Exposure Draft

Financial Reporting Council

December 2023

FRED 85

Draft amendments to FRS 101 *Reduced Disclosure Framework*

2023/24 cycle

The FRC's purpose is to serve the public interest by setting high standards of corporate governance, reporting and audit and by holding to account those responsible for delivering them. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

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Registered in England number 2486368. Registered Office:
8th Floor, 125 London Wall, London EC2Y 5AS

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Contents

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.

(ii) The FRC carries out an annual review of FRS 101 *Reduced Disclosure Framework* to provide additional disclosure exemptions as IFRS Accounting Standards evolve and to respond to stakeholder feedback about other possible improvements.

FRS 101 *Reduced Disclosure Framework*

(iii) After considering the 2023/24 annual review of FRS 101, this Financial Reporting Exposure Draft (FRED) proposes only minor amendments to FRS 101 for consistency with IAS 1 *Presentation of Financial Statements*.

(iv) No other amendments are proposed to FRS 101.

Invitation to comment

1 The FRC is requesting comments on FRED 85 by 4 March 2024. The FRC is committed to developing standards based on evidence from consultation with users, preparers and others. Comments are invited in writing on all aspects of FRS 101. In particular, comments are sought in relation to the questions below.

> **Question 1**
>
> Do you agree with the proposed amendments to FRS 101? If not, why not?
>
> **Question 2**
>
> Do you agree that no other amendments to FRS 101 are required for the IASB projects outlined in paragraph 7 of the Basis for Conclusions?
>
> **Question 3**
>
> Do you agree with the conclusion in the consultation stage impact assessment? If not, why not?

2 Information on how to submit comments and the FRC's policy in relation to responses is set out on page 12.

Draft amendments to FRS 101 *Reduced Disclosure Framework*

Draft amendments to Appendix II
Note on Legal Requirements

1 The following paragraph sets out the draft amendments to Appendix II *Note on Legal Requirements* (inserted text is underlined, deleted text is struck through).

2 Paragraph A2.9B(c) and its sequentially numbered footnote are amended as follows:

A2.9B(c) Differences in the definition of 'creditors falling due within or after one year' (the terms used in the Regulations) and 'current and non-current liabilities' (the term used in UK-adopted international accounting standards). Under the Act a loan is treated as due for repayment on the earliest date on which a lender could require repayment, whilst under UK-adopted international accounting standards the due date is based on when the entity expects to settle the liability or has no right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period[*footnote].

[*footnote] For accounting periods beginning before 1 January ~~2023~~ 2024, the due date is based on when the entity expects to settle the liability or has no unconditional right to defer payment, unless the entity ~~chooses to apply~~ applies *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1) early.

Basis for Conclusions
FRED 85 *FRS 101 Reduced Disclosure Framework – 2023/24 cycle*

This Basis for Conclusions accompanies, but is not part of, this Financial Reporting Exposure Draft and summarises the main issues considered by the Financial Reporting Council (FRC) in developing FRED 85 Draft amendments to FRS 101 Reduced Disclosure Framework – 2023/24 cycle.

When these proposals are finalised, the Basis for Conclusions accompanying FRS 101 will be updated.

1 FRS 101 sets out an optional reduced disclosure framework which addresses the financial reporting requirements for individual financial statements of subsidiaries and ultimate parents that otherwise apply the recognition, measurement and disclosure requirements of adopted IFRS. Disclosure exemptions are available to a qualifying entity in its individual financial statements.

2 When applying FRS 101 and deciding which disclosure exemptions to take advantage of, entities should bear in mind the need to ensure that disclosures are relevant and targeted to meet the needs of users.

Objective

3 In developing financial reporting standards, the overriding objective of the FRC 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.

4 In achieving this objective, the FRC aims to provide 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) balance improvement, through reflecting up-to-date thinking and developments in the way businesses operate and the transactions they undertake, with stability;

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

(d) promote efficiency within groups; and

(e) are cost-effective to apply.

5 In respect of FRS 101, the following principles have been applied in determining which of the disclosure requirements in adopted IFRS Accounting Standards should be required by qualifying entities[1]:

(1) Relevance:

Does the disclosure requirement provide information that is capable of making a difference to the decisions made by the users of the financial statements of a qualifying entity?

[1] Refer to Appendix I *Glossary* of FRS 101 *Reduced Disclosure Framework* for the definition of "qualifying entity".

(2) Cost constraint on useful financial reporting:

Does the disclosure requirement impose costs on the preparers of the financial statements of a qualifying entity that are not justified by the benefits to the users of those financial statements?

(3) Avoid gold plating:

Does the disclosure requirement override an existing exemption provided by company law in the UK?

6 In considering the users of financial statements, the application of the above principles reflects the fact that qualifying entities usually have few users of their financial statements, and particularly few users that would be external to the group that the qualifying entity is part of.

IASB projects completed since the 2022/23 cycle

7 The 2023/24 cycle considered IASB projects completed between 1 September 2022 and 31 August 2023. The IASB has issued the following amendments[2]:

	IASB project	**Date issued**	**Date effective**	**Date endorsed in the EU**	**Date adopted in the UK**
1	*Lease Liability in a Sale and Leaseback* (Amendments to IFRS 16)	Sep 2022	1 Jan 2024	Nov 2023	May 2023
2	*Non-current Liabilities with Covenants* (Amendments to IAS 1)[3]	Oct 2022	1 Jan 2024	TBD	Jul 2023
3	*International Tax Reform—Pillar Two Model Rules* (Amendments to IAS 12)	May 2023	1 Jan 2023[4]	Nov 2023	Jul 2023
4	*Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7)	May 2023	1 Jan 2024	TBD	Nov 2023
5	*Lack of Exchangeability* (Amendments to IAS 21)	Aug 2023	1 Jan 2025	TBD	TBD

8 The amendments resulting from these five projects were reviewed in the context of the reduced disclosure framework for any amendments that:

(a) alter disclosure requirements, as consideration will need to be given to whether changes should be made to the disclosure exemptions permitted in FRS 101; and/or

(b) are inconsistent with current UK and Irish legal requirements, as consideration will need to be given to whether changes should be made to the Application Guidance *Amendments to adopted IFRS for Compliance with the Act and the Regulations* to FRS 101, or to Appendix II *Note on legal requirements* or Appendix III *Republic of Ireland legal references.*

9 Three of the projects listed in the table in paragraph 7 required further consideration in this review. These are discussed in more detail below. Of the other two projects, *Lease*

2 The full IASB documents setting out the amendments for each project are available on the IASB website: https://www.ifrs.org/issued-standards/list-of-standards/

3 The amendment to IAS 1 – *Non-current Liabilities with Covenants* also changed the effective date and early adoption requirements of the amendment to IAS 1 – *Classification of Liabilities as Current or Non-current* (first issued in January 2020).

4 The temporary exception applies immediately. The effective date for the other amendments is accounting periods beginning on or after 1 January 2023, with early application permitted.

Liability in a Sale and Leaseback did not amend disclosure requirements, and the implications for FRS 101 of *International Tax Reform—Pillar Two Model Rules* were addressed in the FRC's *Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland and FRS 101 Reduced Disclosure Framework – International tax reform – Pillar Two model rules*, issued in July 2023.

Non-current Liabilities with Covenants (Amendments to IAS 1)

10 The amendments to IAS 1 *Presentation of Financial Statements* insert paragraph 76ZA. This paragraph requires that, when an entity classifies a liability arising from a loan arrangement as non-current and that liability is subject to covenants with which an entity is required to comply within twelve months after the reporting period, the entity shall disclose information that enables users of financial statements to understand the risk that the liability could become repayable within twelve months after the reporting period.

11 As set out in paragraph 6, qualifying entities usually have few users of their financial statements, and particularly few users that would be external to the group that the qualifying entity is part of. However, the FRC expects that a qualifying entity that has a liability subject to covenants is more likely to have users of its financial statements external to the group. The FRC expects that such external users are likely to find the new disclosures relevant and beneficial, particularly when there is risk that the liability could become repayable within twelve months after the reporting period.

12 The FRC expects that providing the disclosures required by IAS 1 should not be onerous for FRS 101 preparers, particularly after taking account of the fact that qualifying entities are required to provide disclosure of terms of payment or repayment of debt (when part, or all, the payments on the debt are due after more than five years) under UK[5] and Irish[6] company law.

13 The FRC concluded that, when relevant, the new disclosure requirements should apply to all qualifying entities and therefore no exemption has been proposed in FRS 101.

Effective date and early adoption requirements

14 The effective date of *Classification of Liabilities as Current or Non-current* (Amendments to IAS 1), first issued in January 2020, has been deferred to annual periods beginning on or after 1 January 2024.

15 In addition, as a result of *Non-current Liabilities with Covenants,* the early adoption requirements for *Classification of Liabilities as Current or Non-current* are different to those previously noted in Appendix II *Note on legal requirements* to FRS 101.

16 In light of these changes to IAS 1, this FRED proposes to update paragraph A2.9B(c) of FRS 101, which refers to the principle set out in paragraph 69(d) of IAS 1, and its related footnote, which refers to the early-adoption requirements for *Classification of Liabilities as Current or Non-current*.

Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)

17 The amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* require the disclosure of information about supplier finance arrangements

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[5] Paragraph 61(2) of Schedule 1 to *The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008* (SI 2008/410).

[6] Paragraph 58(2) in Part IV of Schedule 3 to the *Companies Act 2014.*

that enables users of financial statements to assess the effects of those arrangements on an entity's liabilities, cash flows and exposure to liquidity risk.

18 The FRC concluded that these new disclosure requirements should apply to qualifying entities to the same extent as the existing disclosure requirements of IAS 7 and IFRS 7. This is also consistent with the approach set out in FRED 84 *Draft amendments to FRS 102 – Supplier finance arrangements*.

19 Paragraph 8(h) of FRS 101 permits all qualifying entities to take advantage of exemptions from the disclosure requirements of IAS 7. This exemption includes the disclosure requirements introduced by these amendments to IAS 7.

20 Paragraph 8(d) of FRS 101 permits qualifying entities that are not financial institutions to take advantage of exemptions from the disclosure requirements of IFRS 7, provided that equivalent disclosures are included in the consolidated financial statements of the group in which the entity is consolidated. This exemption includes the disclosure requirements introduced by these amendments to IFRS 7.

21 However, extant paragraph 7(a) of FRS 101 provides that a qualifying entity that is a financial institution is not exempt from the disclosure requirements of IFRS 7. A financial institution is therefore subject to all the disclosure requirements of IFRS 7, including those introduced by these amendments.

Lack of Exchangeability (Amendments to IAS 21)

22 The amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates* require disclosure that enables users to understand how a currency not being exchangeable into another currency affects, or is expected to affect, an entity's financial performance, financial position, and cash flows. The FRC believes that a qualifying entity should provide these new disclosures when applicable, therefore no amendment to FRS 101 is required.

Effective date

23 The disclosure exemptions provided by paragraph 8 of FRS 101 are available from when the relevant standard is applied. Therefore, there is no need to amend the effective date for these proposed amendments, which will be available for financial statements approved after the amendments have been finalised.

Consultation stage impact assessment

Introduction

1 The FRC is committed to a proportionate approach to the use of its powers, making effective use of impact assessments and having regard to the impact of regulation on small enterprises.

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

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

Draft amendments proposed to FRS 101

4 After considering the 2023/24 annual review of FRS 101, minor amendments are proposed for consistency with IAS 1 *Presentation of Financial Statements*.

5 The FRC concluded following a review of the IASB's projects that no new disclosure exemptions should be provided in FRS 101 as a result of the 2023/24 cycle. As a result, qualifying entities will be subject to new disclosure requirements in IAS 1, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and (for financial institutions) IFRS 7 *Financial Instruments: Disclosures*.

6 The FRC expects that the new disclosures required following the amendments to IAS 1 and IAS 21 will be applicable only to a subset of preparers. When applicable, the FRC expects that the disclosures should not be onerous for FRS 101 preparers to provide and should provide relevant information to the users of the financial statements. The FRC expects the benefit to users to exceed the cost to preparers.

7 The FRC expects that financial institutions are unlikely to be using supplier finance arrangements, and therefore that the new disclosure requirements introduced into IFRS 7 by the IASB's publication of *Supplier Finance Arrangements* (Amendments to IAS 7 and IFRS 7) will have no significant impact on the cost of preparing financial statements for qualifying entities.

Conclusion

8 Overall, the FRC believes that FRS 101 will continue to have a positive impact on the cost-effectiveness of the preparation of financial statements.

This draft is issued by the Financial Reporting Council for comment. It should be noted that the draft may be modified in the light of comments received before being issued in final form.

For ease of handling, we prefer comments to be sent by e-mail to:

ukfrs@frc.org.uk

Comments may also be sent in hard copy to:

Accounting and Reporting Policy team
Financial Reporting Council
8th Floor
125 London Wall
London
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Comments should be despatched so as to be received no later than 4 March 2024. If you have sent a copy of your response electronically, there is no need to send an additional hard copy.

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We will process your personal data in accordance with applicable UK data protection laws. Please see our privacy policy.[7]

The FRC aims to publish responses within 12 weeks of consultation.

The FRC will publish a summary of the consultation responses, either as part of, or alongside, its final decision.

[7] https://www.frc.org.uk/about-the-frc/procedures-and-policies/privacy-the-frc

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ISBN 978-0-7545-5829-3

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