Amendment to Standard

Accounting and Reporting

Financial Reporting Council

July 2014

Amendments to FRS 101 *Reduced Disclosure Framework* (2013/14 Cycle)

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Amendments to FRS 101 Reduced Disclosure Framework (2013/14 Cycle) is issued by the Financial Reporting Council in respect of its application in the United Kingdom and promulgated by the Institute of Chartered Accountants in Ireland in respect of its application in the Republic of Ireland.

Contents

Summary

(i) In 2012, 2013 and 2014 the Financial Reporting Council (FRC) revised financial reporting standards in the UK and Republic of Ireland. The revisions fundamentally reformed financial reporting, replacing the extant standards with four 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*; and

  (d) FRS 103 *Insurance Contracts.*

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

(iii) Financial statements prepared by a qualifying entity in accordance with FRS 101 are not 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).

(iv) The FRC intends to review FRS 101 annually to ensure that the reduced disclosure framework remains effective as EU-adopted IFRS develops. These amendments represent the outcome of the 2013/14 review cycle.

Amendments to FRS 101

(v) As part of each review cycle the amendments made to EU-adopted IFRS since the previous review are considered 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 to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations* to FRS 101*.*

(vi) This document sets out the amendments to FRS 101 and its appendices for amendments made to:

  (a) IFRS 10 *Consolidated Financial Statements* and IAS 27 *Separate Financial Statements* as a result of the IASB's project *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)*; and

  (b) IAS 36 *Impairment of Assets* as a result of the IASB's project *Recoverable Amount Disclosures for Non-Financial Assets (Amendment to IAS 36).*

(vii) This document also sets out a number of editorial amendments to clarify the legal requirements applicable to companies applying FRS 101 that hold financial instruments at fair value subject to paragraph 36(4) of Schedule 1 to the Regulations.

Footnote numbering

(viii) Where applicable, this document refers to the existing number of a footnote as included in FRS 101 issued in November 2012. However, when these amendments are incorporated into FRS 101, the footnote numbering will be updated sequentially.

Amendments to FRS 101 *Reduced Disclosure Framework* (2013/14 Cycle)

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

Amendments to the Summary to FRS 101

2 Paragraph (ix) of the Summary to FRS 101 is amended as follows:

(ix) 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)~~are not IAS Accounts as defined in section 395(1)(b) of the Companies Act 2006 (the Act) but are Companies Act accounts. Therefore the entity must comply with the Act and the Regulations and where applicable make amendments to EU-adopted IFRS requirements~~.

Amendments to FRS 101

3 Paragraph 4A is inserted above paragraph 5 and below the heading *Reduced disclosures for subsidiaries and ultimate parents* as follows:

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).

4 Paragraph 5(b) is amended as follows:

5(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 ~~given~~ that the financial statements prepared by companies, in accordance with this FRS, comply with the requirements of the Act and Regulations ~~that it prepares are Companies Act accounts as defined in section 395(1)(a) of the Act, not IAS accounts as defined in section 395(1)(b) of the Act~~. The Application Guidance ~~I~~ to this FRS sets out the ~~necessary~~ 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.

5 Paragraph 6 and its related footnote (footnote 2) are deleted. Subsequent footnotes will be renumbered sequentially.

6 A new footnote is inserted at the end of paragraphs 8(d) and (e).

[*] 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 measured at fair value. Further guidance is included in Appendix II *Note on Legal Requirements*.

7 Paragraph 8(l) is amended as follows:

(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.

Amendments to Appendix II *Note on Legal Requirements* to FRS 101

8 Paragraph A2.1 is amended as follows:

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

9 Paragraph A2.3 is amended as follows:

A2.3 For companies, a~~A~~ccounts 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, ~~W~~where a ~~qualifying entity~~company prepares accounts in accordance with FRS 101, ~~it prepares~~ those accounts are Companies Act accounts and not IAS accounts as ~~referred to~~ set out in section 395 of the Act. Therefore, ~~T~~those accounts must comply with the applicable provisions of Parts 15 and 16 of the Act and with the Regulations.

10 Paragraph A2.5A is inserted below the subheading *Financial instruments measured at fair value* and above paragraph A2.6.

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.

11 Paragraph A2.6 is amended as follows:

A2.6 ~~All preparers of Companies Act accounts must comply with the requirements of p~~Paragraph 36 of Schedule 1 to the Regulations~~[10]~~ ~~which provides~~ states that:

12 Footnote 10 to paragraph A2.6 is amended as follows and moved to paragraph A2.7. Footnote 10 will be renumbered sequentially as a result of the amendments set out in this document.

[10] The *Small Companies and Groups (Accounts and Directors' Report) Regulations 2008* (SI 2008/409), 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 an identical provision for companies subject to the small companies regime and limited liability partnerships respectively.

13 Paragraph A2.7 is amended as follows and footnote 10 is moved from paragraph A2.6:

A2.7 A qualifying entity that has financial instruments measured at fair value in accordance with the requirements of paragraph 36(4) of Schedule 1 to the Regulations (or equivalent[10]), is legally required to provide the relevant disclosures set out in international accounting standards adopted by the European Commission on or before 5 September 2006.~~taking advantage of the reduced disclosure framework in FRS 101 must comply with the fair value measurement requirements applicable to financial instruments under the Regulations. Therefore, the qualifying entity must, for example, make all IFRS disclosures required for financial instruments held at fair value subject to the requirements of section 36(4) of Schedule 1 to the Regulations as set out in paragraph 6 of FRS 101.~~

14 The following paragraphs are inserted below paragraph A2.7:

A2.7A IAS 32 *Financial Instruments: Disclosure and Presentation* was the extant international accounting standard as adopted in the EU on 5 September 2006 which set out the disclosure requirements around financial instruments measured at fair value. However, the IASB issued IFRS 7 *Financial Instruments: Disclosures* in August 2005 which sought to incorporate and improve the existing disclosure requirements around financial instruments from IAS 32. IFRS 7 was adopted in the EU in January 2006 and was effective for accounting periods beginning on or after 1 January 2007, however early adoption was permitted.

A2.7B In order for a company to meet the requirements set out in paragraph 36(4) of Schedule 1 to the Regulations (should it have any financial instruments that fall within that paragraph), it must make the relevant disclosures required by either IAS 32 or IFRS 7 as adopted in the EU on or before 5 September 2006. For example, if an entity measures a financial instrument (which is subject to the requirements of paragraph 36(4) of Schedule 1 to the Regulations) at fair value through profit or loss, then it must provide the disclosures in relation to instruments measured at fair value through profit or loss as required by either IAS 32 or IFRS 7 in order to comply with the Regulations. The same would be applicable to any financial instruments measured at fair value through other comprehensive income.

A2.7C IFRS 7 is seen as an improvement on the disclosure requirements of IAS 32 and a company would meet the requirements of paragraph 36(4) of Schedule 1 to the Regulations by providing the disclosures required by IFRS 7 as originally adopted in the EU in January 2006. It should be noted that a number of amendments have been made to IFRS 7 since the original version was adopted in 2006, however, if an entity was to provide the relevant disclosures from the current version of IFRS 7, it would still be meeting the requirements of the Regulations.

Date of issue by IASB	**Amendment**
March 2009	Enhanced disclosures about fair value measurements and liquidity risk.
October 2010	Required disclosure to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.
May 2011	Disclosures about fair value measurement were relocated to IFRS 13 *Fair Value Measurement.*

Date of issue by IASB	Amendment
December 2011	Amended the required disclosures to include information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

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.

15 The following subtitle and paragraphs are inserted below paragraph A2.16:

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 on or before 5 September 2006 allowed 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, permitted the designation of financial instruments at fair value through profit or loss on initial recognition. As noted in paragraph A2.7B, an entity making the disclosures required by IFRS 7 as originally adopted in the EU in January 2006 would meet the requirements of paragraph 36(4) of Schedule 1 to the Regulations.

Amendments to Appendix IV *Republic of Ireland Legal References*

16 Paragraph A4.3 is amended as follows:

A4.3 ~~Where g~~General references are made in this FRS to UK legislation such as ~~to~~ the '2006 Act', 'Companies Act 2006 ('and the Regulations')', 'the Companies Act', 'the Act', 'the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008', 'the 2008 Regulations' and 'the Regulations'~~, readers should refer,~~. ~~i~~In an Irish context reference should be made~~,~~ to the relevant sections and paragraphs of the Irish companies' legislation ~~listed above~~. Such general references are not ~~included~~ dealt with in the table below. References in the text to 'IAS accounts' are equivalent to 'IFRS accounts' in Irish company law.

17 Paragraph A4.10 is amended as follows:

A4.10 As this FRS does not apply to the preparation of consolidated financial statements (see paragraph 3 of this FRS), readers should note that, with a number of specific exceptions, there are no references included in the table below to the Group Accounts Regulations~~,~~ 1992 or other legislative provisions pertaining to group accounts. The exceptions relate to paragraphs dealing with the scope of the standard, ~~and~~ the definitions of qualifying entities and the requirement under IAS 27 *Separate Financial Statements,* in the case where a parent, that is an investment entity, is required to measure its investment in a subsidiary at fair value through profit or loss, to account for its investment in a subsidiary in the same way in its separate financial statements.

18 The following amendments are made to the table following paragraph A4.11:

Summary

	UK References	ROI References				
Paragraph reference	**2006 Act and the 2008 Regulations (unless otherwise stated)**	**1963 Act**	**1986 Act**	**GAR 1992**	**CIR 1992**	**IUR 1996**
ix	Section 395(1)~~(b)~~	Section 148(2)~~(b)~~			Regulation 5(1)	Regulation 5(1)

Financial Reporting Standard 101 *Reduced Disclosure Framework*

	UK References	ROI References				
Paragraph reference	**2006 Act and the 2008 Regulations (unless otherwise stated)**	**1963 Act**	**1986 Act**	**GAR 1992**	**CIR 1992**	**IUR 1996**
4A	Section 395(1)	Section 148(2)			Regulation 5(1)	Regulation 5(1)
~~5(b)~~	~~Section 395(1)(a)~~	~~Section 148(2)(a)~~			~~Regulation 5(1)~~	~~Regulation 5(1)~~
~~5(b)~~	~~Section 395(1)(b)~~	~~Section 148(2)(b)~~			~~Regulation 5(1)~~	~~Regulation 5(1)~~
~~6~~	~~Paragraph 36(4) to Schedule 1 to the Regulations~~		~~Paragraph 22AA of Part IIIA of the Schedule~~		~~Paragraphs 46A(4A) and 46A(4B) of Part I of the Schedule~~	

Appendix II: Note on legal requirements

	UK References	ROI References				
Paragraph reference	**2006 Act and the 2008 Regulations (unless otherwise stated)**	**1963 Act**	**1986 Act**	**GAR 1992**	**CIR 1992**	**IUR 1996**
~~A2.7~~	~~Fair value measurement requirements applicable to financial instruments under the Regulations~~		~~Part IIIA of the Schedule~~		~~Paragraphs 46A, 46B, 46C and 46D of Part I of the Schedule~~	
A2.7 (Footnote 10)	The Large and Medium-sized Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1913)	There is no equivalent Irish LLP legislation.				
A2.7 (Footnote 10)	The Small Limited Liability Partnerships (Accounts) Regulations 2008 (SI 2008/1912)	There is no equivalent Irish LLP legislation.				
A2.7B and A2.7C	Paragraph 36(4) to Schedule 1 to the Regulations		Paragraph 22AA of Part IIIA of the Schedule		Paragraphs 46A(4A) and 46A(4B) of Part I of the Schedule	
A2.7D	Paragraph 55 of Schedule 1 to the Regulations		Paragraph 31A of Part IV of the Schedule		Paragraph 46D of Part I of the Schedule	
A2.20	Paragraph 36(4) of Schedule 1 to the Regulations		Paragraph 22AA of Part IIIA of the Schedule		Paragraphs 46A(4A) and 46A(4B) of Part I of the Schedule	

	UK References	**ROI References**				
Paragraph reference	**2006 Act and the 2008 Regulations (unless otherwise stated)**	**1963 Act**	**1986 Act**	**GAR 1992**	**CIR 1992**	**IUR 1996**
24, 30, 31, 32 and 34	Paragraph 36(4) of Schedule 1 to the Regulations		Paragraph 22AA of Part IIIA of the Schedule		Paragraphs 46A(4A) and 46A(4B) of Part I of the Schedule	

Approval by the FRC

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.

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 IFRS[1] so that it remains effective as EU-adopted IFRS develops.

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:

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

(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 *Financial Instruments: Presentation* – 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 amendments[2] 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*

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

to International Financial Reporting Standards as Adopted in the European Union for Compliance with the Act and the Regulations to FRS 101.

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"[3].

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."

[3] 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 level[4].

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 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.

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[4] 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"[5]; 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.

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[5] See paragraph 1.8 of FRS 102.

FRC

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