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Our reference:

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Dear Ms Carter,

FRED 63 – Draft amendments to FRS 101: 2015/16 cycle

Moore Stephens LLP is pleased to respond to the FRC on the above Financial Reporting Exposure Draft (FRED).

The FRED's questions relate to the principles for determining the content of FRS 101 generally, as well as specific exemptions from the disclosure requirements of IFRS 15.

We welcome the broader consideration of the content of FRS 101, and consider this should be a consultation exercise, separate from the specific changes proposed in the annual update cycle.

We agree that it is both practical and cost-effective to implement exemptions from a number of the disclosure requirements of IFRS 15. These have been proposed from a specific viewpoint of the users of financial statements prepared in accordance with FRS 101, and their information needs. We have questioned this particular viewpoint as a basis for determining the exemptions.

Furthermore, a broad range of entities can apply FRS 101, which may or may not be similar to the other group companies with which they are consolidated under IFRS. Certain disclosures may therefore be more informative for a limited number of preparers. We have therefore questioned whether these disclosure requirements, whilst not being made compulsory, should be flagged in order that they will borne in mind by entities applying FRS 101.

Attached to this letter you will find an Appendix with our comments on the specific questions raised in the FRED.

If you wish to discuss any matters raised in this letter then please contact David Chopping, Partner (+44 (0) 207 651 1050) or Paul Cooper, Audit Technical Associate Director (+ 44 (0) 207 651 1674).

Yours faithfully

Moore Stephens LLP

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Appendix

Response to the detailed questions in FRED 63 - Draft amendments to FRS 101: 2015/16 cycle

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?

We support the three main principles which guide the Accounting Council's Advice.

As noted below in our response to Question 2, we believe that it would be worthwhile for questions regarding the general principles to be the subject of a broader consultation on FRS 101.

We express a note of caution over the limited group of users identified for FRS 101, and their focus. Whilst it may well be the case that the most common external users are likely to be, directly or indirectly, providers of finance we would query whether this means that their focus is always likely to be primarily on the statement of financial position. This will depend upon, inter alia, the nature of the individual entity and the period over which finance may be provided. For example, a provider of long-term finance to a group entity in respect of which no guarantees have been provided by other members of the group and where no security has been provided is likely to be interested in the ongoing capacity of the entity to generate profits and cash flows. This will be affected by the assessment of the quality of earnings, which will not be reflected in the statement of financial position.

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?

An additional practical consideration, although not necessarily a principle, arises from the choice which most FRS 101-preparers have to adopt FRS 102 instead. The disclosure requirements in FRS 102 are generally fewer than in IFRS. This could provide an incentive for FRS 102 to be adopted, should FRS 101 provide insufficient exemptions from IFRS, with the result that it is viewed as the less cost-effective option. Consequently, we believe that the content of FRS 102 should be borne in mind when considering amendments to FRS 101.

Question 2 has a broader relevance than the changes proposed in this FRED. We therefore recommend that it is asked as part of a general review of the principles guiding the content of FRS 101, and believe that such a general review would be worthwhile periodically. Overall, we believe that the principles should remain broad, and not be refined to the extent that they become prescriptive or restrictive.

We also consider that as part of this it would be beneficial to undertake research into the needs of users of financial statements prepared under FRS 101 rather than rely upon assumptions about their needs.

Question 3

Do you agree with the proposed amendments to FRS 101? If not, why not?

(a) Proposed exemptions from the disclosure requirements of IFRS 15

Our comments are based on the views expressed in our responses to questions 1 and 2 above.

i. Para. 113 of IFRS 15 – we agree with the proposed exemption, on the grounds of the insignificance of these disclosures compared to others in IFRS 15.

ii. Para. 114 – we believe that the disaggregation disclosures can in fact be important for users of the financial statements, including providers of finance. The requirements in this paragraph will illustrate the entity's process of judgement in identifying relevant factors, as well as disclosing the factors themselves. We note that the Accounting Council (in para. 18 of its advice) considers that these requirements are similarly covered by company law and more generally by IAS 1. It would be useful to have further information on the Accounting Council's reasoning, compared to the need for more detailed disclosures implied by IFRS 15.

This paragraph cross-refers to the guidance in paras. B87-B89 of IFRS 15. We believe that para. B88 (covering for example, investor presentations and operating segments) is less likely than the others to be relevant to an entity applying FRS 101. For the same reason, we support the proposed exemption from the requirements in para. 115 (relating to operating segments).

iii. Paras. 118–126 – we agree that there should be exemptions from the disclosure requirements in these paragraphs, especially when comparing them to the requirements in FRS 102.

iv. Para. 127 – it is unclear why this exemption is being proposed, as it relates to assets.

v. Para. 129 - it is unclear why this exemption is being proposed, as it depends on paras. 63 and 94, neither of which are subject to proposed disclosure exemptions.

(b) Notes to the financial statements

We agree that proposed para. A2.11A is needed, in view of the legal requirement to present the notes in a systematic manner.

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.

We agree that the point should be made (in para. 2 of the Consultation stage impact assessment) that cost-effectiveness is a key consideration for entities in deciding whether to adopt FRS 101. We have commented on this matter in the first paragraph of our response to Question 2 above.