Financial Reporting Council

July 2014

Impact Assessment and Feedback Statement

Amendments to FRS 101 *Reduced Disclosure Framework* (2013/14 Cycle)

The FRC is responsible for promoting high quality corporate governance and reporting to foster investment. We set the UK Corporate Governance and Stewardship Codes as well as UK standards for accounting, auditing and actuarial work. We represent UK interests in international standard-setting. We also monitor and take action to promote the quality of corporate reporting and auditing. We operate independent disciplinary arrangements for accountants and actuaries; and oversee the regulatory activities of the accountancy and actuarial professional bodies.

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Introduction

1 As published in its Regulatory Strategy[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.

Rationale for amending FRS 101 *Reduced Disclosure Framework*

2 FRS 101 *Reduced Disclosure Framework* (FRS 101) allows qualifying entities within groups where the parent of that group prepares publicly available consolidated financial statements which are intended to give a true and fair view to apply the recognition and measurement requirements of EU-adopted IFRS whilst reducing disclosure requirements.

3 Paragraph 20 of the Accounting Council's Advice to the FRC to FRS 101 states that FRS 101 should be updated at regular intervals to ensure that the disclosure framework maintains consistency with EU-adopted IFRS.

4 At the time of the first review of FRS 101 it had been a year since the publication of FRS 101 and a number of IASB projects had since been completed. The FRC considered this an appropriate time to perform a review of the requirements of FRS 101.

Cost / benefit analysis

5 For those groups that have chosen to prepare individual accounts in accordance with EU-adopted IFRS, FRS 101 offers a cost saving due to the reduced number of disclosures that require preparing and auditing. Feedback from listed groups supported the introduction of FRS 101, highlighting the benefits of consistent reporting across the group, and noting that the cost of producing full EU-adopted IFRS disclosure for individual group entities would be disproportionate to the use made of subsidiary financial statements, which often have few users that are external to the group.

6 Any change in accounting requirements will lead to some costs of transition, however the FRC believes that the amendments set out in *Amendments to FRS 101 Reduced Disclosure Framework (2013/2014 Cycle)* will not increase these transitional costs.

7 The FRC believes that FRS 101 provides proportionate disclosures for group entities and generates opportunities for cost savings, particularly for those entities required to prepare accounts in accordance with EU-adopted IFRS.

[1] http://www.frc.org.uk/Our-Work/Publications/FRC-Board/FRC-Regulatory-Strategy-Our-Role-and-Approach.aspx

Feedback Statement

References to the 'Accounting Council's Advice' in this Feedback Statement are to the *Accounting Council's Advice to the FRC to issue Amendments to FRS 101 Reduced Disclosure Framework (2013/2014)* which can be found alongside the final amendments to FRS 101.

1 In December 2013 the FRC issued FRED 53 *Draft Amendments to FRS 101 Reduced Disclosure Framework* (FRED 53). The comment deadline was 21 March 2014, giving respondents three months to provide their feedback. The purpose of this Feedback Statement is to summarise the comments received. The Accounting Council's Advice to the FRC sets out how the comments received have been taken into account in finalising the amendments to FRS 101.

2 The FRC received 11 comment letters, which were from the following stakeholder groups:

Table 1: Respondents by category

	No. of respondents
Accountancy firms	5
Accounting bodies	5
Representative body of preparers	1
Total	11

3 FRED 53 posed two questions and feedback is summarised below.

Question 1

Do you agree with the proposed amendments to FRS 101 *Reduced Disclosure Framework*? If not, why not?

Table 2: Respondents' views on Question 1

	No. of respondents
Agreed with all proposed amendments	2
Agreed with proposed amendments except for those related to IFRS 10 *Investment Entities*	9
Disagreed	–
Other	–
Total respondents	11

Paragraphs 4 and 6 of FRS 101

4 The respondents unanimously agreed with the insertion of paragraph 4A and the improved drafting of paragraph 6, albeit with some respondents suggesting some further drafting improvements.

5 Of particular note was a comment that entities that are not companies can qualify to apply FRS 101 and as such:

(a) the proposed drafting of paragraph 4A needs to be revised; and

(b) it is not clear whether the requirements of paragraph 6 are applicable to all qualifying entities or just companies subject to the Regulations.

6 The drafting of paragraph 4A has been revised to reflect this comment and paragraph 5(b) of FRS 101 has been amended to clarify that the Application Guidance (which amends EU-adopted IFRS to remove any conflicts with the Act and Regulations) is an integral part of the standard and is applicable to all qualifying entities applying FRS 101. The FRC believes that all financial statements prepared in accordance with FRS 101 should apply a consistent recognition and measurement basis, and therefore the Application Guidance should apply to all. Consequential amendments to paragraph (ix) of the Summary and paragraph A2.3 of Appendix II are also made.

7 In reconsidering the purpose and intent of paragraph 6, the FRC concluded that it was simply an interpretation of a specific company law disclosure requirement and it should not be mandatory for all qualifying entities, notwithstanding the explicit statement made in footnote 2. The FRC draws a distinction between the consistent application of recognition and measurement requirements, and the availability of reduced disclosures.

8 The key objective of the reduced disclosure framework is to make group reporting more efficient and FRS 101 would otherwise permit a qualifying entity that is not a financial institution to take advantage of exemptions from the disclosures requirements of IFRS 7 and IFRS 13. Companies that measure financial instruments at fair value that are subject to the requirements of paragraph 36(4) of Schedule 1 to the Regulations are restricted from taking these exemptions; entities that are not subject to the requirements of this paragraph should be able to take the exemptions. This would bring FRS 101 in line with the equivalent requirements in FRS 102.

9 Paragraphs 24 to 34 of the Accounting Council's Advice provide further explanation on these editorial amendments.

IFRS 10 *Consolidated Financial Statements* – Investment entities

10 Nine of the 11 respondents questioned whether the proposed amendment to the Application Guidance of FRS 101 in relation to IFRS 10 *Investment Entities* was necessary, given that FRS 101 is only applicable in the preparation of individual company financial statements, whereas IFRS 10 is only applicable in the preparation of consolidated financial statements.

11 This was reconsidered and the FRC agreed with respondents that the proposed amendment to the Application Guidance is not necessary, and instead further explanatory guidance is provided in Appendix II *Note on Legal Requirements*. The additional explanatory guidance clarifies that if a qualifying entity meets the definition of an investment entity under IFRS 10, it should measure investments in subsidiaries at fair value through profit or loss in its individual financial statements as required by paragraph 11A of IAS 27 *Separate Financial Statements*. Paragraphs 11 to 17 of the Accounting Council's Advice provide further explanation.

IAS 36 *Impairment of Assets* – Recoverable amount disclosures for non-financial assets

12 The respondents unanimously agreed with the proposed exemptions and no further amendments are made. Paragraphs 18 to 23 of the Accounting Council's Advice provide further explanation.

Question 2

Do you agree with the proposed effective date? If not, why not?

Table 3: Respondents' views on Question 2

	No. of respondents
Agreed	11
Disagreed	–
	11

13 The respondents unanimously agreed with the proposed effective date.

14 One respondent suggested that paragraph 11 of FRS 101 could be expanded to clarify what is stated in paragraphs 35 to 37 of the Accounting Council's Advice. The FRC considered this point but concluded that the Accounting Council's Advice along with the definition of EU-adopted IFRS was sufficiently clear, so no further amendments have been made.

Other comments

15 One respondent highlighted that it was not clear whether, in the development of FRED 53, the FRC had considered the requirement of paragraph 6(b) of IFRS 12 *Disclosure of Interests in Other Entities* which requires certain disclosures in the individual financial statements of an entity that has unconsolidated structured entities.

16 The FRC had not considered these disclosures in the development of FRED 53; however, with further consideration it believes that no exemption should be provided as these disclosures provide relevant information. Paragraphs 16 to 17 of the Accounting Council's Advice provide further explanation.

17 One respondent noted that although FRS 101 provides an explicit exemption from paragraph 10(f) of IAS 1 *Presentation of Financial Statements* which requires the preparation of a third statement of financial position, there is no explicit exemption in FRS 101 from the same requirement set out in paragraph 21 of IFRS 1 *First-time Adoption of International Financial Reporting Standards*.

18 The FRC will consider this point in more detail in the 2014/15 annual review of FRS 101 which will be performed in Q3/Q4 2014.

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