Financial Reporting Council

July 2017

Impact Assessment and Feedback Statement

Amendments to FRS 101 *Reduced Disclosure Framework*

2016/17 cycle

The Financial Reporting Council (FRC) is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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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.

Amendments to FRS 101

2 FRS 101 *Reduced Disclosure Framework* is an optional standard that is intended to enable cost-efficient financial reporting within groups, particularly those applying EU-adopted IFRS in their consolidated financial statements. Therefore it is only applied by those qualifying entities that consider it a cost-effective option for the preparation of their individual financial statements.

3 FRS 101 requires an entity to apply EU-adopted IFRS subject to specified disclosure exemptions. Therefore without intervention to amend FRS 101, an entity applying FRS 101 would need to provide all the disclosures required by any new IFRS or amendments to existing standards issued.

4 The amendments to FRS 101 provide a number of disclosure exemptions for both lessees and lessors. Following feedback from respondents to FRED 66 *Draft amendments to FRS 101 – 2016/17 cycle*, in addition to the exemption from having to provide a single disclosure note for all lease-related information, the amendments also provide a disclosure exemption for lessees from the requirement to disclose a maturity analysis of lease liabilities (provided the company law requirement to provide details on indebtedness is presented separately for lease liabilities and other liabilities and in total), and further exemptions have been provided for lessors from certain of the disclosures that would otherwise be required by IFRS 16.

Conclusion

5 Overall, the FRC believes that the amendments to FRS 101 will reduce the cost of compliance with FRS 101.

Feedback Statement

6 The purpose of this Feedback Statement is to summarise the comments received to FRED 66 *Draft amendments to FRS 101 – 2016/17 cycle*. FRED 66 was issued in December 2016 and the comment period closed on 31 March 2017.

7 The Corporate Reporting Council's Advice to the FRC included with the amendments to FRS 101 *Reduced Disclosure Framework* sets out how the key comments have been taken into account in finalising those amendments.

8 The table below shows the number of respondents to the consultation and analyses the respondents by category.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	7
Accounting bodies	2
	9

FRED 66 *Draft amendments to FRS 101 – 2016/17 cycle*

9 FRED 66 posed two questions, and the feedback and FRC response to them are summarised below.

Question 1

> Do you agree with the proposed amendments to FRS 101? If not, why not? In particular do you agree that qualifying entities should be required to continue to provide detailed analyses of leases (with those required by IAS 17 *Leases* replaced with those required by IFRS 16 *Leases*)?

10 There were three key elements to the proposals and respondents' comments have been analysed separately below.

IFRS 16 *Leases*

Table 2: Respondents' views on Question 1 – paragraph 52

Introduce an exemption from paragraph 52 of IFRS 16 that requires all lease disclosures to be presented in a single note or separate section in the financial statements

	No. of respondents
Agreed	8
Disagreed	1
	9

11 All but one respondent agreed with the proposal to introduce a disclosure exemption from paragraph 52 of IFRS 16 as it would be more cost effective (in light of the company law requirement to present the notes in the order items appear on the primary statements) and result in more clear and concise reporting.

FRC response

12 Paragraph 42(2) of Schedule 1 to the Regulations requires entities to present the notes to the accounts in the order in which, where relevant, the items to which they relate are presented in the balance sheet and in the profit and loss account.

13 The FRC believes that although the requirement of IFRS 16 does not conflict with the Regulations, it would result in unnecessary additional work that would provide minimal additional benefits to the users of the financial statements. Respondents supported this view. Therefore, an exemption from paragraph 52 of IFRS 16 is given.

Table 3: Respondents' views on Question 1 – paragraph 58

Do not allow an exemption from paragraph 58 of IFRS 16, which requires lessees to present maturity analyses of lease liabilities

	No. of respondents
Agreed	3
Disagreed	6
	9

14 A significant majority of respondents opposed the proposal not to allow lessees a disclosure exemption from having to prepare a maturity analysis of lease liabilities as required by paragraph 58 of IFRS 16.

15 The main reason cited by respondents was that this would be inconsistent with the current exemption that is allowed for non-financial institutions from the disclosure requirements of IFRS 7 *Financial Instruments* as a whole. This would result in different reporting requirements for economically similar transactions; for example, the acquisition of a property through a lease arrangement would require more detailed disclosures compared to the property being acquired through loan financing.

16 Some respondents also commented that there was no clear value in requiring a qualifying entity to prepare both the IFRS 16 maturity analysis and the company law details of indebtedness disclosure.

17 All dissenting respondents agreed that the treatment should be consistent, although there were mixed opinions about the best way to achieve this. Some respondents suggested that qualifying entities should be required to present maturity analysis for all financial liabilities including leases, whereas other respondents suggested that qualifying entities should not be required to present any maturity analysis for any liabilities (in addition to that required by company law).

FRC response

18 An exemption has been given, provided lease liabilities are separately identified in the company law disclosures. See paragraphs 22 to 24 of the Corporate Reporting Council's Advice to *Amendments to FRS 101 – 2016/17 cycle*.

Other issues

19 Following feedback from a couple of respondents, the FRC reconsidered if any additional disclosure exemptions should be given for lessors. The respondents highlighted that a number of income statement and other detailed disclosure exemptions were introduced in the 2015/16 cycle in relation to IFRS 15 *Revenue from Contracts with Customers*, and exemptions should be introduced for similar disclosures in IFRS 16.

20 Based on this feedback, additional exemptions have been introduced from the requirements of paragraphs 89 (second sentence only), 90, 91 and 93 of IFRS 16.

IAS 7 *Statements of Cash Flow*

Table 4: Respondents' views on Question 1

Debt disclosure of IAS 7 *Statements of Cash Flow*

	No. of respondents
Agreed	3
No comment	6
	9

21 All three respondents that commented on the proposal to allow an exemption from the newly introduced debt disclosure requirements in IAS 7 *Statement of Cash Flows* agreed with the proposal.

FRC response

22 No amendment to FRS 101 is required.

Other issue raised

23 One respondent commented that in *Amendments to FRS 101 – 2014/15 cycle and other minor amendments* the Accounting Council had indicated its intention to advise a future amendment to FRS 101 once IFRS 9 *Financial Instruments* had been endorsed for use in the EU. This related to a legal issue concerning the recognition of fair value gains and losses in other comprehensive income. IFRS 9 was endorsed in November 2016, and an amendment has been made to Appendix II: *Note on legal requirements* accordingly.

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 of the quantifiable costs or benefits of these proposals.

24 Three respondents made general comments in response to this question but none provided quantifiable costs or benefits. The general comments made, affirmed their agreement that the benefits of the proposals outweighed the costs, with the exception of the respondent that disagreed with the proposal to allow an exemption from paragraph 52 of IFRS 16 (the requirement to present all lease disclosures in a single note or section).

FRC response

25 The FRC believes that the amendments to FRS 101 will reduce the costs of compliance.

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