FRC Financial Reporting Council

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Impact Assessment

FRS 100 Application of Financial Reporting Requirements
FRS 101 Reduced Disclosure Framework
FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland

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1 Introduction

1.1 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.

1.2 The FRC follows three guiding principles in producing impact assessments:

- The work that goes into the production of an impact assessment should be proportionate to the importance of the proposal that it covers.
- Where a standard is being introduced as a direct response to legislation or regulation, or as part of an agreed policy commitment to adopt international standards of accounting or auditing, the impact assessment should explain the rationale for introducing the standard and should focus on any aspects of the proposed standard which augment the relevant legislation or augment or diverge from the relevant international standard.
- Where appropriate, we are particularly alert to the impact of proposals on small businesses.

1 www.frc.org.uk/FRC-Documents/FRC/Regulatory-Strategy-Our-Role-and-Approach-%28Version.aspx.

2 Background to the Impact Assessment

2.1 The FRC is issuing FRSs 100 to 102 (the Standards) following extensive consultation to move current Financial Reporting Standards (current FRS) towards an IFRS-based framework.

2.2 FRC guiding principles require the impact assessment to explain the rationale for introducing the Standards and focus on aspects of the Standards that augment or diverge from the relevant framework (including legislation).

2.3 Small businesses are unaffected by the Standards as there are no changes[2] to the Financial Reporting Standard for Smaller Entities (FRSSE), which is the standard applicable to entities eligible for the small companies' regime.

2.4 The FRC is satisfied that the overarching case for change has been repeatedly considered. The majority of constituents have continually supported the adoption of IFRS-based accounting requirements for the UK and Republic of Ireland.

2.5 This impact assessment has three main components:

(a) the rationale for introducing the FRSs, including problem definition;

(b) aspects of the FRSs that augment or diverge from relevant IFRS or legislation; and

(c) evidence of costs and benefits of the Standards.

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[2] There are minor consequential amendments to the FRSSE as a result of the proposed withdrawal of current UK FRS. These are designed so as not to affect the accounting by small entities for transactions they currently undertake.

3 Executive summary

Rationale for introducing the Standards

3.1 The over-arching requirement of the Companies Act is that entities must prepare financial statements that present a true and fair view of their financial performance and position. Accounting standards provide guidance on the accounting and reporting necessary to achieve a true and fair view. As businesses evolve and transactions change, relevant information about an entity's financial performance or position may not be recognised in the financial statements and consequently accounting standards need to be revised to address this.

3.2 There are a number of concerns with current UK standards, including:

(a) There is no consistent framework. The current standards are a mix of Statements of Standard Accounting Practice (SSAPs) issued by the Consultative Committee of Accounting Bodies (CCAB), FRSs developed and issued by the ASB and IFRS-based standards issued by the ASB to converge with international standards.

(b) The standards permit certain transactions that are relevant to an assessment of the financial position of an entity to remain unrecognised.

(c) The standards have not kept pace with evolving business transactions and in some areas are out of date. As business practices change, so too must accounting requirements to ensure that financial statements continue to show a true and fair view.

3.3 Consultations took place on over a number of years and each time the proposals were adapted, taking into account the feedback received. The FRC believes, and the vast majority of respondents broadly agree, that current standards require revision if they are to remain 'fit for purpose' in supporting high quality financial reporting.

Options considered

3.4 The FRC considered the following options:

(a) do nothing;

(b) introduce an IFRS-based framework; or

(c) maintain and update UK accounting standards that are not based on IFRS.

3.5 The FRC did not believe that doing nothing was a viable option in the medium to long term and respondents agreed. Of the two remaining options, the introduction of an IFRS-based regime was pursued as it would result in a coherent and up-to-date framework, and be more cost-effective to produce. Appendix 1 provides more details of the alternative options considered.

Cost Benefit analysis

3.6 Overall the FRC, and the majority of affected stakeholders, believes that the introduction of FRS 101 *Reduced Disclosure Framework* and FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* as set out in the framework FRS 100 *Application of Financial Reporting Requirements*, both based on EU-adopted IFRS, will have a positive impact on financial reporting.

3.7 The benefits are impossible to quantify in a realistic way. The main quantifiable costs are the transition costs incurred by those entities[3] that will need to change aspects of their accounting and reporting. There will be variation in the transition costs for individual entities. There will also be cost savings for those entities applying the reduced disclosure framework.

3.8 In the FRC's view, the benefits of more consistent, transparent information for decision-making (the adoption of an IFRS-based framework will allow better benchmarking and comparison between entities; the enhanced transparency may also lead to a reduction in the cost of borrowing because users have easy access to understandable, comparable information) outweigh the transition costs of implementing FRSs 100 to 102.

[3] Accounting and auditing firms' costs are ultimately assumed to be borne by the reporting entities.

4 Rationale for introducing the Standards

The problem under consideration

4.1 The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve buying, selling and holding equity and debt instruments, and providing or settling loans and other forms of credit. Other parties, such as management, regulators and members of the general public, may also find general purpose financial reports useful.

4.2 Maintaining and improving the quality of financial reporting is important for maintaining confidence in financial markets and the wider economy.

4.3 Currently, UK companies, other than those required by the IAS Regulation (EU Regulation 1606/2002) to prepare 'IAS accounts' (and charitable companies, which must follow UK accounting standards) have a choice between preparing IAS accounts and following UK accounting standards ('Companies Act accounts'). Entities, other than companies, in the UK and RoI operating under other legal frameworks that require the preparation of financial statements showing a true and fair view of the entities' financial performance and financial position also apply UK accounting standards; they may not be prohibited from applying EU-adopted IFRS if they so choose.

4.4 The Standards do not relate to financial statements required by the Regulation to be prepared in accordance with EU-adopted IFRS.

The present need to revise UK accounting standards

4.5 Accounting standards evolve over time to ensure that an entity's financial information continues to reflect the substance of the transactions entered into, as business practices change and new circumstances come to light. The ASB[4] began a phased-approach to convergence of UK accounting standards with IFRS in 2003, however, this was subsequently paused. One consequence of this is that UK accounting standards have not evolved sufficiently in the last decade, in particular with regard to accounting for financial instruments by entities without listed debt or equity.

4.6 In the FRC's view, current FRSs are not tenable in the longer term:

(a) There is no consistent framework. The current standards are a mix of Statements of Standard Accounting Practice (SSAPs) issued by the Consultative Committee of Accounting Bodies (CCAB), FRSs developed and issued by the ASB and IFRS-based standards issued by the ASB to converge with international standards.

(b) They permit certain transactions that are relevant to an assessment of the financial position of an entity to remain unrecognised.

(c) They have not kept pace with evolving business transactions and in some areas are out of date. As business practices change, so too must accounting requirements, to ensure that financial statements continue to show a true and fair view of the financial performance and position of an entity.

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[4] The Accounting Standards Board (ASB) was the prescribed body for issuing accounting standards prior to 2 July 2012.

4.7 Evidence gathered from our consultations and outreach activities support this view.

"We recognise the need to replace UK GAAP as it currently stands. Maintaining the status quo is not an option. The current patchwork of UK standards, including SSAPs, UITF Abstracts, FRSs developed by the ASB and FRSs based on IFRSs, requires a fundamental overhaul to provide a coherent framework. The current requirements of UK GAAP are deficient and for many years students of the ACA qualification have been taught only IFRSs. UK GAAP is a dying language." – Deloitte comment letter dated 27 April 2012

"UK GAAP is now outdated and in places lacks coherence, and action to rectify the situation is long overdue. For example, certain financial instruments currently remain unrecognised for many entities. Side-stepping plans for revision would merely serve to highlight those areas where improvement and updating are unavoidable." – The Institute of Chartered Accountants in England and Wales (ICAEW) comment letter dated 30 April 2012

4.8 Examples of problems the proposed financial reporting framework aims to address include:

(a) Other than for quoted companies and groups (and those entities choosing to adopt the fair value accounting rules in company law), current FRSs provide inadequate guidance on accounting for financial instruments. In particular, derivatives (including interest rate swaps and foreign exchange forwards) remain off-balance sheet. This results in a balance sheet that does not reflect all the relevant information about an entity's financial position.

(b) Inconsistencies can arise between standards based on IFRS and older accounting standards that are not based on IFRS. For example, an additional amendment to FRS 3 *Reporting Financial Performance* was needed to clarify the treatment of fair value gains and losses on financial instruments in the performance statement.

(c) Many accountants and users need to maintain knowledge of both UK accounting standards and IFRS (and the differences), but more recently trainee accountants are mainly being examined on IFRS. This can have a detrimental impact on intellectual mobility and training needs and associated costs, and create a disconnect for some trainee accountants between their professional studies and their practical experience.

(d) It is not easy to compare the financial position and performance of large private companies with quoted or foreign competitors. As a result of UK accounting standards and IFRS not being derived from the same framework, the barriers to switching between the two are greater than need be.

The objectives and intended effects of the Standards

4.9 **The overriding objectives and intended effects of the Standards are 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**.

4.10 The FRC has achieved this by providing succinct financial reporting standards that:

(a) have consistency with global accounting standards through the application of an IFRS-based solution unless an alternative clearly better meets the overriding objective;

(b) reflect up-to-date thinking and developments in the way businesses operate and the transactions they undertake;

(c) balance consistent principles for accounting by all UK and Republic of Ireland entities with practical solutions, based on size, complexity, public interest and users' information needs;

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

Options considered

4.11 The FRC considered the following options:

(a) do nothing;

(b) introduce an IFRS-based framework; or

(c) maintain and update UK accounting standards that are not based on IFRS.

4.12 The FRC did not believe that doing nothing was a viable option in the medium to long term and respondents agreed. Of the two remaining options, the introduction of an IFRS-based regime was pursued as it would result in a coherent and up to date framework, and be more cost-effective to produce and maintain. There has been majority support from respondents for the proposed move to an IFRS-based framework from the outset of this project.

4.13 Appendix 1 provides more details of the alternative options considered and notes that updating UK accounting standards without using IFRS as a basis was not supported by respondents.

The key proposals

4.14 The FRC believes that the problems with current standards, identified above, would be best addressed by the adoption of a suite of IFRS-based UK accounting standards.

4.15 There are two key components to the new accounting framework:

(a) FRS 101 *Reduced Disclosure Framework*, which provides a reduced disclosure framework for qualifying entities; in particular it allows subsidiaries of groups preparing consolidated financial statements in accordance with EU-adopted IFRS to apply accounting policies consistent with the group accounts, but to take advantage of disclosure exemptions to reduce the cost of preparing financial statements.

(b) FRS 102 *The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland*, which replaces the majority of current UK accounting standards, adopts an IFRS-based framework with proportionate disclosure requirements and improves the accounting and reporting for financial instruments. It is based on the IFRS for SMEs that was published by the IASB in 2009.

5 Aspects of the Standards that augment or diverge from relevant IFRS or legislation

Aspects that augment relevant legislation

5.1 The Standards do not augment relevant legislation.

Aspects that augment or diverge from the relevant IFRS

FRS 101 *Reduced Disclosure Framework*

5.2 FRS 101 permits qualifying entities to apply accounting policies that are consistent with EU-adopted IFRS, but allows exemptions from certain disclosure requirements. As a result it diverges from IFRS by permitting reduced disclosures.

5.3 This approach has also been adopted in other countries, notably Australia, through the application of Australian Accounting Standards – Reduced Disclosure Requirements (RDR) by a wide range of entities in both the private and public sectors in preparing general purpose financial statements:

(a) for-profit private sector entities that do not have public accountability;

(b) all not-for-profit private sector entities; and

(c) public sector entities other than the Australian Government and State, Territory and Local Governments.

5.4 The FRC has issued the Reduced Disclosure Framework to promote efficiency within groups, taking into account the often limited use for subsidiary entity financial statements, or the separate financial statements of the parent entity when presented with consolidated accounts.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*

5.5 The FRC used the IFRS for SMEs (issued by the IASB) as a starting point in developing FRS 102 for use in the UK and Republic of Ireland (RoI), but made amendments to create a standard that is fit for purpose for business practices and information needs in the UK and RoI. In making amendments the FRC incorporated aspects of EU-adopted IFRS wherever possible so that FRS 102 as a whole is an IFRS-based standard.

5.6 Through consultation with constituents, the FRC identified certain circumstances in which consistency with IFRS was not appropriate or achievable. These included amendments essential for compliance with the law or areas where an alternative approach clearly better meets the FRC's overriding objective of high-quality understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.

Compliance with EU Accounting Directives and Company Law

5.7 It was necessary to make amendments to the IFRS for SMEs for two reasons. Firstly to ensure that FRS 102 complied with company law, and secondly to restrict the ability of reporting entities to choose options that are incompatible with company law. The FRC considers these amendments essential.

Income Tax

5.8 In developing the IFRS for SMEs, the IASB aimed to simplify requirements for deferred taxation when compared with IAS 12 *Income Tax*, recognising that not all reporting entities routinely maintain 'tax balance sheets'. In doing so, the IASB incorporated proposals from an exposure draft of proposed amendments to IAS 12. However, subsequently the IASB decided not to pursue the ideas from the exposure draft and, as a result, the IFRS for SMEs is not based on extant IFRS in this area. Initially the ASB proposed replacing the income tax section of the IFRS for SMEs with IAS 12, however, respondents felt this was over-complicated for the entities within the scope of FRS 102. As a result the FRC has developed its own 'timing differences plus' approach.

Public benefit entities

5.9 The IFRS for SMEs does not address the financial reporting requirements specific to public benefit entities. Following consultation with these constituents, amendments were made to include requirements for transactions specific to public benefit entities.

6 Cost benefit analysis

6.1 The FRC believes the Standards are a cost-effective solution for financial reporting in the UK and Republic of Ireland.

6.2 From evidence gathered through consultations and outreach activities, the vast majority of constituents shared the FRC's view:

"Although there will be cost to business and others at the point of transition, introducing a more comprehensive and coherent framework should act to improve reporting and is likely to mean reduced costs in years to come." – The Institute of Chartered Accountants in England and Wales (ICAEW) comment letter dated 30 April 2012

"The current proposals balance the aims of consistency and comparability with a pragmatic assessment of costs and benefits, both on transition and thereafter." – Grant Thornton comment letter dated 30 April 2012

Cost associated with the implementation of the Standards

Business as usual

6.3 In order to consider the incremental costs of implementing the Standards, it is necessary to consider what constitutes 'business as usual' for preparers and their advisers.

6.4 All companies are required, by company law, to prepare annual financial statements that give a true and fair view of the assets, liabilities, financial position and profit or loss of the company. This requirement has not changed.

6.5 However, the concept of true and fair is a dynamic and evolving one. These Standards represent the latest in a long line of new, or revised, accounting standards aimed at ensuring that financial statements continue to provide a true and fair view of the financial performance and position of companies, in the context of the business environment of the day.

6.6 Those preparers, auditors and users of financial statements who are qualified accountants are required by their professional bodies to undertake appropriate continuing professional development (CPD) each year. Each professional body has its own requirements, but CPD is generally focused on identifying current and future development needs.

6.7 For accountants involved in preparing, auditing or using financial statements, one would expect annual CPD activities to include ensuring that their knowledge of relevant accounting and reporting requirements is kept up to date.

6.8 Therefore, the costs of a 'normal' level of change should be regarded as 'business as usual' and the impact assessment will focus on the extent to which the costs of implementing the Standards are in excess of this.

Costs of transition

6.9 Any change in accounting requirements will lead to some costs of transition. However, the FRC's proportional approach to UK accounting standards means that smaller entities applying the FRSSE will not be affected by these changes. In addition, those companies that do not undertake complex transactions will incur minimal costs. For groups, there are expected to be cost savings as a result of applying FRS 101.

6.10 The most significant costs of applying the Standards are likely to be incurred by entities that have a significant number of complex transactions (particularly financial instruments), but have not previously applied either EU-adopted IFRS or FRS 26 *Financial Instruments: Recognition and measurement*.

6.11 The cost to any individual entity (or group) of applying the Standards will depend on a variety of factors, including the following:

(a) the current financial reporting applied (i.e. EU-adopted IFRS, UK accounting standards or FRSSE);

(b) whether the entity is a financial institution;

(c) the entity's size; and

(d) the volume and complexity of the entity's transactions.

6.12 As a result it is not possible to determine with any degree of accuracy an average cost or even a meaningful range of costs for entities implementing the Standards.

6.13 In its earlier Consultation Stage Impact Assessment, for FREDs 43 and 44[5], the ASB estimated the cost of implementing the Standards at approximately £80 million. Other than from registered providers of social housing and some financial institutions not currently reporting in accordance with EU-adopted IFRS the ASB received little specific feedback on the costs that might be incurred. From the comments received from other respondents, it was felt that the costs identified by registered providers of social housing and financial institutions may have been overstated.

6.14 The FRC believes that the changes made as a result of the consultations will reduce the costs of implementation and respondents to FREDs 46 to 48 did not disagree. Those entities applying FRS 101 should see a reduction in costs and FRS 102 has the potential to reduce costs for all preparers of financial statements through better understanding of the requirements and therefore the ability to apply them more easily and cost-effectively. The FRC believes that the costs of implementation will be recovered over time.

6.15 Appendix 2 sets out a number of case studies representing typical scenarios of requirements before and after the introduction of the Standards. The majority of the costs identified will only be incurred in the year of transition. The case study scenarios are not exhaustive. Other entities, or scenarios, that are not directly addressed in the case studies should still be able to draw an analogy with one or more of the case studies presented.

Benefits associated with the implementation of the Standards

FRS 101 ***Reduced Disclosure Framework***

6.16 FRS 101 allows entities within listed groups to apply the recognition and measurement requirements of EU-adopted IFRS whilst reducing disclosure requirements and therefore costs of preparing accounts.

6.17 At present where entities within listed groups prepare individual accounts in accordance with UK accounting standards, they must also prepare financial information for group consolidation purposes that is consistent with EU-adopted IFRS. FRS 101 will eliminate the need to prepare financial information on two different accounting bases (albeit that there is a degree of commonality) and efficiencies will arise in applying a single set of recognition and measurement criteria to all financial reporting.

[5] FRED 43 *Application of Financial Reporting Standards* and FRED 44 *Financial Reporting Standard for Medium-sized Entities* were published in October 2010 by the Accounting Standards Board.

6.18 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.

> *"We [therefore] fully supported the ASB's proposals in FREDs 43 and 44 for a separate regime for subsidiaries of entities applying EU-adopted IFRS and welcome its inclusion in the latest FREDs. Placing the Reduced Disclosure Framework (RDF) into a separate self-contained accounting standard will provide clarity for preparers, therefore benefitting both the future implementation process and on-going reporting. We believe that the approach proposed by the ASB will clearly achieve the stated objective of promoting efficiency within groups..." – Shell International comment letter dated 30 April 2012*

6.19 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. These cost savings should imply greater returns for investors.

FRS 102 *The Financial Reporting Standard Applicable in the UK and Republic of Ireland*

6.20 FRS 102 introduces an IFRS-based framework to all UK entities other than those applying the FRSSE. FRS 102 is a proportional solution to financial reporting. A principles-based approach is applied to certain disclosure requirements, requiring information that enables users to evaluate the significance of transactions without mandatory prescriptive detail. Further, FRS 102 will improve the financial reporting of financial instruments.

6.21 FRS 102 will ease the reporting burden for entities applying it because:

(a) UK accounting standards (and associated literature) currently run to more than 2,400 pages. Virtually all of these requirements will be withdrawn and replaced with FRS 102 which is set out in a little over 300 pages providing a succinct framework. This reduction in the volume of literature will make it easier for preparers, auditors, advisers and users to maintain familiarity with all the requirements.

(b) The IASB intends to update the IFRS for SMEs on a three–year cycle. Subsequently, the FRC will consider whether to make corresponding changes to FRS 102 and consult accordingly. This will lead to periods of stability between each potential revision, rather than the possibility of changes being made annually and consequently education and training costs will be reduced.

High-quality financial reporting

6.22 High-quality accounting standards deliver relevant, useful information, which informed users need for making investment decisions. They enhance comparability, transparency and disclosure. High-quality standards produce financial information that reports events when they occur (not before or after) and as a result actual volatility is not smoothed.

6.23 FRS 102 updates current FRSs using an IFRS-based framework, streamlining it into a single succinct standard. It uses up-to-date accounting language consistent with that taught to trainee accountants and reflects developments in the way businesses operate, in particular with significant improvements in the requirements relating to the recognition of financial instruments.

Reporting of financial instruments

6.24 Other than for those entities applying FRS 26 (IAS 39) *Financial Instruments: Recognition and Measurement,* the recognition and measurement of financial instruments in the UK has not changed significantly in nearly 20 years[6]. Yet during this time we have seen the development of more complex financial instruments and a greater appreciation of the risks and rewards that might be associated with them. When the ASB issued FRS 26, its intention was to extend the requirements to a broader group. Subsequently, it decided that FRS 26 was not a proportionate solution for all entities, and further developments in this area were expected as part of any future convergence with EU-adopted IFRS.

6.25 At present, other than for those entities applying FRS 26, many financial instruments are not recognised; financial statements are therefore not providing sufficient information about the risk associated with financial instruments. In setting recognition and measurement requirements, FRS 102 brings in significant improvements in the transparency of financial reporting of financial instruments.

6.26 FRS 102 requires an entity to determine which of its financial instruments are basic, and which are not basic. It then applies different measurement and disclosure requirements to financial instruments in each category:

(a) Basic financial instruments are generally measured initially at transaction price, and subsequently at amortised cost using the effective interest rate method. Disclosure requirements are based on entities applying a principle of enabling users to evaluate the significance of financial instruments and will therefore depend on the instruments held by an entity.

(b) Non-basic financial instruments are measured at fair value.

6.27 Much has been said about the extent to which the use of fair value, in aiming to reflect conditions existing at the reporting date, creates volatility in financial reporting. The FRC believes that FRS 102 is a proportionate solution for non-basic financial instruments in order for users to understand their effects. The accounting for financial instruments at fair value is a proportionate solution which addresses the concern that the financial statements fail to reflect the risk. The disclosures required by FRS 102 should provide lenders and other users with more information about borrowings, and the extent to which financial instruments are used in the business and contribute to risk management.

Intellectual mobility, education and training

6.28 In the UK, as part of their professional qualification, accountants are trained in IFRS. However, those not qualifying recently were trained in UK FRSs. This has led to two streams of accountants:

(a) those who trained in UK FRSs and therefore need to undertake additional CPD training where their role now requires them to apply IFRS; and

(b) those who trained in IFRS, but prepare or audit financial statements based on UK accounting standards, and therefore require additional training on UK FRSs.

6.29 Implementation of the Standards will mean that all companies, other than those permitted to use the small companies' regime, will report in accordance with a framework based on IFRS. As a result newly trained accountants will no longer need retraining on current FRSs, which will generate on-going savings for their employers, or allow training budgets to be allocated to other development areas.

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[6] FRS 4 *Capital instruments* was issued in December 1993.

6.30 Those more familiar with current FRSs will need to become fluent in IFRS terminology, but this should be regarded as a part of on-going CPD.

6.31 In addition, all accounting will be based on a common framework, promoting consistency, but also reducing scope for confusion and the risk of unintentionally applying one framework through the perspective of the other.

Comparison with competitors

6.32 At present some large private companies have decided to apply EU-adopted IFRS voluntarily, so that their reported results and financial statements are presented in a manner consistent with their quoted competitors. Implementation of the Standards will improve consistency for all reporting entities with quoted competitors, and also with quoted companies from other parts of the EU with whom they may be competing for contracts.

Other potential consequences

Tax and distributable reserves

6.33 Many quoted companies required to apply EU-adopted IFRS in their group financial statements have chosen to continue with UK accounting standards in the individual financial statements of the parent company and subsidiaries. The reasons often cited for this include the potential for changes in the timing of tax payments and a possible inability to pay dividends because of a 'dividend trap' or other impacts on distributable reserves, such as the removal of discounting in measuring deferred tax liabilities.

6.34 Inevitably there is a risk that taxable profits (and hence current tax payable) will vary for entities reporting a different profit figure after the implementation of the Standards. However, this is a matter for the tax authorities. The FRC has been working closely with HMRC to ensure it is aware of the changes and the potential implications for its work.

6.35 The determination of profits available for distribution is a complex area where accounting and company law interface. In determining profits available for distribution an entity may refer to guidance from the Institute of Chartered Accountants in England and Wales and Institute of Chartered Accountants of Scotland (Technical Release 02/10). This is not a matter for the FRC, although it should be noted that some of the early issues relating to dividend traps were resolved though amendments to IFRS. The FRC will encourage the Department of Business, Innovation and Skills (BIS) to review the law in this area when a suitable opportunity arises.

Regulated industries – reporting to regulators

6.36 Some reporting entities, both quoted and unquoted, operate in regulated industries, where financial information is required as part of the regulatory regime. This financial information may, or may not, be based on an entity's statutory financial reporting. It is the responsibility of the regulator to determine the information it needs and, if necessary, how profits or losses are defined for regulatory purposes. In such circumstances regulators may determine that a separate calculation of regulatory profit should be made. Applying the Standards may result in entities reporting a different profit figure, or net assets, to that which they would have reported when applying the previous standard.

Appendix I – Other solutions considered but rejected

Option 1 – Do nothing

A1.1 Current FRSs are a mixture of 'old' FRSs and 'new' standards that are based on IFRS. This leads to the possibility of unintended consequences where standards were not developed from a consistent framework, and 'gaps' in the literature, for example, where currently only quoted companies are required to account for financial instruments.

A1.2 This position is not sustainable as accounting standards need to keep pace with business developments and incorporate the best of modern thinking.

A1.3 There are costs associated with doing nothing as follows:

(a) Additional risks arise from failing to strive continually to improve standards of financial accounting and reporting; for example, the risk of reduced availability of finance/investment and of corporate failure increases if users do not have access to suitable financial information.

(b) The FRC believes the Standards offer significant savings to quoted groups, through FRS 101.

A1.4 The FRC does not consider 'do nothing' a viable option and a vast majority of respondents agreed. If the FRC was not issuing these Standards based on an IFRS framework, it would need to undertake a comprehensive review and update of current FRSs, with the same objective of improving the quality of financial reporting, whilst providing a cost-effective solution. This is likely to give rise to significant changes being proposed to existing FRSs.

Option 2 – UK accounting standards not based on IFRS

A1.5 Throughout the ASB's and FRC's consideration of its plans for the future of financial reporting in the UK and RoI there has been majority support from respondents for the proposed move to an IFRS-based framework.

A1.6 The benefits of maintaining FRSs not based on IFRS would be:

(a) those already familiar with current FRSs would not need to become familiar with IFRS language; and

(b) standards that were drafted within the UK legal framework.

A1.7 The costs associated with having FRSs not based on IFRS include:

(a) greater difficulty for entities in switching between FRSs and EU-adopted IFRS, including reduced efficiency for groups in preparing consolidations;

(b) increased costs and intellectual difficulty for accountants, auditors and users in remaining fluent in two different accounting frameworks, and justifying different accounting for the same transactions, particularly in a group situation;

(c) it will not be possible for FRSs to remain uninfluenced by IFRS. An IFRS solution is available, accountants will be used to IFRS and inevitably the FRSs will be influenced by IFRS, such that it will implicitly become an IFRS-based framework; and

(d) additional standard-setting resources would be needed to develop and maintain FRSs to sit alongside EU-adopted IFRS for quoted groups, diverting resources away from the FRC's role in influencing the IASB.

A1.8 This option was not supported by respondents and has not been pursued by the FRC. In fact, as noted above, it seems likely that this option is, in practice, not significantly different from the Standards now issued.

Option 3 – UK accounting standards based on IFRS with minimal amendments

A1.9 The majority of respondents have been continually supportive of the UK adopting accounting standards based on IFRS. In its October 2010 FREDs the ASB proposed a framework for financial reporting based on entities applying either EU-adopted IFRS or the FRMSE (which was the IFRS for SMEs with minimal amendments). Although respondents continued to support UK accounting standards being based on EU-adopted IFRS, a number of aspects of the proposals were opposed. Therefore, as making minimal amendments to the IFRS for SMEs was not supported by respondents, it was no longer pursued.

Appendix II – Case study scenarios

Scenario		Approximate Number of UK entities[1]
Company A	Small, family run business	1,959,000
Company B	Medium-sized company operating solely in the UK	10,000
Company C	Medium-sized company with overseas operations	30,000
Company D	Large unquoted parent company	
– Company D.1	Prepared group, separate and individual financial statements in accordance with UK accounting standards	10,000
– Company D.2	Prepared group accounts under EU-adopted IFRS, now reverts to FRS 101 for parent and subsidiary accounts	100
Company E	Quoted company using EU-adopted IFRS	
– Company E.1	Separate and individual financial statements transition from current FRS to FRS 101	1,700
– Company E.2	Separate and individual financial statements transition from EU-adopted IFRS to FRS 101	5,500
Entity F	Building society	38[2]
Entity G	Credit union	1,200[3]
Entity H	Registered provider of social housing	1,500[4]
Entity I	Large charity	185,202[5]
Entity J	Pension scheme	9,406[6]

[1] Data on companies has been taken from the BIS consultation 'Amendment of restrictions for companies moving between IFRS and UK GAAP' Impact Assessment, which in turn uses data from the FAME database. The split of the 50,000 companies applying UK FRSs between B, C and D.1 is an assumption.

[2] This excludes those Building Societies that already apply EU-adopted IFRS.

[3] The Financial Services Authority regulates nearly 500 credit unions in the UK (*www.fsa.gov.uk/smallfirms/your_firm_type/credit/*), although Co-operatives UK reports 716 credit unions (see link below), and the Irish League of Credit Unions represents the interests of over 508 credit unions in Ireland (*www.creditunion.ie/whoweare/#d.en.127*).

[4] Taken from National Housing Federation response to FREDs 43 and 44 (CL 97).

[5] 161,840 charities registered in England and Wales (Charity Commission website 5 October 2011), 23,362 charities registered in Scotland (OSCR website 5 October 2011). The Charity Commission notes that 1.1% of the charities it regulates have turnover in excess of £5,000,000. Therefore it has been assumed that 99% of charities will apply the FRSSE and only 1% will apply the FRS.

[6] Based on data from the Pensions Regulator there are 8,099 schemes in the UK. *www.thepensionsregulator.gov.uk/docs/annual-report-and-accounts-2009-2010.pdf*. Based on data from The Pensions Board there are 1,307 schemes in the Republic of Ireland. http://www.pensionsboard.ie/en/Publications/Annual_Report/Annual_Report_and_Accounts_2009.pdf.

Company A – Small, family-run company

Scenario

Company A is a small family-run company, eligible to apply the small companies' regime. It has engaged accountants to prepare its financial statements, which are in accordance with the FRSSE, and it is not required to, nor does it choose to, have an audit.

Applicable accounting standards

Company A will continue to apply the FRSSE.

Costs of implementing the applicable accounting standards

As there are only consequential changes to the requirements of the FRSSE, unless an entity enters into new transactions, there are unlikely to be additional costs of preparing financial statements for Company A.

Company A does not incur any 'business as usual' costs in keeping up to date with accounting developments.

If Company A were to enter into a new type of transaction, and therefore needed to determine its accounting policy for these transactions for the first time, the proposed amendments to the FRSSE may require it to have regard to different guidance to that which existed previously. However, this is a consequence of a business decision to enter into new transactions and the costs associated with determining the accounting for them arise directly from the transactions and not by the introduction of the Standards.

Company B – Medium-sized company operating solely in the UK

Scenario

Company B is a medium-sized company, with annual turnover of approximately £20 million. Its business operates solely in the UK and is not directly exposed to changes in foreign exchange rates. Any borrowings are standard operating leases of equipment or loans from a bank without complex terms and conditions.

Company B employs a small finance team, but takes advice from its auditors regarding the presentation of its financial statements.

Applicable accounting standards

Company B will apply FRS 102.

As Company B only has basic financial instruments and there is no change to accounting for these, it is therefore expected that changes to the financial statements will be minimal.

Costs of implementing the applicable accounting standards

Company B's finance staff will need to educate themselves and identify any adjustments to the way transactions and/or other financial data are recorded, for example in order to disclose the total future minimum lease payments rather than payments due next year.

As the recognition and measurement of items in the financial statements are not expected to be significantly different, although the notes to the financial statements may provide additional transparency on certain items, users are not expected to incur any incremental costs in understanding the financial statements.

Company C – Medium-sized company with overseas operations

Scenario

Company C is a medium-sized company. It is an importer and exporter, conducting many transactions in currencies other than GBP. As a result Company C enters into forward foreign exchange contracts for a proportion of its cash flows (both inflows and outflows).

Company C has a small finance team but also has an experienced treasurer. It takes advice from its auditors on the presentation of its financial statements.

Company C has not voluntarily adopted FRS 26 (IAS 39) *Financial instruments: recognition and measurement* in the past.

Applicable accounting standards

Company C will apply FRS 102.

The forward foreign exchange contracts are non-basic financial instruments and therefore Company C must apply the requirements of Section 12 *Other Financial Instruments Issues* of FRS 102. This will include recognising the forward foreign exchange contracts at fair value and providing the required disclosures.

Company C previously reduced its exposure to volatility in the profit and loss account by accounting for foreign currency transactions at the rates of exchange specified in those forward foreign exchange contracts as set out in SSAP 20 *Foreign currency translation*. To achieve an element of matching gains and losses on foreign currency transactions going forward, Company C will need to apply hedge accounting. Company C decides not adopt hedge accounting because the administrative burden of maintaining the relevant documentation outweighs the benefits of the accounting treatment permitted.

Costs of implementing the applicable accounting standards

The most significant change in accounting will be the need to recognise forward foreign exchange contracts at fair value when they are taken out and recognise fair value gains and losses on an on-going basis, rather than just on settlement. Depending on how Company C manages its treasury operations, the ease with which its Treasury Management System (TMS) is/can be integrated with the accounting system to produce the required accounting entries and the remaining useful life of the TMS, the cost of any system changes could be minimal.

Company C's treasurer will need some training in the new accounting requirements and procedures, and will need to consider how the forward foreign exchange contracts should be measured.

Company C may be assisted by its accounting advisors or auditors in ensuring all relevant presentation and disclosure changes, particularly relating to financial instruments, are reflected in the financial statements. It will, therefore, benefit from the economies of scale of the auditors training its staff, but there are likely to be a one-off increase in audit fees.

The financial statements will contain new information on Company C's exposure to foreign exchange risk and how it manages that risk. Users will need to familiarise themselves with this new information and determine how it affects their view of the prospects of Company C. However, those users considering the financial statements for the purposes of making lending decisions will have better information on risks arising from financial instruments and the underlying foreign exchange risk.

Company D – Large unquoted parent company

Scenario

Company D is a large unquoted parent company. It has a number of subsidiaries and is the ultimate parent company within its group. Company D's business is based in the UK, although it has a small number of transactions in foreign currency for which it takes out forward foreign exchange contracts. It has financing arrangements (bank loans and leases) which are considered to be basic financial instruments.

Company D has a well-resourced finance department.

Scenario D.1 – Transitioning from current FRS to FRS 102

Company D previously prepared its financial statements in accordance with UK accounting standards (current FRS).

Applicable accounting standards (group and separate financial statements)

Company D will apply FRS 102 to its separate and group financial statements.

Financial instruments

The forward foreign exchange contracts are non-basic financial instruments and therefore Company D must apply the requirements of Section 12 *Other Financial Instruments Issues* of FRS 102. This will include recognising the forward foreign exchange contracts at fair value and providing the required disclosures.

For its basic borrowings, Company D will apply Section 11 *Basic Financial Instruments* and recognise its loans at amortised cost based on the effective interest method. This may require some adjustment to the book value brought forward under UK accounting standards. Disclosures may also be more extensive, but the information required should be readily available.

Company D reduced its exposure to volatility in the profit and loss account by accounting for foreign currency transactions at the rates of exchange specified in those forward foreign exchange contracts as set out in SSAP 20 *Foreign currency translation*. To achieve an element of matching gains and losses on foreign currency transactions going forward, Company D decides to adopt a policy of hedge accounting. It believes that the administrative burden is outweighed by the benefits of the accounting treatment permitted.

Business combinations

Company D has decided not to apply Section 19 *Business Combinations and Goodwill* of FRS 102 to business combinations prior to the transition date. The goodwill balance brought forward will continue to be amortised, although Company D should reassess its useful life to ensure it complies with the requirements of FRS 102.

Leases

Company D has a number of leases. It will need to determine whether there will be any change in their classification as either operating or finance leases and, if so, determine the accounting treatment on transition. Changes in classification are most likely to occur if Company D has medium-term operating leases of property (based on the term at inception). In addition, any lease incentives will need to be reassessed to ensure they are accounted for over the correct period.

Other transactions

Company D will need to review the disclosures in its financial statements. It may need to revise the drafting in some areas, for example accounting policies, including explaining any transitional options and exemptions taken.

There are likely to be other areas where the recognition or measurement of items could be different under FRS 102, when compared with current FRSs, for example, deferred tax.

Applicable accounting standards (subsidiaries individual financial statements)

All of Company D's subsidiaries will apply FRS 102 in the preparation of their financial statements. The impact for the subsidiaries will be the same as for Company D but the degree will vary depending on the extent to which each subsidiary has the transactions that led to changes in accounting treatment. In particular, accounting for business combinations (and goodwill) will only be relevant to those subsidiaries that are also parent entities if they prepare group financial statements or have acquired assets and liabilities constituting a business.

Costs of implementing the applicable accounting standards

The costs of implementing the changes are likely to be minimal, or fall within the costs that would be incurred each year in preparing the financial statements.

Company D's auditors are likely to be a top 20 firm of Chartered Accountants and Registered Auditors and as such will already have clients that apply EU-adopted IFRS and therefore should have an understanding of the requirements in FRS 102 which is based on IFRS. They will have a well-established process for updating staff and resources and will already have already incurred costs on this. In the year of transition it is likely that some additional accountancy advice and audit fees will be incurred by Company D, associated with any restatements and review of work demonstrating that areas of possible differences have been considered adequately.

External users of Company D's financial statements are likely to include customers and suppliers, possibly competitors, lenders (banks and leasing companies) and rating agencies. Depending on the way they want to use the information, and whether they are already familiar with the financial statements of quoted companies, there may or may not be some costs in understanding the new information presented. This should be offset by the benefits of decision-making based on more transparent and proportionate information.

Scenario D.2 – Voluntary adoption of EU-adopted IFRS for group accounts, individual accounts transitioning from current FRS to FRS 101

Company D previously chose to prepare its group financial statements in accordance with EU-adopted IFRS[7] in order for its financial reporting to be comparable to its quoted competitors. In terms of company law, Company D has been producing 'IAS group accounts', and now has the choice to revert to 'Companies Act group accounts'[8].

The individual financial statements of all group entities (including the parent) were prepared under current FRS, with adjustments made on consolidation to take into account differences between current FRS and EU-adopted IFRS.

[7] About 20% of the largest private companies have chosen EU-adopted IFRS.

[8] SI 2012/2301 The Companies and Limited Liability Partnership (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012 amended the Act to make it easier for companies who voluntarily use EU-adopted IFRS to switch to Companies Act accounts.

Applicable accounting standards (group financial statements)

Company D decides to continue to prepare 'IAS group accounts' by applying EU-adopted IFRS. Company D has already incurred costs of first time adoption of EU-adopted IFRS and the benefits from applying FRS 102 may be minimal.

Applicable accounting standards (separate and individual financial statements)

Company D decides that the financial statements of all group entities, including the parent, will now be prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

Costs of implementing the applicable accounting standards

There are no changes to Company D's group reporting and therefore no costs will be incurred.

The application of FRS 101 will save time and costs in the subsidiaries, the group finance function and the audit process. All group entities' individual financial statements will need revising for compliance with FRS 101 but this will be based on information already prepared for the group financial statements. This should be relatively straightforward to implement and the savings from not having to prepare financial information on two different bases with outweigh the costs.

Company E – Quoted company using EU-adopted IFRS

Scenario

Company E is a quoted company that has been preparing its group financial statements in accordance with EU-adopted IFRS since 2005. It has a well-resourced finance department.

Scenario E.1 – Transitioning from current FRS to FRS 101

At the time of transition to EU-adopted IFRS for its group financial statements, Company E decided that its separate financial statements and the individual financial statements of its subsidiaries would continue to be prepared in accordance with current FRS.

Company E has not revisited this decision for some time, despite some of the original deciding factors ceasing to be relevant.

Applicable accounting standards (separate and individual financial statements)

Company E decides to apply FRS 101 to the individual financial statements of all group entities, including the parent, as all the information from applying EU-adopted IFRS is already available from the group consolidation.

Costs of implementing the applicable accounting standards

The same as Scenario D.2.

Scenario E.2 – Transitioning from EU-adopted IFRS to FRS 101

At the time of transition to EU-adopted IFRS for its group financial statements, Company E decided that its separate financial statements and the individual financial statements of its subsidiaries would also be prepared in accordance with EU-adopted IFRS.

Applicable accounting standards

Company E and its subsidiaries will have the option of reverting back to 'Companies Act accounts', and therefore can either apply FRS 101 or FRS 102.

Company E decides to apply FRS 101, taking advantage of the reduced disclosure framework.

Costs of implementing the applicable accounting standards

Taking advantage of reduced disclosures will reduce the cost of preparing the financial statements of Company E and its subsidiaries.

Entity F – Building Society

Scenario

Entity F is a building society. It has been preparing its financial statements in accordance with the Building Societies Act 1986 and current FRSs. It has not adopted FRS 26 (IAS 39) *Financial instruments: recognition and measurement*, but has provided certain disclosures about financial instruments in accordance with FRS 13 *Derivatives and other financial instruments: disclosures*.

Applicable accounting standards

Entity F decides to apply FRS 102 and as a financial institution it must provide additional disclosures as set out in section 34 *Specialised Activities*.

The most fundamental change for Entity F will be changes to the financial reporting of its financial instruments. The extent of the changes required to the financial data will depend on the data already captured by Entity F's Treasury Management System for monitoring and managing its financial instruments, and the extent to which Entity F is required to incorporate the new financial data/presentation into its internal reporting.

Costs are likely to be incurred in maintaining fair value and amortised cost accounting records for financial instruments currently recognised at cost and training staff on the new financial reporting requirements.

Entity F is likely to seek to apply hedge accounting where possible. This will also result in additional requirements to prepare and maintain information about the hedges and their effectiveness.

Costs of implementing the applicable accounting standards

The costs of applying FRS 102 for the first time are likely to be more than minimal for financial institutions which have not previously applied FRS 26. There may also be additional costs in terms of accountancy advice and audit effort and in ensuring effective communication with members and other users about the new financial information.

Entity G – Credit Union

Scenario

Entity G is operating as a credit union within the meaning of the Credit Unions Act 1979. It is also registered with the FSA under the Financial Services and Markets Act 2000. It has been preparing its financial statements in accordance with the Industrial and Provident Societies Acts and UK accounting standards. It has not adopted FRS 26 (IAS 39) *Financial instruments: recognition and measurement*.

Applicable accounting standards

Entity G decides to apply FRS 102 and as a financial institution it must provide additional disclosures for financial institutions set out in section 34 *Specialised Activities*.

The most fundamental change will be changes to the financial reporting of its financial instruments. Entity G only has basic financial instruments and it is not required to adopt fair value accounting, although it will need to consider whether there are differences between its current accounting and amortised cost using the effective interest method.

In preparing its financial statements, Entity G will need to prepare additional disclosures about its financial instruments proportionate to the risks as set out in Section 34 *Specialised Activities* of FRS 102.

Costs of implementing the applicable accounting standards

The costs of applying FRS 102 for the first time will be minimised by making use of disclosure aids[9], but should be based on information currently available. There may also be additional costs in terms of audit effort.

[9] For example the FRC has made staff guidance material available, including an example set of credit union financial statements.

Entity H – Registered provider of social housing

Scenario

Entity H is a registered provider of social housing. It has been preparing its financial statements in accordance with the Industrial and Provident Societies Acts and UK accounting standards. It has not adopted FRS 26 (IAS 39) *Financial instruments: recognition and measurement*.

Entity H has a significant amount of borrowings from financial institutions. Some of these loans may have terms that mean that they are non-basic financial instruments. In addition, Entity H has taken out interest rate swaps which are also non-basic financial instruments. Entity H has dedicated treasury staff.

Entity H has received significant amounts of grants to provide social housing.

Entity H is a participating employer in a multi-employer defined benefit plan. It accounts for the pension plan as if it was a defined contribution plan and has entered into an agreement with the pension plan to make additional payments in respect of a deficit in the plan.

Applicable accounting standards

Entity H will apply FRS 102 including any relevant requirements for public benefit entities.

Financial instruments

The most significant change in financial reporting will relate to financial instruments. There are likely to be three significant issues to consider:

- Are there any loans that have features meaning that they fall within the scope of Section 12 *Other Financial Instruments Issues* of FRS 102 that should be accounted for at fair value?
- Are there any derivative financial instruments that fall within the scope of Section 12 of FRS 102 that should be accounted for at fair value?
- Could/should hedge accounting be applied? If Entity H applies hedge accounting it will incur the administrative burden of maintaining the relevant documentation.

If there are any financial instruments held at fair value, the gains/losses will be recognised in profit or loss.

Grants

Grants will no longer be permitted to be offset against the cost of housing property on the balance sheet which is a presentational change. As a result, the full depreciable amount of the housing properties will be depreciated and if Entity H applies the accrual method the grants will be recognised as income over the life of the housing property. There should be no impact on its reported surplus.

Retirement benefit scheme

Entity H will need to recognise a liability for the payments it has agreed to make in respect of the deficit on the defined benefit pension plan it participates in.

Costs of implementing the applicable accounting standards

Entity H's treasurer will need some training on the new financial reporting requirements.

Entity H may need to consider whether its fixed asset register (or property database) can provide the required information on the amortisation of grants.

Entity H will be assisted by using the sector's SORP in revising its presentation and disclosure in its financial statements.

Entity H's financial statements will contain new information about the risks arising from financial instruments, as well as changes relating to housing property, grants and retirement benefits. Users will need to familiarise themselves with this new information, and determine how it affects their view of the prospects of Entity H. However, those users considering the financial statements for the purposes of making lending decisions should already be familiar with fair value accounting for derivatives and this will minimise their additional costs. The additional information may change the lending and investing decisions users might make, which may have further costs and benefits.

Entity I – Large Charity

Scenario

Entity I is a large charity. It prepares its financial statements in accordance with its legal framework and the relevant sector specific SORP.

Applicable accounting standards

Entity I will apply FRS 102, including any relevant requirements applicable to Public Benefit Entities. It will also continue to use its sector specific SORP which is expected to be updated for consistency with FRS 102.

If Entity I receives grants, it will need to confirm that its previous accounting practice is consistent with FRS 102.

If Entity I receives donations of goods or services it will need to confirm that its previous accounting practice is consistent with FRS 102, in particular that it is recognising income at the right time, taking into account the nature and materiality of the goods or services.

Entity I will need to review the format of its primary financial statements to ensure that they are compliant with one of the formats required by FRS 102 (the formats specified in Company Law).

Costs of implementing the applicable accounting standards

Entity I's finance staff will need to make some minor adjustments to the way transactions and/or other financial data are recorded, for example in order to disclose the total future minimum lease payments rather than payments due next year.

Although Entity I will need to review its accounting for grants and donations it is considered relatively unlikely that significant changes in accounting will be required.

Some revision to the format of the primary financial statements may be required, but as this will be relevant to the sector as a whole it is expected to be addressed in the SORP minimising the implementation costs for each individual entity. In any event this involves representation of existing information, rather than preparing new information.

Entity J – Pension Scheme

Scenario

Entity J is a pension scheme. It prepares its financial statements in accordance with current FRSs and the SORP for pension schemes.

Applicable accounting standards

Entity J will apply FRS 102; specifically Section 34 *Specialised Activities – Retirement Benefit Plans: Financial Statements*.

The most significant change for Entity J will be changes to financial reporting of its financial instruments. In preparing its financial statements Entity J will need to prepare additional disclosures about its financial instruments proportionate to its risks.

Costs of implementing the applicable accounting standards

The costs of applying FRS 102 for the first time are unlikely to be significant where they only relate to changes in disclosure. There may also be additional costs in terms of accountancy advice and audit effort and, as noted above, in ensuring effective communication with members and other users about the new financial information.

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