



November 2022

Amendments to FRS 100

Application of Financial Reporting Requirements

The Interpretation of Equivalence

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The Interpretation of Equivalence

Amendments to FRS 100 Application of Financial Reporting Requirements – The Interpretation of Equivalence amends an accounting standard. It is issued by the Financial Reporting Council, as a prescribed body, for application in the United Kingdom and the Republic of Ireland.

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Overview

- (i) The FRC's overriding objective in setting accounting standards is to enable users of accounts to receive high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Amendments to FRS 100

- (ii) In January 2020 the UK exited the European Union. As a result, changes were required to UK company law to ensure that it continues to operate effectively. Some of these changes also led to consequential amendments to accounting standards so that the standards remain in line with the law.
- (iii) In December 2020, the FRC issued *Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union*.
- (iv) Paragraph 9 of *Amendments to UK and Republic of Ireland accounting standards – UK exit from the European Union* noted that the Application Guidance *The Interpretation of Equivalence* to FRS 100 would be updated for changes to UK company law and decisions on equivalence.
- (v) These amendments to FRS 100 replace the previous Application Guidance and make other consequential amendments.
- (vi) These amendments reflect changes in UK company law that came into effect on IP Completion Day, defined as 11pm UK time on 31 December 2020, and the UK ceasing to meet the definition of an EEA State at the same time.

Amendments to FRS 100 *Application of Financial Reporting Requirements*

Amendments to FRS 100

1 The following paragraphs set out the amendments to FRS 100 (deleted text is struck through, inserted text is underlined).

2 Paragraph 10C is amended as follows:

10C In December 2020 amendments were made to this FRS to reflect changes in UK company law following the UK exit from the European Union. An entity shall apply these amendments for accounting periods beginning on or after 1 January 2021.

Similar amendments were made to FRS 101, FRS 102, **FRS 103**, **FRS 104** and FRS 105. If an entity applies the amendments to these FRSs early, these amendments to FRS 100 shall be applied at the same time, other than the amendments to the ~~Application Guidance: The Interpretation of Equivalence~~ and paragraph A2.4. The amendments made to the ~~Application Guidance~~ and paragraph A2.4 are effective for accounting periods beginning on or after 1 January 2021.

3 The following sub-heading and paragraph 10D are inserted as follows:

The Interpretation of Equivalence

10D In November 2022 amendments were made to this FRS to replace the Application Guidance *The Interpretation of Equivalence* to reflect changes in UK company law following the UK exit from the European Union. The amendments are effective immediately, and reflect changes in UK legal requirements that came into effect for accounting periods beginning on or after IP Completion Day, defined as 11pm UK time on 31 December 2020. The UK ceased to meet the definition of an EEA State at the same time.

4 The following sub-heading is inserted above paragraph 11:

Transitional arrangements

Amendments to Application Guidance

The Interpretation of Equivalence

- 5 The following paragraph sets out the amendments to the Application Guidance *The Interpretation of Equivalence* to FRS 100.
- 6 Paragraphs AG1 to AG10 and the related headings are deleted. Paragraphs AG1 to AG28, the related headings and sequentially numbered footnotes are inserted (subsequent footnotes are renumbered sequentially) as follows:

Introduction

- AG1 An intermediate parent in the United Kingdom whose immediate parent is not established under the law of any part of the United Kingdom may be exempt from the requirement to prepare group accounts if it meets the conditions of section 401 of the **Act**.^[*footnote1] These conditions include the company and all of its subsidiary undertakings being included in consolidated accounts for a larger group drawn up to the same date, or an earlier date in the same financial year. Those accounts and, where appropriate, the group's annual report, must be drawn up:
- (a) in a manner that is equivalent to the requirements of Part 15 of the Act (Section 401(2)(b) subparagraph (ii));
 - (b) in accordance with **UK-adopted international accounting standards** (Section 401(2)(b) subparagraph (iii)); or
 - (c) in accordance with accounting standards which are equivalent to UK-adopted international accounting standards, as determined in accordance with Commission Regulation (EC) No 1569/2007 of 21 December 2007, as amended by *The Official Listing of Securities, Prospectus and Transparency (Amendment etc.) (EU Exit) Regulations 2019* (SI 2019/707) (see paragraph AG9) (Section 401(2)(b) subparagraph (iv)).
- AG2 An intermediate parent in the Republic of Ireland whose immediate parent is not established under the law of an EEA state may be exempt from the requirement to prepare group financial statements if it meets the conditions in section 300 of the *Companies Act 2014*.^[*footnote2] These conditions include the company and all of its subsidiary undertakings being included in consolidated accounts for a larger group drawn up to the same date, or an earlier date in the same financial year. Those accounts and, where appropriate, the group's consolidated annual report, must be drawn up:
- (a) in accordance with, or in a manner that is equivalent to, the **Accounting Directive** (Section 300(4)(b) subparagraphs (i) and (ii));
 - (b) in accordance with **EU-adopted IFRS** (Section 300(4)(b) subparagraph (iii)); or
 - (c) in accordance with accounting standards which are equivalent to EU-adopted IFRS, as determined in accordance with Commission Regulation (EC) No 1569/2007 of 21 December 2007 (see paragraph AG17) (Section 300(4)(b) subparagraph (iv)).
- AG3 The concept of equivalence also appears in accounting standards applicable in the UK and Republic of Ireland. **FRS 101** and **FRS 102** permit certain exemptions from disclosures, but those exemptions are in some cases subject to equivalent disclosures being included in the consolidated financial

statements of the group in which the entity is consolidated. FRS 102 also permits an alternative measurement option for certain share-based payment transactions provided an equivalent basis is used.

- AG4 This Application Guidance provides guidance on interpreting the meaning of equivalence in the circumstances set out in paragraphs AG1 to AG3.

Assessing equivalence

- AG5 Use of the exemptions referred to in paragraphs AG1 to AG3 requires an analysis of whether the framework (or specified elements of it) applied in practice is equivalent to another framework (or specified elements of it). This Application Guidance aims to assist entities in adopting a consistent approach to this assessment. In the absence of this guidance, companies and their auditors might feel obliged to take an overly cautious approach in response to uncertainty about whether the exemptions can be used.
- AG6 It is generally accepted that references to equivalence to another framework do not mean compliance with every detail of that framework. Rather, it is necessary to consider whether the basic requirements of that framework are met (such as the requirement to give a true and fair view), without implying strict conformity with each and every provision. A qualitative approach is more in keeping with the deregulatory nature of the exemption than a requirement to consider the detailed requirements on a checklist basis.

The exemptions from consolidation

For UK entities: Section 401 of the Act

- AG7 Whether the condition in section 401(2)(b) subparagraph (iii) is met should be straightforward to determine, as it will be a matter of fact whether or not the consolidated financial statements of the group in which the UK intermediate parent is consolidated (and, where appropriate, the group's annual report) have been drawn up in accordance with UK-adopted international accounting standards. If they have not, the directors of the UK intermediate parent will need to consider whether the condition in section 401(2)(b) subparagraph (ii) or subparagraph (iv) is met instead.
- AG8 As described in paragraph AG9, the UK government has formally granted the equivalence of certain accounting standards to UK-adopted international accounting standards, which will determine whether the condition in section 401(2)(b) subparagraph (iv) is met. However, meeting the condition in section 401(2)(b) subparagraph (ii) does not depend on equivalence having been formally granted. Directors may make their own assessment of equivalence in determining whether the company qualifies for the exemption, following the principle in section 401 of the Act and this Application Guidance.

The condition in section 401(2)(b) subparagraph (iv)

- AG9 The UK government has recognised^[*footnote3] the equivalence to UK-adopted international accounting standards of the following Generally Accepted Accounting Principles (GAAP), which include those GAAPs previously recognised by the European Commission as equivalent to EU-adopted IFRS:

GAAP
GAAP of Canada
GAAP of the People's Republic of China
GAAP of Japan
GAAP of the Republic of Korea
GAAP of the United States of America
IFRS as adopted by the EU
IFRS as issued by the IASB

- AG10 At the date of publication, the UK has not formally granted the equivalence of any other country's accounting standards, including the national accounting standards of EEA states or the *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs Accounting Standard)*, to UK-adopted international accounting standards.

The condition in section 401(2)(b) subparagraph (ii)

- AG11 If neither the condition in section 401(2)(b) subparagraph (iii) nor the condition in section 401(2)(b) subparagraph (iv) is met, the directors of the UK intermediate parent may assess the consolidated financial statements of the group in which the UK intermediate parent is consolidated (and, where appropriate, the group's annual report) for equivalence with the requirements of Part 15 of the Act, in accordance with section 401(2)(b) subparagraph (ii).
- AG12 Determining whether the condition in section 401(2)(b) subparagraph (ii) is met requires an analysis of a particular set of consolidated financial statements (and, where appropriate, the group's annual report) to determine whether they are drawn up in a manner equivalent to consolidated financial statements and reports that are drawn up in accordance with Part 15 of the Act (which, in turn, requires such financial statements to be drawn up either as Companies Act accounts (ie in accordance with UK accounting standards) or as IAS accounts (ie in accordance with UK-adopted international accounting standards)).
- AG13 When assessing whether consolidated financial statements and reports of a higher parent are drawn up in a manner equivalent to consolidated financial statements and reports drawn up in accordance with Part 15 of the Act, it is necessary to consider whether they meet the basic requirements of Part 15 of the Act, in particular the requirement to give a true and fair view.
- AG14 In the context of section 401(2) subparagraph (ii), the consequences of adopting the principle in paragraph AG6 are that consolidated financial

statements of the higher parent may meet the condition if they are intended to give a true and fair view and:

- (a) are prepared in accordance with FRS 102; or
- (b) are prepared using GAAPs which are closely related to **IFRS**, subject to consideration of the effect of any differences from UK-adopted international accounting standards.

Consolidated financial statements of the higher parent prepared in any other manner should be assessed for equivalence with Part 15 of the Act based on the particular facts, including the similarities to and differences from the requirements of Part 15 of the Act.

For Irish entities: Section 300 of the *Companies Act 2014*

AG15 Whether the condition in section 300(4)(b) subparagraph (iii) is met should be straightforward to determine, as it will be a matter of fact whether or not the consolidated financial statements of the group in which the Irish intermediate parent is consolidated (and, where appropriate, the group’s consolidated annual report) have been drawn up in accordance with EU-adopted IFRS. If they have not, the directors of the Irish intermediate parent will need to consider whether the condition in section 300(4)(b) subparagraph (ii) or subparagraph (iv) is met instead.

AG16 As described in paragraph AG17, the European Commission has formally granted the equivalence of certain accounting standards to EU-adopted IFRS, which will determine whether the condition in section 300(4)(b) subparagraph (iv) is met. However, meeting the condition in section 300(4)(b) subparagraph (ii) does not depend on equivalence having been formally granted. Directors may make their own assessment of equivalence in determining whether the company qualifies for the exemption, following the principle in section 300 of the *Companies Act 2014* and this Application Guidance.

The condition in section 300(4)(b) subparagraph (iv)

AG17 A mechanism to determine the equivalence to EU-adopted IFRS of the GAAPs of third countries was established in 2007. Subsequently, the European Commission has identified as equivalent to EU-adopted IFRS the following:

GAAP	Applicable from
IFRS as issued by the IASB ^[*footnote4]	1 January 2009
GAAP of Japan	1 January 2009
GAAP of the United States of America	1 January 2009
GAAP of the People’s Republic of China	1 January 2012
GAAP of Canada	1 January 2012
GAAP of the Republic of Korea	1 January 2012

AG18 At the date of publication, the equivalence of FRS 102 or UK-adopted international accounting standards to EU-adopted IFRS has not been formally determined under the mechanism referred to in paragraph AG17.

The condition in section 300(4)(b) subparagraph (ii)

- AG19 If neither the condition in section 300(4)(b) subparagraph (iii) nor the condition in section 300(4)(b) subparagraph (iv) is met, the directors of the Irish intermediate parent may assess the consolidated financial statements of the group in which the Irish intermediate parent is consolidated (and, where appropriate, the group's consolidated annual report) for equivalence with the requirements of the Accounting Directive, in accordance with section 300(4)(b) subparagraph (ii).
- AG20 Determining whether the condition in section 300(4)(b) subparagraph (ii) is met requires an analysis of a particular set of consolidated financial statements (and, where appropriate, the group's consolidated annual report) to determine whether they are drawn up in a manner equivalent to consolidated financial statements and reports that are drawn up in accordance with the Accounting Directive.
- AG21 When assessing whether consolidated financial statements and reports of a higher parent are drawn up in a manner equivalent to consolidated financial statements and reports drawn up in accordance with the Accounting Directive, it is necessary to consider whether they meet the basic requirements of the Accounting Directive, in particular the requirement to give a true and fair view.
- AG22 In the context of section 300(4) subparagraph (ii), the consequences of adopting the principle in paragraph AG6 are that consolidated financial statements of the higher parent may meet the condition if they are intended to give a true and fair view and:
- (a) are prepared in accordance with FRS 102, subject to consideration of any departures from the Accounting Directive; or
 - (b) are prepared using GAAPs which are closely related to IFRS (for example, UK-adopted international accounting standards), subject to consideration of the effect of any differences from EU-adopted IFRS.

Consolidated financial statements of the higher parent prepared in any other manner should be assessed for equivalence with the Accounting Directive based on the particular facts, including the similarities to and differences from the requirements of the Accounting Directive.

The exemptions in financial reporting standards

Equivalent disclosures are included in the consolidated financial statements of the group

- AG23 Paragraph 8 of FRS 101 provides certain exemptions for a **qualifying entity** from the disclosure requirements of **adopted IFRS**, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. Paragraph 9 states that reference should be made to this Application Guidance in deciding whether the consolidated financial statements of the group provide disclosures which are equivalent to the requirements of adopted IFRS.
- AG24 Similarly, paragraph 1.12 of FRS 102 provides certain exemptions for a qualifying entity from the disclosure requirements of FRS 102, provided that disclosures equivalent to those required by FRS 102 are included in the consolidated financial statements of the group in which the entity is consolidated. Paragraph 1.13 states that reference shall be made to this

Application Guidance in deciding whether the consolidated financial statements of the group provide disclosures which are equivalent to the requirements of FRS 102.

AG25 In deciding whether the consolidated financial statements of the parent provide disclosures which are equivalent to the requirements of adopted IFRS or FRS 102, from which relief is provided in paragraph 8 of FRS 101 and paragraph 1.12 of FRS 102 respectively, it is intended that preparers will apply similar considerations to those set out in paragraph AG6. That is, the concept of 'equivalence' referred to in those paragraphs of FRS 101 and FRS 102 is intended to be aligned to that in, for UK entities, section 401 of the Act and, for Irish entities, section 300 of the *Companies Act 2014*. Therefore, it is necessary to consider whether the consolidated financial statements of the parent provide disclosures that meet the basic disclosure requirements of the relevant standard issued (or adopted) by the relevant standard setter, without requiring strict conformity with each and every disclosure. This assessment should be based on the particular facts, including the similarities to and differences from the requirements of the relevant standard from which relief is provided.

AG26 Disclosure exemptions for subsidiaries are permitted when the relevant equivalent disclosures are made in the consolidated financial statements, even when the disclosures are made in aggregate or in an abbreviated form, or, in relation to intra-group balances, when those intra-group balances have been eliminated on consolidation. If, however, no disclosure is made in the consolidated financial statements on the grounds of materiality, the relevant disclosures should be made at the subsidiary level if material in those financial statements.

Alternative measurement option for share-based payment transactions

AG27 Paragraph 26.16 of FRS 102 permits certain group entities to measure their share-based payment expense on the basis of a reasonable allocation of the expense for the group, provided that that expense has been calculated in accordance with FRS 102, IFRS 2 *Share-based Payment* or on an equivalent basis.

AG28 In deciding whether the share-based payment expense for the group has been calculated on a basis equivalent to FRS 102 or IFRS 2, it is intended that preparers will apply similar considerations to those set out in paragraph AG6. That is, the concept of 'equivalence' referred to in this paragraph of FRS 102 is intended to be aligned to that in, for UK entities, section 401 of the Act and, for Irish entities, section 300 of the *Companies Act 2014*. Therefore, it is necessary to consider whether the basis on which the group share-based payment expense has been calculated is in accordance with the basic requirements of the measurement basis of FRS 102 or IFRS 2 (such as the requirement to measure the goods or services received on a fair value basis), without requiring strict conformity with each and every aspect of that basis. This assessment should be based on the particular facts, including the similarities to and differences from the requirements of the relevant standard.

[*footnote1] An exemption when the immediate parent is established under the law of any part of the United Kingdom is provided by section 400 of the Act, and does not require the consideration of equivalence.

[*footnote2] An exemption when the immediate parent is established under the law of an EEA state is provided by section 299 of the *Companies Act 2014*, and does not require the consideration of equivalence.

[*footnote3] Correct at the date of publication. See *Equivalence of non-UK regimes: Financial reporting rules (DTR 4) exemption* at: <https://www.fca.org.uk/markets/primary-markets/regulatory-disclosures/equivalence-non-uk-regimes>

[*footnote4] Provided that the notes to the audited financial statements contain an explicit and unreserved statement that these financial statements comply with international financial reporting standards in accordance with IAS 1 *Presentation of Financial Statements*.

Amendments to Appendix III Republic of Ireland legal references

7 The following paragraph sets out the amendments to Appendix III *Republic of Ireland legal references* (deleted text is struck through).

8 In paragraph A3.7 the following table and its sub-heading are deleted as follows:

~~Application Guidance *The Interpretation of Equivalence*~~

	UK references	Rol references	
Paragraph	Act and the Regulations (unless otherwise stated)	Companies Act 2014	Other legislative reference
AG1 / AG9	Section 401	Section 300	
AG1	Section 401(2)(b)(i) and (ii)	Section 300(4)(b)(i) and (ii)	
AG1	Section 401(2)(b)(iii)	Section 300(4)(b)(iii)	
AG1	Section 401(2)(b)(iv)	Section 300(4)(b)(iv)	
AG4, AG5 and AG6	Section 401(2)(b)(ii)	Section 300(4)(b)(ii)	
AG6	Section 401(2)(b)	Section 300(4)(b)	

Approval by the FRC

Amendments to FRS 100 Application of Financial Reporting Requirements – The Interpretation of Equivalence was approved for issue by the Financial Reporting Council on 3 November 2022.

Amendments to Basis for Conclusions FRS 100 *Application of Financial Reporting Requirements*

1 The following paragraphs set out the amendments to the Basis for Conclusions FRS 100 *Application of Financial Reporting Requirements* (deleted text is struck through, inserted text is underlined).

2 The sub-heading above paragraph 31 is amended as follows:

~~Reduced disclosures – clarification~~ The Interpretation of eEquivalence

3 Paragraph 33A is amended as follows:

33A Amendments were made to replace the Application Guidance in December 2020 November 2022 to reflect as a result of the changes to in UK company law following the UK exit from the European Union. Together with jurisdictional decisions about equivalence made by both UK and non-UK authorities in relation to the UK's financial reporting requirements, these changes may have an impact on the determination of equivalence and hence on the availability of relevant exemptions. In drafting the revised Application Guidance the FRC considered how much guidance could be given in terms of conclusions that directors of UK and Republic of Ireland entities might reach under section 401(2)(b) subparagraph (ii) of the Act or section 300(4)(b) subparagraph (ii) of the *Companies Act 2014* respectively. The revised guidance takes into account the conclusions reached in the previous version of the guidance and is consistent with those conclusions, when appropriate. Any equivalence decisions made by directors will necessarily be dependent on individual facts and circumstances at the time the determination is made. It is possible that some decisions could change over time, for example because of changes in Part 15 of the Act or in the Accounting Directive and/or because of changes in the laws and GAAP applicable to the parent. The Application Guidance indicates that the key to determining equivalence is consideration of the basic requirements of the respective frameworks – such as the requirement to give a true and fair view – rather than of conformity with each and every provision of that framework.

4 Table 1 *Exposure drafts and consultation documents* is amended as follows (new exposure drafts are inserted in numerical order):

Exposure draft		Date of issue	Finalised as	Date of issue
FRED 80	<u><i>Draft amendments to FRS 100 Application of Financial Reporting Requirements – Application Guidance The Interpretation of Equivalence</i></u>	<u>May 2022</u>	<u><i>Amendments to FRS 100 Application of Financial Reporting Requirements – The Interpretation of Equivalence</i></u>	<u>Nov 2022</u>



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