to:

(a) FRED 57 *Draft amendments to FRS 101 Reduced Disclosure Framework (2014/15 Cycle)*, which was issued in December 2014; and

(b) FRED 60 *Draft amendments to FRS 100 Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework*, which was issued in February 2015,

in developing its advice.

IASB projects completed since the 2013/14 cycle

11 The IASB has completed 13 projects since those considered in the review for the 2013/14 cycle performed in August 2013:

IFRS		Date issued by IASB	Effective date	Endorsed by EU
1	IFRIC 21 *Levies*	May 2013	1 Jan 2014	Jun 2014
2	Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39	Jun 2013	1 Jan 2014	Dec 2013
3	IFRS 9 *Financial Instruments* – Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39	Nov 2013	1 Jan 2018	Expected H2 2015
4	Defined Benefit Plans: Employee Contributions – Amendments to IAS 19	Nov 2013	1 Jul 2014	Dec 2014
5	Annual Improvements to IFRSs 2010 – 2012 Cycle	Dec 2013	1 Jul 2014	Dec 2014
6	Annual Improvements to IFRSs 2011 – 2013 Cycle	Dec 2013	1 Jul 2014	Dec 2014
7	IFRS 14 *Regulatory Deferral Accounts*	Jan 2014	1 Jan 2016	Not endorsed
8	IFRS 15 *Revenue from Contracts with Customers*	May 2014	1 Jan 2017	To be decided

IFRS		Date issued by IASB	Effective date	Endorsed by EU
9	Accounting for Acquisitions of Interests in Joint Operations	May 2014	1 Jan 2016	Expected Q4 2015
10	Clarification of Acceptable Methods of Depreciation and Amortisation	May 2014	1 Jan 2016	Expected Q4 2015
11	Agriculture: Bearer Plants – Amendments to IAS 16 and IAS 41	Jun 2014	1 Jan 2016	Expected Q4 2015
12	IFRS 9 Financial Instruments – Classification and Measurement, Impairments	Jun 2014	1 Jan 2018	Expected H2 2015
13	Equity Method in Separate Financial Statements (Amendments to IAS 27)	Aug 2014	1 Jan 2016	Expected Q4 2015

12 The Accounting Council advises that consideration of the final project listed above (*Equity Method in Separate Financial Statements (Amendments to IAS 27)*) should be deferred until the 2015/16 cycle as its application in the UK was not permitted at the time of the review, but changes to company law made as part of the implementation of the EU Accounting Directive mean that it will be permitted for accounting periods beginning on or after 1 January 2015 (if an entity adopts the changes to company law early).

13 The amendments[6] resulting from the remaining 12 projects were reviewed in the context of the reduced disclosure framework for any amendments that:

(a) alter disclosure requirements, as consideration will need to be given to whether changes should be made to the disclosure exemptions permitted in FRS 101; and/or

(b) are inconsistent with current UK legal requirements, as consideration will need to be given to whether changes should be made to the Application Guidance: *Amendments to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations* to FRS 101.

14 The most significant amendments / standards are considered below.

IAS 24 *Related Party Disclosures* – Key management services from management entities

15 The *Annual Improvements to IFRSs (2010–2012 Cycle)* introduces three main changes to IAS 24 *Related Party Disclosures*:

(a) Insertion of paragraph 9(b)(viii) changing the definition of a related party to clarify that a management entity that provides key management personnel services to the reporting entity is a related party.

(b) Insertion of paragraph 17A which states that where an entity obtains key management personnel services from a management entity, it is not required to apply paragraph 17 which requires disclosure of key management personnel compensation.

(c) Insertion of paragraph 18A which requires an entity that obtains key management personnel services from a management entity to disclose amounts incurred for the provision of those services.

[6] The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifrs.org).

16 The Council noted that FRS 101 currently allows an exemption against paragraph 17 of IAS 24 (which requires disclosure of key management personnel compensation) on the basis that company law requires disclosure of directors' emoluments and further information about key management personnel compensation is unlikely to be relevant to the users of a qualifying entity's financial statements.

17 The majority of the respondents to FRED 57 supported this proposal.

18 The Council advises that on the basis that FRS 101 already allows an exemption against paragraph 17 it considers that FRS 101 should also allow an exemption against paragraph 18A.

IFRS 15 *Revenue from Contracts with Customers*

19 The disclosure requirements of IFRS 15 *Revenue from Contracts with Customers* are significantly more detailed than those currently required by IAS 18 *Revenue* and IAS 11 *Construction Contracts*, and the Council notes that the majority of the additional requirements are qualitative in nature, around judgements exercised in the recognition and measurement of revenue.

20 The Council also notes that paragraph 111 of IFRS 15 calls for entities to consider the level of detail necessary to satisfy the disclosure objective to provide sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, and how much emphasis to place on each of the various requirements, requiring that entities aggregate/disaggregate as appropriate. So although the disclosure requirements are extensive, there is scope for entities to apply judgement in their preparation.

21 IFRS 15 is effective for accounting periods beginning on or after 1 January 2017 (albeit early adoption is permitted), although the IASB is currently consulting on deferring the effective date by one year to 1 January 2018. At this stage, with the effective date some way off and the European Union endorsement process not yet complete, the Council advises that no exemptions from the disclosure requirements of IFRS 15 should be added to FRS 101. The majority of respondents to FRED 57 supported this proposal.

22 IFRS 15 will be applicable from the same date for both entities applying IFRS and those qualifying entities applying FRS 101. The Council advises that IFRS 15 should be revisited as part of the 2015/16 cycle in order to consider whether any disclosure exemptions are appropriate in FRS 101; two respondents to FRED 57 commented that in their view exemptions would be appropriate.

IFRS 9 *Financial Instruments*

23 IFRS 9 *Financial Instruments* issued in July 2014 combines the outputs from the classification and measurement, hedge accounting and impairment projects to date, and amends the requirements of IFRS 7 *Financial Instruments: Disclosures*. EFRAG indicates that endorsement may be expected in H2 2015.

24 The Accounting Council advises that the existing position of FRS 101 (ie that financial institutions are not permitted any exemptions against the disclosure requirements of IFRS 7 or the financial instruments disclosures in IFRS 13 *Fair Value Measurement* and that non-financial institutions are permitted exemptions) should remain even after IFRS 9 is endorsed.

2013/14 cycle: IFRS 1 *First-time Adoption of International Financial Reporting Standards* – Presentation of an opening statement of financial position on transition

25 The Council noted its earlier advice to revisit a query raised by a respondent to the 2013/14 cycle highlighting that although FRS 101 provides an explicit exemption from paragraph 10(f) of IAS 1 *Presentation of Financial Statements* there is no explicit exemption from a similar requirement set out in paragraph 21 (and paragraph 6) of IFRS 1 *First-time Adoption of International Financial Reporting Standards* to present a third statement of financial position:

(a) Paragraph 10(f) of IAS 1 requires the presentation of a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of its financial statements.

(b) Paragraph 6 of IFRS 1 requires an entity to prepare and present an opening statement of financial position at the date of transition, and paragraph 21 of IFRS 1 requires that an entity's first IFRS financial statements should include at least three statements of financial position.

26 The Council advises in addition to the apparent inconsistency within FRS 101 as noted above, paragraph 35.7 of the IFRS for SMEs was amended in developing FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* to require the preparation of, but not the presentation of, an opening statement of financial position in the first set of financial statements prepared under FRS 102. Therefore the Council advises that an exemption from the requirement in IFRS 1 to present an opening statement of financial position on transition to FRS 101 should be permitted.

27 All the respondents to FRED 57 agreed with this proposal, and some respondents noted that a consequential amendment would be necessary to paragraph 11(b) of FRS 100 *Application of Financial Reporting Requirements*. The Accounting Council agrees with this comment and advises that paragraph 11(b) of FRS 100 is amended for consistency. This amendment is set out in *Amendments to FRS 100 Application of Financial Reporting Requirements* issued in July 2015.

Editorial amendments to the Application Guidance to FRS 101

IFRS 3 *Business Combinations* – Contingent consideration

28 The *Annual Improvements to IFRSs (2010–2012 Cycle)* amended the requirements in relation to contingent consideration set out in paragraphs 40 and 58 of IFRS 3 *Business Combinations*.

29 The Application Guidance to FRS 101 already amends paragraphs 39 and 40, and deletes paragraph 58 of IFRS 3 for compliance with company law which prior to the implementation of the new Accounting Directive did not permit contingent consideration to be measured at fair value. Therefore, FRED 57 proposed an amendment to the Application Guidance to ensure the underlying text from IFRS 3 is correct. However, as these requirements of IFRS 3 are no longer inconsistent with company law, FRED 60 proposed deleting this paragraph. As a result, the Council advises paragraph AG1(d) is deleted and replaced with a new paragraph AG1(d) that sets out transitional provisions arising from the change in company law.

IFRS 5 *Discontinued Operations and Assets Held for Sale*

30 The IASB issued a set of editorial amendments in July 2012 which included the deletion of paragraph 33(b)(iv) of IFRS 5 *Discontinued Operations and Assets Held for Sale*. Therefore FRED 57 proposed that the underlying text included in paragraph AG1(g) of the

Application Guidance to FRS 101 was amended to reflect this editorial amendment. However, in September 2014 (after the cut-off period for this review cycle) the IASB retracted this editorial amendment and therefore the proposed amendment of paragraph AG1(g) of the Application Guidance to FRS 101 is no longer necessary and has not been made.

Implementation of the new Accounting Directive

31 The new EU Accounting Directive (Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013) is being implemented in the UK and Republic of Ireland. In doing so there are changes to company law to reflect new requirements and, where considered appropriate, to take advantage of new options that are available. Accounting standards are developed within the context of company law and amendments will also be required to accounting standards.

32 In September 2014, the FRC issued a Consultation Document *Accounting standards for small entities – Implementation of the EU Accounting Directive*[7] (the Consultation Document), outlining its proposal that a small number of amendments to FRS 101 *Reduced Disclosure Framework* would be necessary to maintain consistency with company law. The Accounting Council considered the responses to the Consultation Document in developing FRED 60 *Draft amendments to FRS 100 and FRS 101*. It has also considered the responses to FRED 60, which was issued in February 2015, in developing its advice on these amendments.

Amendments to FRS 101

33 A small number of amendments, principally to the Application Guidance to FRS 101, are necessary to maintain consistency between FRS 101 and company law.

34 The amendments proposed include:

(a) Greater flexibility in relation to the format of the profit and loss account and balance sheet, which will allow entities choosing this option to adopt a presentation that is closer to that applied by entities preparing 'IAS accounts'.

(b) Revisions to certain requirements relating to financial instruments that are, or may be, measured at fair value. The new Accounting Directive permits measurement of certain financial instruments at fair value where it is in accordance with EU-adopted IFRS; previously this was restricted to IFRS endorsed by 5 September 2006. The consequences of this change have been considered. As a result, there is no longer a prohibition on measuring contingent consideration at fair value[8] and the Accounting Council advises that the relevant amendment to IFRS can be deleted.

(c) Prohibiting the reversal of impairment losses for goodwill.

35 The Accounting Council noted that, following amendments proposed to the 'seriously prejudicial' disclosure exemption in FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* some respondents to FRED 60 suggested that FRS 101 should include an amendment to paragraph 92 of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to note that the exemption does not apply to disclosures that are required by company law (for example by paragraphs 59 and 63 of the Regulations). Although this was already covered by paragraph 4A of FRS 101, which notes that the requirements of the Regulations must be complied with, the Accounting Council advises

[7] Available on the FRC website (www.frc.org.uk).

[8] Although paragraph 36(3) of the Regulations will continue to prohibit the measurement of contingent consideration at fair value through profit or loss (as required by IFRS 3 *Business Combinations*), this measurement will now be permitted through paragraph 36(4) of the Regulations.

that this constraint on the exemption in IAS 37 should be specifically highlighted in FRS 101 and it is set out in new paragraph AG1(s) of the Application Guidance to FRS 101.

Future amendments to FRS 101

36 The Accounting Council notes that IFRS 9 *Financial Instruments* has not yet been endorsed for use in the EU, and therefore is not yet applicable to an entity applying FRS 101. However, the Accounting Council notes that one aspect of its recognition and measurement requirements is inconsistent with company law. This relates to where changes in fair value shall be presented. Once IFRS 9 has been endorsed the Accounting Council intends to advise that, for entities applying FRS 101, recording fair value gains and losses attributable to changes in credit risk in other comprehensive income in accordance with IFRS 9 will usually be a departure from the requirement of paragraph 40 of Schedule 1 to the Regulations, for the overriding purpose of giving a true and fair view.

37 The Accounting Council notes that company law will permit the use of the equity method in an entity's individual financial statements for accounting periods beginning on or after 1 January 2016 (or with early application from 1 January 2015) and therefore when it considers the recent amendment to IAS 27 *Separate Financial Statements* as part of the next annual review of FRS 101, it expects to advise that amendments are not necessary to FRS 101 for compliance with company law.

Date from which effective and transitional arrangements

38 The effective date of FRS 101 is for accounting periods beginning on or after 1 January 2015 with early application permitted. A qualifying entity is permitted to apply EU-adopted IFRS extant at the time of preparing its financial statements.

39 The Accounting Council advises that the amendments to FRS 101 arising from FRED 57 have the same effective date as currently stated in FRS 101 and early adoption is permitted to the extent that a qualifying entity can apply the amendments of the underlying IFRSs.

40 The Accounting Council advises that the amendments to FRS 101 arising from the implementation of the new Accounting Directive are effective for accounting periods beginning on or after 1 January 2016, with early application:

(a) permitted for accounting periods beginning on or after 1 January 2015 provided that *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) are applied from the same date; and

(b) required if an entity applies *The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015* (SI 2015/980) to a reporting period beginning before 1 January 2016.

Approval of this Advice

41 This advice to the FRC was approved by the Accounting Council on 4 June 2015.

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