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Ref: [redacted]
Email: [redacted]

Dear Sirs

FRED 85 Draft amendments to FRS 101 *Reduced Disclosure Framework 2023/24 cycle*

Ernst & Young LLP welcomes the opportunity to comment on FRED 85.

We have responded to your specific questions in the appendix to this letter.

We agree that no amendments are necessary to the body of FRS 101, except in respect of supplier finance arrangements. We note that all qualifying entities will be able to take an exemption from the disclosures in IAS 7.44F-H, and this raises the concern that certain qualifying entities may have significant supplier finance arrangements but will not be required to disclose those arrangements in their individual financial statements.

We have included comments in the appendix on the changes to A2.9B(c), where we believe that amendments may be required to explain the principle of classification expressed in IAS 1.69(d).

If you have any matters arising concerning the content of our response, please contact me at [redacted]

Yours sincerely

[redacted]

Daniel Trotman
Partner – UK Head of the Financial Reporting Group
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Appendix

Question 1: Do you agree with the proposed amendments to FRS 101? If not, why not?

We have considered the wording of paragraph A2.9B(c) and the accompanying footnote. The comments below reflect some concerns with the existing wording of the paragraph, as well as the proposed amendments. We note that paragraph A2.9B(c) refers to 'when the entity expects to settle the liability' (emphasis added). If this paragraph is referring only to the principle in IAS 1.69(d) – as implied by paragraph 16 of the Basis of Conclusions to FRED 85 - our understanding is that the amended principle in IAS 1.69(d) does not refer to 'expectation'. In particular, the reference to 'expects' in paragraph 73 was removed from IAS 1 in the 2020 suite of amendments. Furthermore, paragraph 75A, added to IAS 1 in the same suite of amendments, states that 'Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability for at least twelve months after the reporting period'. For example, a liability meeting the criteria to be classified as non-current will still be 'classified as non-current even if management intends or expects the entity to settle the liability within twelve months after the reporting period, or even if the entity settles the liability between the end of the reporting period and the date the financial statements are authorised for issue'.

We also have concerns about the reference to 'due date' rather than 'classification' in both the draft paragraph A2.9B(c) and in the footnote explaining the position for accounting periods before 1 January 2024.

As the text in A2.9B(c) is intended to relate to IAS 1.69 (d), it should be amended to read 'whilst under UK-adopted international accounting standards, ~~the due date is based on when the entity expects to settle the liability or~~ a loan liability is classified as current when the entity ~~has no~~ does not have the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period.' We suggest that an explicit reference to IAS 1.69(d) is included to make clear that this part of the current liability definition has been considered. With regard to the footnote, we also believe the language should be aligned with that of IAS 1, which refers to 'classify' rather than 'due date' both prior to, and after, the 2020 and 2022 amendments.

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?

We agree with the proposals as outlined in paragraph 7 for the Basis for Conclusions, relating to items 1, 2, 3 and 5 in the table in that paragraph.

With regard to the exemption from the supplier finance disclosures in IAS 7.44F-44H, this will apply to all qualifying entities making use of the exemption from the disclosure requirements of IAS 7 (which does not have any restrictions over equivalent disclosures being included in the publicly available consolidated financial statements in which the qualifying entity is consolidated). We consider that there may be entities with significant operations in the UK who would, without this exemption, be required to make disclosures about supplier finance arrangements and that such disclosures may provide relevant and cost-effective information to users of the financial statements. We acknowledge that many such preparers may have equivalent disclosures in their publicly available IFRS consolidated financial statements, depending on the materiality of those arrangements to the group. However, the parents of some entities may report under GAAPs other than IFRS, e.g., US GAAP, and therefore might not have equivalent disclosures in their publicly available group accounts. In the absence of disclosures in the consolidated financial statements (either on group materiality grounds or from the use of a different GAAP), an equivalence restriction on the availability of a disclosure exemption might address this – i.e., only companies whose publicly available group accounts give equivalent information should be eligible for exemption from these specific disclosures, notwithstanding that such companies will not be required to disclose any other information required by IAS 7.

Question 3: Do you agree with the conclusion in the consultation stage impact assessment? If not, why not?

We believe it is best left for preparers to comment on this aspect.