

# Association of Accounting Technicians response to the Financial Reporting Council exposure draft on “FRED 63: Draft amendments to FRS 101 Reduced Disclosure Framework”

# Association of Accounting Technicians response to the Financial Reporting Council exposure draft on “FRED 63: Draft amendments to FRS 101 Reduced Disclosure Framework”

---

## 1. Introduction

- 1.1. The Association of Accounting Technicians (AAT) is pleased to have the opportunity to respond to the Financial Reporting Council (FRC) Exposure Draft on “FRED 63: Draft amendments to FRS 101 Reduced Disclosure Framework” (Exposure Draft) published on 10 December 2015.
- 1.2. AAT is submitting this response on behalf of our membership and from a wider public benefit perspective.
- 1.3. AAT has added comment in order to add value or highlight aspects that need to be considered further.

## 2. Executive Summary

- 2.1. AAT fully supports the principle set out by the Accounting Council’s Advice to the FRC that “relevant” information should be disclosed, being that which is capable of making a difference to the decisions made by users of the financial information ( 3.1- 3.3, below).
- 2.2. Such a consideration should be paramount and override cost benefit considerations (3.5, below), as well as any disclosure exemptions which arise from any FRS ( 3.7, below). On such a basis, it is difficult to envisage many situations where the disclosure exemptions provided by FRS 101 will not be over-ridden.
- 2.3. AAT does not believe the exemptions from disclosing a significant amount of information regarding revenue from contracts with customers for a group entity is likely to be justifiable in many instances if “relevant” information is required to be disclosed in financial statements (3.4, below).
- 2.4. AAT is of the view that FRS 101 will only result in cost savings in a very small number of cases ( 3.10 - 3.11, below).

## 3. Responses to Questions

**Question 1: The principles for determining whether disclosure exemptions from EU-adopted IFRS should be available in FRS 101 are set out in paragraph 9 of the Accounting Council’s Advice. These are relevance, cost considerations and avoiding gold plating.**

**Qualifying entities have limited external users of the financial statements. These external users are likely to be providers of credit with a greater focus on information that supports the statement of financial position of the qualifying entity, when compared with detailed analysis of performance as required by some of the disclosures in IFRS 15 Revenue from Contracts with Customers. Do you agree?**

- 3.1. AAT remains to be convinced that the statement “qualifying entities have limited external users of the financial statements” is relevant to considerations as to whether reduced disclosures can be justified.

- 3.2. It is vitally important that all external users (even if limited in number) who have and need access to financial statements prepared in accordance with FRS 101, such as providers of credit, should have sufficient “relevant” information to fully understand the entities’ financial position.
- 3.3. The creditworthiness of an individual entity which is a member of a group is possibly more sensitive to a provider of credit than for a standalone entity, particularly in recognising the ability of the group to influence its member entities’ financial position and results. Consequently, users of such financial statements need to have an understanding of significant related parties transactions.
- 3.4. The disclosure of full information concerning revenue from contracts with customers may be particularly “relevant” to users of financial statements, particularly where those contracts are with fellow group entities.

**Question 2: Do you consider that additional refinements could be made to the principles set out in paragraph 9 of the Accounting Council’s Advice that, when applied, would help to increase further the cost-effectiveness of FRS 101?**

- 3.5. AAT is in full agreement with the principles outlined in paragraph 9 except that it is considered that the principle of the cost benefits of disclosures as a basis for exemption should be qualified to the extent that “relevance” should be the overriding consideration. If the information which is not disclosed is capable of making a difference to the decisions made by users, the costs involved are irrelevant and do not justify non-disclosure.
- 3.6. Other than the point made in 3.5 (above), AAT does not wish to suggest any further refinements to the principles as regards the cost effectiveness of FRS 101.

**Question 3: Do you agree with the proposed amendments to FRS 101? If not, why not?**

- 3.7. AAT considers that there are very few situations where the exemptions from disclosures provided by FRS 101 would not be in conflict with the requirement to disclose “relevant” information as defined by the Accounting Council in paragraph 9 (page 9, FRED 63); where their advice to the FRC is that information is “relevant” if it is capable of making a difference to decisions made by users of financial statements then AAT considers the disclosure of such “relevant” information to be paramount.
- 3.8. AAT considers that there is no benefit accruing through the provision of an exemption to disclose that practical expedients permitted by either paragraphs 63 or 64 of IFRS 15 have been adopted. It is AAT’s view that such information should be disclosed if “relevant”.
- 3.9. AAT supports the proposal in FRS 101 to require notes to the financial statements to be provided in the order in which the related items appear in the main body of the financial statements.

**Question 4: 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 of the quantifiable costs or benefits of these proposals.**

- 3.10. In theory, a reduction in disclosure requirements should reflect in reduced burdens and reduced costs for preparers of financial statements, but realistically it is unlikely that, other than in the case of very large groups, entities would experience measurable cost savings from the application of FRS101 in that there would be an insignificant impact on staffing costs required to prepare financial statements, even with the reduced disclosures.

3.11. It is AAT's view that, in some situations, there could be an increased burden in preparing financial statements incorporating disclosure exemptions permitted by FRS 101. For example; where there is a need for preparers to consider whether the resulting reduced disclosure financial statements provide a "true and fair" view and may require the disclosure of additional information, particularly in the light of the need to disclose "relevant" information.

#### 4. **Conclusion**

4.1. AAT considers that there is no justification for the disclosure exemptions proposed by FRS 101 to be available to group entities any more than other standalone entities, especially if principle 1, as set out by the Accounting Council in paragraph 9 of their Advice to the FRC (see page 9 of FRED 63) concerning "relevance", is to be fully recognised. Indeed it may be necessary for group entities to show additional information in respect of related party transactions where the entity can be influenced by other group entities if a "true and fair" view is to be reflected in the financial statements.

#### 5. **About AAT**

5.1. AAT is a professional accountancy body with over 49,700 full and fellow members<sup>1</sup> and 85,500 student and affiliate members worldwide. Of the full and fellow members, there are over 4,200 members in practice who provide accountancy and taxation services to individuals, not-for-profit organisations and the full range of business types.

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:

email: [consultation@aat.org.uk](mailto:consultation@aat.org.uk) and [aat@taxpolicyadvice.com](mailto:aat@taxpolicyadvice.com)

telephone: 020 7397 3088

Aleem Islan  
Association of Accounting Technicians  
140 Aldersgate Street  
London  
EC1A 4HY

---

<sup>1</sup> Figures correct as at 31 Dec 2015