

# Association of Accounting Technicians response to FRED 57: Draft amendments to FRS 101 reduced disclosure framework

# Association of Accounting Technicians

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### 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the consultation paper on “FRED 57: Draft amendments to FRS 101 reduced disclosure framework” (condoc), released on 15 December 2014.
- 1.2. This response is being submitted on behalf of AATs membership and from the wider public benefit perspective of achieving sound and effective accounting principles and practices.
- 1.3. AAT has commented with the objective of adding value or highlight aspects that need to be considered further. The proposals will affect members who are required to implement the changes on behalf of their employers or their clients.

### 2. Executive summary

- 2.1. This Exposure Draft sets out proposed amendments to FRS 101 to provide an exemption against:
  - (i) Paragraph 18A of IAS 24 Related Party Disclosures.
  - (ii) The requirements of paragraphs 6 and 21 of IFRS 1 First-time Adoption of International Financial Reporting Standards to present an opening statement of financial position.
- 2.2. This Exposure Draft also sets out necessary amendments to the Application Guidance to FRS 101 to reflect:
  - (i) Changes made to paragraph 40 of IFRS 3 Business Combinations.
  - (ii) The deletion of paragraph 33(b)(iv) of IFRS 5 Discontinued Operations and Assets Held for Sale (page 4, condoc).
- 2.3. As an overall view, AAT welcomes the draft amendments to FRS 101 Reduced Disclosure Framework (Standard) which, AAT believes, will make the Standard a little easier to apply in practice.
- 2.4. AAT considers that once the consultation period has concluded it is important for the revisions to FRS 101 to be finalised as soon as possible in order to assist entities, particularly any early adopters, in preparing for the transition to the new accounting framework.

### 3. AAT response to the consultation paper on FRED 57: Draft amendments to FRS 101 reduced disclosure framework

#### **Q1) Do you agree with the proposed amendment to permit an exemption against the requirements of paragraph 18A of IAS 24 ‘Related Party Disclosures’?**

- 3.1. AAT is in agreement with the proposed amendment permitting an exemption from the requirement in paragraph 18A to disclose amounts incurred in obtaining key management services from a management entity.

- 3.2. AAT considers it to be both consistent and reasonable, given that FRS 101 already allows an exemption from the requirements of paragraph 17 regarding disclosure of key management personnel compensation.

**Q2) Do you agree with the proposed amendment to permit an exemption from the requirement of paragraphs 6 and 21 of IFRS 1 'First Time Adoption of International Financial Reporting Standards' to present an opening statement of financial position on transition?**

- 3.3. AAT agrees with this proposed amendment to exempt first time adopters of IFRS from the requirement to present an opening statement of financial position on transition.
- 3.4. AAT considers that had the requirement been retained it would have been overly onerous in the context of what is intended to be a reduced disclosure financial reporting framework. Since an exemption was already permitted from presenting an opening statement of financial position in the event of prior year adjustment for a change of accounting policy or material error, requiring an opening statement of financial position on first time adoption was also an inconsistency in the Standard.
- 3.5. The proposed amendment removes that inconsistency and reduces the compliance burden imposed on preparers and for that reason it is welcomed as a common-sense measure.
- 3.6. Similarly, AAT agrees with the proposed paragraph 7A (a) exempting entities applying FRS 101 from the requirement to make a statement of compliance with IFRS. Indeed making such a statement of compliance is not possible as financial statements prepared under FRS 101 do not comply fully with IFRS. The amendment to this paragraph is a welcome clarification.

**Q3) Do you agree that at this early stage, no exemption should be permitted in FRS 101 from the disclosure requirements of IFRS 15 'Revenue from Contracts with Customers' given that its effective date is not until 1 January 2017, and that for FRS 101 IFRS 15 should be revisited once preparers, users and auditors have had more experience of the required disclosures and are in a better position to assess whether exemptions against all or some of the disclosure requirements of IFRS 15 would be appropriate? If not, why not?**

- 3.7. AAT accepts "that at this early stage" it is probably too early to tell what the impact of the additional disclosure requirements in IFRS 15 will be. However, given that FRS 101 is intended to be a reduced disclosure framework AAT urges the FRC to keep this under review with a view to amending FRS 101 in advance of 1 January 2017 if it becomes evident, for instance from any early adopters of IFRS 15 or from available technical analysis, that the additional disclosures are likely to be onerous.
- 3.8. As the FRC itself notes (16, condoc), the disclosure requirements of IFRS 15 are significantly more detailed than those set out in IAS 18 and therefore, on balance, AAT is of the view that incorporating some exemptions in to FRS 101 may well be beneficial.
- 3.9. It is acknowledged that there is scope for entities to apply judgement in applying the disclosure requirements. However AAT believes disclosures in qualifying subsidiaries' FRS 101 accounts are likely to simply replicate the disclosures in the parent entity's full IFRS accounts and not therefore be of any particular benefit to the users of the subsidiary's accounts.

**Q4) Do you agree that no amendments should be made to the existing exemptions permitted in FRS 101 that allow non-financial institutions exemptions against the disclosure requirements of IFRS 7) (and IFRS 13 'Fair Value Measurement')?**

- 3.10. Given that IFRS 9 has not as yet been endorsed by the EU and it is unclear when this will occur, AAT agrees it is not the right time to implement further amendments to FRS 101 in this area.

- 3.11. AAT supports the general stance taken by the FRC that it would not be appropriate to permit financial institutions any exemptions from the disclosure requirements of IFRS 7 or IFRS 13. However, once IFRS 9 has been EU adopted, AAT believes it will be worthwhile for the FRC to revisit whether any further exemptions for non-financial institutions would be appropriate, which again is in line with the FRC's general stance. This would obviously need to be done prior to IFRS 9 becoming effective in the EU.

**Q5) Do you have any other comments in relation to the proposed amendments?**

- 3.12. AAT has no further comments other than to note that the editorial amendments made to the Application Guidance appear to be appropriate.

**4. Conclusion**

- 4.1. AAT welcomes the draft amendments to the Standard and agrees:
- 4.1.1. With the proposed amendment to permit an exemption against the requirements of paragraph 18A of IAS 24 'Related Party Disclosures'(3.1, above).
  - 4.1.2. With the proposed amendment to permit an exemption from the requirement of paragraphs 6 and 21 of IFRS 1 'First Time Adoption of International Financial Reporting Standards' to present an opening statement of financial position on transition (3.3, above).
  - 4.1.3. That, given that IFRS 9 has not as yet been endorsed by the EU and it is unclear when this will occur, it is not the right time to implement any further amendments to FRS 101 in this area (3.10, above).
- 4.2. In respect of permitting exemption in FRS 101 from the disclosure requirements of IFRS 15 'Revenue from Contracts with Customers' IFRS 15, AAT considers that incorporating some exemptions in FRS 101 may well be beneficial (3.7-3.8, above).
- 4.3. To assist entities and early adopter in preparing for the new accounting framework it is important for the revisions to FRS 101 to be finalised as soon as possible after the consultation has ended (2.4, above).

**5. About AAT**

- 5.1. AAT is a professional accountancy body with over 49,800 full and fellow members and 83,700 student and affiliate members worldwide. Of the full and fellow members, there are over 4,100 Members in Practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types (figures correct as at 31 December 2014).
- 5.2. AAT is a registered charity whose objectives are to advance public education and promote the study of the practice, theory and techniques of accountancy and the prevention of crime and promotion of the sound administration of the law.

**6. Further information**

If you have any questions or would like to discuss any of the points in more detail then please contact AAT at:

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