Financial Reporting Council

July 2019

Impact Assessment and Feedback Statement

Amendments to FRS 101 *Reduced Disclosure Framework*

2018/19 cycle

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Overview

(i) In July 2019, FRS 101 *Reduced Disclosure Framework* was amended by *Amendments to FRS 101 – 2018/19 cycle*. This Impact Assessment and Feedback Statement accompanies those amendments, which arose as a result of the annual review of FRS 101.

(ii) The Impact Assessment and Feedback Statement:

(a) sets out the Impact Assessment for these amendments, after taking account of respondents' comments on the Consultation stage impact assessment; and

(b) summarises the ten responses received to FRED 70 *Draft amendments to FRS 101 – 2018/19 cycle* and the FRC's response to them.

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.

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.

Amendments to FRS 101

4 The IASB issued IFRS 17 *Insurance Contracts* in May 2017 with an effective date of annual reporting periods beginning on or after 1 January 2021.

5 Financial statements prepared under FRS 101 are Companies Act accounts (not IAS accounts) and therefore must comply with the requirements of the Act and relevant regulations. For insurance companies, Schedule 3 to the Regulations applies. Similar requirements apply to other insurance entities.

6 In considering the requirements of IFRS 17 in the context of Companies Act accounts (not IAS accounts), it is clear that the approach and methodology that underpins IFRS 17 is fundamentally different to the one that underpins Schedule 3 to the Regulations and conflicts exist in respect of the required formats and certain measurement bases.

7 In the context of FRS 101, the FRC considered the following four options to deal with these conflicts:

(a) Do nothing.

(b) Amend the requirements of IFRS 17 within FRS 101 so that the requirements comply with Schedule 3 to the Regulations.

(c) Adapt the Schedule 3 formats to accommodate the requirements of IFRS 17.

(d) Scope relevant entities out of FRS 101.

8 Option (a) ‘do nothing’ is not a feasible option as insurance companies applying FRS 101 would not be able to comply simultaneously with both the Companies Act accounts requirements of company law and the requirements of IFRS 17.

9 With options (b) and (c), any attempt to align the requirements of IFRS 17 and Schedule 3 would not be possible. The approaches are so fundamentally different that it would be challenging to find a solution that would result in clear and useful reporting whilst still complying with both sets of requirements. This was supported by respondents.

10 Leaving no other feasible option, the defined term ‘qualifying entity’ in FRS 101 has been amended such that entities that are both required to apply Schedule 3 to the Regulations (or similar) and have contracts that are within the scope of IFRS 17 cannot be qualifying

entities, and therefore cannot apply FRS 101. This effectively removes insurers from the definition of a qualifying entity. This amendment has the same effective date as IFRS 17, which is currently accounting periods beginning on or after 1 January 2021.

11 This ensures that insurance companies that are not required to, and choose not to, prepare IAS accounts, continue to comply with company law by applying FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* with FRS 103 *Insurance Contracts*.

12 In deciding which framework to apply to the individual financial statements of the entities within a group, an entity will need to weigh up the relative costs and benefits of choosing either EU-adopted IFRS or FRS 102, taking into account its own individual circumstances (for example, which framework is currently being applied and the number and type of entities within the group).

13 Entities will need to weigh up the principal benefit of applying EU-adopted IFRS (being that all individual financial statements of group entities will be prepared on the same basis as the consolidated financial statements so additional costs on consolidation will be minimised) against the principal benefit of applying FRS 102 with FRS 103 (being the cost savings arising from the availability of certain disclosure exemptions).

14 The total costs incurred as a result of this choice will depend on which reporting framework(s) is/are currently being applied and the number and type of entities within the group. Entities that currently apply either EU-adopted IFRS or FRS 102 with FRS 103 will not incur any additional costs as a result of this proposed amendment. Entities that currently apply FRS 101 will incur additional costs regardless of which framework they move to as systems and processes will need to be changed to ensure that accurate and compliant information is captured, although much of this will be required for group compliance with IFRS 17. However, these costs will be offset by the respective cost savings associated with each framework as outlined above.

Conclusion

15 FRS 101 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. The FRC believes that the amendments to FRS 101 reflect the necessary amendments required to ensure compliance with company law for entities preparing Companies Act accounts (not IAS accounts).

Feedback Statement

16 The purpose of this Feedback Statement is to summarise the comments received in response to FRED 70 *Draft amendments to FRS 101 – 2018/19 cycle*. FRED 70 was issued in January 2019 and the comment period closed on 31 March 2019.

17 The table below shows the number of respondents and analyses them by category. One of the responses to FRED 70 was marked as confidential and therefore has not been published on the FRC website.

Table 1: Respondents by category

	No. of respondents
Accountancy firms	5
Accounting professional bodies	3
Representative bodies of preparers	2
	10

18 FRED 70 posed four questions, and the feedback and FRC response to them are summarised below.

Question 1

> Do you agree that the approach and methodology that underpins IFRS 17 is so fundamentally different to the one that underpins the formats of Schedule 3 (see paragraph 12 of the Basis for Conclusions) that for Companies Act accounts (but not IAS accounts) it is not possible to apply IFRS 17 whilst continuing to maintain compliance with the law? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed	8
Disagreed	–
	8
Did not comment	2
	10

19 All respondents commenting agreed that it is not possible to comply with IFRS 17 and Schedule 3 to the Regulations at the same time. Respondents commented that:

(a) the new format for the income statement introduced by IFRS 17, and the components of insurance liabilities that it requires are completely different from those in Schedule 3; and

(b) even with the help of additional headings and reconciliations (as would be permitted by Schedule 3) it still would not be possible to apply IFRS 17 and maintain compliance with the law, and may be misleading.

20 Three respondents suggested that a solution to consider for the future is changing the requirements of Schedule 3. They all acknowledge Schedule 3 is based on the requirements of the EU Insurance Accounts Directive and therefore cannot, currently, be changed.

Question 2

Do you agree with the proposed amendments?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	8
Neither agreed nor disagreed	2
Disagreed	–
	10

21 No respondent disagreed with the proposals. Following on from the comments above, one respondent commented that it is unsatisfactory that an entity is not permitted to apply an accounting standard because the law is obsolete.

22 Other comments made in response to this question include:

(a) equivalent Irish legal references have not been provided;

(b) the proposed amendments refer to legislation that is 'similar' to Schedule 3, and the final amendments should clarify what is considered to be similar; and

(c) as the IASB has decided to consult on a delay to the effective date of IFRS 17, there is less pressure to take immediate action and the amendments may not be necessary at all, given that insurers are highly likely to reach the same conclusion on their own.

FRC response

23 After considering all the comments made in response to Questions 1 and 2, the FRC has proceeded with the proposed amendments. This will ensure FRS 101 is internally consistent, provide clarity to insurers and assist with compliance with the law, and minimise the resources spent individually by relevant insurers in considering the matter.

24 Changes have been made in finalising the amendments in response to include examples of 'similar' legislation and provide the relevant Irish legal references.

Question 3

Do you agree that no other amendments to FRS 101 are required for the other five IASB projects outlined in paragraph 7 of the Basis for Conclusions?

Table 4: Respondents' views on Question 3

	No. of respondents
Agreed	9
Disagreed	–
	9
Did not comment	1
	10

25 All respondents commenting agreed that no other amendments to FRS 101 were required for the five IASB projects completed since the last annual review of FRS 101.

FRC response

26 No amendments have been made to FRS 101 for the five IASB projects, which have been added to Table 2 to the Basis for Conclusions FRS 101 *Reduced Disclosure Framework*.

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.

Table 5: Respondents' views on Question 4

	No. of respondents
Agreed	2
Disagreed	–
Did not comment[1]	8
	10

27 Most respondents did not comment on the Consultation stage impact assessment, and those who did agreed with it.

FRC response

28 The costs and benefits of these amendments have been included in the Impact Assessment. Overall, the amendments to FRS 101 reflect the necessary amendments required to ensure compliance with company law for entities preparing Companies Act accounts (not IAS accounts).

Other issue – framework for FRS 101

29 One respondent took the opportunity to raise a more general point in relation to FRS 101. In the respondent's view a clearer framework is required for FRS 101 to:

(a) streamline the annual review process and assist decisions about whether disclosure exemptions should be provided; and

(b) assist preparers in making judgements about whether additional disclosures might be necessary for the financial statements to give a true and fair view.

30 Such a framework should be based on the information needs of the primary users of the financial statements of entities applying FRS 101 (ie the individual entities within a group).

FRC response

31 As part of the 2015/16 cycle further consideration was given to how the principles for determining disclosure exemptions in FRS 101 should be applied in the context of qualifying entities. A further review of the principles and framework underlying FRS 101 will be started, as part of the 2019/20 or 2020/21 cycles[2].

[1] Includes those respondents that stated that they had no comments in relation to Question 4 and those who did not address Question 4.

[2] There is no evidence to suggest that the continued need for FRS 101 is questioned, and the review is likely to focus on the framework for deciding which disclosure exemptions should be provided.

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