



Financial Reporting Council

# Impact Assessment and Feedback Statement

**Amendments to FRS 100**  
***Application of Financial Reporting***  
***Requirements***  
**The Interpretation of Equivalence**

November 2022

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# Contents

	<b>Page</b>
Overview	2
Impact Assessment	3
Feedback Statement	4

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# Overview

- (i) In November 2022, the FRC issued *Amendments to FRS 100 Application of Financial Reporting Requirements – The Interpretation of Equivalence*. This Impact Assessment and Feedback Statement accompanies those amendments, which arose as a result of FRED 80 *Draft amendments to FRS 100 Application of Financial Reporting Requirements – Application Guidance – The Interpretation of Equivalence*.
- (ii) The Impact Assessment and Feedback Statement:
  - (a) sets out the Impact Assessment for these amendments, after taking account of respondents' comments on the Consultation stage impact assessment; and
  - (b) summarises the nine responses received to FRED 80 and the FRC's response to them.

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# Impact Assessment

## Introduction

1. The Financial Reporting Council (FRC) is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.
2. FRS 100 *Application of Financial Reporting Requirements* sets out the financial reporting requirements for UK and Republic of Ireland entities. The Application Guidance *The Interpretation of Equivalence* provides guidance to preparers and others in determining the availability of certain exemptions offered by company law and other financial reporting standards.
3. The UK's exit from the European Union meant that the Application Guidance contained in the edition of FRS 100 issued in March 2018 was outdated and should be replaced.

## Amendments to FRS 100

4. The amendments to FRS 100 update the Application Guidance. Updating the Application Guidance will assist preparers and others by providing them with updated guidance that reflects changes in company law.
5. The Department for Business, Energy and Industrial Strategy (BEIS) prepared an impact assessment for the changes in UK legislation and hence no further impact assessment has been prepared by the FRC in this respect.
6. The UK's exit from the European Union means that Irish intermediate parents with a UK parent are no longer able to rely on Section 299 of the *Companies Act 2014* for exemption from preparing consolidated financial statements. Such intermediate parents may now seek to rely on Section 300 of the *Companies Act 2014* for exemption instead. Directors of such Irish intermediate parent companies are likely to need to assess the equivalence of the consolidated financial statements of the group in which the Irish intermediate parent company is consolidated to financial statements drawn up in accordance with the EU Accounting Directive. The updated Application Guidance should help them in doing so.

## Conclusion

7. Overall, the FRC continues to believe that the proposed amendments to FRS 100 are necessary for consistency with company law and jurisdictional decisions about equivalence.

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# Feedback Statement

8. The purpose of this Feedback Statement is to summarise the comments received in response to FRED 80 *Draft amendments to FRS 100 Application of Financial Reporting Requirements – Application Guidance – The Interpretation of Equivalence*. FRED 80 was issued in May 2022 and the comment period closed on 26 August 2022.
9. The table below shows the number of respondents and analyses them by category.

**Table 1: Respondents by category**

	No. of respondents
Accountancy firms	6
Accounting professional bodies	3
	<hr/>
	9
	<hr/>

10. FRED 80 posed two questions, and the feedback and FRC response to them are summarised below.

## Question 1

Do you agree with the proposed amendments to the Application Guidance *The Interpretation of Equivalence* to FRS 100? If not, why not?

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

	No. of respondents
Agreed	3
Agreed with reservations	6
Disagreed	-
	<hr/>
	9
Did not comment	-
	<hr/>
	9
	<hr/> <hr/>

11. Respondents generally supported the proposed amendments to the Application Guidance. However, most respondents requested additional guidance.
12. Seven respondents commented that the FRC should be able to state that the equivalence of national GAAPs of EEA states to the requirements of Part 15 of the *Companies Act 2006* (the Act) can be assumed, on the basis that Part 15 of the Act is currently aligned with the EU Accounting Directive.

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13. One respondent commented that the FRC was mistaken in implying in paragraph AG17 of FRED 80 that the European Commission had not identified IFRS as issued by the IASB as equivalent to EU-adopted IFRS, citing Article 1(a) of *Commission Decision of 12 December 2008 on the use by third countries' issuers of securities of certain third country's national accounting standards and International Financial Reporting Standards to preparer their consolidated financial statements (notified under document number C(2008) 8218) (Text with EEA relevance) (2008/961/EC)*.
  14. Four respondents commented on the equivalence of share-based payment accounting. Respondents requested further clarification on how the equivalence of the calculation of the expense was to be assessed; whether calculation under US GAAP was to be considered equivalent, given known differences in the accounting (for example in relation to 'graded vesting'); and whether calculations performed under GAAPs that have been assessed as equivalent can be assumed themselves to be equivalent. Two respondents suggested that this guidance should be relocated to FRS 102.
  15. Respondents also asked the FRC: not to change from using the word "will" in previous paragraph AG6 to the word "may" in new paragraphs AG14 and AG22; to add examples of other GAAPs which are closely related to IFRS, such as Australian GAAP or Canadian GAAP, to subparagraph AG14(b); and to provide interpretation of the requirement in Section 401 of the Act to assess the equivalence of the annual report.

*FRC response*

16. The FRC believes that the amended Application Guidance, as proposed in FRED 80, accurately describes the current status quo with respect to the national GAAPs of EEA states.
17. The FRC notes that Article 1 of *Commission Decision 2008/961/EC* refers to each of the GAAPs cited in paragraph AG17 of FRED 80, and also, from 1 January 2009, to "International Financial Reporting Standards, provided that the notes to the audited financial statements contain an explicit and unreserved statement that these financial statements comply with international financial reporting standards in accordance with IAS 1 *Presentation of financial statements*". This has been reflected in the final Application Guidance.
18. Paragraph 26.16 of FRS 102 was amended in the Triennial Review 2017 to refer to the equivalence of the calculation of the share-based payment expense for the group. Paragraphs AG2 and AG3 of FRS 100 as issued in March 2018 also referred to this. Paragraph AG28 of FRED 80 provided additional detail, clarifying that it is necessary to consider whether "the basis on which the group share-based payment expense has been calculated is in accordance with the basic requirements of the measurement basis of FRS 102 or IFRS 2". The implication is that it is not sufficient to determine that the framework is equivalent; the method of calculation of the share-based payment expense must itself be equivalent. It is conceivable that even when a framework has been determined to be equivalent, the manner of calculation of the share-based payment expense might not be. To aid preparers, a reference is added in paragraph AG28 to "the requirement to measure the goods or services received on a fair value basis" as an example of the basic requirements of the measurement basis of FRS 102 or IFRS 2.

19. The FRC acknowledges that the requirement in Section 401 of the Act to assess the equivalence of the annual report has not been addressed in the Application Guidance. Such guidance was not included in the previous Application Guidance, nor in FRED 80, and the FRC does not propose to develop such guidance at this stage; it may be an area for consideration in future amendments to the Application Guidance.

## Question 2

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

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

	<b>No. of respondents</b>
Responded with comments	7
Responded without comments	2
	9
Did not respond	-
	9

20. Six respondents commented that the benefits of the Application Guidance would be greater if more could be said about the equivalence of UK-adopted international accounting standards and EU-adopted IFRS, and the equivalence of UK GAAP and the national GAAPs of EEA states. Respondents commented that the current lack of clarity is leading to increased costs and time spent by directors and auditors in assessing what requirements apply and whether exemptions are available, and that greater clarity may help reduce the need to exercise judgement, and reduce costs and uncertainty for some preparers and their auditors. Respondents commented that this would provide a clear benefit for individual preparers and would aid the FRC's stated objective to see that companies and their auditors do not feel obliged to take an overly cautious approach. One respondent also commented that providing more definitive guidance in other areas could also further reduce the costs of preparing financial statements.

### *FRC response*

21. The FRC believes that the amended Application Guidance proposed in FRED 80 accurately describes the current status quo. The additional benefits that might be available if this status quo were to change are not in the FRC's gift.
22. Overall, the FRC continues to believe that the proposed amendments to FRS 100 are necessary for consistency with company law and jurisdictional decisions about equivalence.



Financial Reporting Council

**Financial  
Reporting Council**

8th Floor  
125 London Wall  
London EC2Y 5AS  
+44 (0)20 7492 2300

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