



July 2017

Amendments to FRS 101 *Reduced Disclosure Framework*

2016/17 cycle

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July 2017

Amendments to FRS 101
Reduced Disclosure Framework
2016/17 cycle

Amendments to FRS 101 Reduced Disclosure Framework – 2016/17 cycle amends 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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Overview

- (i) FRS 101 *Reduced Disclosure Framework* is reviewed annually to ensure that the reduced disclosure framework continues to be effective in providing disclosure reductions when compared with EU-adopted IFRS.
- (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.

Amendments to FRS 101

- (iii) After considering the 2016/17 annual review of FRS 101 these amendments provide certain disclosure exemptions in relation to IFRS 16 *Leases*.

Amendments to FRS 101 *Reduced Disclosure Framework*

Amendments to FRS 101

- 1 The following paragraphs set out the amendments to FRS 101 *Reduced Disclosure Framework* (deleted text is struck through, inserted text is underlined).
- 2 Footnote 3 in the leading sentence in paragraph 8 is deleted and subsequent footnotes are renumbered sequentially:
 - ~~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.~~
- 3 Paragraph 8(eB) is inserted as follows:

8(eB) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 *Leases*.

The requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total.
- 4 Paragraph 8A is inserted as follows:

8A When a qualifying entity applies an IFRS, if that IFRS cross-refers to the requirements of an exempted paragraph or standard listed in paragraph 8, the qualifying entity is nevertheless permitted to take that exemption.

Amendments to Appendix II: Note on legal requirements

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

6 Paragraph A2.7E and the sub-heading above it are inserted as follows:

Presentation of fair value gains and losses in other comprehensive income

A2.7E IFRS 9 *Financial Instruments* requires qualifying entities to present fair value gains or losses attributable to changes in own credit risk in other comprehensive income. This 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. As a result, when applicable, disclosure will need to be given in the notes to the accounts of 'particulars of the departure, the reasons for it and its effect' (paragraph 10(2) of Schedule 1 to the Regulations).

7 Paragraph A2.20 is amended as follows:

A2.20 Paragraph 36(4) of Schedule 1 to the Regulations permits investments in subsidiaries to be measured at fair value provided that international accounting standards adopted in the EU allow such measurement, and that an entity makes the disclosures required by such standards:

(a) 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;
and

(b) IFRS 9 which was endorsed by the EU in November 2016 and is effective for accounting periods beginning on or after 1 January 2018, permits or requires measurement of such financial assets at fair value through profit or loss.

As noted in paragraph A2.7, ~~such the required~~ disclosures should be based on extant standards.

8 Paragraph A2.21 is amended as follows:

A2.21 Limited liability partnerships (LLPs) applying FRS 101 will be doing so in conjunction with the LLP Regulations. In many cases these ~~R~~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.~~

Approval by the FRC

Amendments to FRS 101 Reduced Disclosure Framework – 2016/17 cycle was approved for issue by the Financial Reporting Council on 5 July 2017, following its consideration of the Corporate Reporting Council's Advice.

The Corporate Reporting Council's Advice to the FRC to issue Amendments to FRS 101 – 2016/17 cycle

Introduction

- 1 This report provides an overview of the main issues that have been considered by the Corporate Reporting Council in advising the Financial Reporting Council (FRC) to issue *Amendments to FRS 101 Reduced Disclosure Framework – 2016/17 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 The FRC has established the Corporate Reporting Council as the relevant Council to assist it in the setting of accounting standards.

Advice

- 4 The Corporate Reporting Council is advising the FRC to issue *Amendments to FRS 101 Reduced Disclosure Framework – 2016/17 cycle*.
- 5 The Corporate Reporting Council advises that these proposals will ensure that FRS 101 *Reduced Disclosure Framework* continues to be effective in providing disclosure reductions when compared with EU-adopted IFRS.
- 6 The Corporate Reporting Council's Advice to the FRC in respect of these amendments will be added into FRS 101.

Background

- 7 In October 2012, as part of its advice relating to the first edition of FRS 101, the Accounting Council¹ advised the FRC to update FRS 101 at regular intervals to ensure that the reduced disclosure framework continues to be effective in providing disclosure reductions when compared with EU-adopted IFRS. An annual review is carried out to consider changes in IFRS and their potential impact on FRS 101.
- 8 The 2016/17 annual review considered IASB projects completed since the 2015/16 cycle.
- 9 The FRC consulted on proposals for amendments to FRS 101 in FRED 66 *Draft amendments to FRS 101 – 2016/17 cycle*. The responses to FRED 66 have been considered in developing this advice.

Amendments to FRS 101

- 10 The Accounting Council 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?

¹ From 1 April 2016 the Accounting Council was renamed as the Corporate Reporting Council.

(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?

11 Following feedback received during the 2015/16 cycle, the Corporate Reporting Council notes that in considering whether new exemptions should be proposed, the need to ensure that disclosures are relevant and targeted to meet the needs of users should be borne in mind; with the main focus being on providing information relevant to assessing a qualifying entity's financial position.

IASB projects completed since the 2015/16 cycle

12 The IASB has completed seven projects since those considered in the review for the 2015/16 cycle, which was performed in August 2015.

| | IASB project | Date issued | Date effective | Date endorsed in the EU |
|---|---|--------------------|-----------------------|--------------------------------|
| 1 | Effective Date of IFRS 15 ² | Sep 2015 | 1 Jan 2018 | Sep 2016 |
| 2 | Effective Date of Amendments to IFRS 10 and IAS 28 | Dec 2015 | Deferred indefinitely | Deferred indefinitely |
| 3 | IFRS 16 <i>Leases</i> | Jan 2016 | 1 Jan 2019 | Expected Q4 2017 |
| 4 | Recognition of Deferred Tax Assets for Unrealised Losses | Jan 2016 | 1 Jan 2017 | Expected Q4 2017 |
| 5 | Disclosure Initiative – Amendment to IAS 7 | Jan 2016 | 1 Jan 2017 | Expected Q4 2017 |
| 6 | Clarifications to IFRS 15 <i>Revenue from Contracts with Customers</i> | Apr 2016 | 1 Jan 2018 | Expected Q4 2017 |
| 7 | Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2 | Jun 2016 | 1 Jan 2018 | Expected Q4 2017 |

13 The amendments³ resulting from these seven 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.

² This document amended the effective date of IFRS 15 *Revenue from Contracts with Customers* by one year to 1 January 2018. IFRS 15 has already been considered in the 2015/16 review of FRS 101.

³ The full IASB documents setting out the amendments for each project are available on the IASB website (www.ifs.org).

- 14 The Corporate Reporting Council advises that only limited amendments to FRS 101 are necessary, namely in relation to IFRS 16. These are discussed in more detail below.

IFRS 16 Leases

Single lease disclosure note

- 15 Paragraph 52 of IFRS 16 *Leases* requires a lessee to provide all lease disclosures in a single note or separate section in the financial statements, although information already presented elsewhere need not be duplicated, and may be cross-referenced instead.
- 16 Paragraph 42(2) of Schedule 1 to the Regulations requires entities to present the notes to the accounts in the order in which, where relevant, the items to which they relate are presented in the balance sheet and in the profit and loss account.
- 17 The Corporate Reporting Council believes that although the requirement of IFRS 16 does not conflict with the Regulations, it would result in unnecessary additional work that would provide minimal additional benefits to the users of the financial statements. Respondents supported this view. Therefore, the Corporate Reporting Council advises that an exemption from paragraph 52 of IFRS 16 should be given.

Maturity analyses

- 18 Paragraph 58 of IFRS 16 requires lessees to disclose “a maturity analysis of lease liabilities applying paragraphs 39 and B11 of IFRS 7 *Financial Instruments: Disclosures* separately from the maturity analysis of other financial liabilities.” In addition, paragraphs 94 and 97 of IFRS 16 require lessors to disclose a maturity analysis of lease payments receivable from finance and operating leases respectively, without a cross-reference to IFRS 7.
- 19 FRS 101 provides an exemption from the requirements of IFRS 7 for non-financial institutions, provided equivalent disclosures are included in the consolidated financial statements of the group. Therefore, as currently drafted, a lessee could take an exemption from paragraph 58 of IFRS 16 by virtue of its cross-reference to IFRS 7, whereas lessors could not, as no similar cross-reference to IFRS 7 exists.
- 20 The FRC proposed that no exemption should be introduced for lessees with respect to the maturity analysis of lease liabilities, however respondents queried the extensive disclosures proposed for lease liabilities, when exemptions were available for other financial liabilities, particularly when company law requires an aggregate maturity analysis of details of indebtedness.
- 21 In considering this feedback, the Corporate Reporting Council agrees that consistency is important and qualifying entities should not have different reporting burdens for economically similar transactions. Given that no feedback has been received to suggest that the current exemption from IFRS 7 is causing problems and therefore should be removed, this exemption remains, and an exemption given for leases.
- 22 The Corporate Reporting Council believes that users would find separate disclosure of lease liabilities useful and advises that an exemption from paragraph 58 should be given provided that the company law disclosure is separately presented for lease liabilities and other liabilities, and in total.
- 23 In relation to lessors, the Corporate Reporting Council advises that lessors should not be allowed to take an exemption from paragraphs 94 and 97 of IFRS 16, as no equivalent disclosure requirements exist under company law and these maturity analyses of lease receivables provide useful information to users about the lessor’s liquidity and solvency.

Other disclosures for lessors

- 24 Following feedback from respondents, the Corporate Reporting Council reconsidered whether any additional disclosure exemptions should be given for lessors. The respondents highlighted that a number of detailed disclosure exemptions were introduced in the 2015/16 cycle in relation to IFRS 15 *Revenue from Contracts with Customers* and exemptions should be introduced for similar disclosures for lessors in IFRS 16.
- 25 Based on this feedback, the Corporate Reporting Council advises that additional exemptions should be introduced for paragraphs 89 (second sentence only), 90, 91 and 93 of IFRS 16.

Disclosure Initiative – Amendment to IAS 7

- 26 The amendments to IAS 7 *Statement of Cash Flows*, which insert paragraphs 44A to 44E, require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- 27 The Corporate Reporting Council notes that FRS 101 currently allows an exemption from IAS 7, and therefore a qualifying entity will not be required to provide these new disclosures about its liabilities. Respondents supported this.

Amendments to Appendix II: Note on legal requirements

- 28 Three amendments have been made to Appendix II: *Note on legal requirements* to reflect changes in legislation or standards:
- (a) Now that IFRS 9 *Financial Instruments* has been endorsed for use in the EU, paragraph A2.7E has been inserted in accordance with the Corporate Reporting Council's Advice to the FRC to issue *Amendments to FRS 101 – 2014/15 cycle and other minor amendments*, and paragraph A2.20 has been amended.
 - (b) Paragraph A2.21 has been amended following the issue of *The Limited Liability Partnerships, Partnerships and Groups (Accounts and Audit) Regulations 2016* (SI 2016/575).

Effective date

- 29 Paragraph 8 of FRS 101 notes that the exemptions are available from when the relevant standard is applied. Therefore there is no need to amend the effective date for these proposed amendments.

Approval of this advice

- 30 This advice to the FRC was approved by the Corporate Reporting Council on 25 May 2017.



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