



September 2015

FRS 101

Reduced Disclosure Framework

Disclosure exemptions from EU-adopted IFRS for qualifying entities

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FRS 101

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Disclosure exemptions from EU-adopted IFRS for qualifying entities

FRS 101 *Reduced Disclosure Framework* is 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.

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Summary

- (i) With effect from 1 January 2015 the Financial Reporting Council (FRC) revised financial reporting standards in the United Kingdom 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) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.
- (iii) In meeting this objective, the FRC aims to provide succinct financial reporting standards that:
- (a) have consistency with international accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;
 - (b) reflect up-to-date thinking and developments in the way entities operate and the transactions they undertake;
 - (c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;
 - (d) promote efficiency within groups; and
 - (e) are cost-effective to apply.
- (iv) The requirements in this Financial Reporting Standard (FRS) take into consideration the findings from all relevant consultations.
- (v) This FRS sets out a reduced disclosure framework which addresses the financial reporting requirements and disclosure exemptions for the individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS. It is envisaged that the provision of these disclosure exemptions could result in cost savings in the preparation of financial statements of subsidiaries and ultimate parents, without reducing the quality of financial reporting.
- (vi) Disclosure exemptions are available to a qualifying entity, as defined in the glossary to this FRS, in its individual financial statements (but not in consolidated financial statements which it is required or voluntarily chooses to prepare). However, a qualifying entity which is a financial institution is not exempt from the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures*, IFRS 13 *Fair Value Measurement* to the extent that they apply to financial instruments, and paragraphs 134 to 136 of IAS 1 *Presentation of Financial Statements*.

- (vii) A qualifying entity may apply the reduced disclosure framework regardless of whether the financial reporting framework applied in the consolidated financial statements of the group is based on standards and interpretations issued (or adopted) by the International Accounting Standards Board.
- (viii) Financial statements prepared by a qualifying entity in accordance with this FRS are not accounts prepared in accordance with EU-adopted IFRS. A qualifying entity must ensure it complies with any relevant legal requirements applicable to it. For example, individual financial statements prepared by companies in accordance with this FRS are Companies Act accounts and not IAS accounts as set out in section 395(1) of the Act, and therefore such accounts must comply with the requirements of the Act and any relevant regulations such as the *Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410).
- (ix) Disclosure exemptions are also available to qualifying entities applying the recognition and measurement principles of FRS 102; the relevant financial reporting requirements and disclosure exemptions are set out in that FRS.
- (x) This edition of FRS 101 issued in September 2015 updates the edition of FRS 101 issued in August 2014 for the following amendments:
 - (a) *Amendments to FRS 101 Reduced Disclosure Framework – 2014/15 cycle and other minor amendments* issued in July 2015; and
 - (b) some minor typographical or presentational corrections.

FRS 101

Reduced Disclosure Framework

Disclosure exemptions from EU-adopted IFRS for qualifying entities

Objective

- 1 The objective of this Financial Reporting Standard (FRS) is to set out the disclosure exemptions (a reduced disclosure framework) for the individual financial statements of subsidiaries, including intermediate parents, and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

Scope

- 2 This FRS may be applied to the individual financial statements of a qualifying entity, as defined in the glossary, that are intended to give a true and fair view of the assets, liabilities, financial position and profit or loss for a period.
- 3 A qualifying entity which is required to prepare consolidated financial statements (for example, if the entity is required by section 399 of the Act to prepare group accounts, and is not entitled to any of the exemptions in sections 400 to 402 of the Act), or which voluntarily chooses to do so, may not apply this FRS in its consolidated financial statements.

Abbreviations and definitions

- 4 The terms **Act**, **date of transition**, **EU-adopted IFRS**, **financial institution**, **FRS 100**, **FRS 101**, **FRS 102**, **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.
- 4A Financial statements prepared by qualifying entities in accordance with this FRS are not accounts prepared in accordance with EU-adopted IFRS. A qualifying entity must ensure it complies with any relevant legal requirements applicable to it. For example, individual financial statements prepared by companies in accordance with this FRS are Companies Act accounts and not IAS accounts as set out in section 395(1) of the Act, and therefore such accounts must comply with the requirements of the Act and any relevant regulations such as the *Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410).

Reduced disclosures for subsidiaries and ultimate parents

- 5 A qualifying entity applying this FRS to its individual financial statements may take advantage of the disclosure exemptions in paragraphs 7A to 9, subject to paragraph 7, provided that:
 - (a) Its shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions. Objections to the use of the disclosure exemptions may be served on the qualifying entity, in accordance with reasonable specified timeframes and format requirements, by a shareholder that is the immediate parent of the entity, or by a shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in the entity or more than half of the allotted shares in the entity that are not held by the immediate parent.
 - (b) It otherwise applies as its financial reporting framework the recognition, measurement and disclosure requirements of EU-adopted IFRS, but makes amendments to EU-adopted IFRS requirements where necessary in order to

comply with the Act and the Regulations. This is to ensure that the financial statements prepared by companies in accordance with this FRS, comply with the requirements of the Act and Regulations. The Application Guidance to this FRS sets out the amendments necessary to remove conflicts between EU-adopted IFRS and the Act and Regulations. For the avoidance of doubt, the Application Guidance is an integral part of this FRS and is applicable to any qualifying entity applying this FRS, including those that are not companies.

- (c) It discloses in the notes to its financial statements:
 - (i) a brief narrative summary of the disclosure exemptions adopted; and
 - (ii) the name of the parent¹ of the group in whose consolidated financial statements its financial statements are consolidated, and from where those financial statements may be obtained.

6 [Deleted]

7 A qualifying entity which is a financial institution may take advantage in its individual financial statements of the disclosure exemptions set out in paragraphs 8 to 9 of this FRS, except for:

- (a) the disclosure exemptions from IFRS 7 *Financial Instruments: Disclosures* (see paragraph 8(d));
- (b) the disclosure exemptions from IFRS 13 *Fair Value Measurement* (see paragraph 8(e)) to the extent that they apply to financial instruments²; and
- (c) the disclosure exemptions from paragraphs 134 to 136 of IAS 1 *Presentation of Financial Statements* (see paragraph 8(g)).

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.

8 A qualifying entity may take advantage of the following disclosure exemptions, from when the relevant standard is applied³:

- (a) The requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based Payment*, provided that for a qualifying entity that is:
 - (i) a subsidiary, the share-based payment arrangement concerns equity instruments of another group entity;
 - (ii) an ultimate parent, the share-based payment arrangement concerns its own equity instruments and its separate financial statements are presented alongside the consolidated financial statements of the group;

and, in both cases, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

- (b) The requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j) to B64(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 *Business*

¹ The parent identified in the definition of the term 'qualifying entity' (see the glossary included as Appendix I to this FRS).

² A qualifying entity that is a financial institution may take advantage in its individual financial statements of the disclosure exemptions from IFRS 13 (see paragraph 8(e)) to the extent that they apply to assets and liabilities other than financial instruments.

³ Where a paragraph within a given standard cross-refers to an exempted paragraph listed above, the qualifying entity is permitted to still take the exemption.

Combinations provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

- (c) The requirements of paragraph 33(c) of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.
- (d) The requirements of IFRS 7 *Financial Instruments: Disclosures*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated⁴.
- (e) The requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated⁴.
- (f) The requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
 - (i) paragraph 79(a)(iv) of IAS 1;
 - (ii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
 - (iii) paragraph 118(e) of IAS 38 *Intangible Assets*;
 - (iv) paragraphs 76 and 79(d) of IAS 40 *Investment Property*; and
 - (v) paragraph 50 of IAS 41 *Agriculture*.
- (g) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 *Presentation of Financial Statements*.
For accounting periods beginning before 1 January 2013, paragraphs 38A, 38B, 38C, 38D, 40A, 40B, 40C and 40D of IAS 1 (effective 1 January 2013) should be replaced with paragraphs 39 and 40 of IAS 1 (effective 1 January 2009).
- (h) The requirements of IAS 7 *Statement of Cash Flows*.
- (i) The requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.
- (j) The requirements of paragraphs 17 and 18A of IAS 24 *Related Party Disclosures*.
- (k) The requirements in IAS 24 *Related Party Disclosures* to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.
- (l) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 *Impairment of Assets*, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated.

- 9 Reference should be made to the Application Guidance to FRS 100 in deciding whether the consolidated financial statements of the group provide disclosures which are equivalent to the requirements of EU-adopted IFRS, from which relief is provided in paragraph 8 of this FRS.

Statement of compliance

- 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*

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*.

Framework. The financial statements of such an entity do not comply with all of the requirements of EU-adopted IFRS and shall not therefore contain the unreserved statement of compliance referred to in paragraph 3 of IFRS 1 and otherwise required by paragraph 16 of IAS 1 *Presentation of Financial Statements*.

Date from which effective and transitional arrangements

- 11 A qualifying entity may apply this FRS for accounting periods beginning on or after 1 January 2015. Early application of this FRS is permitted. If an entity applies this FRS before 1 January 2015 it shall disclose that fact.
- 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.

Application Guidance:

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

This application guidance forms an integral part of FRS 101

AG1 In accordance with the Act, an entity may prepare Companies Act accounts or IAS accounts. A qualifying entity which applies FRS 101 prepares Companies Act accounts. This Application Guidance to FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations (deleted text is struck through and inserted text is underlined):

- (a) Paragraph D16 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended as follows:

If a subsidiary becomes a first-time adopter later than its parent, the subsidiary shall, in its financial statements, measure its assets and liabilities at either:

- (a) the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRSs, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary; or
- (b) the carrying amounts required by the rest of this IFRS, based on the subsidiary's date of transition to IFRSs. These carrying amounts could differ from those described in (a):
- (i) when the exemptions in this IFRS result in measurements that depend on the date of transition to IFRSs;
- (ii) when the accounting policies used in the subsidiary's financial statements differ from those in the consolidated financial statements. For example, the subsidiary may use as its accounting policy the cost model in IAS 16 *Property, Plant and Equipment*, whereas the group may use the revaluation model.

A similar election is available to an associate or joint venture that becomes a first-time adopter later than an entity that has significant influence or joint control over it.

A qualifying entity that applies this provision must ensure that its assets and liabilities are measured in compliance with FRS 101.

- (b) Paragraph D17 of IFRS 1 *First-time Adoption of International Financial Reporting Standards* is amended as follows:

However, if an entity becomes a first-time adopter later than its subsidiary (or associate or joint venture) the entity shall, in its consolidated financial statements, measure the assets and liabilities of the subsidiary (or associate or joint venture) at the same carrying amounts as in the financial statements of the subsidiary (or associate or joint venture), after adjusting for consolidation and equity accounting adjustments and for the effects of the business combination in which the entity acquired the subsidiary. Similarly, if a parent becomes a first-time adopter for its separate financial statements earlier or later than for its consolidated financial statements, it shall measure its assets and liabilities at the same amounts in both financial statements, except for consolidation adjustments.

A qualifying entity that applies this provision must ensure that its assets and liabilities are measured in compliance with FRS 101.

- (c) Paragraph 34 of IFRS 3 *Business Combinations* is amended as follows:

Occasionally, an acquirer will make a bargain purchase, which is a business combination in which the amount in paragraph 32(b) exceeds the aggregate of the amounts specified in paragraph 32(a). If that excess remains after applying the requirements in paragraph 36, the acquirer shall recognise and separately disclose the resulting gain in profit or loss excess on the face of the statement of financial position on the acquisition date, immediately below goodwill, and followed by a subtotal of the net amount of goodwill and the excess. The gain excess shall be attributed to the acquirer. Subsequently, the excess up to the fair value of the non-monetary assets acquired shall be recognised in profit or loss in the periods in which the non-monetary assets are recovered. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to be benefited.

- (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).

- (e) [Deleted]

- (f) Without amending paragraph B63(a) of IFRS 3 *Business Combinations*, its requirement shall be read in conjunction with paragraph A2.8 of this standard.

- (fA) Paragraph 14(a) of IFRS 4 *Insurance Contracts* is amended as follows:

(a) unless otherwise required by the regulatory framework that applies to the entity, shall not recognise as a liability any provisions for possible future claims, if those claims arise under insurance contracts that are not in existence at the end of the reporting period (such as catastrophe provisions and equalisation provisions). The presentation of any such liabilities shall follow the requirements of the Regulations (or other legal framework that applies to that entity).

- (g) Paragraph 33 of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* is amended as follows:

An entity shall disclose:

- (a) a single amount in the statement of comprehensive income comprising the total of:
- (i) the post-tax profit or loss of discontinued operations and
 - (ii) the post-tax gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation.
- (b) an analysis of the single amount in (a) into:
- (i) the revenue, expenses and pre-tax profit or loss of discontinued operations;
 - (ii) the related income tax expense as required by paragraph 81(h) of IAS 12;

- (iii) the gain or loss recognised on the measurement to fair value less costs to sell or on the disposal of the assets or disposal group(s) constituting the discontinued operation; and
- (iv) the related income tax expense as required by paragraph 81(h) of IAS 12.

The analysis ~~may be~~ shall be presented in ~~the notes or in the statement of comprehensive income~~. ~~If it is presented in~~ the statement of comprehensive income ~~it shall be presented in a section column~~ identified as relating to discontinued operations, ie separately from continuing operations; a total column shall also be presented. The analysis is not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).

- (c) the net cash flows attributable to the operating, investing and financing activities of discontinued operations. These disclosures may be presented either in the notes or in the financial statements. These disclosures are not required for disposal groups that are newly acquired subsidiaries that meet the criteria to be classified as held for sale on acquisition (see paragraph 11).
 - (d) the amount of income from continuing operations and from discontinued operations attributable to owners of the parent. These disclosures ~~may be~~ are presented ~~either in the notes or in the statement of comprehensive income~~.
- (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.

- (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 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.

- (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 An 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.

- (k) Paragraph 88 of IAS 1 *Presentation of Financial Statements* is amended as follows:

An entity shall recognise all items of income and expense arising in a period in profit or loss unless an IFRS requires or permits otherwise, or unless prohibited by the Act.

- (l) Paragraph 28 of IAS 16 *Property, Plant and Equipment* is deleted.

- (m) Paragraph 24 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is amended as follows:

Government grants related to assets, including non-monetary grants at fair value, shall be presented in the statement of financial position either by setting up the grant as deferred income or by deducting the grant in arriving at the carrying amount of the asset.

- (n) Paragraph 25 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is deleted.

- (o) Paragraph 26 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is amended as follows:

~~One method recognises the~~ The grant is recognised as deferred income that is recognised in profit or loss on a systematic basis over the useful life of the asset.

- (p) Paragraph 27 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is deleted.

- (q) Paragraph 28 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is amended as follows:

The purchase of assets and the receipt of related grants can cause major movements in the cash flow of an entity. For this reason and in order to show the gross investment in assets, such movements are ~~often~~ disclosed as separate items in the statement of cash flows ~~regardless of whether or not the grant is deducted from the related asset for presentation purposes in the statement of financial position.~~

- (r) Paragraph 29 of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* is amended as follows:

Grants related to income are presented as part of profit or loss, either separately or under a general heading such as 'Other income'; ~~alternatively,~~ they are not deducted in reporting the related expense.

- (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.

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.

Approval by the FRC

Financial Reporting Standard 101 *Reduced Disclosure Framework* was approved for issue by the Board of the Financial Reporting Council on 1 November 2012, following its consideration of the Accounting Council's Advice for this FRS.

Amendments to FRS 101 Reduced Disclosure Framework (2013/14 Cycle) was approved for issue by the Board of the Financial Reporting Council on 2 July 2014, following its consideration of the Accounting Council's Advice.

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 FRS 101

Introduction

- 1 This report provides an overview of the main issues which have been considered by the Accounting Council in advising the Financial Reporting Council (FRC) to issue FRS 101 *Reduced Disclosure Framework*. The FRC, in accordance with the Statutory Instrument *Statutory Auditors (Amendment of Companies Act 2006 and Delegation of Functions etc) Order 2012* (SI 2012/1741), is the 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.
- 2 In accordance with FRC *Codes and Standards: procedures*, any proposal to issue, amend or withdraw a code or standard is put to the FRC with the full advice of the relevant Councils and/or the Codes & Standards Committee. Ordinarily, the FRC will only reject the advice put to it where:
 - it is apparent that a significant group of stakeholders has not been adequately consulted;
 - the necessary assessment of the impact of the proposal has not been completed, including an analysis of costs and benefits;
 - insufficient consideration has been given to the timing or cost of implementation; or
 - the cumulative impact of a number of proposals would make the adoption of an otherwise satisfactory proposal inappropriate.
- 3 The FRC has established the Accounting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 4 The Accounting Council is advising the FRC to issue:
FRS 100 *Application of Financial Reporting Requirements*; and
FRS 101 *Reduced Disclosure Framework*.
- 5 FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland* completes the new suite of financial reporting standards. The Accounting Council will provide its advice to the FRC on FRS 102 in that standard.

Background

- 6 Accounting standards were formerly developed by the Accounting Standards Board (ASB). The ASB commenced its project to update accounting standards in 2002; Appendix III provides a history of the previous consultations and a summary of how the overall proposals have developed⁵.
- 7 FRS 101 was developed in response to concerns that arose from earlier consultations (see Appendix III). Respondents to those consultations (and particularly the 2009 Policy Proposal) noted that a move to the IFRS for SMEs for subsidiaries of entities that apply EU-adopted IFRS would require recognition and measurement differences to be monitored and maintained at group level, and yet the alternative of a move to EU-adopted IFRS would increase disclosure in comparison to current accounting

⁵ References in this section and Appendix III are made to the FRC, ASB or Accounting Council, as appropriate in terms of the time period and context of the reference.

standards. The ASB therefore developed a reduced disclosure framework to address these concerns.

The reduced disclosure framework principles

- 8 In developing the reduced disclosure framework, the ASB set principles for determining which of the disclosure requirements in EU-adopted IFRS should be applied by qualifying entities. Setting principles provides a structure for future amendments to the reduced disclosure framework as new and revised IFRSs are adopted in the EU. The principles are specific to qualifying entities, so the impact on preparers and users of qualifying entity individual financial statements is a common theme to be considered in applying the principles. The agreed principles, which were first introduced when FRED 47 *Reduced Disclosure Framework* was issued, are as follows:
- (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 The Accounting Council is advising the FRC to adopt these principles.

The scope of the reduced disclosure framework

- 10 The reduced disclosure framework was first proposed in FRED 43 *Application of Financial Reporting Requirements*, and revised proposals were issued in FRED 47. FRED 43 proposed that qualifying subsidiaries could apply the reduced disclosure framework. The scope of the framework was extended beyond subsidiaries in FRED 47, so that the ultimate parent of a group may take advantage of the disclosure framework in its individual financial statements. Intermediate parents are subsidiaries and so were already included within the scope of the reduced disclosure framework.
- 11 The ASB decided, in clarifying the scope of the reduced disclosure framework in FRED 47, that a qualifying entity which is required to prepare consolidated financial statements (for example, if the entity is required by section 399 of the Act to prepare group accounts, and is not entitled to any of the exemptions in sections 400 to 402 of the Act), or a qualifying entity which voluntarily chooses to prepare consolidated financial statements, should not be permitted to apply the reduced disclosure framework in its consolidated financial statements. The ASB recognised that entities which are required or voluntarily choose to prepare consolidated financial statements generally have users with greater information requirements than the users of entities which only prepare individual financial statements. The ASB's decision not to extend the reduced disclosure framework to consolidated financial statements was questioned by a few respondents to FRED 47. The Accounting Council noted that the concerns raised were industry-specific and held the view previously identified that users of these financial statements had greater information requirements. The Accounting Council is therefore advising the FRC that the scope of the FRS remains unchanged from that proposed in FRED 47.

Application of the reduced disclosure framework to financial institutions

- 12 FRED 43 proposed that a subsidiary with public accountability should not be permitted to apply the reduced disclosure framework (see the Accounting Council's Advice to the FRC for FRS 100). With the elimination of 'public accountability' as a differentiator for a financial reporting system in FRED 46 (which replaced FRED 43), the ASB reconsidered which entities should be eligible to apply the reduced disclosure framework.
- 13 FRED 47 proposed consistent disclosure requirements for financial institutions, between those financial institutions that would be required to provide additional disclosures in accordance with FRED 48 and those financial institutions that are a qualifying entity taking advantage of the reduced disclosure framework. The ASB sought views on whether qualifying entities which are financial institutions should:
 - (a) provide disclosures required by IFRS 7 *Financial Instrument: Disclosures* and the disclosure requirements of IFRS 13 *Fair Value Measurement*; or
 - (b) provide disclosures required by IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 (this would provide consistency with disclosures required by FRED 48), and from paragraphs 92 to 99 of IFRS 13 (all disclosure requirements except the disclosure objectives).
- 14 Respondents had mixed views. Some held the view that a qualifying entity that is a financial institution should be permitted some exemptions from financial instrument disclosures in line with those in FRED 48, but others constituents disagreed on the basis that financial instruments are a significant part of the business for financial institutions and that those entities should provide an appropriate level of disclosure. The Accounting Council is advising the FRC that there should be no exemptions from IFRS 7 for financial institutions. This is also simple to apply and ensures financial institutions provide appropriate disclosure about their financial instruments.
- 15 Some respondents noted that there was an inconsistency in the application of the disclosure requirements in IFRS 13 between financial institutions and other entities. The inconsistency arose because financial institutions were required to provide disclosures for assets and liabilities held at fair value that are not financial instruments whereas other entities were exempt. The Accounting Council therefore considers that FRS 101 should clarify that a qualifying entity which is a financial institution is restricted from taking advantage of the disclosure exemptions from IFRS 13 only to the extent that they apply to financial instruments.
- 16 The Accounting Council is also advising the FRC that financial institutions should not be permitted to take advantage of the exemption from applying the capital disclosure requirements in IAS 1 *Presentation of Financial Statements*. Responses to FRED 47 had noted that capital disclosures provide relevant information for financial institutions.

Related party exemption for the reduced disclosure framework

- 17 In issuing FRED 47 the ASB decided to include an exemption in the reduced disclosure framework from disclosing a related party transaction in accordance with IAS 24 *Related Party Disclosures* where the related party transaction was entered into between two or more members of a group, provided that any subsidiary which is a party to a transaction is wholly owned by such a member. This exemption is consistent with company law and was well-received by constituents; the Accounting Council advises the FRC to carry the exemption forward into FRS 101. The exemption set out in paragraph 8(k) of FRS 101 should only be applied where all subsidiaries which are a party to the transaction are wholly owned by a member of the group. The provision of this exemption is in line with principle 3 in paragraph 8 of this report.

Extension of the reduced disclosure framework to recently issued International Financial Reporting Standards and amendments

- 18 The reduced disclosure framework principles (see paragraph 7) were applied in FRED 47 to those IFRSs issued or amended in 2011, including:
- (a) IFRS 9 *Financial Instruments* (as revised in 2011);
 - (b) IFRS 10 *Consolidated Financial Statements*;
 - (c) IFRS 11 *Joint Arrangements*;
 - (d) IFRS 12 *Disclosure of Interests in Other Entities*;
 - (e) IFRS 13 *Fair Value Measurement*;
 - (f) IAS 1 *Presentation of Financial Statements* (as revised in 2011);
 - (g) IAS 19 *Employee Benefits* (as revised in 2011);
 - (h) IAS 27 *Separate Financial Statements* (as revised in 2011); and
 - (i) IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011).
- 19 The Accounting Council subsequently considered the application of the reduced disclosure framework principles to *Annual Improvements to IFRSs 2009-2011 Cycle* which was issued by the IASB in May 2012. The application of the reduced disclosure framework principles leads the Accounting Council to advise the FRC (paragraph 8(g) of FRS 101) to provide disclosure exemptions from paragraphs 38A, 38B, 38C, 38D, 40A, 40B, 40C and 40D of IAS 1 *Presentation of Financial Statements*. Paragraphs 38A, 38B, 38C and 38D are concerned with comparative information in respect of the preceding period, and paragraphs 40A, 40B, 40C and 40D are concerned with a statement of financial position as at the beginning of the preceding period.
- 20 The Accounting Council advises the FRC to update FRS 101 at regular intervals, to ensure that the disclosure framework maintains consistency with EU-adopted IFRS.

The precedence of the Companies Act

- 21 The presentation requirements applicable to the statement of financial position and the statement of comprehensive income in IAS 1 have been amended in the Application Guidance of FRS 101 to clarify that a qualifying entity must comply with the company law format requirements. The Accounting Council advises the FRC to reconsider the format requirements of FRS 101 should the Government decide to amend company law at a future date.

Approval of this advice

- 22 This advice to the FRC was approved by the nine members of the Accounting Council on 25 October 2012. The Accounting Council is comprised of the following members:

Roger Marshall (Chair of the Accounting Council)

Nick Anderson

Dr Richard Barker

Edward Beale

Peter Elwin

Ken Lever

Robert Overend

Andy Simmonds

Pauline Wallace

The Accounting Council's Advice to the FRC to issue Amendments to FRS 101 Reduced Disclosure Framework (2013/14 Cycle)

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 (2013/14 Cycle)*.
- 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 (2013/14 Cycle)* to ensure that FRS 101 continues to maintain consistency with EU-adopted IFRS and continues to promote efficiencies in reporting for groups.
- 6 The Accounting Council's Advice to the FRC to issue FRS 101 *Reduced Disclosure Framework* was set out in that standard. When these amendments are finalised, the Accounting Council's Advice to the FRC on 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 disclosure framework maintains consistency with EU-adopted IFRS⁶ so that it remains effective as EU-adopted IFRS develops.

⁶ Paragraph 20 of the Accounting Council's Advice to the FRC to issue FRS 101.

- 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 The Accounting Council considered the responses to the consultation *Financial Reporting Exposure Draft 53: Amendments to FRS 101 Reduced Disclosure Framework (2013/14)* (FRED 53) which was issued in December 2013, in developing its advice.

IASB projects completed since those considered in the development of FRS 101

- 10 The IASB has completed six projects since those considered in the development of FRS 101:

IFRS		Date issued by IASB	Endorsed by EU
1	IAS 32 <i>Financial Instruments: Presentation</i> – Offsetting Financial Assets And Financial Liabilities (amendment)	Dec 2011	Dec 2012
2	Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)	Dec 2011	Dec 2012
3	Government loans (amendments to IFRS 1)	Mar 2012	Mar 2013
4	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	Jun 2012	Apr 2013
5	Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	Oct 2012	Nov 2013
6	Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)	May 2013	Dec 2013

- 11 The amendments⁷ resulting from these 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 as 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*

⁷ The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifrs.org).

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

- 12 The amendments resulting from this IASB project introduced into IFRS 10 *Consolidated Financial Statements* an exception from consolidation of subsidiaries for parents that are investment entities. These amendments require an investment entity to measure those subsidiaries at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* in its consolidated and separate financial statements. The amendments also introduce new disclosure requirements for investment entities into IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements*.

Compliance with UK company law

- 13 Several respondents questioned whether the proposed amendment to the Application Guidance of FRS 101 in relation to IFRS 10 was necessary given that IFRS 10 is only applicable to the preparation of consolidated financial statements, and FRS 101 is only applicable to the preparation of the individual financial statements of a qualifying entity.
- 14 Although FRS 101 is not applicable to the preparation of consolidated financial statements, the amendments to IFRS 10 in respect of investment entities will have a knock-on effect on the preparation of individual financial statements as paragraph 11A of IAS 27 states that “if a parent is required, in accordance with paragraph 31 of IFRS 10, to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for those investments in the same way in its separate financial statements”⁸.
- 15 However, the Accounting Council noted the respondents’ concerns and advises that the proposed amendment to the Application Guidance set out in FRED 53 is not made but additional guidance is inserted into Appendix II *Note on legal requirements*, in particular to clarify that a qualifying entity that meets the definition of an investment entity under IFRS 10 must measure its investments in subsidiaries at fair value through profit or loss in its individual financial statements.

Disclosure exemptions

- 16 The Accounting Council considers that the new disclosure requirements in IFRS 12 and IAS 27 in respect of qualifying entities that are investment entities are relevant to a user’s understanding of the qualifying entity’s financial statements, particularly as no consolidated financial statements would have been prepared in respect of the exempt subsidiaries. Further, the qualifying entity would also be a financial institution and these disclosures relate to its financial instruments. The Accounting Council advises that no exemption should be given for these new disclosure requirements.
- 17 A respondent to the consultation questioned whether the Accounting Council had considered paragraphs 24 to 31 of IFRS 12 in relation to unconsolidated structured entities as paragraph 6(b) of IFRS 12 states that “this IFRS does not apply to ... an entity’s separate financial statements to which IAS 27 *Separate Financial Statements* applies. However, if an entity has interests in unconsolidated structured entities and prepares separate financial statements as its only financial statements, it shall apply the requirements in paragraph 24-31 when preparing those financial statements.”

⁸ As set out in the Appendix I *Glossary*, separate financial statements are included in the meaning of individual financial statements.

- 18 The Accounting Council had not specifically considered paragraph 6(b) of IFRS 12 in developing the proposals in FRED 53, but on further consideration advises that the disclosures required by that paragraph provide relevant information and no exemption should be given in FRS 101. For the avoidance of doubt, the other requirements of IFRS 12 do not apply to the preparation of individual financial statements and therefore are not relevant to financial statements prepared by qualifying entities applying FRS 101.

Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36)

- 19 The Accounting Council noted that FRS 101 already allows disclosure exemptions for qualifying entities against paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36. These disclosures relate to cash-generating units that, either individually or in combination, have a significant amount of goodwill or intangible assets with indefinite useful lives allocated to them. These exemptions are only permitted if equivalent disclosures are included in the consolidated financial statements of the group.
- 20 The IASB has made amendments to the disclosure requirements of paragraph 130(f) of IAS 36 in relation to fair value, where fair value less costs of disposal is the recoverable amount of an individual asset or cash-generating unit.
- 21 The Accounting Council considered that, on balance, the additional detailed disclosure requirements of paragraph 130(f) of IAS 36 are unlikely to provide relevant information to users of the financial statements of qualifying entities, given that general information on impairments will be disclosed through the requirements of paragraphs 130(a) to (e).
- 22 In addition, this detailed information would be available in the consolidated financial statements, and if no disclosure is made in the consolidated financial statements on the grounds of materiality, the relevant disclosures would need to be made at subsidiary level⁹.
- 23 The Accounting Council noted, however, that should an exemption be permitted for paragraph 130(f) in its entirety, basic information about the basis of measurement of the fair value would be lost, and an imbalance between the disclosure requirements relating to fair value less costs of disposal and value in use would exist. Therefore the Accounting Council advises that:
- (a) an exemption should not be permitted against the requirements of paragraph 130(f)(i) and entities should provide disclosure of the level of the fair value hierarchy used in measuring fair value; and
 - (b) an exemption should be permitted against subparagraphs 130(f)(ii) and 130(f)(iii), provided that equivalent disclosures are included in the consolidated financial statements of the group.
- 24 This proposed disclosure exemption was supported by all respondents and the Accounting Council advises that paragraph 8(l) of FRS 101 is amended to include this exemption.

Editorial amendment to paragraph 6 of FRS 101

- 25 It has been brought to the attention of the Accounting Council that the drafting of paragraph 6 of FRS 101 does not accurately reflect the requirements of paragraph 36(4) of Schedule 1 to the *Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410) (the Regulations) and is potentially confusing.

⁹ As required by paragraph AG10 of the Application Guidance to FRS 100 *Application of Financial Reporting Requirements*.

- 26 The Accounting Council proposed in FRED 53 that paragraph 6 should be amended and paragraph 4A be inserted to remind entities that financial statements prepared under FRS 101 are not IAS Accounts but Companies Act Accounts, and therefore qualifying entities must comply with the Act and the Regulations.
- 27 In general, respondents welcomed the insertion of paragraph 4A and the proposed simplification of paragraph 6. However, some noted that entities which are not companies can apply FRS 101 and therefore the drafting of paragraphs 4A and 6 needed to be revisited. The Accounting Council acknowledged this point and advises that the drafting of paragraph 4A is further improved to reflect this fact, and consequential amendments to the paragraphs (ix) of the Summary and A2.3 of Appendix II are made for consistency.
- 28 In light of the proposed insertion of paragraph 4A, some respondents commented that further consideration of the drafting of paragraph 5(b) is needed to clarify whether the Application Guidance to FRS 101 is applicable to all qualifying entities or to companies only. The Accounting Council noted that its intention was that all entities applying FRS 101 (regardless of whether they are a company or otherwise) should use the same recognition and measurement bases, in line with the principle adopted in developing FRS 102. Although direct comparability across entities applying FRS 101 is not critical, given that the standard only applies to the individual financial statements of group entities where the most common user is likely to be the parent entity, the Accounting Council nonetheless noted that in general, users will have an expectation that all financial statements prepared in accordance with FRS 101 will be applying a consistent recognition and measurement framework.
- 29 The Accounting Council acknowledged that the standard as originally drafted was not clear on this point and therefore it advises that paragraph 5(b) is amended to clarify for any avoidance of doubt that the Application Guidance (which amends EU-adopted IFRS to remove conflicts with company law) is an integral part of the FRS and is applicable to all entities, not just companies, applying FRS 101.
- 30 In reconsidering paragraph 6 of FRS 101, the Accounting Council considered whether the same underlying principle should be applied to disclosure requirements, and it drew a distinction between the recognition and measurement framework and the availability of reduced disclosures. It noted that the key objective of FRS 101 is to promote more efficient group reporting by permitting qualifying entities exemptions from certain disclosure requirements set out in EU-adopted IFRS. However, in some circumstances, the level of exemptions that can be taken by a qualifying entity may be restricted by legal requirements applicable to the entity.
- 31 This is the case for companies (and limited liability partnerships (LLPs)) that measure financial instruments at fair value subject to the requirements of paragraph 36(4) of Schedule 1 to the relevant regulations. FRS 101 provides an exemption against the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*; however companies (and LLPs) with financial instruments of this nature are required by law to provide certain disclosures.
- 32 In relation to paragraph 6 of FRS 101 (which was intended to help companies to identify the disclosure requirements necessary to comply with paragraph 36(4) of Schedule 1 to the Regulations), the Accounting Council concluded that this paragraph should not be mandatory for all qualifying entities (despite footnote 2 of FRS 101 which states otherwise) given that entities that are not subject to the Regulations would otherwise have been permitted to take advantage of the exemptions from the disclosure requirements of IFRS 7 and IFRS 13.
- 33 The Accounting Council noted that the equivalent requirement in FRS 102 does not specifically state that it is applicable to all qualifying entities but rather it is only applicable to qualifying entities that have “*financial instruments held at fair value subject to the*

requirements of paragraph 36(4) of Schedule 1 to the Regulations”¹⁰; this infers that it is only applicable to companies, indicating that there is inconsistency between the two standards.

- 34 In light of this, the Accounting Council concluded that paragraph 6 of FRS 101 should not be applicable to all qualifying entities and is simply an interpretation of a company law disclosure requirement which restricts the level of exemptions that a company can take. It therefore advises that paragraph 6 of FRS 101 is deleted and further explanatory guidance is inserted into Appendix II *Note on legal requirements*.
- 35 In inserting further guidance into Appendix II, the Accounting Council noted that a company will comply with the requirements of paragraph 36(4) of Schedule 1 to the Regulations if it provides the disclosures required by IAS 32 or IFRS 7 as at 5 September 2006. However, the most practical solution would be for a qualifying entity to provide the disclosures required by IFRS 7 as entities may find it difficult to obtain a copy of IAS 32 as at that date. IFRS 7 has been amended since September 2006 but the Accounting Council advises that if an entity applies the current version of IFRS 7 (extant at the date of this Advice), it will still be complying with the requirements of the Regulations.

Date from which effective and transitional arrangements

- 36 The effective date of FRS 101 is for accounting periods beginning on or after 1 January 2015 with early application permitted.
- 37 The amendments resulting from both the *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* project and the *Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)* project have an effective date for accounting periods beginning on or after 1 January 2014 with early application permitted as set out in IFRS 10 and IAS 36.
- 38 The Accounting Council advises that the amendments to FRS 101 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 (ie IFRS 10 and IAS 36).

Approval of this Advice

- 39 This advice to the FRC was approved by the Accounting Council on 19 June 2014.

¹⁰ See paragraph 1.8 of FRS 102.

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 <i>Levies</i>	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 <i>Financial Instruments</i> – 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 <i>Regulatory Deferral Accounts</i>	Jan 2014	1 Jan 2016	Not endorsed
8	IFRS 15 <i>Revenue from Contracts with Customers</i>	May 2014	1 Jan 2017	To be decided
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

IFRS		Date issued by IASB	Effective date	Endorsed by EU
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 amendments¹¹ 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.

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.

¹¹ The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifrs.org).

- 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*¹² (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 value¹³ 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 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

¹² Available on the FRC website (www.frc.org.uk).

¹³ 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.

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.

Appendix I: Glossary

Act	The Companies Act 2006
date of transition	The beginning of the earliest period for which an entity presents full comparative information under a given standard in its first financial statements that comply with that standard.
EU-adopted IFRS	IFRS that have been adopted in the European Union in accordance with EU Regulation 1606/2002
financial institution	<p>Any of the following:</p> <ul style="list-style-type: none"> (a) a bank which is: <ul style="list-style-type: none"> (i) a firm with a Part IV permission¹⁴ which includes accepting deposits and: <ul style="list-style-type: none"> (a) which is a credit institution; or (b) whose Part IV permission includes a requirement that it complies with the rules in the General Prudential sourcebook and the Prudential sourcebook for Banks, Building Societies and Investment Firms relating to banks, but which is not a building society, a friendly society or a credit union; (ii) an EEA bank which is a full credit institution; (b) a building society which is defined in section 119(1) of the Building Societies Act 1986 as a building society incorporated (or deemed to be incorporated) under that act; (c) a credit union, being a body corporate registered under the Industrial and Provident Societies Act 1965 as a credit union in accordance with the Credit Unions Act 1979, which is an authorised person; (d) custodian bank, broker-dealer or stockbroker; (e) an entity that undertakes the business of effecting or carrying out insurance contracts, including general and life assurance entities; (f) an incorporated friendly society incorporated under the Friendly Societies Act 1992 or a registered friendly society registered under section 7(1)(a) of the Friendly Societies Act 1974 or any enactment which it replaced, including any registered branches; (g) an investment trust, Irish investment company, venture capital trust, mutual fund, exchange traded fund, unit trust, open-ended investment company (OEIC); (h) a retirement benefit plan; or (i) any other entity whose principal activity is to generate wealth or manage risk through financial instruments. This is intended to

¹⁴ As defined in section 40(4) of the Financial Services and Markets Act 2000 or references to equivalent provisions of any successor legislation.

	<p>cover entities that have business activities similar to those listed above but are not specifically included in the list above.</p> <p>A parent entity whose sole activity is to hold investments in other group entities is not a financial institution.</p>
FRS 100	FRS 100 <i>Application of Financial Reporting Requirements</i>
FRS 101	FRS 101 <i>Reduced Disclosure Framework</i>
FRS 102	FRS 102 <i>The Financial Reporting Standard applicable in the UK and Republic of Ireland</i>
IAS Regulation	EU Regulation 1606/2002
IFRS	<p>Standards and interpretations issued (or adopted) by the International Accounting Standards Board (IASB). They comprise:</p> <p>(a) International Financial Reporting Standards;</p> <p>(b) International Accounting Standards; and</p> <p>(c) Interpretations developed by the IFRS Interpretations Committee (the Interpretations Committee) or the former Standing Interpretations Committee (SIC).</p>
individual financial statements	<p>The accounts that are required to be prepared by an entity in accordance with the Act or relevant legislation, for example:</p> <p>(a) 'individual accounts', as set out in section 394 of the Act;</p> <p>(b) 'statement of accounts', as set out in section 132 of the Charities Act 2011; or</p> <p>(c) 'individual accounts', as set out in section 72A of the Building Societies Act 1986.</p> <p>Separate financial statements are included in the meaning of this term.</p>
public benefit entity	An entity whose primary objective is to provide goods or services for the general public, community or social benefit and where any equity is provided with a view to supporting the entity's primary objectives rather than with a view to providing a financial return to equity providers, shareholders or members.
qualifying entity	<p>A member of a group where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view (of the assets, liabilities, financial position and profit or loss) and that member is included in the consolidation¹⁵.</p> <p>A charity may not be a qualifying entity.</p>
Regulations	The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410)

¹⁵ As set out in section 474(1) of the Act.

Appendix II: Note on legal requirements

Introduction

- 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 discusses Republic of Ireland legal references.
- 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.

Companies Act accounts

- A2.3 For companies, accounts prepared in accordance with EU-adopted IFRS are 'IAS accounts', and are within the scope of EU Regulation 1606/2002 (IAS Regulation). As stated in paragraph 4A of FRS 101, where a company prepares accounts in accordance with FRS 101, those accounts are Companies Act accounts and not IAS accounts as set out in section 395 of the Act. Therefore those accounts must comply with the applicable provisions of Parts 15 and 16 of the Act and with the Regulations.

Applicable accounting framework

Consistency of financial reporting within groups

- A2.4 Section 407 of the Act requires that the directors of the parent company secure that individual accounts of a parent company and each of its subsidiaries are prepared using the same financial reporting framework, except to the extent that in the directors' opinion there are good reasons for not doing so.

In addition, consistency is not required in the following situations:

- (a) when the parent company does not prepare consolidated accounts; or
- (b) when some subsidiaries are charities (consistency is not needed between the framework used for these and for other subsidiaries).

Where the directors of a parent company prepare IAS group accounts and IAS individual accounts, there only has to be consistency across the individual financial statements of the subsidiaries.

- A2.5 All companies, other than those which elect or are required to prepare IAS individual accounts in accordance with the Act, prepare Companies Act individual accounts.

Financial instruments measured at fair value

- A2.5A Paragraph 8 of FRS 101 permits qualifying entities that are not financial institutions to take advantage of exemptions from the disclosure requirements of IFRS 7 *Financial Instruments: Disclosures* and IFRS 13 *Fair Value Measurement*. However, as noted in

paragraph 4A of FRS 101 a qualifying entity must comply with any relevant legal requirements that are applicable to it.

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

- (1) *Subject to sub-paragraphs (2) to (5), financial instruments (including derivatives) may be included at fair value.*
- (2) *Sub-paragraph (1) does not apply to financial instruments that constitute liabilities unless—*
 - (a) *they are held as part of a trading portfolio,*
 - (b) *they are derivatives, or*
 - (c) *they are financial instruments falling within sub-paragraph (4).*
- (3) *Unless they are financial instruments falling within sub-paragraph (4), sub-paragraph (1) does not apply to—*
 - (a) *financial instruments (other than derivatives) held to maturity,*
 - (b) *loans and receivables originated by the company and not held for trading purposes,*
 - (c) *interests in subsidiary undertakings, associated undertakings and joint ventures,*
 - (d) *equity instruments issued by the company,*
 - (e) *contracts for contingent consideration in a business combination, or*
 - (f) *other financial instruments with such special characteristics that the instruments, according to generally accepted accounting principles or practice, should be accounted for differently from other financial instruments.*
- (4) *Financial instruments which under international accounting standards may be included in accounts at fair value, may be so included, provided that the disclosures required by such accounting standards are made.*

[...]

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 equivalent¹⁶), is legally required to provide the relevant disclosures set out in international accounting standards adopted by the European Commission. Such disclosures should be based on extant standards.

A2.7A [Not used]

A2.7B [Not used]

A2.7C [Not used]

A2.7D In addition, qualifying entities that are preparing Companies Act accounts must provide the disclosures required by paragraph 55 of Schedule 1 to the Regulations which sets out requirements relating to financial instruments measured at fair value.

¹⁶ The *Small Companies and Groups (Accounts and Directors' Report) 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 limited liability partnerships (see paragraph A2.21).

Non-amortisation of goodwill

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 written off over 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.'

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.

Presentation and formats

A2.9 A qualifying entity preparing accounts in accordance with FRS 101 must comply with the company law format requirements applicable to the statement of financial position and the statement of comprehensive income.

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.

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 the format and presentation requirements of IAS 1 *Presentation of Financial Statements* may conflict with those in company law because of the following:

- (a) Differences in the definition of 'fixed assets'¹⁷ (the term used in the Regulations) and 'non-current assets' (the term used in EU-adopted IFRS).
- (b) Differences in the definition of 'current assets' as the term is used in the Regulations and EU-adopted IFRS.
- (c) Differences in the definition of 'creditors falling due within or after one year' (the terms used in the Regulations) and 'current and non-current liabilities' (the term

¹⁷ Assets of an entity which are intended for use on a continuing basis in the entity's activities.

used in EU-adopted IFRS). Under the Act a loan is treated as due for repayment on the earliest date on which a lender could require repayment, whilst under EU-adopted IFRS the due date is based on when the entity expects to settle the liability or has no unconditional right to defer payment.

- (d) The Act requires presentation of debtors falling due after more than one year within current assets. Under EU-adopted IFRS those items would be presented in non-current assets. UITF Abstract 4 *Presentation of long-term debtors in current assets* (the UITF's consensus is reproduced below in paragraph A2.10) addressed the inclusion of debtors due after more than one year within 'current assets'.

A2.10 In relation to paragraph A2.9(d), in most cases it will be satisfactory to disclose the size of debtors due after more than one year in the notes to the accounts. There will be some instances, however, where the amount is so material in the context of the total net current assets that in the absence of disclosure of the debtors due after more than one year on the face of the balance sheet readers may misinterpret the accounts. In such circumstances, the amount should be disclosed on the face of the balance sheet within current assets.

A2.11 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.

Realised profits

A2.12 Paragraph 13(a) of Schedule 1 to the Regulations requires that only profits realised at the balance sheet date are included in the profit and loss account, a requirement modified from that in Article 3.1(c)(aa) of the Fourth Directive¹⁸ which refers to profits 'made' at the balance sheet date.

A2.13 Paragraph 39 of Schedule 1 to the Regulations allows stocks, investment property and living animals and plants to be held at fair value in Companies Act accounts.

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 or 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.

A2.15 Entities measuring investment properties, living animals or plants, or financial instruments at fair value should note that they may transfer such amounts to a separate non-distributable reserve instead of carrying them forward in retained earnings but are not required to do so. Presenting fair value movements that are not distributable profits in a separate reserve may assist with the identification of profits available for that purpose.

A2.16 Entities should also continue to note that whether profits are available for distribution must be determined in accordance with applicable law. Entities may also refer to the Technical Release 02/10 *Guidance on Realised and Distributable Profits under the Companies Act 2006* issued by the Institute of Chartered Accountants in England and

¹⁸ European Commission, Council Directive 78/660/EEC.

Wales and the Institute of Chartered Accountants of Scotland or any successor document, to determine profits available for distribution.

Accounting for investment entities

A2.17 FRS 101 is not applicable to the preparation of consolidated financial statements as it is only applicable to the individual financial statements of a qualifying entity. However, the requirement set out in paragraph 11A of IAS 27 *Separate Financial Statements* which states:

“If a parent is required, in accordance with paragraph 31 of IFRS 10 to measure its investment in a subsidiary at fair value through profit or loss in accordance with IFRS 9, it shall also account for its investment in a subsidiary in the same way in its separate financial statements.”

will be applicable to the treatment of investments in subsidiaries in the individual financial statements of a qualifying entity applying FRS 101, if the entity meets the definition of an investment entity in IFRS 10 *Consolidated Financial Statements*. In other words, a qualifying entity that meets the definition of an investment entity under IFRS 10 must measure its investment in subsidiaries at fair value through profit or loss in its individual financial statements.

A2.18 The Regulations permit investments in subsidiaries to be measured on three different bases as follows:

- (a) at historical cost using the historical cost accounting rules;
- (b) at fair value with fair value movements recognised in reserves using the alternative accounting rules; or
- (c) at fair value with fair value movements recognised in profit or loss using the fair value accounting rules.

A2.19 The requirement to measure investments in subsidiaries at fair value through profit or loss under paragraph 11A of IAS 27 does not conflict with these requirements but merely restricts the measurement bases that an investment entity may apply to such investments.

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 allow 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, permits the designation of financial instruments at fair value through profit or loss on initial recognition. As noted in paragraph A2.7 such disclosures should be based on extant standards.

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.

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

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IFRS 1	<p><i>Assets and liabilities of a parent or subsidiaries</i> IFRS 1 provides an option for a subsidiary which becomes a first-time adopter later than its parent, which allows the subsidiary to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS (D16).</p> <p>Under IFRS 1, if a parent becomes a first-time adopter later than in its consolidated financial statements, it shall measure its assets and liabilities at the same carrying amounts as in the consolidated financial statements (D17).</p> <p>Entities preparing their financial statements in accordance with FRS 101 must comply with the measurement requirements of the Act, which may be inconsistent with those of EU-adopted IFRS applied in the consolidated financial statements.</p>	<p>Restricted the application of the first-time adoption options in IFRS 1 D16 and D17 to situations where the measurement of assets and liabilities in the subsidiary's or parent's individual financial statements based on the consolidated financial statements would comply with FRS 101.</p>

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IFRS 3	<p><i>Negative goodwill</i></p> <p>IFRS 3 requires that negative goodwill is recognised as a gain in profit or loss at the acquisition date (IFRS 3.34). The Act does not contain accounting requirements for a negative consolidation difference subsequent to recognition. Nevertheless, the Seventh Directive¹⁹ sets out conditions under which a negative consolidation difference may be transferred to the profit and loss account. The conditions under the Seventh Accounting Directive may be inconsistent with the recognition requirements for negative goodwill under EU-adopted IFRS.</p>	<p>Amended IFRS 3.34 to align with FRS 102, Section 19 <i>Business Combinations and Goodwill</i>, paragraph 19.24.</p>
IFRS 5	<p><i>Analysis of results of discontinued operation</i></p> <p>IFRS 5 allows the analysis of post-tax results of discontinued operations to be presented on the face of the statement of comprehensive income or in the notes (IFRS 5.33). The Regulations require an entity to show totals for turnover, profit or loss before taxation and tax arising from ordinary activities on the face of the profit and loss account.</p>	<p>Removed the option in IFRS 5.33 to present the analysis in the notes to the accounts. The information must be presented on the face of the statement of comprehensive income in a columnar format.</p>

¹⁹ European Commission, Council Directive 83/349/EEC.

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IAS 1	<p><i>Formats</i> The format requirements applicable under IAS 1 and those under the Regulations may be incompatible.</p> <p><i>Extraordinary items</i> 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.</p> <p><i>Realised profits</i> 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).</p>	<p>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 certain options in Schedule 1 to the Regulations are chosen.</p> <p>Amended IAS 1.87 and inserted IAS 1.87A and IAS 1.87B to include the definition of extraordinary items consistent with that in FRS 102, Section 5 <i>Statement of comprehensive income and income statement</i>, paragraphs 5.10A and 5.10B.</p> <p>Amended IAS 1.88 to clarify the precedence of the Act.</p>
IAS 16	<p><i>Government grants</i> IAS 16.28 permits the carrying amount of property, plant and equipment to be reduced by government grants in accordance with IAS 20. Off-setting of items that represent assets against items that represent liabilities is prohibited under the Regulations, unless specifically permitted or required. This option in EU-adopted IFRS is not compliant with the Regulations.</p>	Deleted IAS 16.28.

IFRS	Explanation/potential issues	Amendment to EU-adopted IFRS
IAS 20	<p><i>Balance sheet off-setting</i> IAS 20.24 contains an option which permits government grants related to assets to be deducted in arriving at the carrying amount of the asset. Off-setting of items that represent assets against items that represent liabilities is prohibited under the Regulations, unless specifically permitted or required. This option in EU-adopted IFRS is not compliant with the Regulations.</p> <p><i>Profit and loss account off-setting</i> IAS 20.29 contains an option which permits grants related to income to be deducted in reporting the related expense. Off-setting of items that represent income against items that represent expenditure is prohibited under the Regulations, unless specifically permitted or required. This option in EU-adopted IFRS is not compliant with the Regulations.</p>	<p>Amended IAS 20.24, IAS 20.26, IAS 20.28 and deleted IAS 20.25 and IAS 20.27 to remove the off-set option.</p> <p>Amended IAS 20.29 to remove the off-set option.</p>

Appendix III: Previous consultations

History of previous consultations

A3.1 The requirements in FRSs 100 to 102 are the outcome of a lengthy and extensive consultation. The FRC (and formerly the ASB) together with the Department for Business, Innovation and Skills have consulted on the future of accounting standards in the UK and Republic of Ireland (RoI) over a ten year period.

Table 1 – Consultations conducted

Year	Consultation
2002	DTI ²⁰ consults on adoption of IAS Regulation
2004	Discussion Paper – Strategy for Convergence with IFRS
2005	Exposure Draft – Policy Statement: The Role of the ASB
2006	Public Meeting and Proposals for Comment
2006	Press Notice seeking views
2007	Consultation Paper – Proposed IFRS for SMEs
2009	Consultation Paper – Policy Proposal: The future of UK GAAP
2010	Request for Responses – Development of the Impact Assessment
2010	Financial Reporting Exposure Drafts 43 and 44
2011	Financial Reporting Exposure Draft 45
2012	Financial Reporting Exposure Drafts 46, 47 and 48

2004

A3.2 In 2004 the Discussion Paper contained two key elements underpinning the proposals: firstly that UK and Republic of Ireland (RoI) accounting standards should be based on IFRS and secondly that a phased approach to the introduction of the standards should be adopted.

A3.3 The ASB embarked on the phased approach and issued a number of standards based on IFRS. The majority of respondents agreed with a framework based on IFRS, and although supportive overall, the response to the phased approach was mixed.

2005

A3.4 In its 2005 Exposure Draft (2005 ED) of a Policy Statement *Accounting standard-setting in a changing environment: The role of the Accounting Standards Board*, amongst other aspects of its role, the ASB identified its intention to converge with IFRS by implementing new IFRS in the UK as soon as possible. It also proposed to continue

²⁰ The Department of Trade and Industry (DTI) was a United Kingdom government department which was replaced with the announcement of the creation of the Department for Business, Enterprise and Regulatory Reform and the Department for Innovation, Universities and Skills on 28 June 2007, which were themselves merged into the Department for Business, Innovation and Skills (BIS) on 6 June 2009.

the phased approach to adopting UK accounting standards based on older IFRSs, but recognised there was little case for being more prescriptive than IFRS.

- A3.5 Although the ASB had, in the 2005 ED, wanted to move the debate on to how it would seek to influence the IASB's agenda, respondents' main concern remained about convergence. In 2005, the ASB issued an exposure draft proposing the IASB's standard on Business Combinations be adopted in the UK and RoI. This exposure draft highlighted the complexity of a mixed set of UK accounting standards, with some based on IFRSs and others developed independently by the ASB. The majority of respondents continued to agree with the aim of basing UK accounting standards on IFRS, but a broader set of views on how to achieve this was emerging.
- A3.6 As time progressed the ASB formed the view that convergence by adopting certain IFRSs was not meeting the needs of its constituents, which no longer included quoted groups. The ASB was concerned about the complexity of certain IFRSs, and it noted that introducing them piecemeal created complications and anomalies within the body of current FRSs. This arose because IFRS-based standards were not an exact replacement for current FRSs and many consequential amendments were required to 'fit' each replacement IFRS-based standard into the existing body of UK FRS. The ASB agreed to continue with its convergence programme, but decided to re-examine how to achieve this.

2006

- A3.7 The ASB published revised proposals to be discussed at the 2006 public meeting. By this time the IASB had started its IFRS for SMEs project, and the ASB decided this might have a role as one of the tiers in the UK financial reporting framework. The ASB proposed a 'big bang' with new IFRS-based UK accounting standards mandatory from a single date, 1 January 2009. The ASB's proposal was for a three-tier system, with Tier 1 being EU-adopted IFRS, and the other two tiers being developed as the IASB progressed with its project on the IFRS for SMEs.
- A3.8 Those attending the public meeting supported the aim of basing UK and RoI accounting standards on IFRS and adapting them to ensure they were appropriate for the entities applying them.
- A3.9 Taking this feedback into account, later in 2006 the ASB issued a Press Notice (PN 289) seeking views on its current thinking:
- (a) All quoted and publicly accountable companies should apply EU-adopted IFRS.
 - (b) The FRSSE should be retained and extended to include medium-sized entities.
 - (c) UK subsidiaries of groups applying full IFRS should apply EU-adopted IFRS, but with reduced disclosure requirements.
 - (d) No firm decision on the remainder (Tier 2), but options included extending the FRSSE, extending full IFRS, maintaining separate UK accounting standards or some combination of these.
- A3.10 The responses were mixed, but there was agreement that whatever the solution, it should be based on IFRS and there should be different reporting tiers to ensure proportionality.

2007

- A3.11 The IASB published an exposure draft of its IFRS for SMEs in early 2007; shortly afterwards the ASB published its own consultation paper. This sought views on how the IFRS for SMEs might fit into the future UK financial reporting framework, for example

whether it might be appropriate for Tier 2, with the FRSSE continuing for those eligible for the small companies' regime.

- A3.12 Feedback on the IFRS for SMEs was largely positive: it would be suitable for Tier 2, it was international, it was compatible with IFRSs, and it represented a significant simplification. Overall, it was seen as a workable alternative to IFRS. In addition, respondents wanted to retain the FRSSE (because it reduces the regulatory burden on smaller entities) and to give subsidiaries the option of applying the IFRS for SMEs as well as a reduced disclosure regime if applying full IFRS.

2009

- A3.13 The IFRS for SMEs was published in 2009, allowing the ASB to further develop its proposals in the Consultation Paper *Policy Proposal: The future of UK GAAP*. The proposals were largely consistent with the cumulative results of the preceding consultations and included:

- (a) a move to an IFRS-based framework;
- (b) a three-tier approach;
- (c) publicly accountable entities would be Tier 1 and would apply EU-adopted IFRS;
- (d) small companies would be Tier 3 and continue to apply the FRSSE; and
- (e) other entities would be Tier 2 and should apply a UK and RoI accounting standard based on the IFRS for SMEs.

- A3.14 The only significant proposal that was inconsistent with respondents' previous comments was that subsidiaries should simply apply the requirement of the tier they individually met – respondents had wanted subsidiaries to be able to take advantage of disclosure exemptions, and at that time the ASB had yet to be convinced that significant cost savings were available from a reduced disclosure framework. Taking into account the feedback received, this proposal was subsequently reversed and the reduced disclosure framework was incorporated into FREDs 43 and then 46, and it is now set out in FRS 101.

- A3.15 In addition to the many useful and detailed points made, some common themes included general agreement that change was needed to UK accounting standards and that there was support for many of the changes proposed in the consultation paper.

2010 onwards

- A3.16 The request for responses to aid development of the Impact Assessment focused on obtaining feedback on the expected costs, benefits and impact of the proposals subsequently set out in FREDs 43 and 44, rather than on the accounting principles. As the focus was on costs and benefits no specific question was asked about the principle of the proposed introduction of an IFRS-based framework, but nevertheless respondents commented on this: of the 32 responses received only 12.5% did not agree with the introduction of an IFRS-based framework.

- A3.17 FREDs 43 and 44 issued in October 2010 set out the draft suggested text for two new accounting standards that would replace the majority of extant Financial Reporting Standards (current FRS) in the UK and RoI. The ASB issued a supplementary FRED addressing specific needs of public benefit entities (FRED 45) in March 2011. The ASB then updated FREDs 43, 44 and 45, replacing them with the revised FREDs 46, 47 and 48 in January 2012, by eliminating the concept of public accountability and by introducing a number of accounting treatment options that are available in EU-adopted IFRS. The Accounting Council's advice to the FRC to issue FRSs 100 to 102 includes

more discussion of the feedback received on FREDs 43 to 48 and how the proposals have been refined and developed into the standards.

How have the proposals been developed?

A3.18 As set out above, the FRC, the Accounting Council (and previously the ASB) have consulted regularly on the future of financial reporting in the UK and RoI. Over the consultations the ASB's (and the Accounting Council's) thinking has evolved based on careful consideration of the feedback at each stage. Whilst responses were sometimes mixed, there has been agreement that:

- (a) current FRS, which are a mixture of Statements of Standard Accounting Practice (SSAPs) issued by the Consultative Committee of Accounting Bodies, FRSs developed and issued by the ASB and IFRS-based standards issued by the ASB to converge with international standards, are an uncomfortable mismatch that lack strong underlying principles or cohesion; and
- (b) whatever the solution, it should be based on IFRS and there should be different reporting tiers to ensure proportionality.

A3.19 During the consultation process to date, the Accounting Council and formerly the ASB have been guided by the following principles:

- (a) The framework must be fit for purpose, so that each entity required to produce true and fair financial statements under UK and RoI law will deliver financial statements that are suited to the needs of its primary users. The Accounting Council has kept in close contact with constituent users on this point, including investors, creditor institutions and the tax authorities.
- (b) The framework must be proportionate, so that preparing entities are not unduly burdened by costs that outweigh the benefit to them and to the primary users of information in their financial statements. The FRC believes that the proposals will produce a lower cost regime, while enhancing user benefits. It has carried out a consultation stage impact assessment with input from interested parties, and will continue to assess cost-benefit issues.
- (c) The framework must be in line with UK company law. This determines which entities must produce true and fair financial statements. Exemptions within the law have generally been retained. The detailed requirements of the Companies Act 2006 are driven to a great extent by the European Accounting Directives, which are being revised²¹.
- (d) The framework must be future-proofed, where possible. The FRC will continue to monitor the situation and has sovereignty over UK accounting standards (subject to the law). Changes to the Accounting Directives may lead to further developments, for example the European Council and European Parliament decision to permit Member States an option to treat micro-entities as a separate category of Company and exempt them from certain accounting requirements.

Summary of outreach

A3.20 During the development and throughout the consultation period of FREDs 43 to 48, the ASB undertook an extensive programme of outreach aimed at raising awareness of the proposals and to address the view (held by some) that previous consultations had not gathered sufficient evidence to support and test the assumptions made.

²¹ The EU's consultation process on review of the Accounting Directives is summarised at http://ec.europa.eu/internal_market/accounting/sme_accounting/review_directives_en.htm

- A3.21 As part of the outreach programme to obtain both formal and informal feedback, a series of meetings and events took place with users, including with lenders to small and medium-sized entities. Lenders noted that financial statements are an important part of their decision-making process when considering whether to provide finance and, whilst a decision to provide finance is not based on financial statements alone, they provide useful information and verification to the lender.
- A3.22 Although the ASB and the Accounting Council employed their best efforts to obtain feedback from users (a constituent group historically difficult to engage with formally) it is disappointing that limited formal responses were received and the Accounting Council has not been more successful in obtaining input from users.
- A3.23 In addition, a review was made of academic research that addressed the users of the financial statements of small and medium-sized entities. The conclusion drawn from the research was that many entities requested financial statements from Companies House when considering whether to trade with another entity. The European Federation of Accountants and Auditors (EFAA) issued, in May 2011, a statement that identified the users of financial statements, noting who the users of SMEs' financial statements are and that information on the public record assists all users of financial statements of SMEs' by providing, in an efficient manner, basic information that protects their rights.
- A3.24 The ASB considered that the outreach programme had gleaned information from people who would not normally submit formal responses to a consultation and provided very useful information that could be used in developing the next stage of the project. The ASB noted that whilst this information was not part of the public record, as are formal consultation responses, it could use the information to assist in developing the revised FREDs 46 to 48, supplementing information contained in responses, and would seek further comment in the next stage of its deliberations.
- A3.25 The Accounting Council continued the work of the ASB in finalising FRSs 100 to 102. The responses to FREDs 46 to 48 were analysed and discussed, and engagements were conducted to take into account the views and suggestions of all relevant associations and contacts. Respondents and outreach contacts were satisfied with FREDs 46 to 48, and many of the response letters were forthcoming in their overall praise for the proposals. A significant number of constituents anticipated cost savings arising from the application of FRS 101. Many respondents considered that FRS 102 would improve UK accounting standards, in particular by introducing requirements for accounting for financial instruments. Further they considered that the improvements will be achieved in a way that will be proportionate to the needs of users, and that once the transition phase has been overcome, it will have the effect of reducing the reporting burden on those UK companies that adopt it.

Appendix IV: Republic of Ireland (RoI) legal references

- A4.1 Appendix IV: *Republic of Ireland (RoI) legal references* 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 made available on the FRC website and included in the next edition of FRS 101.



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