



February 2015

Consultation Stage Impact Assessment

FRED 58

Draft FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime*

FRED 59

Draft amendments to FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland - Small Entities and other minor amendments*

FRED 60

Draft amendments to FRS 100 *Application of Financial Reporting Requirements and FRS 101 Reduced Disclosure Framework*

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

© The Financial Reporting Council Limited 2015
The Financial Reporting Council Limited is a company limited by guarantee.
Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

Contents

	Page
Consultation Stage Impact Assessment	3
Introduction of draft FRS 105	3
Introduction of a small entities regime within FRS 102	4
Option A – Small companies regime within FRS 102	4
Option B – Amend the FRSSE	4

Consultation Stage Impact Assessment

1. As published in its Regulatory Strategy, 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. The overriding objective 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.
3. This consultation proposes:
 - (a) making amendments to accounting standards as a direct response to changes in legislation that are expected as part of the implementation of the new EU Accounting Directive;
 - (b) to simultaneously improve financial reporting by small entities and micro-entities by withdrawing the Financial Reporting Standard for Smaller Entities (FRSSE) and replacing it with the draft FRS 105 *The Financial Reporting Standard applicable to the Micro-entities Regime* and a new section for small entities (draft Section 1A *Small Entities*) within FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.
4. Consistently with the FRC's regulatory approach, this Consultation Stage Impact Assessment focuses on those aspects of the proposals that augment or diverge from the new EU Accounting Directive.

Amendments to accounting standards that are required for consistency with company law

5. The Department for Business, Innovation and Skills (BIS) has prepared a Consultation Stage Impact Assessment for the changes in legislation and hence no further impact assessment has been prepared by the FRC in this respect.

Introduction of draft FRS 105

6. In April 2014 the FRC issued amendments to the FRSSE to incorporate the new UK micro-entities regime, which includes reduced presentation and disclosure requirements for the financial statements and simplifies the measurement options available to micro-entities choosing to apply the regime. With draft FRS 105 the FRC proposes to further simplify the accounting requirements for micro-entities choosing to apply the micro-entities regime by, for example, removing the need to account for deferred tax and simplifying the accounting for defined benefit pension plans.
7. The FRC believes that the proposal to introduce draft FRS 105:
 - (a) meets its overriding objective for micro-entities choosing to apply the micro-entities regime, bearing in mind the limited disclosures that are required by law in order for the financial statements to be presumed to give a true and fair view; and
 - (b) generates opportunities for cost savings in the preparation of the financial statements.

Therefore the FRC believes the proposal to introduce draft FRS 105 is a cost-effective solution for financial reporting in the UK and Republic of Ireland.

Introduction of a small entities regime within FRS 102

8. Given the changes to the small companies regime that will be introduced as part of the implementation of the new EU Accounting Directive, the FRC does not consider 'do nothing' a viable option; the FRSSE contains various presentation and disclosure requirements that may not be mandated in the future.
9. The FRC considered the following two possible options:
 - (a) Option A – incorporate the new small companies regime within FRS 102, reinstating consistency in accounting policies between those entities that are small and those that are larger; and
 - (b) Option B – amend the presentation and disclosure requirements of the FRSSE to remove any requirements that will no longer be compatible with company law.

Option A – Small companies regime within FRS 102

10. When it issued FRS 102, the FRC did not intend to retain for any significant period, accounting standards for small companies that were not consistent with FRS 102. The FRC had intended to update financial reporting for small entities when the new EU Accounting Directive was implemented. The advantages of including a small entities regime within FRS 102 are:
 - (a) all entities will be applying accounting standards that are based on the same framework, but with some simplifications available for smaller entities; this will:
 - (i) increase consistency and comparability in financial reporting between entities; and
 - (ii) reduce education and training costs; and
 - (b) the improvements in financial reporting that FRS 102 introduced, for example in relation to financial instruments, will apply to all entities increasing transparency for users around the risks associated with financial instruments.
11. The FRC issued an Impact Assessment with FRS 102 which discussed the costs and benefits of its introduction more fully.
12. The disadvantage of including a small entities regime within FRS 102 is that there will be costs associated with the changes in accounting. However, the FRC believes that the improvements in financial reporting and the longer-term benefits of a consistent framework outweigh the costs of transition, and therefore the FRC is proposing incorporating a small entities regime within FRS 102.

Option B – Amend the FRSSE

13. The advantage of amending the FRSSE would be that there were no changes in accounting by small entities other than any reduction in disclosures permitted by the changes in company law.
14. The disadvantages of amending the FRSSE would be:
 - (a) certain financial instruments would continue to be unrecognised in the financial statements of small entities, yet this information is relevant to a true and fair view;
 - (b) small entities would be applying an accounting standard derived from other accounting standards that were no longer in issue;
 - (c) small entities should now look to FRS 102 to determine new accounting policies for matters not addressed by the FRSSE, which will make it difficult for the FRSSE to continue without its application being influenced by FRS 102; and

- (d) preparers, advisors, auditors and users of financial statements will need to maintain familiarity with different accounting standards that are not derived from the same common framework, which in the long run is likely to increase education and training costs.

15. The FRC decided against this option.



Financial Reporting Council

8th Floor
125 London Wall
London
EC2Y 5AS

+44 (0)20 7492 2300

www.frc.org.uk