



December 2016

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# Impact Assessment and Feedback Statement

## Amendments to FRS 101

*Reduced Disclosure Framework*

and FRS 102 *The Financial*

*Reporting Standard applicable*

*in the UK and Republic of Ireland*

Notification of shareholders

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# Impact Assessment

## Introduction

- 1 The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

## Amendments to FRS 101 and FRS 102 – Notification of shareholders

- 2 FRS 101 *Reduced Disclosure Framework* is an optional standard available to qualifying entities and is intended to enable cost-effective financial reporting within groups, particularly those applying EU-adopted IFRS in their consolidated financial statements. Similarly, the reduced disclosures available to qualifying entities in FRS 102 are intended to be cost-effective.
- 3 The draft amendments to FRS 101 and FRS 102 will enhance the cost-effectiveness of the standards by removing an administrative burden associated with the preparation of the financial statements. The extent of cost savings will depend upon the method used to notify shareholders, and entities' interpretation of whether or not the exercise was required annually.
- 4 The FRC does not believe that the users of financial statements will be significantly disadvantaged by this proposal as the financial statements of a qualifying entity will continue to provide information about the disclosure exemptions taken and, when relevant, where equivalent information for the group is available.

## Conclusion

- 5 The FRC believes that the amendments to FRS 101 and FRS 102 will reduce the costs of compliance.

## Feedback Statement

- 6 The purpose of this Feedback Statement is to summarise the comments received to FRED 65 *Draft amendments to FRS 101 – Notification of shareholders*. FRED 65 was issued in July 2016 and the comment period closed on 14 October 2016.
- 7 The Corporate Reporting Council's Advice to the FRC issued with the amendments to FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* sets out how the key comments have been taken into account in finalising those amendments.
- 8 The table below shows the number of respondents to the consultation and analyses the respondents by category.

**Table 1: Respondents by category**

	<b>No. of respondents</b>
Accountancy firms	7
Accounting bodies	4
Preparers	2
Representative bodies of preparers	1
	<hr/>
	14
	<hr/> <hr/>



## FRED 65 Draft amendments to FRS 101 – Notification of shareholders

- 9 FRED 65 posed three questions, and the feedback and FRC response to it is summarised below.

### Question 1

Do you agree with the proposals set out in FRED 65? If not, why not?

**Table 2: Respondents' views on Question 1**

	<b>No. of respondents</b>
Agreed	9
Agreed with reservations	5
Disagreed	—
	<hr/> <hr/> 14

- 10 All respondents agreed with removing the requirement to notify all shareholders that an entity intends to take advantage of any of the disclosure exemptions.
- 11 However, five respondents raised concerns about whether the rights of minority shareholders should, nevertheless, be protected. These respondents noted that some exemptions in company law provide an opportunity for shareholders to object and that some of the disclosure exemptions for subsidiaries that existed in previous UK and Ireland GAAP were only available for subsidiaries where more than 90% of the voting rights were held by the group. These respondents considered that the right for shareholders to object to the use of reduced disclosures should be retained, without any obligation to notify them. One respondent considered that an entity should still be required to notify any minority shareholders.

### *FRC response*

- 12 The FRC considered these comments. It noted the unanimous support for removing the general requirement to notify shareholders about the intended use of the reduced disclosure framework.
- 13 In relation to minority shareholders, the FRC noted that disclosure exemptions in company law generally do not provide rights for minority shareholders to object, but that minority shareholders do have other rights in company law to raise issues with the company. Therefore the FRC has updated FRS 101 and FRS 102 to remove the requirement to notify shareholders, as proposed in FRED 65.

## Question 2

Information will continue to be available to users of financial statements that explains any disclosure exemptions taken. Do you agree that the users, including minority shareholders, of financial statements are unlikely to be significantly disadvantaged by these proposals?

**Table 3: Respondents' views on Question 2**

	<b>No. of respondents</b>
Agreed	8
Agreed with reservations	5
Disagreed	–
Other comment	1
	<hr/>
	14
	<hr/> <hr/>

- 14 As would be expected, the responses are similar to those to question 1, in that those agreeing unreservedly with the proposals also agreed that users, including minority interests, were unlikely to be disadvantaged by the proposals.
- 15 The reservations expressed were also similar to those expressed in response to question 1. In addition a concern was raised about unlisted family-owned groups, and whether in those cases the minority shareholder should agree with the use of reduced disclosures. A concern was also raised in relation to retrospective application.

### *FRC response*

- 16 The consultation has not identified evidence that users need to be notified in advance of the intention to take advantage of reduced disclosures – disclosure about the exemptions taken will be included in the financial statements. See also the comments in paragraph 13.
- 17 The FRC does not consider retrospective application to be practical, and the amendments to FRS 101 and FRS 102 have an effective date of 1 January 2016.

### Question 3

In relation to the Consultation stage impact assessment, do you have any comments on the costs and benefits identified? Please provide evidence to support your views of the quantifiable costs or benefits of these proposals.

- 18 Most respondents agreed that the proposals were likely to lead to cost savings and a reduction in administrative burdens, although a number of respondents did not comment on the costs and benefits of the proposals. One respondent considered that the cost savings may be more limited for smaller groups.

*FRC response*

- 19 The FRC believes that the amendments to FRS 101 and FRS 102 will reduce the costs of compliance.







**Financial Reporting Council**

8th Floor

125 London Wall

London

EC2Y 5AS

+44 (0)20 7492 2300

[www.frc.org.uk](http://www.frc.org.uk)